



**STRICTLY PRIVATE AND  
CONFIDENTIAL**

**Palandri Group of Companies (Administrators Appointed)**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

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# Definitions

**Term**

Administrators

ASIC

ASX

Board

Committee

CRA

DOCA

EBITDA

ERV

GEERS

GSC

GWH

k

Keybridge

m

MIS

MRWB

MRWBT

MRWIPL

Management

**Definition**

Gary Doran, Neil Cussen and John Greig

Australian Securities and Investments Commission

Australian Securities Exchange

Board of Palandri Group

Committee of Creditors as detailed in appendix 7

Cash Resources Australia

Deed of Company Arrangement

Earnings Before Interest, Taxation, Depreciation and Amortisation

Estimated Realisable Value

General Employee Entitlements &amp; Redundancy Scheme

Global Supply Challenge ASRN 124 150 616

Global Wine Holdings Pty Ltd

Thousand (i.e. \$100k = \$100,000)

Keybridge Capital Limited ACN 088 267 190

Million (i.e. \$1.7m = \$1.7 million)

Managed Investment Scheme

Margaret River Wine Business ARSN 086 241 198

Margaret River Wine Business Trust ARSN 119 602 505

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

Management of the Palandri Group, including the Board

## Definitions continued

### Term

Palandri Group or the Group

### Definition

Palandri Limited, ACN 087 787 415

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

PWL – ACN 084 252 488 Limited, ACN 084 252 488 (formerly Palandri Wines Limited)

PFL – ACN 090 580 500 Limited, ACN 090 580 500 (formerly Palandri Finance Limited)

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

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

(all Administrators Appointed)

Palandri Agricultural Property Trust, ARSN 114 192 933

Palandri American Wine Business, ARSN 098 544 908

Palandri Limited, ACN 087 787 415

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

The Public Trustee of Queensland

PWL – ACN 084 252 488 Limited, ACN 084 252 488 (formerly Palandri Wines Limited)

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

PFL – ACN 090 580 500 Limited, ACN 090 580 500 (formerly Palandri Finance Limited)

PAPT

PAWB

PL

PIML

PTQ

PWL

PWPL

PFL

## Definitions continued

**Term**

RATA

The Act

The Court

The Schemes

WET

WGP

**Definition**

Report as to Affairs

Corporations Act 2001 (Cth)

Supreme Court of Western Australia

MARGARET RIVER WINE BUSINESS ARSN 086 241 198

MARGARET RIVER WINE BUSINESS TRUST ARSN 119 602 505

PALANDRI AMERICAN WINE BUSINESS ARSN 098 544 908

PALANDRI WINEGRAPE PROJECT 2005/2006 ARSN 114 193 234

PALANDRI GLOBAL SUPPLY CHALLENGE 2007 – 2008 ARSN 124 150 616

PALANDRI AGRICULTURAL PROPERTY TRUST ARSN 114 192 933

Wine Equalisation Tax

Palandri Wine Grape Project, ARSN 114 193 234

# 1 Introduction

## Appointment of Administrators

On and between 15 February and 27 February 2008 we, Gary Doran, Neil Cussen and John Greig, were appointed Joint and Several Voluntary Administrators of the following companies in the Palandri Group by a resolution of Directors of each company pursuant to section 436A of the Corporations Act 2001 (the Act):

1. Palandri Limited, ACN 087 787 415 (Appointed 26 February 2008)
2. PIML – ACN 091 709 769, ACN 091 709 769 (formerly Palandri Investment Management Limited) (Appointed 26 February 2008)
3. PWL – ACN 084 252 488 Limited, ACN 084 252 488 (formerly Palandri Wines Limited) (Appointed 26 February 2008)
4. PFL – ACN 090 580 500 Limited, ACN 090 580 500 (formerly Palandri Finance Limited) (Appointed 15 February 2008)
5. PWPL – ACN 085 042 879 Limited, ACN 085 042 879 (formerly Palandri Wine Production Limited) (Appointed 26 February 2008)
6. MRWIPL – ACN 112 505 692 Pty Ltd, ACN 112 505 692 (formerly Margaret River Wine Investments Pty Ltd) (Appointed 27 February 2008)

## Basis of Report

This report has been prepared primarily from information received from the Directors and Management and the books and records of the Palandri Group. We have investigated the affairs of the Palandri Group; however, there may be certain matters of which we are not aware, or of which we have not been advised. We have not performed an audit of the Palandri Group.

In order to complete this report, and in conducting our investigations, we have utilised information from:

- the ASIC
- the Palandri Group's books and records
- questionnaires completed by the Directors
- discussions with Directors, management and staff.

Whilst we have no reason to doubt any information contained in this report, we reserve the right to alter our conclusions should the underlying data prove to be inaccurate or materially change from the date of this report.

# 1 Introduction continued

## **Independence Statement**

A proper assessment of the risks to our independence was undertaken prior to accepting our appointment to each of the companies in the Group. This assessment identified no real or potential risks to our independence.

In investigating any prior professional relationship, members of Deloitte Touche Tohmatsu were advised of the appointments and requested to provide details of any perceived conflict and/or details of any previous association with the Group and their Directors. This search revealed an engagement that had been undertaken by Deloitte Tax Services to provide advice regarding stamp duty to PL. A total fee of \$1,405 was charged. This engagement was very limited in scope and does not impact on our ability to comply with statutory and fiduciary obligations involved in our role, nor in our objectivity, impartiality or judgement in performing our duties. We do not believe that this engagement gives rise to a conflict that excludes us from accepting these appointments.

In accordance with recent IPA guidelines “where a prior professional relationship has occurred between the Practitioner and the insolvent or an associate of the insolvent within two years before the proposed appointment the Practitioner may accept the appointment if the prior professional relationship was an Immaterial Professional Relationship”. For the avoidance of doubt we believe that the previous work conducted would give rise to an Immaterial Professional Relationship and accordingly does not preclude us from acting as Administrators.

## **First Meeting of Creditors**

On 22 February 2008, a meeting of the creditors of PFL was held in accordance with Section 436E of the Act. On Friday 7 March 2008, a concurrent meeting of the creditors of the remaining companies in the Palandri Group was held in accordance with Section 436E of the Act. At these meetings, our appointments as Joint and Several Voluntary Administrators were confirmed. At that meeting, we advised that we would undertake an investigation into the affairs of the Group whilst we pursued a potential sale of the Group’s business. It was also resolved that the Committee be formed and we have attached a list of creditors who were elected as members in Appendix 7 to this report.

On 28 March 2008, a second meeting of the creditors of PFL was convened in accordance with Section 439A of the Act; however, that meeting was adjourned for up to 45 business days. The Supreme Court of Western Australia has subsequently granted an extension of this period to allow for the meeting to be reconvened on 7 October 2008 as detailed below. The reconvened meeting of creditors of PFL will be held concurrently with the meetings of creditors for the other Palandri Group companies.

## **Extension of Convening Period**

Administrators are required by the Act to convene a second meeting of creditors within 25 business days of the date of their appointment, and to hold this meeting within 5 business days from the end of this convening period. At the first meeting of creditors, the Administrators indicated that they would apply to the Court to extend the convening period. Affidavit evidence was presented to the Supreme Court of Western Australia and orders were made pursuant to Section 439A(6) of the Act that the convening period be extended until 30 September 2008 in order to allow the Administrators the opportunity to maximise the returns to creditors and be in a position to put, if possible, a DOCA to creditors at the second meeting. Notices were forwarded to all creditors advising that the extensions of the convening period had been granted.

# 1 Introduction continued

## Meeting details

The second meeting of creditors for all companies in the Group has been convened for 10.00am (WST) on Tuesday , 7 October 2008 and will be held at the Perth Convention Exhibition Centre, 21 Mounts Bay Road, Perth WA 6000. Teleconference facilities will also be available at:

- **Sydney-** Level 9, Grosvenor Place, 225 George Street, Sydney NSW 2000 at 1:00pm (AEDT)
- **Melbourne-** Cliftons Level 1, 440 Collins Street, Melbourne VIC 3000 at 1:00pm (AEDT)
- **Brisbane-** Bowen Room Level 25, 123 Eagle Street, Brisbane QLD 4000 at 12:00pm (AEST)

**A notice of meeting is attached at Appendix 8, in this regard.**

## Purpose of Administrators' Report

Section 435A of the Act states that the objective of a Voluntary Administration is to allow for the business, property and affairs of an insolvent (or likely to become insolvent) company to be administered in a way that either:

- (a) maximises the chances of the company or as much as possible of its business, continuing in existence; or
- (b) if it is not possible for the company or its businesses to continue in existence, results in a better return for the company's creditors and members than would result from an immediate winding up of the company.

We believe that we have been able to satisfy this objective because we have been able to sell parts of the Group's business as a going concern, preserved the employment of many of the Group's staff and maximised the return to creditors. Another purpose of this report is to provide creditors with a report on the conduct of the administration to date.

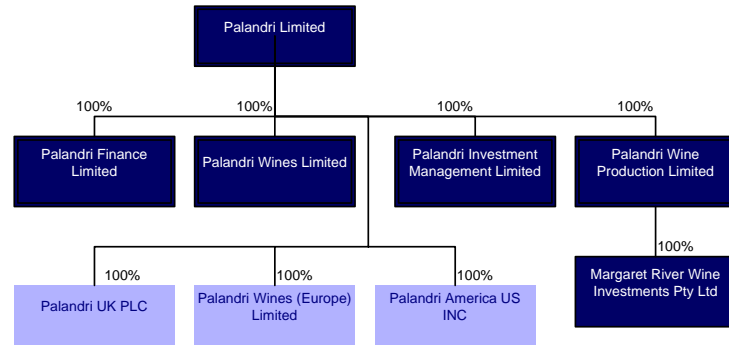
We have also conducted an investigation into the affairs of the companies in the Palandri Group pursuant to Section 438A of the Act. The results of our investigations are set out within Section 8 of this report.

In addition to investigating the affairs of the company, Section 438A of the Act requires the Administrators to form an opinion about the future of the companies in the Palandri Group and to give reasons for our opinion in relation to whether it would be in creditors' interests for:

1. some or all of the companies in the Palandri Group to execute a DOCA
2. the administration to end and control be returned to the Directors
3. some or all of the companies in the Palandri Group to be wound up.

## 2 Background

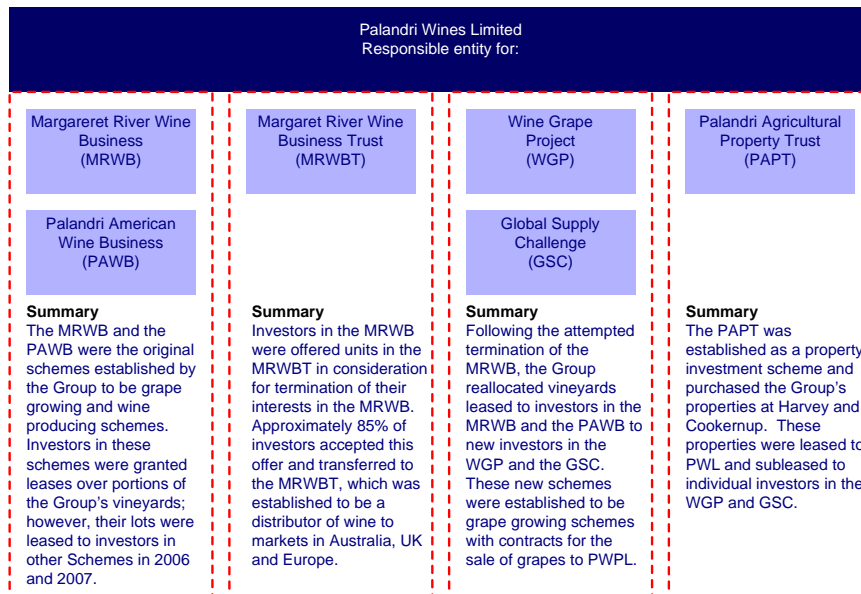
### Palandri Group structure



**Key**



### Palandri managed investment schemes

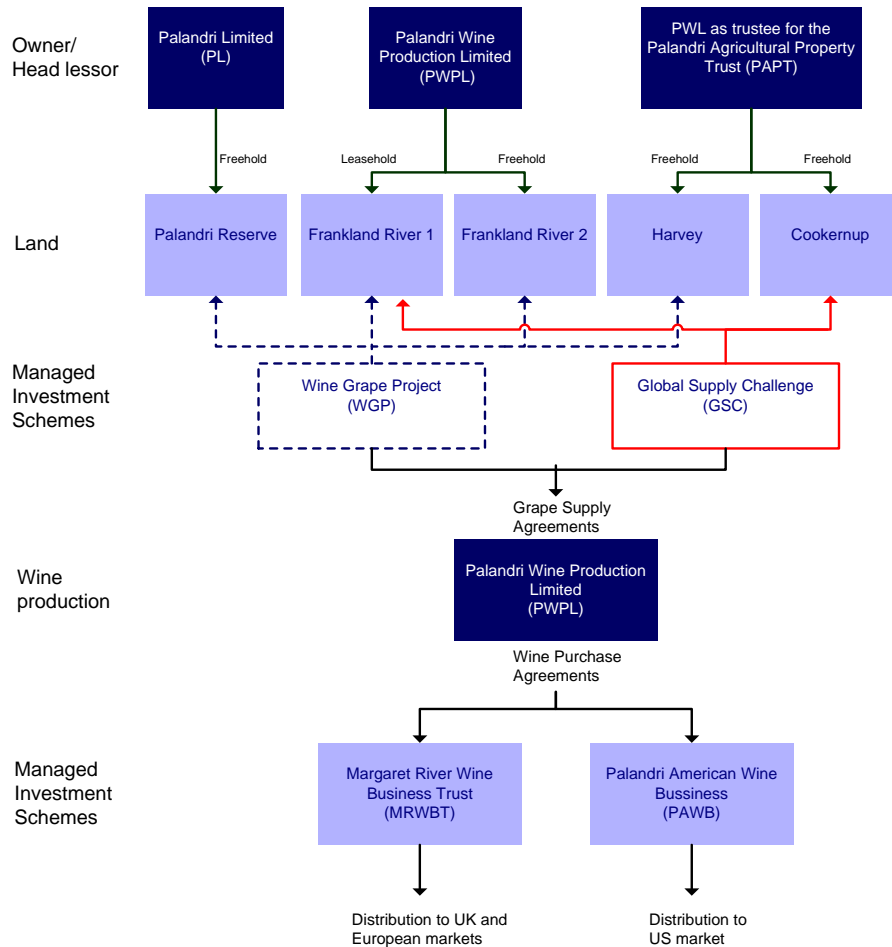


### Group Structure and Operations

- Palandri Limited (PL) is the ultimate parent entity of all companies in the Palandri Group. Only the Australian entities have been placed into voluntary administration and are under the control of the Administrators.
- The overseas entities, including Palandri UK, Palandri Europe and Palandri America, remain under the control of the Directors of those entities. Whilst Palandri Limited holds 100% of shares in these off-shore entities, the Administrators have determined that these shares have nil value due to the financial position of these entities.
- PL owned the Palandri Reserve Vineyard.
- **Palandri Finance Limited (PFL)** was established to provide loan funding to investors in the Schemes. PFL raised money through the issue of Notes and Debentures to the public.
- **Palandri Wines Limited (PWL)** is the responsible entity for the Group's Schemes and holds head leases for the Palandri Reserve, Frankland River #2, Harvey and Cookernup properties, as well as a sublease of the Frankland River #1 property. These properties are subleased to the grape growing schemes, Wine Grape Project (WGP) and the Global Supply Challenge (GSC). It holds an Australian Financial Services License.
- **Palandri Wine Production Limited (PWPL)** owned the 4,500 tonne winery, cellar door and restaurant at Margaret River, and was responsible for the maintenance of vineyards, the harvest, and the processing and bottling of wines which it supplied to the members of the MRWBT and PAWB. PWPL also owned the Frankland River #2 vineyard and had the head lease over Frankland River #1 vineyard.
- **Palandri Investment Management Limited (PIML)** was established to produce prospectuses and manage the issue of interests in the Schemes. PIML holds another one of the Group's Australian Financial Services Licences.
- **Margaret River Wine Investments Limited (MRWIPL)** is dormant and does not undertake any trading activities.

## 2 Background continued

### Summary of operations as they appeared on our appointment



### Summary of operations as they appeared on our appointment

- The Palandri Group owned four vineyards at Margaret River, Frankland River and Harvey, and had a head lease over a fifth vineyard at Frankland River (Frankland River #1).
- These vineyards were leased to PWL and the owners / head lessor of the vineyards charged PWL lease fees for the use of these vineyards.
- PWL subleased portions of the vineyards to investors in the grape growing managed investment schemes (WGP and GSC).
- PWL acted as responsible entity for the WGP and GSC and contracted PWPL to harvest the grapes on behalf of investors and sold these grapes to PWPL under a grape supply agreement.
- PWL also contracted PWPL on behalf of investors to maintain the vineyards.
- PWL charged lease and management fees to investors for the lease of the vineyards and the management services provided by PWL.
- PWPL processed the grapes purchased from PWL through the winery at Margaret River and produced and packaged wine that was sold on to investors in the MRWBT and the PAWB under wine purchase agreements.
- The MRWBT and the PAWB distributed the wine purchased from PWPL to markets in Australia, UK, Europe and the US.

### 3 Executive Summary

Summary of creditor losses	
	Debt owed
<b>Creditors</b>	
Creditors secured on specific assets	\$21.8m
Other secured creditors	\$15.4m
Employees	\$0.5m
Unsecured creditors	\$45.0m
<b>Totals for creditors</b>	<b>\$82.6m</b>

Summary of investor losses		
	Number of investors	Investment
<b>Schemes</b>		
MRWB / MRWBT	1,978	\$91.3m
PAWB	808	\$26.5m
PAPT	295	\$3.5m
WGP	119	\$19.0m
GSC	62	\$14.9m
<b>Totals for Scheme investors</b>	<b>3,262</b>	<b>\$155.2m</b>
<b>Other investors</b>		
Wine bond	37	\$1.2m
Shareholders	Unknown	\$38.8m
<b>Total for other investors</b>	<b>37</b>	<b>\$40.0m</b>
<b>Totals for investors</b>	<b>3,714 +</b>	<b>\$195.2m</b>
<b>Total creditor &amp; investor losses</b>		<b>82.6m</b>

#### Palandri Group of Companies' status

The total amounts owed to creditors from companies within the Palandri Group was approximately \$82.6m at the date of our appointment with over \$37m of this owed to secured creditors. After the realisation of assets, we expect that the Group's remaining debt to secured creditors will be approximately \$14.5m. The Group's remaining debt to unsecured creditors is approximately \$45.5m.

The Group also raised approximately \$38.8m from investors through the issue of shares however due to the Group's insolvency, we estimate the value of these shares to be Nil.

#### Scheme's Status

Since 1999 the Palandri Group has raised approximately \$155.2m from investors in the Schemes. Following our appointment we investigated the financial position of the Schemes and also engaged viticultural experts to assist us investigate the Schemes' financial viability if they remained in existence. We concluded that all Schemes were either insolvent or not financially viable or both.

The Schemes assets have or are being sold to repay PWL's liabilities that were incurred in its capacity as the Schemes' responsible entity. In order to prevent investors incurring further losses, we applied to the Supreme Court of Western Australia to have the Schemes wound up and on 24 September the Court ordered that the Schemes be wound up.

## 3 Executive Summary continued

### Administrators' opinion

The Group's Directors have proposed a Deed of Company Arrangement (DOCA) which provides, in addition to the assets that would be available to creditors in a liquidation, an additional \$1m for the benefit of participating creditors. Additionally, the Group's Directors and entities associated with them will not prove for a dividend under the proposed DOCA, reducing the unsecured creditor pool by approximately \$2m. The proposed DOCA requires the creditors of all entities in the Palandri Group to approve the DOCA and will provide a return to creditors of between 3.2 and 16.1 cents in the dollar.

In the event that the companies in the Group are placed into liquidation, and we are appointed as liquidators, we will conduct a full investigation into the Group's collapse and may pursue legal actions on behalf of creditors. This investigation would begin with a public examination of relevant persons in order to gather information that may support legal action for recovery of funds for creditors. In liquidation, the return to creditors is dependent upon successful recoveries as a result of the liquidators' investigation and we estimate that the return to creditors may be between 0 and 26 cents in the dollar. The estimated returns for creditors of each company are discussed in more detail in the Appendices to this report.

**We recommend that creditors vote in favour of placing all companies in the Group into liquidation as the return to creditors is likely to be higher if the Group is wound up than it would be under the proposed DOCA.**

### Meeting details

We have called a meeting of the creditors of all companies in the Palandri Group to be held at 10.00am (WST) on Tuesday 7 October 2008. The meeting of creditors will be held at the Perth Convention Exhibition Centre, 21 Mounts Bay Road, Perth WA 6000, and teleconference facilities will be available at:

- **Sydney-** Level 9, Grosvenor Place, 225 George Street, Sydney NSW 2000 at 1:00pm (AEDT)
- **Melbourne-** Cliftons Level 1, 440 Collins Street, Melbourne VIC 3000 at 1:00pm (AEDT)
- **Brisbane-** Bowen Room Level 25, 123 Eagle Street, Brisbane QLD 4000 at 12:00pm (AEST)

For creditors who cannot attend the meeting, we have enclosed a form of proxy that you may use to appoint another person to vote on your behalf at the meeting. If you wish to appoint someone to vote on your behalf (including Neil Cussen as Chairman) please send your proxy to our office no later than two hours before the commencement of the meeting.

We have also enclosed an informal proof of debt form. Unless you have previously submitted a proof of debt to our office, you will need to complete the proof of debt form attached and also submit it to our office no later than two hours before the commencement of the meeting.

### Report format

This report has been written for the Palandri Group because the Group's activities are interwoven and, in several instances, entities within the Group have guaranteed the obligations of other entities. We have attached individual summary reports for each entity in the Group which are attached as appendices to this report and which should be read in conjunction with the full report.

## 4 Administrators' strategy

### Initial Appointment

#### ***Palandri Finance Limited (PFL)***

We were appointed administrators of PFL on 15 February 2008 and immediately secured the company's assets – the cash at bank and a loan book with a face value of \$20.1m. This loan book, or a substantial portion of it, had been secured to the Public Trustee of Queensland (PTQ) and Keybridge Capital Limited (Keybridge) and consisted of a number of distinct loan portfolios. As quickly as practicable we contacted all debtors and reactivated the monthly collections, and started to review the legal documentation supporting those loans which were in default.

#### ***Other Palandri Group companies***

On 26 and 27 February we were appointed administrators of the rest of the companies within the Palandri Group. Our initial review of the group as a whole revealed the Group:

- had cash at bank of \$388k
- employed 101 staff in Australia, USA and Europe
- was generating cash flow operating losses before interest service of approximately \$500,000 per month
- had not prepared management accounts for each entity since 30 June 2007
- had significant purported outstanding accounts receivable related to unpaid lease and management fees
- was owed over \$17.7m by two investors in the Schemes
- had significant arrears of creditors including many who had stopped supplying the Group
- had approximately 2,500 tonnes of grapes on the vine which were due to ripen and for which harvesting had to commence within the next 10 days
- had sales into the UK and Europe which had slowed significantly because key suppliers including the bottling company were not prepared to continue without payment of account arrears
- had sales into the USA which were less than the costs being incurred
- had secured and unsecured creditors who were owed approximately \$66m.

As a result of the above we took immediate steps to preserve and protect all parts of the Group's business and entered into negotiations with the seven secured creditors to keep the Group together as a going concern.

## 4 Administrators' strategy continued

We also immediately started to consider the options available to the Group. When we looked across the whole of the business and disregarded the very complex financing structures, we were dealing with an integrated wine business which grew grapes, produced wine and then marketed and sold wine into Australia, UK, USA and Europe. A high level financial forecast of the operating performance of the integrated wine business indicated that it could only generate between \$4.5m to \$7m in EBITDA (Earnings Before Interest, Taxation, Depreciation and Amortisation).

Clearly this level of operating EBITDA could not support the Group's capital structure, which included secured and unsecured creditors, investors in the listed entity and investors in the Schemes; in aggregate in excess of \$200 million.

Furthermore we needed an immediate injection of working capital to fund the harvest of the 2008 Vintage and to fund the operating cash flow losses which were running at approximately \$500,000 per month.

Given the above the Administrators' strategy, which was consistent with the objectives of Part 5.3A of the Corporations Act, was to preserve all or most of the business as a going concern so as to maximise the potential return to all the stakeholders. Therefore, our priority quickly became sourcing working capital to:

- harvest the 2008 Vintage which was at risk of perishing
- continue to maintain the employment of the majority of the Group's staff
- bring the accounting information of all the entities within the Group up to date
- provide us time to seek expressions of interest in acquiring all or parts of the Palandri Group.

Within seven days of our appointment we applied for and received three offers to provide a working capital facility to achieve the above. We accepted the financing proposal which in our view provided us the best commercial terms and flexibility with respect to its use and drawdown timetable.

## 4 Administrators' strategy continued

### 2008 Vintage Harvest

The hot weather we experienced immediately following our appointment accelerated the ripening of the fruit and we had to start harvesting the vineyards otherwise the fruit would have perished.

As there was doubt about who was entitled to the grapes we applied to the Supreme Court of Western Australia seeking permission to harvest the grapes from the Group's vineyards and hold the net proceeds in trust pending further orders of the Court. This application was successful and the Court also facilitated our ability to borrow \$1.5m to use as working capital.

From the 2008 Vintage harvest we produced 1.24m litres of bulk wine as follows.

Wine type	Original production Litres	Wine sold to date Litres	Remaining stock Litres
Base Cabernet Sauvignon	198,083	198,083	-
Base Chardonnay	202,729	141,729	61,000
Base Merlot	101,584	101,584	-
Base Riesling	118,659	38,659	80,000
Base Sauvignon Blanc	80,738	80,738	-
Base Semillon	173,485	173,485	-
Base Shiraz	368,975	368,975	-
<b>TOTAL</b>	<b>1,244,253</b>	<b>1,103,253</b>	<b>141,000</b>
<b>Proceeds / Valuation</b>		<b>\$2,006,506</b>	<b>\$141,000</b>

Note the above is before factoring in harvest costs, overheads, selling expenses and the costs of the administration.

### Sale of the Group's operations

Shortly after our appointment we sought expressions of interest for:

- a sale of the whole or part of the business, freehold and /or leasehold of the Palandri Group
- capital injection and/or restructure proposals for the business.

Advertisements were placed in the Australian, the West Australian and the Australian Financial Review seeking expressions of interest in purchasing the Group's operations. We received expressions of interest from 17 parties. We asked all interested parties to execute a Confidentiality Agreement prior to receiving an Information Memorandum. Of these interested parties, ten were forwarded the Information Memorandum which was released on 20 March 2008. On receipt of non-binding indicative offers from interested parties, three interested parties were shortlisted and proceeded to undertake due diligence.

The sale process resulted in us selling the majority of the assets as a going concern to Global Wine Holdings Pty Ltd (GWH). The sale included the following assets:

- PWPL's winery, cellar door, restaurant and associated plant and equipment located at Margaret River
- the Group's brands and a significant portion of the Group's wine stock
- PL's freehold interest in the vineyard at Margaret River
- PWPL's freehold interest in the Frankland River #2 vineyard
- PWPL's leasehold interest in the Frankland River #1 vineyard.

The total consideration for this sale was approximately \$20.4m which was used to partially repay the Group's secured creditors and to provide funds to pay the Administrators' remuneration and expenses. The final consideration payable is subject to satisfaction of certain other considerations.

## 4 Administrators' strategy continued

### Negotiations with secured creditors

Following our appointment we held negotiations with the Group's main secured creditors, Keybridge and the PTQ, to inform them of our strategy and to persuade them not to enforce their security. In our opinion, enforcing their security would have likely resulted in other secured creditors enforcing their security and would ultimately have resulted in the assets being broken up and sold individually. This would have affected realisable values and incurred significantly more professional fees. Ultimately all parties agreed with our strategy and, subject to certain reporting requirements and conditions, agreed not to enforce their security.

### Sale of the Group's remaining assets

Following the sale of the Group's operations to GWH, the Administrators began to sell the remaining wine stocks. These consisted of both packaged wine (approximately 16,000 cases) and bulk wine (1.06m litres).

We obtained a valuation of all wine stocks from AgriPartners and used this valuation to set sale prices for the wine stocks. These prices were agreed with PTQ, who had security over most of the wine stocks. However, it proved difficult to sell this volume of wine in the market because of the unexpectedly large Australia-wide 2008 Vintage and the rising Australian dollar which affected exports. AgriPartners agreed that realisation prices had changed and revised their valuations. We have managed to sell most of the wine for prices above the revised AgriPartners' valuation. To date we have sold approximately 39,000 cases and 3.2m litres and have approximately 6,700 cases and 393,000 litres left to sell.

### PFL loan book

At the time of our appointment PFL had lent \$20.1m to 146 investors. PFL's interest in some of these loans had been granted as security to PTQ and Keybridge. We have been liaising with PTQ and Keybridge and continue to collect PFL's loan book as efficiently and speedily as possible. We contacted all borrowers from PFL to advise them of our appointment and have been attempting to collect monthly payments from non defaulting borrowers.

We have collated the supporting documents that evidence the loan agreement between borrowers and PFL and performed a forensic search of the Group's computer system to identify any evidence that may assist with collection of the loan book. We also segregated the loan book into the following three categories:

1. current – loans that are being repaid and are not in arrears
2. minor default – loans that have missed less than two payments but were previously paying regularly
3. serious default – loans that have missed more than two payments.

We have discussed the defaulting loans with our lawyers and are now executing a strategy to attempt to recover these loans.

## 4 Administrators' strategy continued

### The Schemes

Since we were first appointed we have attempted to preserve the Group's Schemes and have explored numerous options to preserve or recreate value in these Schemes. The sale of the majority of the assets to GWH was structured in such a way as to preserve the continuance of the Schemes, and GWH became responsible for maintaining the vineyards at their expense, after we completed the harvest of the 2008 Vintage.

We investigated the prior activities of PWL as responsibility entity for the Schemes and collated the books and records to rebuild the database of all investors in the various Schemes. We used this information to understand the allocation of lots in the Group's vineyards to investors.

We engaged a viticultural expert to assess the condition of the Group's vineyards and develop cash flow forecasts to indicate whether the Schemes were financially viable. Based on the expert's report we concluded that the Schemes were not viable (because of the poor condition of the vineyards, the ongoing vineyard maintenance costs and the lease and management fees) and that continued operation would incur further losses for investors.

Our investigation into the Group's financial position also identified an amount of approximately \$16.8m that was payable to the Group by investors for the shortfall between revenue and expenses of the Schemes. This amount reflected the losses that had been incurred by the Schemes in prior years although we understand that investors had not previously been called on to pay the outstanding amounts to the Group.

As a result of our assessment of the financial viability and financial position of the Schemes, we made an application to the Court to wind up the Schemes in an attempt to prevent investors incurring further losses and permit the sale of the vineyards. On 24 September 2008 the Court ordered the Schemes to be wound up. Mark Conlan and Neil Cribb of RSM Bird Cameron in Perth have now been appointed to supervise the winding up of the Schemes.

### Insurance

At the commencement of the Administration we were advised that the Group's Directors' and officers' insurance policy, and also the Schemes' insurance policy, was unpaid, in default and had significant premium arrears. At that stage we did not have the funds to pay the arrears. These are 'claims made' policies they are not valid if the insured entity defaults on payment of the premium.

Further investigation identified that the Group's insurer had incorrectly issued default notices to the Group and, as a result, in July the Group was provided with a default notice which required the insurance premiums to be paid within 7 days.

We obtained legal advice regarding these insurance policies and determined that the Directors' and officers' insurance policy would be unlikely to respond to any possible claims due to exclusions in the policy. However, we considered the Schemes' insurance policy which insured PWL and its Directors from claims by investors for mis-management of their investments should be renewed.

The premium for the Schemes' insurance policy was \$123,205 and, as the Group did not have sufficient funds to pay this premium, we applied to the Court to have this premium paid from the proceeds of the 2008 Vintage. The Court approved our application and the Schemes' insurance premium was paid.

## 5 Historical financial statement analysis

We note that the summarised accounts below have been extracted from the audited consolidated accounts of Palandri Limited. Further, we note that these accounts do not include the financial position or financial performance of the Schemes because they are separate trusts and accordingly are not part of the Palandri group.

Palandri Group Statement of Financial Performance	FY05 \$'000	FY06 \$'000	FY07 \$'000
Sale of goods	6,485	11,182	15,203
Services	20,147	20,800	24,130
Other revenue	4,569	10,780	15,157
<b>Total Revenue</b>	<b>31,201</b>	<b>42,762</b>	<b>54,490</b>
Cost of goods sold	5,227	10,499	14,867
Restructuring costs	-	-	11,103
Sales and marketing	6,646	7,360	8,460
Production & vine maintenance	6,974	8,012	6,786
Finance costs	2,148	4,173	4,407
Other	7,455	6,276	6,249
<b>Total Expense</b>	<b>28,450</b>	<b>36,320</b>	<b>51,872</b>
<b>Profit / (loss) before income tax</b>	<b>2,751</b>	<b>6,442</b>	<b>2,618</b>
<b>Adjusted for non-recurring items</b>	<b>2,751</b>	<b>1,942</b>	<b>3,432</b>

*\* Source: Audited financial statements*

Palandri Group Statement of Cash Flows	FY05 \$'000	FY06 \$'000	FY07 \$'000
Receipts from customers	25,313	28,928	39,656
Payments to suppliers and employees	(25,880)	(27,799)	(37,300)
Finance costs	2,114	(4,173)	(4,392)
Other	(2,148)	2,549	913
<b>Net cash flow - operating activities</b>	<b>(601)</b>	<b>(495)</b>	<b>(1,123)</b>
Plant & equipment	(1,090)	(241)	(458)
Net loans to third parties	(8,034)	(8,806)	(7,322)
Net loans assigned	-	5,226	5,188
Proceeds from retention note	-	4,478	-
<b>Net cash flow - investing activities</b>	<b>(9,124)</b>	<b>657</b>	<b>(2,592)</b>
Proceeds from debenture issues	13,953	4,482	(2,672)
Share issue	-	-	4,556
Net related party loans	(8,619)	(4,149)	(2,716)
Lease repayments	(731)	(21)	(28)
Net bank loans	6,917	(1,352)	632
Net premium financing	-	359	614
Commercial financing	-	-	1,250
Directors' loans	(1,263)	910	1,505
<b>Net cash flow - financing activities</b>	<b>10,257</b>	<b>229</b>	<b>3,141</b>
<b>Net cash movement</b>	<b>532</b>	<b>391</b>	<b>(574)</b>

*\* Source: Audited Accounts*

### Financial performance

- The Palandri Group's profitability has fluctuated in recent years and has been affected in FY06 and FY07 by non-recurring revenue items including:
  - sale of the Palandri brand in FY06 (\$4.5m) to the MRWBT
  - the restructure of the MRWBT, which resulted in increased revenue of \$8.7m from recognition of the value of vines and a corresponding increase in expenses of \$11.1m resulting from the termination of vineyard leases between the Group and Scheme investors.
- Sale of goods predominantly consists of the sale of wine stocks, revenue from leased vineyards and cellar door & café sales.
- Wine production and marketing fees from members in the Schemes is included in service revenue.
- 'Other Revenue' includes interest revenue from loans to Scheme investors.
- Finance costs include interest and charges relating to financing facilities held with banks, debenture and note holders and other financiers.
- The net profit margin decreased from 19% to 2% over the period FY05 to FY07.

### Cash flow performance

- During the FY05 to FY07 period, the Palandri Group generated negative cash flows from operating activities.
- The significant outflow of funds from investing activities results mainly from the provision of loans by PFL to investors in the Schemes.
- These activities have been subsidised from the proceeds of net capital raisings totalling \$29m during the period, which include share issues, debenture and note issues, bank loans, insurance premium financing, commercial financing and Directors' loans.
- A significant portion of the Group's proceeds from financing activities have been loaned to the MRWBT and the PAWB to fund overseas sales, marketing activities and other operating costs.

## 5 Historical financial statement analysis continued

We note that the summarised accounts below have been extracted from the audited consolidated accounts of Palandri Limited. Further we note that these accounts do not include the financial position or financial performance of the Schemes because they are separate trusts and accordingly are not part of the Palandri Limited group.

Palandri Group Statement of Financial Position	FY05 \$'000	FY06 \$'000	FY07 \$'000
Cash	1,433	1,839	1,256
Trade receivables	5,891	14,013	26,128
Loans receivable	3,072	4,863	7,927
Leases receivable	1,892	2,047	9,014
Other	8,096	8,036	1,013
<b>Total Current Assets</b>	<b>20,384</b>	<b>30,798</b>	<b>45,338</b>
Trade payables	10,282	11,124	18,537
Short term borrowings	9,454	15,051	30,046
Other	3,521	2,905	4,025
<b>Total Current Liabilities</b>	<b>23,257</b>	<b>29,080</b>	<b>52,608</b>
<b>Net Current Assets</b>	<b>(2,873)</b>	<b>1,718</b>	<b>(7,270)</b>
Loans receivable	18,888	29,630	35,602
Property plant & equipment	15,668	13,812	12,803
Leases receivable	13,204	15,158	13,857
Biological assets	1,563	260	4,187
Other	14,885	5,984	2,984
<b>Total Non Current Assets</b>	<b>64,208</b>	<b>64,844</b>	<b>69,433</b>
Long term borrowings	18,303	17,296	3,401
Deferred tax liabilities	6,249	6,643	6,441
Other	-	1,703	3,580
<b>Total Liabilities</b>	<b>24,552</b>	<b>25,642</b>	<b>13,422</b>
<b>Net Non Current Assets</b>	<b>39,656</b>	<b>39,202</b>	<b>56,011</b>
<b>Net Assets</b>	<b>36,783</b>	<b>40,920</b>	<b>48,741</b>

\* Source: Audited Accounts

### Financial position

- The net asset position of the Palandri Group has increased in recent years as a result of an increase in trade receivables (including application monies for investments in the Schemes) and loans receivable from Scheme investors and the Schemes.
- The balance of current and non-current loans receivable increased by \$12.5m in FY06 and \$9m in FY07. These loans were granted to the Schemes to fund the shortfall between revenue and expenses.
- Despite these increases, net current assets deteriorated by nearly \$9m during FY07. The diminishing net current asset position reflects the Group's increased reliance on short term borrowings. We believe that the current net asset position may be significantly overstated because classification of the receivables between current and non current assets may be incorrect. Furthermore, it appears that many of these loans may not be collectable at all.

### Capital Raising Activities

- The Group has undertaken various capital raising activities over the period, including:
  - issuing shares
  - fund raisings via managed investment schemes
  - issuing wine bonds
  - commercial financing
  - bank financing
  - issuing notes and debentures by PFL
  - insurance premium financing
  - loans from related parties.

## 5 Historical financial statement analysis continued

We note that the summarised accounts below have been extracted from the audited consolidated accounts of Palandri Limited. Further we note that these accounts do not include the financial position or financial performance of the Schemes because they are separate trusts and accordingly are not part of the Palandri Limited group.

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<b>Net Assets</b>	<b>36,783</b>	<b>40,920</b>	<b>48,741</b>

\* Source: Audited Accounts

### Leveraging of the Group

Over recent years the Group has significantly leveraged its assets and the assets of some of the Schemes in order to fund the Group's operations. For example:

- PL raised inventory financing against wine stocks which it owned. There does not appear to be any commercial reason for PL to own this wine stock other than to segregate this asset so it can secure additional finance
- PWL as responsibly entity of two Schemes raised invoicing and inventory financing
- PWL as responsible entity for the PAPT borrowed significant funds to acquire the Harvey and Cookernup properties and some of these funds may have been used to fund the Group's operating activities.

### Share issue & Pre IPO Raising

PL planned to list on the Australian Securities Exchange in 2008. Prior to listing, a separate capital raising was sought to retire short term debt and to provide additional working capital. An Information Memorandum dated 30 May 2007 was prepared for investors, offering 11,111,111 ordinary shares at an offer price of \$0.45. Through this process, 3,841,100 shares were issued raising a total of \$1.71m.

We understand from discussions with management that share certificates were issued for these investments; however, we have received correspondence from investors that suggests that these certificates were not sent to investors.

## 6 Report as to affairs

Directors' report as to affairs for the consolidated Palandri Group as at 26 Feb 2008	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	364	388
Sundry debtors	2	31,184	unknown
Stock	3	3,555	2,120
Plant & Equipment	4	51	-
Other assets	5	24,630	unknown
<b>Assets subject to specific charges</b>			
Margaret River Winery	6	10,000	10,000
Frankland River Vineyard 2	7	5,500	5,500
Frankland River Vineyard 1	7	3,500	3,500
Less: amount owing under charge		(14,750)	(14,750)
Reserve vineyard	8	1,050	1,250
Less: amount owing under charge		(1,050)	(1,050)
<b>TOTAL ASSETS</b>		<b>64,035</b>	<b>6,958</b>
Less: Payable in advance of secured creditor(s)	9		
Employee Entitlements		(286)	unknown
Less: Amounts owing and secured by debenture or floating charge assets	10	(37,750)	unknown
Preferential claims ranking behind secured creditors			
Less: Amounts owing to unsecured creditors	11	(8,503)	unknown
<b>TOTAL LIABILITIES</b>		<b>(46,539)</b>	<b>-</b>
<b>SURPLUS / SHORTFALL</b>		<b>17,496</b>	<b>6,958</b>
CONTINGENT ASSETS		7,500	unknown
CONTINGENT LIABILITIES		15,500	unknown

We note that the above summarised report as to affairs is for the companies within the Palandri Group. It does not include the Schemes because they are separate trusts and accordingly are not part of the Palandri Group.

### Summary

Pursuant to section 438B of the Act, Directors are required to submit a Report as to Affairs (RATA) which represents the Directors' views on each company's assets and liabilities. A consolidated version of the Directors' reports has been presented opposite. Details of the Directors' RATAs for individual entities are attached in the appendices.

We provide the following comments regarding the consolidated RATA:

#### Note 1 – Cash at Bank

The RATAs disclose cash of approximately \$364k held across the Group. Actual cash at bank across the Group on our appointment was approximately \$388k.

#### Note 2 – Sundry Debtors

Sundry debtors include management fees receivable from investors in the Schemes (\$31.2m) and trade debtors (\$14k). We will comment later in this report on the recoverability of this asset.

#### Note 3 – Stock

Stock includes bulk and packaged wine and dry goods. The book value of wine stocks at the date of our appointment (including wine held in overseas locations) was \$4.2m, of which we estimate approximately \$2.1m will be recoverable. The majority of wine stocks are held by PWPL and PL and a significant portion of this stock has been sold to GWH with the business sale. The Administrators are continuing to sell down the residual volumes.

## 6 Report as to affairs continued

Directors' report as to affairs for the consolidated Palandri Group as at 26 Feb 2008	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	364	388
Sundry debtors	2	31,184	unknown
Stock	3	3,555	2,120
Plant & Equipment	4	51	-
Other assets	5	24,630	unknown
<b>Assets subject to specific charges</b>			
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<b>TOTAL LIABILITIES</b>		<b>(46,539)</b>	<b>-</b>
<b>SURPLUS / SHORTFALL</b>		<b>17,496</b>	<b>6,958</b>
CONTINGENT ASSETS		7,500	unknown
CONTINGENT LIABILITIES		15,500	unknown

We note that the above summarised report as to affairs is for the companies within the Palandri limited group. It does not include the Schemes because they are separate trusts and accordingly are not part of the Palandri Limited group.

### Note 4 – Plant & Equipment

This balance relates to office furniture and equipment located at the Group's head office. Winery plant & equipment had been recorded by the Directors in the value of the Margaret River Winery.

### Note 5 – Other assets

'Other Assets' mainly comprise the loan book receivables from Scheme investors (\$20.1m). We are currently assessing the recoverability of the loan book and have included an estimate of realisations in the Estimated Statement of Position for PFL in appendix 6 to this report. The loan book is subject to fixed charges by the PTQ and Keybridge. The debt owed to the PTQ is approximately \$15.4m. The charge to Keybridge has been provided to support loans of \$3m provided to other companies in the Group. These charges have been incorrectly reflected as floating charges in the RATA. Also included in this balance is the receivable from the MRWBT for the sale of the Palandri brand (\$4.5m) and a term deposit of \$110k. The brands have been sold to GWH and the term deposit is to support a rental guarantee for the Perth head office and it will not be recoverable.

### Assets Subject to Specific Charges

Assets which are subject to mortgages and fixed charges have been disclosed in this section. We note that neither the Cookernup or Harvey properties, nor the associated indebtedness for these properties, have been disclosed because they are owned by PAPT.

### Note 6 – Margaret River Winery

The Margaret River winery had been valued at between \$8m to \$12m by the Directors and comprises land and plant and equipment situated on the premises. A mortgage had been granted to Keybridge over this property who was owed approximately \$14.75m. The winery has been sold to GWH for approximately \$10m.

## 6 Report as to affairs continued

Directors' report as to affairs for the consolidated Palandri Group as at 26 Feb 2008	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	364	388
Sundry debtors	2	31,184	unknown
Stock	3	3,555	2,120
Plant & Equipment	4	51	-
Other assets	5	24,630	unknown
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Preferential claims ranking behind secured creditors			
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<b>SURPLUS / SHORTFALL</b>		<b>17,496</b>	<b>6,958</b>
CONTINGENT ASSETS		7,500	unknown
CONTINGENT LIABILITIES		15,500	unknown

We note that the above summarised report as to affairs is for the companies within the Palandri Group. It does not include the Schemes because they are separate trusts and accordingly are not part of the Palandri Group.

### Note 7 – Frankland River #1 & #2 Vineyards

#### Frankland River #1 Vineyard

PWPL holds the head lease of the Frankland River #1 vineyard. The Frankland River #1 vineyard leasehold has been sold to GWH.

#### Frankland River #2 Vineyard

The Frankland River #2 vineyard is owned by PWPL. The Frankland River #2 vineyard has been sold to GWH. A mortgage over the property had been granted to Keybridge to secure advances to PWPL.

### Note 8 – Reserve Vineyard

The Reserve vineyard has been sold to GWH. The vineyard was subject to a charge held by Robert Ratcliffe, securing loans to the company of approximately \$1.05m.

## 6 Report as to affairs continued

Directors' report as to affairs for the consolidated Palandri Group as at 26 Feb 2008	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	364	388
Sundry debtors	2	31,184	unknown
Stock	3	3,555	2,120
Plant & Equipment	4	51	-
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<b>TOTAL ASSETS</b>		<b>64,035</b>	<b>6,958</b>
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Preferential claims ranking behind secured creditors			
Less: Amounts owing to unsecured creditors	11	(8,503)	unknown
<b>TOTAL LIABILITIES</b>		<b>(46,539)</b>	<b>-</b>
<b>SURPLUS / SHORTFALL</b>		<b>17,496</b>	<b>6,958</b>
CONTINGENT ASSETS		7,500	unknown
CONTINGENT LIABILITIES		15,500	unknown

We note that the above summarised report as to affairs is for the companies within the Palandri Group. It does not include the Schemes because they are separate trusts and accordingly are not part of the Palandri Limited group.

### Liabilities

#### Note 9 – Employee entitlements

The balance of employee entitlements incorporates annual leave and long service leave entitlements only. Our current estimate of employee entitlements is approximately \$400k, including pay in lieu of notice and redundancy entitlements. Employees are priority creditors and are entitled to payment ahead of unsecured creditors.

#### Note 10 - Charges

Fixed and floating charges over the Group's assets are held by various lenders to the Group. The charges granted secure the following advances to the Group: PTQ (\$17.04m), CRA (\$0.65m), Keybridge (\$14.75m), Stacks (\$1.7m), Ozline (\$3m), All Happy (\$0.75m) and Darrel Jarvis. (\$2m). We note that the total indebtedness subject to these charges has not been disclosed in the RATA because some of these loans were to the Schemes. We note that approximately \$14.75m of secured liabilities appears to have been double counted in the RATA.

#### Note 11 - Unsecured Creditors

Unsecured creditors have been estimated at \$8.5m by the Directors. We are assessing the value of unsecured claims against the Group which we estimate to be approximately \$12.1m; however, this estimate does not include a claim by the PTQ for a shortfall in their security from PFL. We estimate that this additional unsecured claim may be between \$9m and \$13m.

#### Contingent Assets and Liabilities

Contingent assets include GST and WET (Wine Equalisation Tax) refunds receivable. We are currently assessing the recoverability of these assets. The contingent liability represents the guarantee granted by PL to the PTQ, as security for Notes and Debenture issues. This liability has crystallised and is due and payable.

## 7 Reasons for failure

### Directors' reasons for failure

The Directors consider that the main causes of the Group's failure include:

1. tough trading conditions in the global wine market
2. lack of liquidity, resulting from the delay in listing the Group on the Australian Securities Exchange
3. the call on the guarantee provided by PL to the PTQ for \$11.4m

### Administrator's Reasons for Failure

In the Administrators' opinion, the causes of failure of the Palandri Group include:

1. significant expenditure on branding which did not result in the level of sales that were expected
2. large fundraising costs
3. operating shortfalls in the Schemes that were funded by the Group
4. failure to collect two key loans from investors
5. poor profitability of the core wine business
6. reliance on expensive debt funding to support the Group's operations and failure to restructure the Group's capital base
7. failure to properly establish and maintain the Group's vineyards that were allocated to investors in the Schemes
8. costly and complex corporate structure.

The Administrators' assessment of the reasons for the Palandri Group's failure are discussed in detail below.

## 7 Reasons for failure continued

### **Branding costs**

The Group incurred significant annual expenditure on branding Palandri wines for the domestic and export markets; however, sales never reached a level to justify the accumulated funds invested in the marketing activities. In 2006 and 2007, the Group spent \$26.4m on sales and marketing. We note that this would include marketing of the Schemes as well as marketing of its wines.

### **Large fund raising costs**

The Group incurred large costs in establishing and maintaining the Schemes including:

- initial costs of structuring, documenting and promoting the Schemes
- broker commissions for raising the funds
- annual legal and accounting costs required in the Schemes.

### **Operating shortfalls in the Schemes that were funded by the Group**

The Schemes incurred operating shortfalls that were funded by the Group. These shortfalls should have been recovered from investors; however, where investors were made aware of the shortfalls they were advised that they did not need to pay their portion of the shortfall because it would be recouped from future operating surpluses. In 2006 and 2007 the Schemes' shortfall amounted to \$16.8m.

### **Failure to collect two key debts from investors**

Two significant loans were advanced by PFL and PWL to scheme investors totalling approximately \$16m. These loans were made to entities which had prior dealings with the Group and were considered strategic loans. These loans fell due in 2006 and 2007, and the Group has not been able to collect these loans.

### **Poor profitability of the core wine business**

The profitability of the wine business is reflected in the operations of the MRWBT and the PAWB which undertook sales and distribution of wine.

## 7 Reasons for failure continued

### ***Margaret River Wine Business Trust***

The MRWBT operated the wine distribution business in Australia, the UK and Europe. The MRWBT faced continuity of supply issues and poor gross margins in the UK and Europe. We understand that the UK business successfully built the Palandri brand (ensuring demand) and had established efficient distribution channels to retailers throughout Europe. However, the European business was affected by insufficient working capital available for bottling and it could not source sufficient stock from the Australian operations in a timely manner. These problems resulted in the failure of the MRWBT to meet forecast sales and profitability for FY06 and FY07.

### ***Palandri America Wine Business***

Since its inception, the Palandri brand had struggled to gain market share in the US.

Following a review of PAWB's business in March 2007 the Group changed its strategy and tactics and was hopeful of building the American market. Cash flows prepared for the PAWB forecast significant growth of 179% in FY08 and 25% year on year to FY13.

However, the PAWB failed to execute its strategies and required significant further investment, which did not eventuate due to the lack of available investment capital.

## 7 Reasons for failure continued

### **Failure to restructure the Group's costly capital structure**

The success of the Group's operations were dependent on continual cash injections to repay existing financing facilities, fund redemptions and interest payments to Note holders and Debenture holders, and to meet working capital and investment requirements of the wine business. The main sources of funding to the Group included:

- bank and other sources of debt financing
- issue of notes and debentures to the public
- contributions from Scheme investors.

In recent times, the Group's traditional sources of funding through Scheme investors contracted significantly due to:

- alternative investment opportunities in Australia (including changes to superannuation legislation);
- withdrawal of the Australian Taxation Office's Product Ruling for non-forestry investments from 1 July 2007. The effect of this change is that Scheme investors would no longer be able to obtain upfront deductions for contributions to the Scheme
- reduced appetite for risk among investors following collapses of other high profile property trust syndicates (Fincorp, ACR, Westpoint etc)
- increased competition in the wine market globally, resulting from the oversupply of grapes in the market, which reduced the attractiveness of investment in the industry.

As a consequence, the Group became heavily debt-laden, with additional reliance being placed on larger sources of debt financing. Servicing the interest payments was a considerable drain on the Group's cash flow. In FY07, interest expense for the Group grew to \$4.4m.

In light of the above developments in the market, and the costly nature of debt financing, the Directors viewed an Initial Public Offering of the Group to be the most suitable means of refinancing the Group and reducing the Group's exposure to onerous debt covenants. The capital raised was to be accompanied by a convertible note issue. The total proposed capital and debt raising would enable external financiers to be repaid, significantly reducing the debt burden on the Group, and would have provided further working capital to develop export markets. The listing was initially anticipated to occur during May to November 2007. However, the Group ran out of funds before it could achieve this proposed listing.

## 7 Reasons for failure continued

### **Failure to properly establish and maintain the Group's vineyards**

Following our appointment we engaged viticultural experts to assess the condition of the Group's vineyards. Their report indicated that the vineyards had not been maintained in accordance with a standard that would be expected of responsible operators. Specifically, the following problems were identified with the Group's vineyards:

- large sections of the vineyards were not properly irrigated
- some vineyard blocks were not properly fenced and as a result wildlife have damaged large sections of vines
- a large section of vines in the Harvey vineyard is infected with a virus which will prevent them from producing economically feasible fruit.

These issues adversely affected the yield from the Group's vineyards and resulted in poor profitability of the Schemes.

### **Costly and complex corporate structure**

Palandri was initially established to provide tax effective products, with the underlying business being the growing of grapes and production of wine. Since inception the Group has grown to include additional administrative entities such as PFL which provided finance to Scheme investors and non trading entities including MRWIL and PIML. In addition to the numerous corporate entities, the number of Schemes in operation (originally only the MRWB and the PAWB) increased to six, including the MRWBT, WGP, GSC and PAPT. The establishment of these additional entities was undertaken to provide further fundraising opportunities; however, the cost and time to administer their operations soon became a focus of the Group's operations.

To demonstrate the cost and difficulty of administering the Group, we note that the administration expense in the FY07 accounts was \$3.95m. When we were appointed we observed that over 50% of the head office staff were involved in administering the schemes. In addition the following issues were identified during the administration:

- at the date of our appointment, the winding up of the MRWB had not been completed nor had accounts for the Schemes been finalised for FY07
- the Group's accounting team required ten weeks to bring the Group's accounts up to date, because the system and processes required to account for Schemes' transactions were extremely complex and time consuming.

## 8 Investigation

### Potential Liquidators' Actions

An Administrator is required to investigate the company's business, property, affairs and financial circumstances as soon as practicable after an administration begins in order to form an opinion about the future of the company. A major purpose of the investigation is to determine whether there are any 'insolvent transactions' which could be recoverable by a liquidator, which would result in a greater dividend to creditors than, among other things, entering into a DOCA. An 'insolvent transaction' is a transaction which occurred at a time that the company was insolvent or, by entering into it, caused the company to become insolvent.

### Key Events Leading to Administration

The key events which contributed to the Group's failure are indicated below:

- 1 December 2005 – fixed and floating charge granted to PTQ as security for the issue of Debentures and Notes to investors in PFL
- 1 December 2006 – fixed and floating charge to Keybridge for loans advanced
- Late 2006 – PL delisted from the Alternative Investment Market of London (AIM)
- December 2006 – PWL and PL provide a charge to Stacks Finance in respect of loans of \$1.15M advanced to PAPT
- February 2007 – a debt factoring facility was arranged through Bibby for 90% of book value of debts sold
- 2007 – ATO announced its intention to withdraw its Product Ruling for non-forestry investments from 1 July 2007. The effect of this change was that Scheme investors would no longer be able to obtain up front deductions for contributions to non-forestry Schemes
- 28 May 2007 – agreement reached with Quenby Viticulture Services to settle outstanding amounts. The agreement was conditional on the listing of PL on the ASX. If the listing did not occur Quenby was given the option to purchase viticulture assets through a sale and leaseback agreement
- June 2007 – Capital raising for the GSC Scheme noted as being 'extremely disappointing' with 1,339 vineyard lots unallocated to investors
- June 2007 – PL and its subsidiaries entered an agreement whereby outstanding intercompany balances between the Group were converted to loans and reassigned to PL
- July 2007 – Repayment terms of the Keybridge loan to PWPL amended to require full repayment if PL achieves its capital raising on the ASX or an alternative exit strategy would be sought by 1 July 2008. The loan was advanced in November 06 for a period of 13 months

## 8 Investigation continued

- September 2007 – repayment plan of \$5k per week entered into with GT for the payment of outstanding debt
- 10 October 2007 – meeting of note holders held to consider proposal to facilitate repayment of Note holders. Repayments deferred to 30 November 2007
- August – December 2007 – Pre IPO funds raised totalling \$3.84M to retire short term debt and provide working capital for the Group
- November 2007 – statutory demand issued by Hunt & Hunt for the payment of legal fees totalling \$78k
- December 2007 – redemptions of \$3M required to repay Note and Debenture holders
- 2 January 2008 – 77 demands issued for the repayment of \$3M to note holders and debenture holders. Loan facility negotiated with Keybridge for \$3M to meet this payment, subject to provision of adequate security
- 15 February 2008 – on failure to meet 77 demands for the repayment of \$3M to note holders, the total debt outstanding to Note holders became due and payable (\$11.4M) and the Directors resolved to appoint Voluntary Administrators to PFL
- 22 February 2008 – PTQ requested the repayment of \$11.4M under the guarantee provided by PL
- 25 February 2008 – Directors formed the view that other companies in the Group were insolvent or likely to become insolvent and appointed Voluntary Administrators
- 26 & 27 February 2008 – Administrators appointed to the remaining companies within the Palandri Group.

## 8 Investigation continued

### **Insolvent Trading (Section 588G)**

In assessing whether there is an insolvent trading case against the Directors, the Administrators need to assess, among other things:

- whether a date of insolvency can be established prior to the appointment of administrators
- the strength of defences available to Directors
- if established, the Directors' capacity to meet the insolvent trading claim.

The basic tests of insolvency relate to both the net asset position of the company (the balance sheet test) and whether the company can pay its debts as and when they fall due (the cash flow test).

### ***Cash Flow Test***

Our investigations indicate that the Group's cash flow had been tight from as early as 2006, with cash management issues and creditors an agenda item in Board meetings.

In considering whether a company is insolvent, consideration must be given to the Group's ability to raise cash to meet liabilities. Although the audited accounts show that the consolidated cash flow from operating activities was negative as early as 30 June 2005, net cash flow was positive up to 30 June 2006, indicating that the Group could meet its liabilities as and when they fell due through financing and working capital initiatives such as invoice financing.

Our investigations indicate that the Group continued to have access to financing facilities up until as late as January 2008, when it received approval for a further \$3M, subject to appropriate security being given. We also note that the Group had engaged Patersons Securities Limited around September 2007 to raise additional funds through an IPO in Australia and from August to December 2007 had raised \$1.71m from equity investors in the Group's pre-IPO capital raising.

### ***Balance Sheet Test***

Net current assets is an indicator of the ability of a company to pay its debts as and when they fall due. A review of the consolidated balance sheet of the Group indicates positive net assets up to 30 June 2007. However our review of the Group's financial position indicates that a significant portion of the Group's stated assets related to receivables from investors in Schemes that would not be collected within 12 months.

## 8 Investigation continued

Palandri Group	FY05	FY06	FY07
Statement of Financial Position	\$'000	\$'000	\$'000
Cash	1,433	1,839	1,256
Trade receivables	5,891	14,013	26,128
Loans receivable	3,072	4,863	7,927
Lease receivable	1,892	2,047	9,014
Other	8,096	8,036	1,013
<b>Total Current Assets</b>	<b>20,384</b>	<b>30,798</b>	<b>45,338</b>
Trade payables	10,282	11,124	18,537
Short term borrowings	9,454	15,051	30,046
Other	3,521	2,905	4,025
<b>Total Current Liabilities</b>	<b>23,257</b>	<b>29,080</b>	<b>52,608</b>
<b>Net Current Assets</b>	<b>(2,873)</b>	<b>1,718</b>	<b>(7,270)</b>
Loan receivable	18,888	29,630	35,602
Property plant & equipment	15,668	13,812	12,803
Lease receivable	13,204	15,158	13,857
Biological assets	1,563	260	4,187
Other	14,885	5,984	2,984
<b>Total Non Current Assets</b>	<b>64,208</b>	<b>64,844</b>	<b>69,433</b>
Long term borrowings	18,303	17,296	3,401
Deferred tax liabilities	6,249	6,643	6,441
Other	-	1,703	3,580
<b>Total Liabilities</b>	<b>24,552</b>	<b>25,642</b>	<b>13,422</b>
<b>Net Non Current Assets</b>	<b>39,656</b>	<b>39,202</b>	<b>56,011</b>
<b>Net Assets</b>	<b>36,783</b>	<b>40,920</b>	<b>48,741</b>

\* Source: Audited Accounts

### Receivables from investors

The Group's assets as at 30 June 2007 included approximately \$26.1m of trade receivables, of which approximately \$16.8m was receivable from investors for unpaid lease and management fees. These unpaid lease and management fees related to losses incurred by the Schemes in 2006 and 2007. The Schemes' expenses exceeded revenues and the Palandri Group funded the shortfalls.

In the 2006 financial year, the Group sent invoices to investors for the revenue/expense shortfall in the form of additional lease and management fees. However, in the same correspondence investors were told that they were not required to pay the invoice as it would be collected from future net operating proceeds of the Schemes.

In the 2007 financial year, we understand that investors were not made aware of the Schemes' revenue/expense shortfall and no invoices were sent to investors. However, the transactions were raised in the Group's accounts as if the invoices had been dispatched.

Based on our review of the Group's cash flow forecasts, it was unlikely that these receivables could have been recovered from operations within 12 months; however, the Group continued to classify the receivables as current assets. We note that the Group's auditors agreed with this classification. On the basis of information available to us to date, we do not accept that the receivables were current assets. This matter requires further investigation.

### Loans receivable

The Group's audited statement of financial position includes approximately \$8m of current loans receivable and \$35.6m of non-current loans receivable from the Group's Schemes. Our review of the cash flow forecasts for the Schemes indicate that these loans could not be repaid within 12 months.

## 8 Investigation continued

Palandri Group	FY05	FY06	FY07
Statement of Financial Position	\$'000	\$'000	\$'000
Cash	1,433	1,839	1,256
Trade receivables	5,891	14,013	26,128
Loans receivable	3,072	4,863	7,927
Leases receivable	1,892	2,047	9,014
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<b>Net Non Current Assets</b>	<b>39,656</b>	<b>39,202</b>	<b>56,011</b>
<b>Net Assets</b>	<b>36,783</b>	<b>40,920</b>	<b>48,741</b>
<i>* Source: Audited Accounts</i>			
Net current assets after adjustment for reclassification of receivables	Unknown	Unknown	(38,984)

### Lease receivables

The Group's statement of financial position includes current lease receivables of approximately \$9m and non current lease receivables of approximately \$13.8m that relate to the net present value of future income to be received from the leases between PWL and investors in the Schemes.

Our review of the cash flow forecasts for the Schemes indicate that the current portion of these lease liabilities could not be paid within 12 months.

### Effect of not collecting receivables within 12 months

As a result of the Group's inability to collect some or all of these receivables within 12 months, the net current asset position would be reduced to a deficit (current liabilities exceeding current assets). Therefore, on a balance sheet test only, the Group may have been approaching insolvency as early as June 2006. More information is required to confirm this position. Importantly we note that the cash flow test may be a more important indicator of solvency.

### Solvency of Subsidiaries

Individual companies within the Group were historically funded through intercompany loans. Therefore their solvency is dependent on the solvency of the whole Group.

## 8 Investigation continued

### Directors' Defences

Claims for insolvent trading are often difficult to prove and Directors have a number of defences available to them which are summarised as follows:

- that when the debt was incurred, the Director had reasonable grounds to expect that the company was solvent and would remain solvent even if the debt was incurred
- that a competent and reliable person was responsible for the provision of information about whether the company was solvent, and based on the information they provided, the Director expected the company was solvent and would remain solvent even if the debt was incurred
- that when the debt was incurred the Director, because of illness or for some other good reason did not take part at that time in the management of the company
- that the Director took all reasonable steps to stop the company from incurring the debt.

It is important to note that these defences are defences that the Directors have against personal liability for insolvent trading. From our discussions with management and Directors, we understand that until the calling of the guarantee by PTQ, the Directors believed the Group was able to pay all debts as and when due, with the assistance of cash management practices and financing activities being pursued. The main funding solution was the listing of PL on the ASX. The listing was to be coupled with a convertible note facility of \$20m which was being negotiated. Patersons Securities Limited had been engaged to prepare the Prospectus for the IPO and a mandate had been signed with William Buck authorising the sale of shares.

### Conclusion on Insolvent Trading

The Administrators consider that whilst an insolvent trading claim may be made, there are defences available which may be raised by the Directors, namely that they believed that the ASX listing would proceed enabling the Group's debt to be refinanced and provide working capital. Additional investigations would be required prior to concluding whether a case would be successful, including the strength of defences available to Directors. Further, the success of any potential recoveries will depend on the Directors' personal financial position in being able to meet any damages awarded by the Court should legal action be successful. We have obtained statutory declarations from each Director as to their personal financial position which indicates that the Group's Directors may not have material assets that could be recovered for the benefit of creditors.

## 8 Investigation continued

### Preference Payments (Section 588FE(4))

A liquidator is able to recover a payment made by a creditor where:

- the company is insolvent at the time the payment was made, or becomes insolvent by making the payment
- the payment resulted in a better result than what the creditor would have received in the winding up of the company
- the transaction occurred within six months of the commencement of the liquidation (four years for related entity transactions).

It is a defence if the creditor can prove that among other things it entered into the transaction in good faith and did not suspect, or had no reasonable grounds to suspect, that the company was insolvent.

***We have examined the books and records of the Palandri Group and reviewed 4,483 payments to creditors and related parties. We conclude that if the liquidator is able to prove that the Group was insolvent during the time period referred to above, there may be preference claims against three creditors, totalling approximately \$1.5m. However there may be defences available to these creditors weakening the strength of the claims.***

### Unfair Loans (Section 588FD)

A loan is unfair if it is made to a company at an unusual rate of interest or charges and may be set aside if a liquidator is subsequently appointed. ***Our investigations did not reveal any unfair loans.***

### Uncommercial Transactions (Section 588FE(3))

A transaction is uncommercial if:

- the transaction was entered into within two years of commencement of liquidation
- at the time the transaction was entered into, the company was insolvent or became insolvent as a result of entering into the transaction
- a reasonable person in the company's circumstances would not have entered into the transaction having regard to the benefit and detriments to the company of entering into that transaction.

***We do not consider that any companies within the Group had entered into uncommercial transactions.***

## 8 Investigation continued

### **Floating charges created within six months (Section 588FJ)**

A floating charge created within six months of the appointment of a liquidator is void and unenforceable as against a liquidator, subject to a number of exceptions, where the company was insolvent at the time of granting the charge.

***A search of the company's register of charges reveals that no floating charges have been created over the companies' assets within the six months leading up to our appointment.***

### **Transactions for the purpose of defeating creditors (Section 588FE(5))**

We have conducted a review of the transactions of the companies in the Group for the 12 months prior to our appointment to identify any transactions that may have been entered into with the purpose of defeating creditors. We reviewed payments to 4,483 creditors and employees.

***We have not identified any transactions undertaken for the purposes of defeating creditors that would be recoverable by a liquidator.***

### **Other Offences**

#### **Maintenance of proper books and records**

Section 588E(4) of the Act provides that where the Directors of a company fail to meet the obligations outlined in section 286 of the Act to keep proper books and records, that company is presumed to be insolvent for the period it failed to meet the requirements. We have reviewed the books and records of the companies in the Palandri Group and have relied on these throughout the administration. In the course of our investigations we noted:

- the maintenance of accounts was a frequent agenda item in Board meetings. The high turnover of staff, coupled with the complexity of the Group's structure and business model meant that inefficiencies and delays were often experienced in the production of accounting information. Incomplete accounting information was often presented to the Board prior to Board meetings
- the Group has had a history of late lodgements of audited financial accounts with ASIC and tax returns with the ATO. At the date of our appointment tax returns for FY05 and FY06 had not been lodged
- trust accounts were not maintained for PIML. Accordingly, application monies received by the Company were banked into trading accounts
- there appears to have been a mingling of Group funds, with sale proceeds from the cellar door and café banked into accounts other than MRWBT operated bank accounts.

## 8 Investigation continued

Following our appointment we instructed the Group's accounting team to bring the management accounts up to date as at the date of our appointment. It took almost four months for the accounting team to update the Group's financial position. We note that the actual financial position at the date of our appointment, particularly the extent of amounts owed to creditors was significantly different from that disclosed in the RATA prepared by the Directors.

In our opinion the books and records of all the companies in the Group may not have been maintained in accordance with the requirements of Section 286 of the Act. Accordingly, it is possible that the presumption of insolvency afforded to a Liquidator under Section 588E(4) of the Act may be available if any of the companies in the Palandri Group were liquidated. This would require further investigation by the liquidators to determine the potential extent of inadequate record keeping.

### **Section 180 – Care and Diligence and other Directors' duties**

Section 180 of the Act requires that Directors must discharge their duties with the same degree of care and diligence as a reasonable person would in the Director's position. We believe that there may be claims against the Group's Directors for, among other things, contravening this provision of the Act in relation to the management of the Schemes. Further investigation of any such claims is warranted in the Administrators' opinion. The reasons for this opinion are set out below.

In the time available we have not fully considered potential breaches of Sections 181 – 184 of the Corporations Act. If the Group goes into liquidation then these issues will be considered further and form part of any examination of the conduct of the Directors.

### ***Management of investors' interests***

PWL accepted application monies from investors in the Group's GSC Scheme which was intended to be a grape growing Scheme. However, as at the date of our appointment over 3,000 vineyard lots on the Cookernup property had not been established with vines on behalf of investors. As a result the Group may not have complied with the tax product ruling and these investors may not be entitled to a tax deduction from their investment.

### ***Possible double allocation of vineyards to investors***

In 2006 PWL commenced the WGP Scheme and allocated lots to investors in consideration for their application fee. Our investigation has identified that a significant portion of lots that were allocated to investors in the WGP were existing lots that had been allocated to investors in the PAWB. Investors in the WGP were not made aware of the fact that their allocated lots were subject to leases with investors in another Scheme, nor were investors in the PAWB made aware that their allocated lots were being allocated to other investors.

In April 2007 and after the allocation of lots, PWL purported to terminate the lease interests of investors in the PAWB. To achieve this, PWL's Directors relied on a power of attorney granted to PWL by the investors when they subscribed for their interest. Investors in the PAWB were not notified of the purported termination of their lease interest and further investigation is required as to whether the power of attorney relied upon by PWL enabled PWL to lawfully terminate the investors' lease interests. If this is not the case then investors in two Schemes may have had competing claims over certain parts of some of the Group's vineyards.

## 8 Investigation continued

If lots were allocated twice, then it may have caused additional damage to PWL that may result in additional claims being made against it. Furthermore, if investors in either scheme had been made aware of the situation, then the Group may have been forced to stop operating the Schemes earlier and as such the damage to creditors may have been significantly less than it now is.

If appointed as liquidators we will need to investigate the above transactions further and we will (more than likely) need to conduct a public examination of the parties involved to determine whether there is a case to be answered and whether or not any recovery can be made. This will possibly include the examination of the company's legal and accounting advisors and auditors. At this stage it is too early to quantify the amount, if any, which may be recoverable from parties involved.

### ***Trade Practices Act***

Furthermore, not informing the new investors that the vineyard lots were already subject to prior leases may be a breach of the Trade Practices Act.

### ***Misleading financial statements***

The Group's consolidated audited financial statements for the year ended 30 June 2007 include current assets of approximately \$16.8m that were receivable from investors for unpaid application, lease and management fees. The Group had written to investors in relation to a significant portion of this receivable and advised investors that they were not required to pay the amounts owing for the year ended 30 June 2006 as these amounts would be collected from future operations. The Group's Directors did not advise investors that a second amount was due for the 2007 financial year.

The Group's financial statements also included an amount of \$7.5m owing from an overseas investor in respect of unpaid application fees and lease and management fees. The Group's Directors had been unsuccessfully trying to collect this receivable for a significant period of time; however, the amount receivable was reflected in the financial statements at its full value and identified as a current asset.

Our review of the Group's cash flow forecasts indicates that these amounts may not be collected within 12 months and in fact it would take several years to collect the receivables, if at all. Notwithstanding the inability to collect these receivables within 12 months, the Directors classified these receivables as current assets in the financial statements. As a result of this incorrect classification, the Group's working capital position as set out in the financial statements may have misled investors, creditors and financiers as to the Group's ability to continue as a going concern.

If the companies go into liquidation we will investigate this matter further to determine what claims might exist. The investigation would also consider whether any claims might exist for misleading investors or creditors.

## 8 Investigation continued

### Possible claims against the Group's auditors

Other possible actions which may be investigated by a liquidator if appointed include possible actions against the Group's auditors. The most recent audited financial statements are the Group's consolidated financial statements dated 30 June 2007. These financial statements were signed by PL's auditors, and they included in their opinion an "*inherent uncertainty on the going concern assumption and the recoverability of receivables*", specifically in relation to:

- significant uncertainty regarding the Group's ability to continue as a going concern without the continued support of its bankers, debenture and note holders and the completion of capital raising activities
- significant risk associated with the recoverability of related party receivables within the Group, resulting from changes in economic or market conditions.

A review of the audit opinion has been performed in the course of our investigations and we have the following concerns with the auditor's opinion.

### ***Recoverability of loans based on critical accounting estimates and assumptions used***

The Group had significant receivables from the MRWBT and PAWB at 30 June 2007 totalling \$15.1m. The recoverability of these loans was based on cash flow projections of the Schemes, developed by the Directors and industry experts. Despite poor historic performance, the assumptions underlying the cash flow forecasts include:

- wine sales volume growth up to 25% year-on-year
- maintenance of existing finance facilities on the businesses until repaid in 7 years
- successful penetration of new markets in Europe and North America.

Our initial review of the cash flow forecasts raises some concern regarding these assumptions:

- the Schemes historically failed to meet sales targets and struggled to operate profitably since inception. A review of the accounts at the time of signing the financial statements (Nov 2007) would have disclosed that both the PAWB and the MRWBT had significantly failed to reach forecast sales targets
- the accounts disclose 25% growth year-on-year, however the detailed forecasts show a variation in the growth rates ranging from 34% to 88% for the MRWBT and 23% to 179% for the PAWB
- the financial statements disclose that the Group's major financier, Keybridge, had amended its repayment facility and there was no certainty that its facilities would be renewed beyond 1 July 2008.

On this basis, the forecasts appear to be based on aggressive assumptions and as a consequence, may not have been achievable.

## 8 Investigation continued

### ***Disclosure of recoverability of receivables dependent on future profitability of the Schemes***

The financial statements draw attention to the risk of recoverability of loans receivable totalling \$15.1m from the Schemes in Note 3 to the financial statements. These risks result from changes in economic and market conditions which would impact the profitability of the Schemes' future operations. We note however that there are additional receivables within the Group's accounts which would also be affected by the Schemes' future profitability which have not been included in this disclosure. As the recoverability of these receivables are also contingent on the future of the Schemes, we consider that they should also have been disclosed in Note 3 to the financial statements. Accordingly, the going concern disclosure may not have gone into sufficient detail.

### ***Classification of assets***

The Group's consolidated audited financial statements for the year ended 30 June 2007 include current assets of approximately \$16.8m that were receivable from investors for unpaid lease and management fees. The Group had written to investors in relation to a significant portion of this receivable and advised investors that they were not required to pay the amounts owing as at 30 June 2006 because these amounts would be collected from future operations. The Group's Directors did not advise investors that a second amount was due for the 2007 financial year. The Group's financial statements also included an amount of \$7.5m owing from an overseas investor in respect of unpaid application fees and lease and management fees. The Group's Directors had been unsuccessfully trying to collect this receivable for a significant period of time however the amount receivable was reflected in the financial statements at its full value and identified as a current asset.

Our review of the Group's cash flow forecasts indicates that these amounts could not be collected within 12 months and in fact it would take several years to collect the receivables from the future cash flows of the Schemes, if they were collectable at all. Notwithstanding the inability to collect these receivables within 12 months, these assets were classified as current assets in the financial statements. As a result of this incorrect classification, the Group's working capital position as set out in the financial statements may be misleading.

The auditor's opinion did not identify the classification of these assets as incorrect and as a result the auditors may have provided an audit opinion for at least the 2007 financial year and possibly for the 2006 financial year which was not reasonably based. If we are appointed as liquidators we will investigate this further.

## 8 Investigation continued

### **Conducting a public examination**

As mentioned above, if we are appointed liquidators it is our intention to conduct further investigations into the above matters and conduct a public examination of the parties involved including the Directors, auditors and other advisors. This will then allow us to better determine whether or not there is a case to answer and whether or not there is a likelihood of any financial recovery.

As part of the settlement of the vineyard sales, we have negotiated with the Group's secured creditor, Keybridge, to facilitate a contribution of \$1.06m from vineyard sale proceeds to the Group. If the Group is placed into liquidation, we propose using some of these proceeds to fund the further investigation of the above transactions and the public examination of relevant parties. Alternatively, if the proposed DOCA is accepted by creditors then the \$1.06m would become part of the funds available for distribution under the Deed.

### **Claims against Directors**

The Group's Directors have provided us with a statutory declaration as to their financial position which indicates that the Group's Directors may not have sufficient assets to make a claim against them financially viable.

### **Claims against other Parties**

One of the primary purposes of the public examination mentioned above is to determine whether there are claims against other parties including the Group's legal and accounting advisors and auditors. As this stage we do not have sufficient information to form an opinion as to whether or not a claim may be successful.

### **Other matters**

A number of investors in the PAPT Scheme have raised concerns around the level of borrowings by that Scheme and whether or not those borrowings complied with the Scheme's constitution. The books and records show that \$5.5m had been raised from financiers and further investigations needs to be undertaken to clarify how these funds were used by PAPT and whether or not this complied with the Scheme's constitution.

## 9 Liquidation

### Pooling of assets and liabilities in liquidation

Normally in a liquidation, individual companies within a group have to be treated as separate legal entities. This means that creditors of each company will only be entitled to receive a dividend from the realisable assets of that particular company. Further, in the case of PWL, creditors of each of the Schemes will collectively constitute a separate class of unsecured creditors of PWL who will be entitled to share in the proceeds of realisation of the assets of their particular Scheme. To the extent of any shortfall, such Scheme creditors will be entitled to a rateable distribution from PWL's own assets so long as the dividend paid to other creditors at least equals that paid to the Scheme creditors out of Scheme assets.

Because the Directors of the Group are proposing a DOCA which would result in the pooling of the Group's surplus assets and the pooling of the Group's liabilities, for comparative purposes we have shown the result of the liquidation on a similar basis.

To achieve the pooling across the Group in a liquidation, each company in the Group must be in liquidation. Further, pooling can only occur if any of the following apply:

- each company in the group is a related body corporate of each other company in the group;
- the companies in the group are jointly liable for one or more debts or claims;
- the companies in the group jointly own or operate particular property that is or was used, or for use, in connection with a business, a scheme, or an undertaking, carried on jointly by the companies in the group; or
- one or more companies in the group own particular property that is or was used, or for use, by any or all of the companies in the group in connection with a business, a scheme, or an undertaking, carried on jointly by the companies in the group.

The liquidator would also need to convene a meeting of creditors of each company in the Group. At those meetings creditors would decide whether or not to accept a pooling of the Group's assets and liabilities. Alternatively, the liquidator may apply to the Court for a pooling order.

It is our view, given the various intercompany debts, potential claims against some or all of the companies within the Group, potential claims by companies in the Group against third parties and the time and with the information presently available to the administrators, it is not possible to analyse what the dividend result is likely to be in a winding up on a company by company basis and in the case of PWL, in respect of each group of Scheme creditors. However, we consider that on the basis of our investigations, our analysis of a pooled liquidation scenario is a fair representation of the estimated likely range of dividends in a liquidation on a company by company and in the case of PWL, a Scheme by Scheme basis.

Importantly, creditors should note that in a liquidation, it is at least theoretically possible for some unsecured creditors to receive a different rate of dividend return than other unsecured creditors

If the Group is placed into liquidation, the liquidator will likely investigate the validity of intercompany debts, claims against companies in the Group and claims by companies in the Group against third parties. Upon completion of those investigations, the liquidator is likely to be in a position to give a better estimate of the likely dividend in a liquidation on a company by company basis and in the case of PWL, on a Scheme by Scheme basis.

## 9 Liquidation continued

Entity	Funds available / (deficiency) to secured creditors		Secured creditors	Funds available / (deficiency) to unsecured creditors		Unsecured creditors		
	Note 1			Note 2	Note 3		Note 4	
	High \$	Low \$		\$	High \$	Low \$	High \$	Low \$
PL	(92,986)	(92,986)	-	(92,986)	(92,986)	2,654,662	2,654,662	
PFL	6,165,886	2,805,886	15,796,100	(9,630,214)	(12,990,214)	9,611,510	13,322,089	
PWPL	1,224,239	1,224,239	1,224,239	-	-	4,318,813	4,318,813	
MRWIPL	(21,723)	(21,723)	-	(21,723)	(21,723)	21,723	21,723	
PIML	(23,978)	(23,978)	-	(23,978)	(23,978)	253,079	253,079	
PWL	9,595,849	4,995,849	5,997,000	3,598,849	(1,001,151)	19,782,498	24,382,498	
<b>Total</b>	<b>16,847,287</b>	<b>8,887,287</b>	<b>23,017,339</b>	<b>(6,170,052)</b>	<b>(14,130,052)</b>	<b>36,642,285</b>	<b>44,952,864</b>	

Potential recoveries from investigation	Note	Estimated recovery	
		High \$	Low \$
Funds available to PWL unsecured creditors	5	3,598,849	0
Potential recoveries from investigation	6	10,000,000	0
Total funds available to unsecured creditors		13,598,849	0
Less priority unsecured creditors	7	468,467	468,467
Funds available to ordinary unsecured creditors		9,531,533	Nil
Ordinary unsecured creditors		36,642,285	44,952,864
Estimated dividend to ordinary unsecured creditors	8	26.0 cents in the \$	0.0 cents in the \$

The table opposite summarises the potential outcomes for creditors if the Group is placed into liquidation. In relation to the items noted, our comments are as follows:

### Note 1 – Funds available / (deficiency) to secured creditors

Our calculation of the funds available to secured creditors for each entity is based on:

- the recoveries that have been made to date from the sale of assets
- our estimate of future recoveries
- payments made to date by the Administrators
- remaining liabilities of the administration.

Full details of the calculation for each entity is included in the individual report to creditors for each respective entity which are attached as appendices to this report.

### Note 2 – Secured creditors

The Group's remaining principal outstanding to secured creditors are summarised in the following table:

Remaining secured creditors	Borrower	Estimate \$
Keybridge	PWPL	1,224,239
QPT	PWL	547,000
QPT	PFL	15,796,100
Stacks	PWL	1,700,000
Oz Line	PWL	3,000,000
All Happy	PWL	750,000
<b>Total remaining secured creditors</b>		<b>23,017,339</b>

### Note 3 - Funds available / (deficiency) to unsecured creditors

In the event that entities in the Group are placed into liquidation, we estimate that tangible asset realisations will not provide any funds for distribution to unsecured creditors. Any recovery by unsecured creditors will depend on the outcome of further investigations of the liquidators, if appointed, and the success of any potential litigation which may flow from the liquidators' investigations.

## 9 Liquidation continued

Entity	Funds available / (deficiency) to secured creditors		Secured creditors	Funds available / (deficiency) to unsecured creditors		Unsecured creditors		
	Note 1			Note 2	Note 3		Note 4	
	High \$	Low \$		\$	High \$	Low \$	High \$	Low \$
PL	(92,986)	(92,986)	-	(92,986)	(92,986)	2,654,662	2,654,662	
PFL	6,165,886	2,805,886	15,796,100	(9,630,214)	(12,990,214)	9,611,510	13,322,089	
PWPL	1,224,239	1,224,239	1,224,239	-	-	4,318,813	4,318,813	
MRWIPL	(21,723)	(21,723)	-	(21,723)	(21,723)	21,723	21,723	
PIML	(23,978)	(23,978)	-	(23,978)	(23,978)	253,079	253,079	
PWL	9,595,849	4,995,849	5,997,000	3,598,849	(1,001,151)	19,782,498	24,382,498	
<b>Total</b>	<b>16,847,287</b>	<b>8,887,287</b>	<b>23,017,339</b>	<b>(6,170,052)</b>	<b>(14,130,052)</b>	<b>36,642,285</b>	<b>44,952,864</b>	

Potential recoveries from investigation	Note	Estimated recovery	
		High \$	Low \$
Funds available to PWL unsecured creditors	5	3,598,849	0
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Total funds available to unsecured creditors		13,598,849	0
Less priority unsecured creditors	7	468,467	468,467
Funds available to ordinary unsecured creditors		9,531,533	Nil
Ordinary unsecured creditors		36,642,285	44,952,864
Estimated dividend to ordinary unsecured creditors	8	26.0	0.0
		cents in the \$	cents in the \$

### Note 4 – Unsecured creditors

Our estimate of the value of unsecured claims against each entity has been sourced from the management accounts for each entity in the Group. We have taken into consideration the potential for unsecured claims to be higher than expected when calculating our low estimate of return to creditors.

### Note 5 – Funds available to PWL’s unsecured creditors

From 1999 to approximately 2004, PWL paid GST and WET in its own right to the ATO. Subsequent investigations revealed that the sale of wine was actually taking place on behalf of individual investors and as such, PWL was not required to account to the ATO for GST and WET.

We have commenced the preparation of a claim for a rebate of this GST and WET from the ATO. We estimate that this claim will be at least \$400k however our investigations to date indicate that the claim could be up to \$5m.

In the event that we can recover \$5m, then there may be approximately \$3.6 m available to PWL’s unsecured creditors.

### Note 6 – Potential recovery from investigation

In section 8 of this report we have summarised our initial findings in regards to our investigations of the Group’s financial affairs. We have highlighted in that section that there needs to be a much more detailed investigation into certain transactions, which may ultimately lead to claims being pursued against various parties.

At this stage we do not have sufficient information to determine whether or not any claim may be successful. Based on preliminary investigations the total claims against the various parties may be in excess of \$10m.

At this stage we cannot determine whether these parties have the financial capacity to pay such claims. Furthermore many of these claims will ultimately be made against the professional indemnity insurance policies held by the various advisors and the auditors and we do not know the extent of cover or exclusions and whether or not the policies will respond to the claims. This information can only be determined by a liquidator conducting a public examination.

For the purpose of this analysis we have assumed that on a best case basis a liquidator may recover a total of \$10m.

## 9 Liquidation continued

Entity	Funds available / (deficiency) to secured creditors		Secured creditors	Funds available / (deficiency) to unsecured creditors		Unsecured creditors		
	Note 1			Note 2	Note 3		Note 4	
	High \$	Low \$		\$	High \$	Low \$	High \$	Low \$
PL	(92,986)	(92,986)	-	(92,986)	(92,986)	2,654,662	2,654,662	
PFL	6,165,886	2,805,886	15,796,100	(9,630,214)	(12,990,214)	9,611,510	13,322,089	
PWPL	1,224,239	1,224,239	1,224,239	-	-	4,318,813	4,318,813	
MRWIPL	(21,723)	(21,723)	-	(21,723)	(21,723)	21,723	21,723	
PIML	(23,978)	(23,978)	-	(23,978)	(23,978)	253,079	253,079	
PWL	9,595,849	4,995,849	5,997,000	3,598,849	(1,001,151)	19,782,498	24,382,498	
<b>Total</b>	<b>16,847,287</b>	<b>8,887,287</b>	<b>23,017,339</b>	<b>(6,170,052)</b>	<b>(14,130,052)</b>	<b>36,642,285</b>	<b>44,952,864</b>	

Potential recoveries from investigation	Note	Estimated recovery	
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Funds available to PWL unsecured creditors	5	3,598,849	0
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Total funds available to unsecured creditors		13,598,849	0
Less priority unsecured creditors	7	468,467	468,467
Funds available to ordinary unsecured creditors		9,531,533	Nil
Ordinary unsecured creditors		36,642,285	44,952,864
<b>Estimated dividend to ordinary unsecured creditors</b>	<b>8</b>	<b>26.0</b>	<b>0.0</b>
		cents in the \$	cents in the \$

### Note 7 – Priority unsecured creditors

The Group's management accounts indicate that liabilities to employees for their entitlements is \$468,467. This amount attracts a priority of payment over ordinary unsecured creditors pursuant to section 556 of the Act.

In the event that the Group is placed into liquidation and Employee entitlements (excluding Superannuation) are not paid in full, former employees may be able to claim financial assistance from the Government through its GEERS (General Employee Entitlements & Redundancy Scheme).

### Note 8 - Estimated dividend to ordinary unsecured creditors

It is difficult to estimate the likely dividend to ordinary unsecured creditors without access to information that will only be available in a public examination. Notwithstanding our assessment of the potential claims indicates that the total recoveries are unlikely to exceed \$13.6m and based on the level of unsecured creditors recorded in the management accounts, this may result in a dividend to unsecured creditors of approximately 26.0 cents in the dollar. Our low estimate of the return to creditors is that no return would be available.

## 10 Proposed deed of company arrangement

Estimated return to creditors from DOCA	Note	High \$	Low \$
Contribution from directors	1	1,000,000	1,000,000
GST & WET recovery	2	5,000,000	400,000
Funds from the sale of vineyards	3	1,060,000	1,060,000
Total funds available for the DOCA		7,060,000	2,460,000
Fees for preparation of DOCA	4	(125,000)	(175,000)
Fees to complete GST/WET investigation	5	(250,000)	(75,000)
Deed Administrators' remuneration	6	(300,000)	(300,000)
Funds available to priority creditors		6,385,000	1,910,000
Priority unsecured creditors	7	(468,467)	(468,467)
Funds available to unsecured creditors		5,916,533	1,441,533
Unsecured creditors	8	36,642,285	44,952,864
Dividend to unsecured creditors	9	16.1 cents in the \$	3.2 cents in the \$

### Key features of Proposed DOCA

The Directors have submitted a proposal for all the companies within the Group to enter into a DOCA. This proposal was the outcome of extensive negotiations between the Directors and the Administrators of the Group and took place before the books and records of the Group had been brought up to date and before the Administrators had conducted their initial investigations.

Details of the proposed DOCA will be discussed at the Second meeting of creditors, but a summary of the proposal is as follows:

- the DOCA would involve pooling of all the remaining assets after paying out the secured creditors and pooling all the claims of the unsecured creditors across the Group
- a fund under the DOCA would be established for the benefit of the unsecured creditors
- the fund would include \$1m contributed by the Directors and other surplus recoveries, including the \$1.06m contributed from the sale of the Group's vineyards
- the Proposed DOCA would require the creditors of all entities in the Palandri Group to approve the DOCA. If creditors of any one company within the Group vote against the proposal then the proposal for the whole Group will fail.
- the Directors of the Group and any entities associated with them would not prove for a dividend under the proposed DOCA, reducing the unsecured creditor pool by approximately \$2m.

In relation to the items noted, we comment as follows:

#### Note 1 – Contribution from Directors

The Group's Directors propose to contribute \$1m to a DOCA that would provide an alternative to placing the Group into liquidation. If the DOCA is accepted the companies would not go into liquidation and as a result the transactions referred to in section 8 of this report will not be investigated.

## 10 Proposed deed of company arrangement continued

Estimated return to creditors from DOCA	Note	High \$	Low \$
Contribution from directors	1	1,000,000	1,000,000
GST & WET recovery	2	5,000,000	400,000
Funds from the sale of vineyards	3	1,060,000	1,060,000
Total funds available for the DOCA		7,060,000	2,460,000
Fees for preparation of DOCA	4	(125,000)	(175,000)
Fees to complete GST/WET investigation	5	(250,000)	(75,000)
Deed Administrators' remuneration	6	(300,000)	(300,000)
Funds available to priority creditors		6,385,000	1,910,000
Priority unsecured creditors	7	(468,467)	(468,467)
Funds available to unsecured creditors		5,916,533	1,441,533
Unsecured creditors	8	36,642,285	44,952,864
Dividend to unsecured creditors	9	16.1 cents in the \$	3.2 cents in the \$

### Note 2 – GST & WET recovery

From 1999 to approximately 2004, PWL paid GST and WET in its own right to the ATO. Subsequent investigations revealed that the sale of wine was actually taking place on behalf of individual investors and as such, PWL was not required to account to the ATO for GST and WET.

We have commenced the preparation of a claim for a rebate of this GST and WET from the ATO. We estimate that this claim will be at least \$400k however our investigations to date indicate that the claim could be up to \$5m.

It should be noted that this claim will not be affected by whether PWL's creditors approve the DOCA or whether PWL is placed into liquidation. In the event that this claim is successful, the funds would be available under the proposed DOCA and in the liquidation.

### Note 3 – Contribution from sale of vineyards

During the Administration, we negotiated and signed a conditional sale agreement for Palandri's vineyards at Margaret River and Frankland River to GWH. The completion of the sale of these vineyards was conditional upon the successful removal of encumbrances from the vineyards arising from grower interests in Palandri's Schemes.

In order to facilitate the removal of investor's interests in Palandri's vineyards, the secured creditor (Keybridge) agreed to contribute \$1.06m from the proceeds of sale of the vineyards for the benefit of the Group's creditors. This money is available to form part of the DOCA proceeds and would also be available in the event of a liquidation.

### Note 4 - Fees for preparation and documentation of DOCA

We estimate that the professional fees for the Administrator and associated legal costs to prepare and document the proposed DOCA would be between \$125k and \$175k.

## 10 Proposed deed of company arrangement continued

Estimated return to creditors from DOCA	Note	High \$	Low \$
Contribution from directors	1	1,000,000	1,000,000
GST & WET recovery	2	5,000,000	400,000
Funds from the sale of vineyards	3	1,060,000	1,060,000
Total funds available for the DOCA		7,060,000	2,460,000
Fees for preparation of DOCA	4	(125,000)	(175,000)
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Deed Administrators' remuneration	6	(300,000)	(300,000)
Funds available to priority creditors		6,385,000	1,910,000
Priority unsecured creditors	7	(468,467)	(468,467)
Funds available to unsecured creditors		5,916,533	1,441,533
Unsecured creditors	8	36,642,285	44,952,864
Dividend to unsecured creditors	9	16.1 cents in the \$	3.2 cents in the \$

### Note 5 – Fees to complete GST/WET investigation

We have commenced the investigation into the potential GST/WET rebate. We have engaged an external tax specialist to pursue these claims. Our strategy is to test the assertion that PWL is entitled to claim these rebates on specific Schemes where tax rulings have been obtained from the ATO and where we expect to be successful. The outcome from these claims will provide evidence for further claims.

Our low estimate of recovery assumes that we will only be successful in obtaining rebates for the specific Schemes that are subject to our initial claim. We estimate that the external consultant's fees for this aspect of the claim will be approximately \$75,000. If, based on these claims, we are confident of obtaining further rebates then we may proceed to prepare further claims and we estimate that the external consultant's fees in this regard could be approximately \$250,000. However we will only undertake this work if there is a high likelihood of success.

### Note 6 – Deed Administrator's remuneration

We estimate that the Deed Administrators' remuneration would amount to approximately \$300k for Administering the proposed DOCA including:

- calling for and adjudicating formal proofs of debt
- calculating, processing and paying dividends to various classes of creditors
- dealing with creditor and investor queries and general administration.

### Note 7 – Employee entitlements

Based on the Group's management accounts we estimate that employee entitlements are \$468,467. Pursuant to section 556 of the Act, these entitlements must be paid in full before any distribution can be made to the Group's unsecured creditors.

## 10 Proposed deed of company arrangement continued

Estimated return to creditors from DOCA	Note	High \$	Low \$
Contribution from directors	1	1,000,000	1,000,000
GST & WET recovery	2	5,000,000	400,000
Funds from the sale of vineyards	3	1,060,000	1,060,000
Total funds available for the DOCA		7,060,000	2,460,000
Fees for preparation of DOCA	4	(125,000)	(175,000)
Fees to complete GST/WET investigation	5	(250,000)	(75,000)
Deed Administrators' remuneration	6	(300,000)	(300,000)
Funds available to priority creditors		6,385,000	1,910,000
Priority unsecured creditors	7	(468,467)	(468,467)
Funds available to unsecured creditors		5,916,533	1,441,533
Unsecured creditors	8	36,642,285	44,952,864
Dividend to unsecured creditors	9	16.1 cents in the \$	3.2 cents in the \$

### Note 8 – Unsecured creditors

The Group's books and records indicate that total unsecured creditors are between \$40m and \$44m depending on PTQ's shortfall from PFL.

The proposed DOCA would require all unsecured creditors in the Group to participate equally in the DOCA. We have therefore pooled the Group's unsecured creditors for the purposes of analysing the proposed DOCA.

### Note 9 – Dividend to unsecured creditors

The return to unsecured creditors from the proposed DOCA is likely to be between 3.2 and 16.1 cents in the dollar.

## 10 Proposed deed of company arrangement continued

### Additional information

- Should the creditors accept the proposed DOCA, unsecured creditors would be accepting the above terms of the proposed DOCA as full and final satisfaction of their claims against the Group and the auditors because of the terms of the DOCA required by the Directors.
- The Administrators of the proposed DOCA would be Gary Doran, Neil Cussen and John Greig.
- The Proposed DOCA also incorporates the standard terms and provisions which are described in the Act and deal with the following:
  - a) Administrator deemed agent of the companies
  - b) powers of the Administrator
  - c) termination of the Proposed DOCA where the arrangement fails
  - d) indemnity and lien by the Company in favour of the Deed Administrators
  - e) priority of creditors
  - f) discharge of debts
  - g) claims extinguished
  - h) bar to creditors' claims
  - i) making claims
  - j) meetings
  - k) committee of creditors
  - l) termination of the DOCA once the terms are satisfied.
- We anticipate that it would take the Deed Administrators between 3 and 6 months to determine the potential recovery that could be obtained from the claim for a rebate of GST and WET and that a distribution to creditors would be made after the rebates have been recovered.

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. I make the following comments in respect of each option:

### Winding up the Group

At the second creditors meeting, creditors may resolve that the Group be wound up. Should they do so, the Group will be placed into liquidation and is taken to have nominated the Administrators to be the Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets and distribute the proceeds in accordance with the Act and will also be required to complete a thorough investigation into the Group's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of the Group include:

1. the moratorium available under the voluntary administration process will cease
2. the liquidator will be empowered to recover potential voidable transactions and pursue other courses of action, as outlined in Section 8 of this report
3. The liquidator will be required to conduct an investigation into the affairs of the Group pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that any Company within the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, will immediately fail and all entities in the Group will be wound up. In liquidation, it is likely that the affairs of each entity will be pooled, excluding assets specifically charged to secured creditors, and any recovery across the Group will be distributed to the pooled creditors.

The result to creditors of the Group, of it going into liquidation, will likely be a return to creditors, based on pooling if this is achievable, of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which are detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning the Group, or any of the companies within the Group, to the Directors. This is not a commercial proposition at this stage given that each of the companies within the Group is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors will be pooled and will receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them will not prove for a dividend in the DOCA and the fund will be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA will likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and the reduction in creditors' claims of approximately \$2m. All other estimated recoveries will be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary by accepting the DOCA creditors will be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for

- the Group to execute a Deed of Company Arrangement
- to the Group's administration to end
- the Group to be wound up,

and the reasons for those opinions.

## Winding up the Group

It is our opinion that it would be in the creditors' best interests for the Group to be wound up as it provides a potentially higher return to creditors than that which would be available under the proposed DOCA subject to pooling being available in liquidation, otherwise the creditors of PWL may be better off.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario is the proposed contribution of \$1m by the Group's Directors and in consideration for this creditors will be foregoing any potential recoveries which may be available to liquidator. The DOCA is dependant on the creditors of each company within the group accepting the DOCA.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end because all the companies within the Group are insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for the Group to be wound up. Our opinion with respect to each company within the Group is contained in the appendices to this report.

Dated this 26th day of September 2008



For and on behalf of

**Gary Doran, Neil Cussen & John Greig**

**Joint and Several Administrators**



## **STRICTLY PRIVATE AND CONFIDENTIAL**

**Palandri Limited (Administrators Appointed)**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

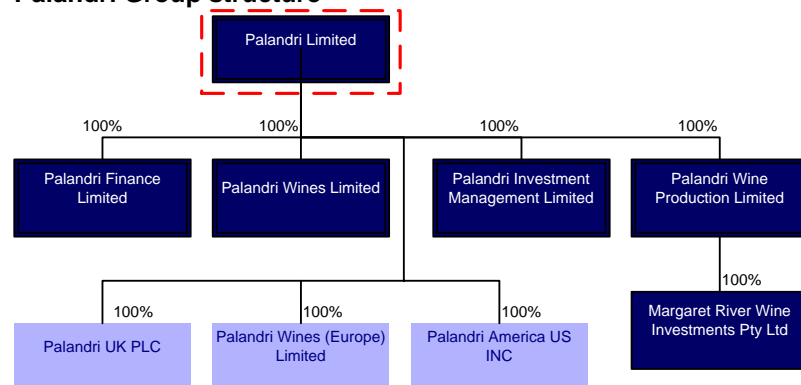
This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Corporate details and history

<b>Organisation Name:</b>	<b>Palandri Limited</b>
<b>ACN:</b>	087 787 415
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	27 May 1999
<b>Registered Office:</b>	Level 3, Kings Park Road West Perth
<b>Principal Place of Business:</b>	Level 3, Kings Park Road West Perth
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 27 May 1999) Christopher John Brown (Appointed 28 Nov 2003) Robin Elliott Day (Appointed 21 Jun 2004) Geoffrey Robin Green (Appointed 1 Jan 2007) Robert John Ratcliffe (Appointed 6 Nov 2007)
<b>Company Secretary:</b>	Christopher John Brown (Appointed 19 Nov 2007)
<b>Registered Charges:</b>	Darrel Arthur Jarvis (Fixed and Floating). Registered 1 May 2003 Keybridge Capital Limited (Fixed and Floating). Registered 1 Dec 2006 Cash Resources Australia Pty Ltd (Fixed and Floating). Registered 10 May 2007
<b>Auditor:</b>	Bentley's MRI (Perth Partnership)

## Palandri Group structure



### Key

Companies in administration	Companies NOT in administration
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## History

Palandri Limited (PL) was incorporated in 1999 and is the ultimate parent entity of the Palandri Group. PL's role in the Group's operations included administration of the other Group entities and capital raising.

PL has guaranteed the obligations of PFL to its secured creditor, PTQ.

The main events leading up to the Administrators' appointment to PL are noted as follows:

- June 2004 – PL lists on the UK Alternative Investment Market
- March 2005 – PL executes a parent company guarantee in favour of the PTQ for the obligations of PFL
- December 2007 – PL is delisted from the UK Alternative Investment Market
- December 2007 – PL successfully completes \$1.7m capital raising from pre IPO share issue
- January 2008 – PFL defaults on repayment of 77 demands to note holders resulting in \$11.4m becoming due and payable
- February 2008 – PTQ issues a demand to PL under the parent guarantee in the amount of \$11.4m.

# Report as to affairs

Palandri Limited Report as to Affairs	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	144	146
Stock	2	2,305	820
Plant & Equipment	3	51	8
Other assets	4	110	200
<b>Assets subject to specific charges</b>			
Reserve vineyard	5	1,050	1,060
Less: amount owing under charge		(1,050)	(1,050)
<b>Total assets</b>		<b>2,610</b>	<b>1,184</b>
Priority creditors	6	(129)	(129)
Amounts owing to secured creditors	7	(17,350)	(15,400)
Amount available to unsecured creditors		Nil	Nil
Less: Amounts owing to unsecured creditors	8	(1,987)	(1,987)
<b>Total deficit</b>		<b>(16,856)</b>	<b>(16,332)</b>

The financial position of PL as estimated by PL's Directors is summarised above. Our comments in relation to the financial position are as follows:

## Note 1 - Cash at Bank

Cash at bank on our appointment was approximately \$146k.

## Note 2 - Stock

Stock comprises bulk and packaged wine. The book value of wine stocks at the date of our appointment was \$2.3m, of which we estimate recoverability of approximately \$820k. A floating charge over this stock has been granted to Cash Resources Australia to secure indebtedness of \$650k. A significant portion of this stock has been sold to GWH with the business sale and the Administrators are continuing to sell down the residual volumes of stock.

## Note 3 - Plant & Equipment

Office furniture and equipment is located at the Group's head office. We anticipate realising between \$4k and \$8k.

## Note 4 - Other assets

Other assets include a term deposit of \$110k held with National Australia Bank Limited as a guarantee for the West Perth office premises.

## Note 5 - Reserve Vineyard

The Reserve Vineyard has been sold to GWH. A mortgage over this property was held by John Ratcliffe, providing security for a loan to PL of \$1m. As part of the business sale, GWH assumed liability for this loan and the security has been released.

## Note 6 - Employee Entitlements

Employee entitlements have been estimated at \$129k by the Directors. We anticipate entitlements payable could be significantly higher due to redundancy entitlements.

## Note 7 - Charges

Fixed and floating charges have been granted to Keybridge and Darrel Jarvis to secure advances to the Group of \$14.75m and \$2m respectively.

## Note 8 - Unsecured creditors

Unsecured creditors have been estimated at \$1.99m by the Directors and include trade payables (\$966k) and loan funding (\$1.02m). Based on the management accounts, we estimate unsecured claims against PL will amount to approximately \$2.6m.

## Funds available for unsecured creditors

<b>Recoveries by Administrator</b>		<b>\$</b>
Cash at bank	146,079.88	
Plant & Equipment	8,415.00	
Pre Appointment Debtors	888.45	
Sale of Business	200,000.00	
Sale of wine stock	844,454.94	
Bank Interest	2,922.25	
Refund of Underwriting Deposit	9,372.57	
GST collected	6,042.55	
<b>Total recoveries by Administrators</b>	<b>1,218,175.64</b>	
<b>Payments by Administrators</b>		<b>\$</b>
Cash Resources Australia Pty Ltd (Secured creditor)	650,000.00	
Bank Charges	2,171.00	
Warehouse Lien	56,378.00	
Administrators Remuneration	123,835.50	
Administrators Expenses	6,191.77	
Directors Expenses	16,387.62	
Expenses to secure stock	11,022.90	
Postage	604.49	
Repairs & Maintenance	615.50	
Stationery & Printing	382.91	
Sundry Expenses	681.49	
Transport / Courier	477.00	
Vehicle Running Costs	40.27	
Wages & Salaries	42,672.79	
State Payroll Tax	1,966.58	
<b>Total payments by Administrators</b>	<b>913,427.82</b>	
Cash at bank	304,747.82	

<b>Estimated future recoveries</b>	
Stock	251,300.00
Overheads paid on behalf of other group entities	32,837.10
<b>Total future recoveries</b>	<b>284,137.10</b>
<b>Remaining Administrators' liabilities</b>	
GST & PAYG payable by administrator	63,743.55
Administrators' remuneration from 4 May to 11 July 2008	240,642.00
Administrators' remuneration from 12 July to 12 September 2008	166,146.00
Administrators' remuneration from 13 Sept - 7 Oct 2008	20,000.00
Administrators' disbursements (estimate)	91,339.40
Liquidators' remuneration (estimate)	100,000.00
<b>Total future liabilities</b>	<b>681,870.95</b>
<b>Funds available for unsecured creditors</b>	<b>(92,986.03)</b>

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. I make the following comments in respect of each option:

### Winding up PL

At the second creditors' meeting, creditors may resolve that PL be wound up. Should they do so, PL will be placed into liquidation and is taken to have nominated the Administrators to be Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets in accordance with the Act and will also be required to complete a thorough investigation into PL's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of PL include:

1. the moratorium available under the voluntary administration process would cease
2. the liquidator would be empowered to recover potential voidable transactions, as outlined in Section 8 of this report
3. The liquidator would be required to conduct an investigation into the affairs of PL pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that PL or any company in the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, would immediately fail and all entities in the Group will be wound up. In liquidation, it is likely that the affairs of each entity (other than PFL) would be pooled and any recovery across the Group would be distributed to the pooled creditors.

The result to creditors of PL, of it going into liquidation, would likely be a return to creditors of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which are detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning PL to the Directors. This is not a commercial proposition at this stage given PL is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors would be pooled and would receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them would not prove for a dividend in the DOCA and the fund would be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA will likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors, and a relatively small reduction in creditors' claims. All other estimated recoveries would be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary by accepting the DOCA creditors would be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors' claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for:

- PL to execute a Deed of Company Arrangement
- PL's administration to end
- PL to be wound up

and the reasons for those opinions.

## Winding up the PL

It is our opinion that it **would be** in the creditors' best interests for PL to be wound up as this would provide a potentially higher likely return to creditors than that which would be available under the proposed DOCA.

## Proposed DOCA

It is our opinion that it **would not be** in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario is the proposed contribution of \$1m by the Group's Directors and a relatively small reduction in creditors' claims. In consideration for this, creditors would be foregoing any potential recoveries which may be available to liquidator.

## Ending the Administration

It is our opinion that it **would not be** in the creditors' best interests for the administration to end because PL is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for PL to be wound up.

Dated this 26th day of September 2008



For and on behalf of

Gary Doran, Neil Cussen & John Greig

Joint and Several Administrators



### **STRICTLY PRIVATE AND CONFIDENTIAL**

**PWPL – ACN 085 042 879 Limited (Administrators Appointed)**

**formerly Palandri Wine Production Limited (PWPL)**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

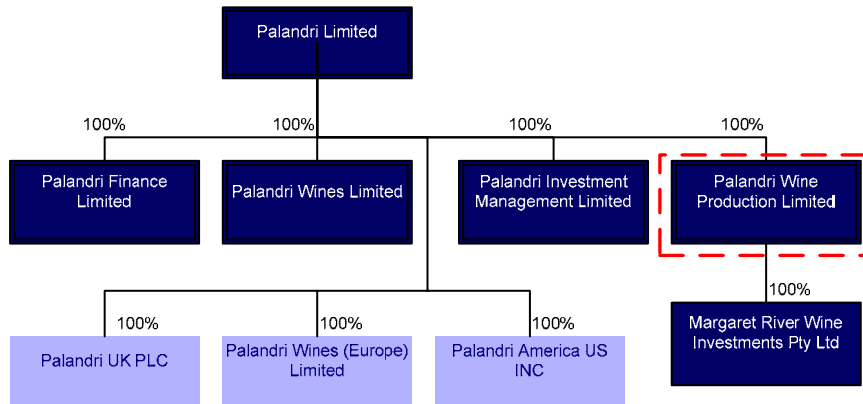
This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Corporate details and history

<b>Organisation Name:</b>	<b>PWPL – ACN 085 042 879 Limited</b> <b>formerly Palandri Wine Production Limited</b>
<b>ACN:</b>	085 042 879
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	5 November 1998
<b>Registered Office:</b>	Level 3, Kings Park Road West Perth
<b>Principal Place of Business:</b>	Level 3, Kings Park Road West Perth
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 5 November 1998) Christopher John Brown (Appointed 28 November 2003) Robin Elliott Day (Appointed 13 July 2004) Robert John Ratcliffe (Appointed 5 July 2006)
<b>Registered Charges:</b>	Keybridge Capital Limited (Fixed and Floating). Registered 1 December 2006. Bank of Western Australia Limited (Fixed). Registered 16 April 2002.
<b>Auditor:</b>	Bentley's MRI (Perth Partnership)

## Palandri Group structure



**Key**

Companies in administration	Companies NOT in administration
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## History

PWPL was the wine production business based in Margaret River, Western Australia. Its principal operating activities include:

- management and maintenance of vineyards
- processing of wine
- marketing of wine under licence for the MRWBT and the PAWB.

The company owned the main wine assets, which include the Frankland River # 2 vineyard and winery. It also held the head lease for the Frankland River #1 vineyard. These properties are subleased to investors in the Schemes.

PWPL is contracted on behalf of PWL to maintain the vines and harvest and crush the grapes. In addition to the grapes purchased from the Schemes, it sourced grapes from around the Margaret River region. The wine produced was sold to the MRWBT and the PAWB.

PWPL is paid a maintenance and harvest fee by PWL for services and receives revenue from the sale of wines to the MRWBT and the PAWB.

## Report as to affairs

Report as to Affairs	Note	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	100	8
Sundry debtors	2	14	13
Stock	3	1,250	447
Other assets	4	4,500	103
<b>Assets subject to specific charges</b>			
Franklin River Vineyard 1	5	3,500	200
Franklin River Vineyard 2	6	5,500	4,000
Margaret River Winery	6	10,000	10,000
Less: amount owing under charge	6	(14,750)	(14,750)
<b>TOTAL ASSETS</b>		<b>10,114</b>	<b>21</b>
Priority creditors	7	(68)	(68)
Secured creditors	8	(16,750)	(2,250)
<b>Amount available to unsecured creditors</b>		<b>(6,704)</b>	<b>(2,297)</b>
Unsecured creditors	9	(4,319)	(4,319)
<b>Total deficit</b>		<b>(11,023)</b>	<b>(6,616)</b>

The financial position of PWPL as estimated by PWPL's Directors is summarised opposite. Our comments in relation to the financial position are as follows:

### Note 1 – Cash at Bank

Cash at bank on our appointment was approximately \$8k.

### Note 2 – Sundry Debtors

To date we have recovered approximately \$13k from pre-appointment debtors.

### Note 3 – Stock

Stock includes bulk wine and dry goods and we expect to realise approximately \$447k from this stock. A significant portion of this stock has been sold to GWH as part of the business sale and the Administrators are continuing to sell the residual volumes.

### Note 4 – Other assets

Other assets include the receivable from the MRWBT for the sale of the Palandri brand (\$4.5m). The Palandri brand has been sold to GWH.

### Note 5 – Frankland River Vineyard No1

PWPL held the head lease of the Frankland River #1 vineyard and it was sold to GWH.

## Report as to affairs

Report as to Affairs	Note	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	100	8
Sundry debtors	2	14	13
Stock	3	1,250	447
Other assets	4	4,500	103
<b>Assets subject to specific charges</b>			
Franklin River Vineyard 1	5	3,500	200
Franklin River Vineyard 2	6	5,500	4,000
Margaret River Winery	6	10,000	10,000
Less: amount owing under charge	6	(14,750)	(14,750)
<b>TOTAL ASSETS</b>		<b>10,114</b>	<b>21</b>
Priority creditors	7	(68)	(68)
Secured creditors	8	(16,750)	(2,250)
Amount available to unsecured creditors		(6,704)	(2,297)
Unsecured creditors	9	(4,319)	(4,319)
<b>Total deficit</b>		<b>(11,023)</b>	<b>(6,616)</b>

### Note 6 – Margaret River Winery & Frankland River #2 Vineyard

The Margaret River winery was valued at between \$8m to \$12m by the Directors and comprised land and plant and equipment situated on the premises. The winery has been sold to GWH.

The Frankland River #2 vineyard is owned by PWPL and has been sold to GWH.

A mortgage had been granted over these properties to Keybridge. The Group's current indebtedness to Keybridge was \$14.75m.

### Note 7 – Employee Entitlements

Employee entitlements have been estimated at \$68k by the Directors. We estimate total entitlements payable to be significantly higher due to redundancy entitlements.

### Note 8 – Charges

Fixed and floating charges had been granted to Keybridge.

### Note 9 – Unsecured Creditors

Unsecured creditors have been estimated at \$2.1m by the directors. Based on the updated books and records of the Group we estimate unsecured creditors are owed \$4.3m.

## Funds available for unsecured creditors

<b>Recoveries by Administrator</b>	<b>\$</b>
Sales	82,969.62
Sale of Plant & Equipment	1,887.27
Cash at Bank	8,480.21
Sale of Business - Wine Stock	364,041.00
Sale of Business - Plant & Equipment	3,947,220.00
Pre Appointment Debtors	13,083.36
Sale of Business - Winery Property	6,282,780.00
Sale of Business - Goodwill	50,000.00
Reimbursements	21,315.16
<b>Total recoveries by Administrators</b>	<b><u>10,771,776.62</u></b>

<b>Payments by Administrators</b>	<b>\$</b>
Production costs	97,039.18
Bank Service Fee	4,562.91
Hire of Equipment	43,616.76
Insurance	613.18
Lease payments	117,530.40
Professional Fees	13,894.83
Rent & rates	151,883.49
Repairs & Maintenance	9,945.64
Stationery, Printing & postage	30,206.37
Superannuation	91,092.38
Telephone & Fax	37,709.98
Transport / Courier	23,261.68
Vehicle Running Costs	293.60
Wages & Salaries	898,091.24
Sub-Contractors	69,314.75
Other Government Charges	568.72
Novated Lease Payments	9,455.35
Staff Expenses	16,838.55
Retention of Title	2,272.91
State Payroll Tax	27,323.62
Keybridge Capital Ltd (Secured creditor)	8,000,000.00
Agents/Valuers Fees	38,425.12
Hire of Meeting Room	5,855.68
Legal Fees	327,940.13
Warehouse Lien	90,672.33
Administrators Remuneration	243,971.00
Administrators Expenses	12,198.55
Removal/Storage Costs	184,733.29
GST Paid	131,648.45
<b>Total payments by Administrators</b>	<b><u>10,680,960.09</u></b>

Cash at bank	90,816.53
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<b>Estimated future recoveries</b>	
GST rebate	135,931.45
Overheads paid on behalf of other group entities	1,397,512.92
Stock	104,680.00
<b>Total future recoveries</b>	<b><u>1,638,124.37</u></b>

<b>Remaining Administrators' liabilities</b>	
Administrators' remuneration from 4 May to 11 July 2008	168,946.00
Administrators' remuneration from 12 July to 12 September 2008	35,056.00
Administrators' remuneration from 13 Sept - 7 Oct 2008	10,000.00
Administrators' disbursements (estimate)	140,700.10
Legal fees (estimate)	50,000.00
Liquidators' remuneration (estimate)	100,000.00
<b>Total future liabilities</b>	<b><u>504,702.10</u></b>

Funds available to secured creditors	1,224,238.80
Remaining secured creditor liability	1,224,238.80
<b>Funds available for unsecured creditors</b>	<b>-</b>

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. We make the following comments in respect of each option:

### Winding up PWPL

At the second creditors' meeting, creditors may resolve that PWPL be wound up. Should they do so, PWPL will be placed into liquidation and is taken to have nominated the Administrators to be Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets in accordance with the Act and would also be required to complete a thorough investigation into PWPL's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of PWPL include:

1. the moratorium available under the voluntary administration process would cease
2. the liquidator would be empowered to recover potential voidable transactions, as outlined in Section 8 of this report
3. The liquidator would be required to conduct an investigation into the affairs of PWPL pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that PWPL or any company in the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, would immediately fail and all entities in the Group would be wound up. In liquidation, it is likely that the affairs of each entity (other than PFL) would be pooled and any recovery across the Group would be distributed to the pooled creditors.

The result to creditors of PWPL, of it going into liquidation, will likely be a return to creditors of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which are detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning PWPL to the Directors. This is not a commercial proposition at this stage given PWPL is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors would be pooled and would receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them would not prove for a dividend in the DOCA and the fund would be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA would likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and a relatively small reduction in creditors' claims. All other estimated recoveries would be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary, by accepting the DOCA, creditors would be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for

- PWPL to execute a Deed of Company Arrangement
- PWPL's administration to end
- PWPL to be wound up

and the reasons for those opinions.

## Winding up PWPL

It is our opinion that it would be in the creditors' best interests for PWPL to be wound up as it provides a potentially higher likely return to creditors than that which would be available under the proposed DOCA.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario is the proposed contribution of \$1m by the Group's directors and a relatively small reduction in creditors' claims. In consideration for this creditors would be foregoing any potential recoveries which may be available to liquidator.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end because PWPL is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for PWPL to be wound up.

Dated this 26th day of September 2008



For and on behalf of

**Gary Doran, Neil Cussen & John Greig**

**Joint and Several Administrators**



### **STRICTLY PRIVATE AND CONFIDENTIAL**

**PWL – ACN 084 252 488 Limited (Administrators Appointed)**

**formerly Palandri Wines Limited**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

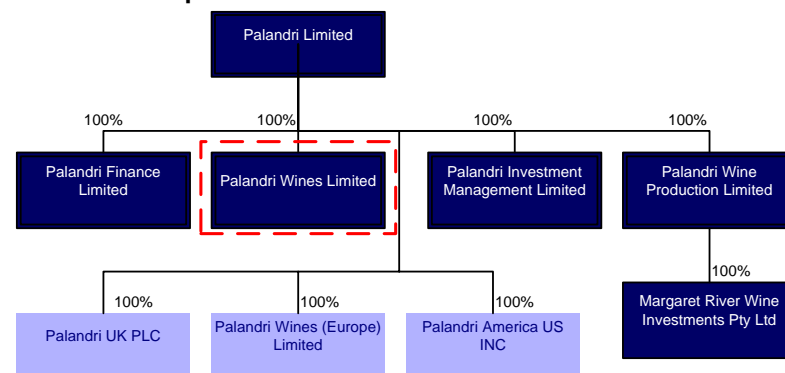
This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Corporate details and history

<b>Organisation Name:</b>	<b>PWL – ACN 084 252 488 Limited formerly Palandri Wines Limited</b>
<b>ACN:</b>	084 252 488
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	8 September 1998
<b>Registered Office:</b>	Level 3, Kings Park Road West Perth
<b>Principal Place of Business:</b>	Level 3, Kings Park Road West Perth
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 8 September 1998) Christopher John Brown (Appointed 28 November 2003) Robin Elliott Day (Appointed 13 July 2004) Robert John Ratcliffe (Appointed 5 July 2006) Gordon Grant (Appointed 30 August 2006)
<b>Registered Charges:</b>	Keybridge Capital Limited (Fixed and Floating). Registered 1 December 2006. Public Trustee of Queensland (Fixed and Floating). Registered 1 December 2005. Stacks Managed Investments Limited (Fixed and Floating). Registered 11 December 2006. Bibby Financial Services Australia Pty Ltd (Fixed and Floating). Registered 20 June 2007
<b>Auditor:</b>	Bentley's MRI (Perth Partnership)

## Palandri Group structure



**Key**

Companies in administration	Companies NOT in administration
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## History

PWL acts as Trustee and responsible entity for the following trusts and schemes:

1. Margaret River Wine Business
2. Margaret River Wine Business Trust
3. Palandri America Wine Business
4. Palandri Wine Grape Project
5. Palandri Agricultural Property Trust
6. Palandri Global Supply Challenge

PWL received a management fee which includes lease and maintenance revenue from investors in the grape growing Schemes. PWL holds the following leases for property which is on-leased to investors:

1. Cookernup and Harvey: head lease from PAPT
2. Palandri Reserve: head lease from PL
3. Frankland River #1 (sublease) and Frankland River #2 (head lease) from PWPL

PWL, on behalf of the MRWBT, held the head lease for the cellar door and café facility.

## Report as to affairs

Report as to Affairs	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	20	135
Debtors	2	31,170	Unknown
<b>Asset subject to specific charges</b>			
Stock	3	-	2,693
Less specific charges	4		(1,241)
<b>TOTAL ASSETS</b>		<b>31,190</b>	<b>1,587</b>
Priority creditors	5	(43)	(110)
Amount available to secured creditors		31,147	1,477
Secured creditors	6	(16,750)	(2,250)
Amount available to unsecured creditors		14,397	(773)
Unsecured creditors	7	(2,116)	(23,467)
Net assets / (deficiency)		12,281	(24,240)

Stock	ERV \$000
MRWB	9
MRWBT	2019
PAWB	665
<b>Total</b>	<b>2,693</b>

We note that PWL as trustee and responsible entity for the Schemes/Trusts incurred liabilities on behalf of these Schemes/Trusts and has a right of indemnity out of the Scheme/Trust assets to reimburse it for these liabilities.

The financial position of PWL as estimated by PWL's Directors is summarised above. Our comments in relation to the financial position are as follows:

### Note 1 - Cash at Bank

Cash at bank on our appointment was approximately \$135k.

### Note 2 - Debtors

Debtors of PWL include investors in the Schemes. Debts owed by the investors across the seven Schemes total \$22.7m. Additionally, PWL is owed \$6.8m and \$6.2m from the MRWBT and the PAWB respectively. We are assessing the recoverability of these debts.

### Note 3 – Stock

PWL's indemnity from the assets of the Schemes resulted in stock held by the Schemes being sold to repay PWL's secured creditors. The stock held by the Schemes as at the date of our appointment is detailed opposite.

### Note 4 – Specific charges

PWL as trustee for the MRWBT issued a wine bond to investors through the PTQ and raised a total of \$1.24m that was secured against stock held by the MRWBT. Investors in this wine bond are entitled to be paid out of the proceeds of stock owned by the MRWBT before unsecured creditors.

## Report as to affairs

Report as to Affairs	Notes	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Cash at bank / on hand	1	20	135
Debtors	2	31,170	Unknown
<b>Asset subject to specific charges</b>			
Stock	3	-	2,693
Less specific charges	4		(1,241)
<b>TOTAL ASSETS</b>		<b>31,190</b>	<b>1,587</b>
Priority creditors	5	(43)	(110)
Amount available to secured creditors		31,147	1,477
Secured creditors	6	(16,750)	(2,250)
Amount available to unsecured creditors		14,397	(773)
Unsecured creditors	7	(2,116)	(23,467)
Net assets / (deficiency)		12,281	(24,240)

### Note 5 – Priority creditors

Directors of PWL estimate that amounts owing in respect of employee entitlements are approximately \$43k. Based on PWL's management accounts we estimate that this liability may be approximately \$110k.

### Note 6 – Secured creditors

PWL granted fixed and floating charges in favour of Keybridge Capital Limited for \$14.75m and Darrel Jarvis for \$2m. Keybridge have been repaid \$8m from the sale of the Group's business and we expect it will receive a further \$4m from the sale of the various vineyards.

As part of the business sale to GWH, Darrel Jarvis agreed to release his fixed and floating charge.

### Note 7 – Unsecured creditors

PWL's directors estimated that PWL's unsecured creditors are owed approximately \$2.1m. However the updated management accounts indicate that PWL's unsecured creditors may be owed at least \$23.4m. We understand that this discrepancy is due to the Directors including only PWL's liabilities and not including the liabilities incurred in its capacity as trustee and responsible entity.

## Funds available for unsecured creditors

	PWL in its own right		MRWBT	MRWBS	PWL as trustee for:			GSC	WGP
	High	Low			PAWB	PAPT			
	\$	\$	\$	\$	\$	\$	\$	\$	
<b>Recoveries by Administrator</b>									
Miscellaneous Income	50.00	50.00	773.79						
Sundry Debtors (B)	141.90	141.90	1,372.79						
Cash at Bank	38,266.97	38,266.97	79,667.47		16,768.41	194.13	480.99		
Pre Appointment Debtors	570.00	570.00	35,642.65		72,569.73				
Bank Interest	2.43	2.43	379.65	7,434.00	6.28				
Sale of Business	200,000.00	200,000.00	1,246,856.22		400,582.73				
Refund of Capital Works	18,181.82	18,181.82							
Wine Sales	-	-	66,615.86		94,447.77		2,020.00		
Cellar Door Sales	-	-	270,719.26						
Cafe Sales	-	-	62,990.53						
GST received	-	-	5,852.43						
<b>Total recoveries by Administrators</b>	<b>257,213.12</b>	<b>257,213.12</b>	<b>1,770,870.65</b>	<b>7,434.00</b>	<b>584,374.92</b>	<b>194.13</b>	<b>2,500.99</b>	<b>-</b>	
<b>Payments by Administrators</b>									
Lease payments	5,509.68	5,509.68	2,066.30						
Postage	19.09	19.09	5,744.39						
Professional Fees	14,119.73	14,119.73	258.35						
Stationery & Printing	517.18	517.18	299.73						
Transport / Courier	3,573.08	3,573.08			61.60				
Other Government Charges	56.00	56.00							
State Payroll Tax	9,026.33	9,026.33	9,783.03						
Bank Charges	57.60	57.60	2,286.53	2.40	47.00	30.00	22.70		
Administrators' Remuneration	138,647.00	138,647.00	198,625.00	1,927.00	96,861.00				
Administrators' Expenses	20,105.51	20,105.51	13,630.91	96.35	4,843.05				
GST paid	16,384.96	16,384.96		202.34	14,243.85				
Food & Beverage Supplies	-	-	24,656.50						
Cleaning Supplies	-	-	1,309.03						
General Consumables	-	-	496.64						
Credit Card Merchant Fee	-	-	4,197.52						
Electricity	-	-	193.70						
Hire of Equipment	-	-	626.78						
Rent Paid (Commercial)	-	-	1,616.32						
Repairs & Maintenance	-	-	1,395.95						
Sundry Expenses	-	-	6,854.60						
Vehicle Running Costs	-	-	784.50						
Public Trustee of Queensland	-	-	661,109.00						
Legal Fees	-	-	72,523.47		53,880.06				
Warehouse Lien	-	-	71,443.00		80,236.00				

## Funds available for unsecured creditors (cont..)

	PWL in its own right		MRWBT	MRWBS	PWL as trustee for:			GSC	WGP
	High	Low			PAWB	PAPT			
Wages & salaries					3,567.67				
Production - Additives									
Production - Gas Supplies									
Production - Cleaning Supplies									
Production - Land Maintenance									
Production - Raw Materials									
Commissions paid									
Gas									
Insurance									
Retention of Title Paymnt									
Staff Expenses									
<b>Total payments by Administrators</b>	<b>208,016.16</b>	<b>208,016.16</b>	<b>1,079,901.25</b>	<b>2,228.09</b>	<b>253,740.23</b>	<b>30.00</b>	<b>22.70</b>		
Cash at bank	49,196.96	49,196.96	690,969.40	5,205.91	330,634.69	164.13	2,478.29		
<b>Estimated future recoveries</b>									
Stock	-	-	434,031.00	9,307.00	159,980.00	-	-	-	-
GST rebate	5,000,000.00	400,000.00	-	-	-	-	-	-	-
Property	-	-	-	-	-	5,000,000.00	-	-	-
GST receivable by administrator	16,384.96	16,384.96	-	202.34	14,243.85	-	-	-	-
<b>Total future recoveries</b>	<b>5,016,384.96</b>	<b>416,384.96</b>	<b>434,031.00</b>	<b>9,509.34</b>	<b>174,223.85</b>	<b>5,000,000.00</b>			
<b>Remaining Administrators' liabilities</b>									
GST & PAYG payable by administrator	44,144.00	44,144.00	106,846.00	-	-	-	-	-	-
Reimbursement of overheads paid by other group entities	-	-	285,873.95	-	86,155.55	266,650.99	-	-	-
Legal fees	-	-	71,018.00	-	109,268.00	100,000.00	-	-	-
Administrators' remuneration to 3 May 2008	-	-	-	-	-	66,066.00	65,533.00	65,642.00	
Administrators' remuneration from 4 May to 11 July 2008	23,550.00	23,550.00	75,379.00	5,708.00	35,985.00	24,742.00	13,871.00	16,656.00	
Administrators' remuneration from 12 July to 12 September 2008	16,499.00	16,499.00	5,067.00	75.00	77,344.00	23,084.00	5,564.00	5,644.00	
Administrators' remuneration from 13 Sept - 7 Oct 2008	15,000.00	15,000.00	5,000.00	-	25,000.00	46,168.00	11,128.00	11,288.00	
Administrators' disbursements (estimate)	22,752.45	22,752.45	29,272.30	289.15	171,916.45	8,003.00	4,804.80	4,961.50	
Liquidators' remuneration (estimate)	100,000.00	100,000.00	-	10,000.00	30,000.00	25,000.00	-	-	-
<b>Total future liabilities</b>	<b>221,945.45</b>	<b>221,945.45</b>	<b>578,456.25</b>	<b>16,072.15</b>	<b>535,669.00</b>	<b>559,713.99</b>	<b>100,900.80</b>	<b>104,191.50</b>	
Funds available for secured creditors / investors	4,843,636.47	243,636.47	546,544.15	(1,356.90)	(30,810.46)	4,440,450.14	(98,422.51)	(104,191.50)	
Secured creditors/investors	-	-	547,000.00	-	-	5,450,000.00	-	-	
<b>Funds available for unsecured creditors</b>	<b>4,843,636.47</b>	<b>243,636.47</b>	<b>(455.85)</b>	<b>(1,356.90)</b>	<b>(30,810.46)</b>	<b>(1,009,549.86)</b>	<b>(98,422.51)</b>	<b>(104,191.50)</b>	

# Investors interests in the Schemes

## Palandri managed investment schemes

Palandri Wines Limited Responsible entity for:			
<p>Margaret River Wine Business (MRWB)</p> <p>Palandri American Wine Business (PAWB)</p> <p><b>Summary</b> The MRWB and the PAWB were the original schemes established by the Group to be grape growing and wine producing schemes. Investors in these schemes were granted leases over portions of the Group's vineyards; however, their lots were leased to investors in other Schemes in 2006 and 2007.</p>	<p>Margaret River Wine Business Trust (MRWBT)</p> <p><b>Summary</b> Investors in the MRWB were offered units in the MRWBT in consideration for termination of their interests in the MRWB. Approximately 85% of investors accepted this offer and transferred to the MRWBT, which was established to be a distributor of wine to markets in Australia, UK and Europe.</p>	<p>Wine Grape Project (WGP)</p> <p>Global Supply Challenge (GSC)</p> <p><b>Summary</b> Following the attempted termination of the MRWB, the Group reallocated vineyards leased to investors in the MRWB and the PAWB to new investors in the WGP and the GSC. These new schemes were established to be grape growing schemes with contracts for the sale of grapes to PWPL.</p>	<p>Palandri Agricultural Property Trust (PAPT)</p> <p><b>Summary</b> The PAPT was established as a property investment scheme and purchased the Group's properties at Harvey and Cookernup. These properties were leased to individual investors in the WGP and GSC.</p>

## Margaret River Wine Business (MRWB)

In 1999 the MRWB was formed and approximately 1,978 members invested approximately \$91.3m in the MRWB. They were allocated sub leases of vineyard lots and a share in proceeds from the sale of wine.

In 2006, PWL wrote to members in the MRWB advising that the purpose of the MRWBS could not be accomplished and that the MRWB should be wound up. Members were given the option of exchanging their interests in the MRWB for units in the newly formed Margaret River Wine Business Trust (MRWBT). Approximately 85% of members in the MRWB took up this option and became members in the MRWBT. The remaining 15% of members did not.

In December 2006, PWL took steps designed to wind up the MRWB however these steps were not completed. PWL appears to have then sub leased the same area of the vineyards occupied by vineyard lots held by members of the MRWB to members of either WGP or GSC.

As at 29 February 2008 the MRWB had net liabilities of \$500,718 and as such we estimate that the value of investors' interests in this Scheme is Nil.

The Court has ordered that this Scheme be wound up.

## Margaret River Wine Business Trust (MRWBT)

In 2006 the MRWBT was formed and 1,616 members acquired units in MRWBT in exchange for their interests in the MRWB. At the time, PWL's directors ascribed a value of approximately \$10m to the MRWBT.

The MRWBT was established to be a wine distributor to the UK and Europe.

As at 29 February 2008 the MRWBT had net liabilities of \$22.6m.

Because the MRWBT is insolvent, the assets of the trust have been or are being sold and any proceeds after costs will flow to secured creditors who have charges over the assets.

We estimate that the value of investors' interests in this Scheme is Nil.

The Court has ordered that this Scheme be wound up.

# Investors interests in the Schemes

## Palandri managed investment schemes

Palandri Wines Limited Responsible entity for:			
<p>Margaret River Wine Business (MRWB)</p> <p>Palandri American Wine Business (PAWB)</p> <p><b>Summary</b> The MRWB and the PAWB were the original schemes established by the Group to be grape growing and wine producing schemes. Investors in these schemes were granted leases over portions of the Group's vineyards; however, their lots were leased to investors in other Schemes in 2006 and 2007.</p>	<p>Margaret River Wine Business Trust (MRWBT)</p> <p><b>Summary</b> Investors in the MRWB were offered units in the MRWBT in consideration for termination of their interests in the MRWB. Approximately 85% of investors accepted this offer and transferred to the MRWBT, which was established to be a distributor of wine to markets in Australia, UK and Europe.</p>	<p>Wine Grape Project (WGP)</p> <p>Global Supply Challenge (GSC)</p> <p><b>Summary</b> Following the attempted termination of the MRWB, the Group reallocated vineyards leased to investors in the MRWB and the PAWB to new investors in the WGP and the GSC. These new schemes were established to be grape growing schemes with contracts for the sale of grapes to PWPL.</p>	<p>Palandri Agricultural Property Trust (PAPT)</p> <p><b>Summary</b> The PAPT was established as a property investment scheme and purchased the Group's properties at Harvey and Cookernup. These properties were leased to PWL and subleased to individual investors in the WGP and GSC.</p>

## Palandri American Wine Business (PAWB)

In 2001 the PAWB was formed and approximately 808 members invested approximately \$26.5m in the PAWB and were allocated sub leases in vineyard lots and a share in proceeds from the sale of wine.

In April 2007 PWL purported to enter into a deed of termination which, if valid, would have the effect of terminating the sub lease interests that those members held in the vineyard lots. We understand that none of the PAWB members were notified that PWL entered into the deed of termination.

Furthermore, it appears that prior to the deed being entered into, PWL may have sub leased the same area on the vineyards occupied by vineyard lots held by members of PAWB to members of either WGP or GSC.

As at 29 February 2008 PAWB had net liabilities of \$13.9m.

Because the PAWB is insolvent, the assets of the trust have been, or are being, sold and any proceeds after costs will flow to secured creditors who have charges over the assets.

We estimate that the value of investors' interests in this Scheme is Nil.

The Court has ordered that this Scheme be wound up.

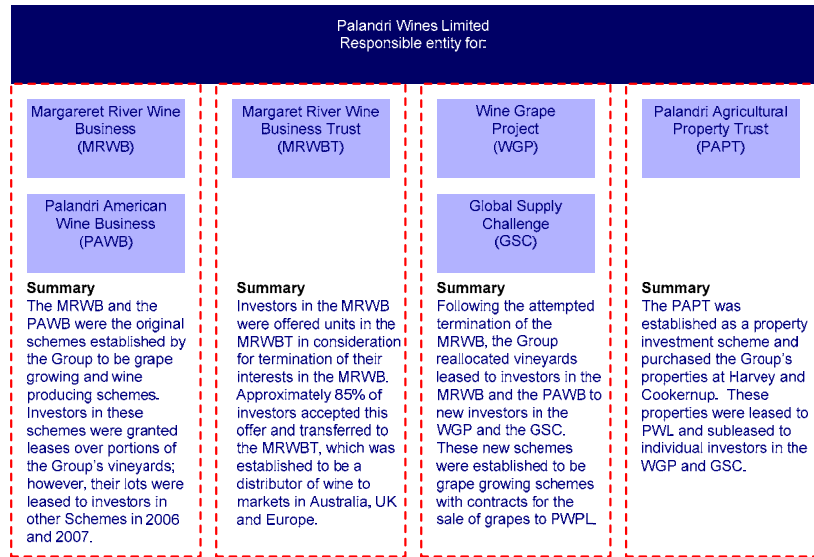
## Summary of Wine Businesses (MRWB, MRWBT and PAWB)

All wine business schemes are cash flow and balance sheet insolvent. The MRWB has not traded for some time and the MRWBT incurred a significant loss for the period ending 29 February 2008. Although the books and records for the PAWB suggest a profit was made for the period ending 29 February 2008, we consider that this is only because the cost of wine was not brought to account in the profit and loss statement. If the profit and loss statement for the PAWB had been correctly prepared, it is likely that the PAWB would have incurred a significant loss. Further, the businesses of the MRWBT and the PAWB have ceased following our appointment and their assets sold to begin to repay outstanding creditors.

As a result of the above we consider that investors interests in these Schemes are nil and the Court has ordered that these Schemes be wound up.

# Investors interests in the Schemes

## Palandri managed investment schemes



Summary of WGP and GSC lot allocation by vineyard	Total lots (lots)	Lots allocated to:		Lots unallocated (lots)
		PWP (lots)	PGSC (lots)	
Palandri Reserve	343	326	-	17
Frankland River 1	3,006	2,191	391	424
Frankland River 2	2,791	1,281	1,495	15
Harvey	1,025	1,005	-	20
Cookernup	2,076	-	1,883	193
<b>Total</b>	<b>9,241</b>	<b>4,803</b>	<b>3,769</b>	<b>669</b>

Viability summary of PWP and PGSC by vineyard	Profit/(Loss) per lot: <sup>1</sup>		Profit/(Loss) per scheme: <sup>1</sup>	
	PWP (\$)	PGSC (\$)	PWP (\$)	PGSC (\$)
Palandri Reserve	(\$8,110)	-	(\$2,643,765)	-
Frankland River 1	(\$6,617)	(\$7,467)	(\$14,497,014)	(\$2,919,480)
Frankland River 2	(\$3,916)	(\$4,755)	(\$5,016,870)	(\$7,108,605)
Harvey	(\$2,500)	-	(\$2,512,912)	-
Cookernup	-	(\$3,656)	-	(\$6,884,568)
<b>Total</b>	<b>(\$21,143)</b>	<b>(\$15,878)</b>	<b>(\$24,670,562)</b>	<b>(\$16,912,653)</b>

<sup>1</sup> For the remaining life of the scheme

## Wine Grape Project (WGP)

In 2005 the WGP was formed and approximately 119 members invested approximately \$19 million in the WGP. Those members were allocated sub leases in vineyard lots.

Some of these sub leases appear to be over vineyards which had previously been sub leased to the PAWB or the MRWB members.

As at 29 February 2008 the balance sheet of the WGP showed nil assets and nil liabilities. This was due to the method by which PWL accounted for this scheme prior to my appointment. PWL treated the WGP as a group of individual grape growing businesses carried on by members rather than the WGP. Accordingly, WGP did not account for any assets, liabilities, revenues or expenses. Instead, entries on account of PWL's transactions in relation to members of PWP were mixed with other transactions concerning PWL, unrelated to the WGP.

In the time available to us to date, we have not attempted to properly reconstruct the financial accounts of WGP to account for that scheme in its own right. To do so is likely to be an expensive and time consuming exercise. Further, the costs in this regard are likely to outweigh any likely benefit to members.

According to the Palandri Group's records, the WGP and the GSC are the only two grape growing schemes currently in existence. Our analysis indicates that the WGP and the GSC are not financially viable as they require members to contribute more funds each year to the responsible entity than members would be entitled to receive for the remainder of those schemes. This deficiency does not take into account the capital expenditure that would be required to restore the established vineyards to a standard expected by members of a vineyard established and maintained in accordance with sound viticultural practices and to plant vines on the Cookernup property. If members were required to contribute this sum, the deficiency is likely to increase.

# Investors interests in the Schemes

## Palandri managed investment schemes

Palandri Wines Limited Responsible entity for:			
<p>Margaret River Wine Business (MRWB)</p> <p>Palandri American Wine Business (PAWB)</p> <p><b>Summary</b> The MRWB and the PAWB were the original schemes established by the Group to be grape growing and wine producing schemes. Investors in these schemes were granted leases over portions of the Group's vineyards; however, their lots were leased to investors in other Schemes in 2006 and 2007.</p>	<p>Margaret River Wine Business Trust (MRWBT)</p> <p><b>Summary</b> Investors in the MRWB were offered units in the MRWBT in consideration for termination of their interests in the MRWB. Approximately 85% of investors accepted this offer and transferred to the MRWBT, which was established to be a distributor of wine to markets in Australia, UK and Europe.</p>	<p>Wine Grape Project (WGP)</p> <p>Global Supply Challenge (GSC)</p> <p><b>Summary</b> Following the attempted termination of the MRWB, the Group reallocated vineyards leased to investors in the MRWB and the PAWB to new investors in the WGP and the GSC. These new schemes were established to be grape growing schemes with contracts for the sale of grapes to PWPL.</p>	<p>Palandri Agricultural Property Trust (PAPT)</p> <p><b>Summary</b> The PAPT was established as a property investment scheme and purchased the Group's properties at Harvey and Cookernup. These properties were leased to PWL and subleased to individual investors in the WGP and GSC.</p>

Summary of WGP and GSC lot allocation by vineyard	Total lots (lots)	Lots allocated to:		Lots unallocated (lots)
		PWP (lots)	PGSC (lots)	
Palandri Reserve	343	326	-	17
Frankland River 1	3,006	2,191	391	424
Frankland River 2	2,791	1,281	1,495	15
Harvey	1,025	1,005	-	20
Cookernup	2,076	-	1,883	193
<b>Total</b>	<b>9,241</b>	<b>4,803</b>	<b>3,769</b>	<b>669</b>

Viability summary of PWP and PGSC by vineyard	Profit/(Loss) per lot: <sup>1</sup>		Profit/(Loss) per scheme: <sup>1</sup>	
	PWP (\$)	PGSC (\$)	PWP (\$)	PGSC (\$)
Palandri Reserve	(\$8,110)	-	(\$2,643,765)	-
Frankland River 1	(\$6,617)	(\$7,467)	(\$14,497,014)	(\$2,919,480)
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Cookernup	-	(\$3,656)	-	(\$6,884,568)
<b>Total</b>	<b>(\$21,143)</b>	<b>(\$15,878)</b>	<b>(\$24,670,562)</b>	<b>(\$16,912,653)</b>

<sup>1</sup> For the remaining life of the scheme

## Wine Grape Project (WGP) continued

On the basis of a report prepared by an expert viticulturalist, we consider the deficiency as disclosed in the table is mainly due to:

- The current outlook for wine grape prices being lower than expected in the product disclosure statements
- Predicted rainfall in the regions where the vineyards are located being lower than originally expected in the product disclosure statements with the rainfall expected to continue to decline over the remaining life of the Schemes
- The amount of the fees payable by members under lease and management agreements for rent and management fees significantly exceeding anticipated revenue from the sale of grapes.

In addition, it is likely that significant capital expenditure would need to be spent on the vineyards before these schemes could continue. The capital expenditure is estimated to be approximately \$4.9m across all vineyards, to bring the vineyards to an appropriate standard and achieve the forecast yields. If there were no other party prepared to pay that sum, members would have to make that contribution for the schemes to continue.

We estimate that due to the potential losses that may be incurred by continuing to operate this Scheme, the value of investors' interests in this Scheme is Nil.

The Court has ordered that this Scheme be wound up.

# Investors interests in the Schemes

## Palandri managed investment schemes

Palandri Wines Limited Responsible entity for:			
Margaret River Wine Business (MRWB)	Margaret River Wine Business Trust (MRWBT)	Wine Grape Project (WGP)	Palandri Agricultural Property Trust (PAPT)
Palandri American Wine Business (PAWB)		Global Supply Challenge (GSC)	
<b>Summary</b> The MRWB and the PAWB were the original schemes established by the Group to be grape growing and wine producing schemes. Investors in these schemes were granted leases over portions of the Group's vineyards; however, their lots were leased to investors in other Schemes in 2006 and 2007.	<b>Summary</b> Investors in the MRWB were offered units in the MRWBT in consideration for termination of their interests in the MRWB. Approximately 85% of investors accepted this offer and transferred to the MRWBT, which was established to be a distributor of wine to markets in Australia, UK and Europe.	<b>Summary</b> Following the attempted termination of the MRWB, the Group reallocated vineyards leased to investors in the MRWB and the PAWB to new investors in the WGP and the GSC. These new schemes were established to be grape growing schemes with contracts for the sale of grapes to PWPL.	<b>Summary</b> The PAPT was established as a property investment scheme and purchased the Group's properties at Harvey and Cookernup. These properties were leased to PWL and subleased to individual investors in the WGP and GSC.

Summary of WGP and GSC lot allocation by vineyard	Total lots (lots)	Lots allocated to:		Lots unallocated (lots)
		PWP (lots)	PGSC (lots)	
Palandri Reserve	343	326	-	17
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Viability summary of PWP and PGSC by vineyard	Profit/(Loss) per lot: <sup>1</sup>		Profit/(Loss) per scheme: <sup>1</sup>	
	PWP (\$)	PGSC (\$)	PWP (\$)	PGSC (\$)
Palandri Reserve	(\$8,110)	-	(\$2,643,765)	-
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Cookernup	-	(\$3,656)	-	(\$6,884,568)
<b>Total</b>	<b>(\$21,143)</b>	<b>(\$15,878)</b>	<b>(\$24,670,562)</b>	<b>(\$16,912,653)</b>

<sup>1</sup> For the remaining life of the scheme

## Global Supply Challenge (GSC)

In 2007 PGSC was formed and approximately 62 members invested approximately \$14.9m in GSC. Those members were allocated sub leases in vineyard lots. Some of these sub leases appear to be over vineyards which had previously been sub leased to PAWB or the MRWB members. Some of these sub leases were granted over the Cookernup vineyard. As at the date of our appointment, no planting of vines had occurred on the Cookernup vineyard.

As at 29 February 2008 the balance sheet of GSC showed nil assets and nil liabilities. This was due to the method by which PWL accounted for this scheme prior to my appointment. Like PWP, PWL treated GSC as a group of individual grape growing businesses carried on by members rather than GSC. Accordingly, GSC did not account for any assets, liabilities, revenues or expenses. Instead, entries on account of PWL's transactions in relation to members of GSC were mixed with other transactions concerning PWL, unrelated to GSC.

In the time available to us to date, we have not attempted to reconstruct the financial accounts of GSC to account for that scheme in its own right. To do so is likely to be an expensive and time consuming exercise. Further, the costs in this regard are likely to outweigh any likely benefit to members.

According to the Palandri Group's records, WGP and GSC are the only two grape growing schemes currently in existence. Our analysis indicates that WGP and GSC are not financially viable as they require members to contribute more funds each year to the responsible entity than members will be entitled to receive for the remainder of those schemes. This deficiency does not take into account the capital expenditure that would be required to restore the established vineyards to a standard expected by members of a vineyard established and maintained in accordance with sound viticultural practices, and to plant vines on the Cookernup property. If members were required to contribute this sum, the deficiency is likely to increase.

# Investors interests in the Schemes

## Palandri managed investment schemes

Palandri Wines Limited Responsible entity for:			
Margareret River Wine Business (MRWB)	Margaret River Wine Business Trust (MRWBT)	Wine Grape Project (WGP)	Palandri Agricultural Property Trust (PAPT)
Palandri American Wine Business (PAWB)		Global Supply Challenge (GSC)	
<p><b>Summary</b> The MRWB and the PAWB were the original schemes established by the Group to be grape growing and wine producing schemes. Investors in these schemes were granted leases over portions of the Group's vineyards; however, their lots were leased to investors in other Schemes in 2006 and 2007.</p>	<p><b>Summary</b> Investors in the MRWB were offered units in the MRWBT in consideration for termination of their interests in the MRWB. Approximately 85% of investors accepted this offer and transferred to the MRWBT, which was established to be a distributor of wine to markets in Australia, UK and Europe.</p>	<p><b>Summary</b> Following the attempted termination of the MRWB, the Group reallocated vineyards leased to investors in the MRWB and the PAWB to new investors in the WGP and the GSC. These new schemes were established to be grape growing schemes with contracts for the sale of grapes to PWPL.</p>	<p><b>Summary</b> The PAPT was established as a property investment scheme and purchased the Group's properties at Harvey and Cookernup. These properties were leased to PWL and subleased to individual investors in the WGP and GSC.</p>

Summary of WGP and GSC lot allocation by vineyard	Total lots (lots)	Lots allocated to:		Lots unallocated (lots)
		PWP (lots)	PGSC (lots)	
Palandri Reserve	343	326	-	17
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Frankland River 2	2,791	1,281	1,495	15
Harvey	1,025	1,005	-	20
Cookernup	2,076	-	1,883	193
<b>Total</b>	<b>9,241</b>	<b>4,803</b>	<b>3,769</b>	<b>669</b>

Viability summary of PWP and PGSC by vineyard	Profit/(Loss) per lot: <sup>1</sup>		Profit/(Loss) per scheme: <sup>1</sup>	
	PWP (\$)	PGSC (\$)	PWP (\$)	PGSC (\$)
Palandri Reserve	(\$8,110)	-	(\$2,643,765)	-
Frankland River 1	(\$6,617)	(\$7,467)	(\$14,497,014)	(\$2,919,480)
Frankland River 2	(\$3,916)	(\$4,755)	(\$5,016,870)	(\$7,108,605)
Harvey	(\$2,500)	-	(\$2,512,912)	-
Cookernup	-	(\$3,656)	-	(\$6,884,568)
<b>Total</b>	<b>(\$21,143)</b>	<b>(\$15,878)</b>	<b>(\$24,670,562)</b>	<b>(\$16,912,653)</b>

<sup>1</sup> For the remaining life of the scheme

## Global Supply Challenge (GSC) continued

On the basis of a report prepared by an expert viticulturalist, we consider the deficiency as disclosed in the table is mainly due to:

- The current outlook for wine grape prices being lower than expected in the product disclosure statements
- Predicted rainfall in the regions where the vineyards are located being lower than originally expected in the product disclosure statements with the rainfall expected to continue to decline over the remaining life of the Schemes
- The amount of the fees payable by members under lease and management agreements for rent and management fees significantly exceeding anticipated revenue from the sale of grapes.

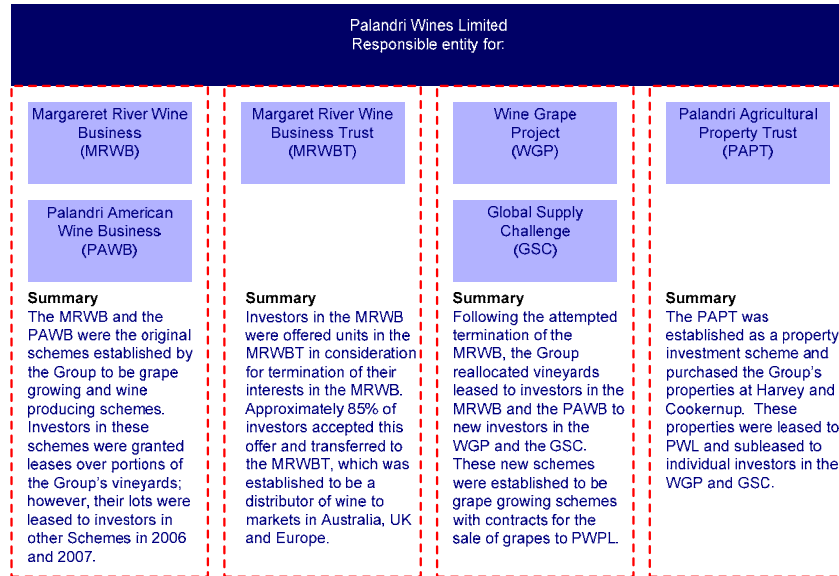
In addition, it is likely that significant capital expenditure would need to be spent on the vineyards before these schemes could continue. The capital expenditure is estimated to be approximately \$4.9m across all vineyards, to bring the vineyards to an appropriate standard and achieve the forecast yields. If there were no other party prepared to pay that sum, members would have to make that contribution for the schemes to continue.

We estimate that due to the potential losses that may be incurred by continuing to operate this Scheme, the value of investors' interests in this Scheme is Nil.

The Court has ordered that this Scheme be wound up.

# Investors interests in the Schemes

## Palandri managed investment schemes



## Palandri Agricultural Property Trust (PAPT)

In 2006, the PAPT raised funds from investors and financiers for the purchase of two vineyards known as Harvey and Cookernup.

These vineyards were leased to PWL and sub leased to investors in other schemes. At the date of our appointment, rent on these vineyards had not been paid to the PAPT and as a result the PAPT was in default of its loan covenants with its secured creditors.

The PAPT is insolvent as it cannot pay its debts as and when they fall due. Its secured creditors have indicated that the PAPT's assets must be sold to satisfy their debts.

The PAPT is also cash flow insolvent. Its main assets are the Harvey and Cookernup vineyards which it leases to members of other Schemes. If those other Schemes are wound up, the PAPT would need to lease those vineyards to new tenants in order to derive income.

However, due to the insolvent financial position of the PAPT and absent further funds, it is necessary to sell both of those vineyards in order to pay existing debt.

A number of investors in the PAPT Scheme have raised concerns around the level of borrowings by that Scheme and whether or not those borrowings complied with the Scheme's constitution. The books and records show that approximately \$5.5m had been raised from financiers and further investigations needs to be undertaken to clarify how these funds were used by the PAPT and whether or not this complied with the Scheme's constitution.

We estimate that the value of investors' interests in this Scheme are nil and the Court has ordered that this Scheme be wound up.

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. I make the following comments in respect of each option:

## Winding up PWL

At the proposal meeting, creditors may resolve that PWL be wound up. Should they do so, PWL would be placed into liquidation and is taken to have nominated us, as Administrators, to be Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets in accordance with the Act and would also be required to complete a thorough investigation into PWL's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of PWL include:

1. The moratorium available under the voluntary administration process would cease
2. The liquidator would be empowered to recover potential voidable transactions, as outlined in this report
3. The liquidator would be required to conduct an investigation into the affairs of PWL pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

The Administrators have negotiated with the Group's secured creditors that the secured creditors will contribute \$1.06m from the sale of the Group's vineyards in order to fund the liquidators' investigation into the Group's failure. In the event that PWL or any company in the Group is placed into liquidation then the proposed DOCA summarised in section 10 of this report would immediately fail and all entities in the Group will be placed into liquidation. In liquidation, it is likely that affairs of each entity (other than PFL) would be pooled and that the result of the investigation would benefit creditors of all entities in proportion to their admitted claims.

The result to creditors of PWL of placing PWL into liquidation is therefore equal to the Group's other entities (other than PFL) and as set out in section 9 of this report would likely provide a return to creditors of between 0 and 26 cents in the dollar. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, details of which are set out in section 8 of this report.

## Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning PWL to the Directors. This is not a commercial proposition at this stage given PWL is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors would be pooled and would receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them would not prove for a dividend in the DOCA and the fund would be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA would likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and a relatively small reduction in creditors' claims. All other estimated recoveries would be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary, by accepting the DOCA, creditors would be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding:

- whether it would be in the creditor's best interests for PWL to execute a Deed of Company Arrangement
- whether it would be in the creditors' best interests for PWL's administration to end
- whether it would be in the creditors' best interests for PWL to be wound up

And the reasons for those opinions.

## Winding up the Group

It is our opinion that it would be in the creditors' best interests for PWL to be wound up as it provides a higher likely return to creditors than that which would be available under the proposed DOCA and it maintains the Group's Scheme insurance policy in the event that investors claim against the Group for mis-management of their investments.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests for creditors to accept the proposed DOCA as it is unlikely to provide a higher return to creditors than if PWL is placed into liquidation and the proposed DOCA may also compromise the Group's managed investment scheme insurance policy.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end. If the administration was to end, PWPL would be returned to the control of the Directors in circumstances where PWL is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for PWL to be wound up.

Dated this 26th day of September 2008



**For and on behalf of**

**Gary Doran, Neil Cussen & John Greig**

**Joint and Several Administrators**



### **STRICTLY PRIVATE AND CONFIDENTIAL**

**MRWIPL – ACN 112 505 692 Pty Ltd (Administrators Appointed)**

**formerly Margaret River Wine Investments Pty Ltd**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

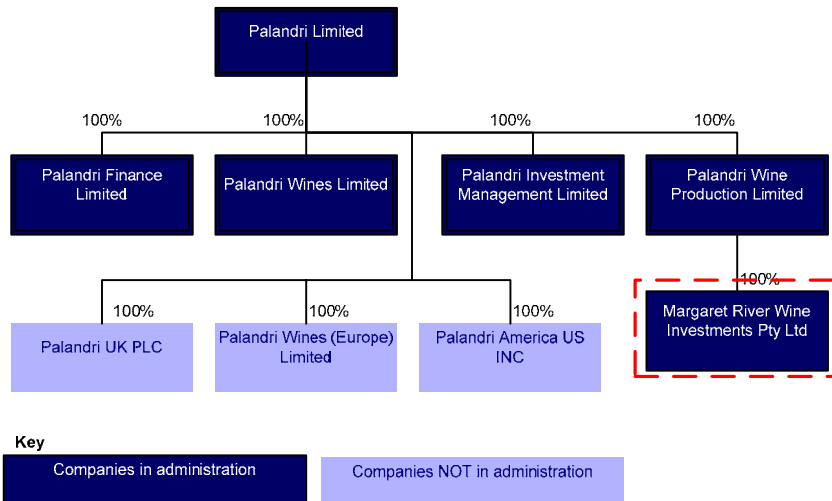
This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Corporate details and history

<b>Organisation Name:</b>	<b>MRWIPL – ACN 112 505 692 Pty Ltd formerly Margaret River Wine Investments Pty Ltd</b>
<b>ACN:</b>	112 505 692
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	14 January 2005
<b>Registered Office:</b>	Level 3, Kings Park Road West Perth
<b>Principal Place of Business:</b>	Level 3, Kings Park Road West Perth
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 14 January 2005) Christopher John Brown (Appointed 14 January 2005) Robin Elliott Day (Appointed 14 January 2005)
<b>Registered Charges:</b>	Keybridge Capital Limited (Fixed and Floating). Registered 1 December 2006.

## Palandri Group structure



## History

The company is dormant and does not undertake any trading activities.

## Report as to affairs

Report as to Affairs	Notes	Book Value \$000	ERV \$000
Total assets		-	-
Less: Amounts owing and secured by debenture or floating charge assets	1	(16,750)	(2,250)
<b>Surplus / (deficit)</b>		<b>(16,750)</b>	<b>(2,250)</b>

The financial position of MRWIPL as estimated by MRWIPL’s directors is summarised above. Our comments in relation to the financial position are as follows:

### Note 1 – Secured creditors

MRWIPL granted fixed and floating charges in favour of Keybridge for \$14.75m and Darrel Jarvis (unregistered) for \$2m. Keybridge has been repaid \$8m from the sale of the Group’s business and we expect that they will receive a further \$4m from the sale of the Vineyards.

As part of the business sale to GWH, Darrel Jarvis agreed to release his fixed and floating charge.

## Funds available for unsecured creditors

<b>Recoveries by Administrator</b>		\$
NIL		
<b>Total recoveries by Administrators</b>	-	
<b>Payments by Administrators</b>		\$
Nil		
<b>Total payments by Administrators</b>	-	
Cash at bank		-
<b>Estimated future recoveries</b>		
Nil		
<b>Total future recoveries</b>	-	
<b>Remaining Administrators' liabilities</b>		
Administrators' remuneration to 3 May 2008	14,420.00	
Administrators' remuneration from 4 May to 11 July 2008	2,000.00	
Administrators' remuneration from 12 July to 12 September 2008	364.00	
Administrators' remuneration from 13 Sept - 7 Oct 2008	2,000.00	
Administrators' disbursements (estimate)	939.20	
Liquidators' remuneration (estimate)	2000	
<b>Total future liabilities</b>	<b>21,723.20</b>	
<b>Funds available for unsecured creditors</b>	<b>(21,723.20)</b>	

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. I make the following comments in respect of each option:

### Winding up MRWIPL

At the second creditors meeting, creditors may resolve that MRWIPL be wound up. Should they do so, MRWIPL will be placed into liquidation and is taken to have nominated the Administrators to be Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets in accordance with the Act and would also be required to complete a thorough investigation into MRWIPL's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of MRWIPL include:

1. the moratorium available under the voluntary administration process would cease
2. the liquidator would be empowered to recover potential voidable transactions, as outlined in Section 8 of this report
3. The liquidator would be required to conduct an investigation into the affairs of MRWIPL pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that MRWIPL or any company in the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, will immediately fail and all entities in the Group will be wound up. In liquidation, it is likely that affairs of each entity (other than PFL) will be pooled and any recovery across the Group will be distributed to the pooled creditors.

The result to creditors of MRWIPL, of it going into liquidation, would likely be a return to creditors of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which is detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning MRWIPL to the Directors. This is not a commercial proposition at this stage given MRWIPL is insolvent.

# Alternatives available to creditors

## Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors would be pooled and would receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them will not prove for a dividend in the DOCA and the fund would be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA will likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and a relatively small reduction in creditors' claims. All other estimated recoveries will be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary by accepting the DOCA creditors would be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for

- MRWIPL to execute a Deed of Company Arrangement
- MRWIPL's administration to end
- MRWIPL to be wound up

and the reasons for those opinions.

## Winding up the MRWIPL

It is our opinion that it would be in the creditors' best interests for MRWIPL to be wound up as it provides a potentially higher likely return to creditors than that which would be available under the proposed DOCA.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario would be the proposed contribution of \$1m by the Group's directors and a relatively small reduction in creditors' claims. In consideration for this creditors would be foregoing any potential recoveries which may be available to liquidator.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end because MRWIPL is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for MRWIPL to be wound up.

Dated this 26th day of September 2008



For and on behalf of

**Gary Doran, Neil Cussen & John Greig**

**Joint and Several Administrators**



### **STRICTLY PRIVATE AND CONFIDENTIAL**

**PIML – ACN 091 709 769 Limited (Administrators Appointed)**

**formerly Palandri Investment Management Limited**

**Report to creditors pursuant to section 439A of the Corporations Act 2001**

**26 September 2008**

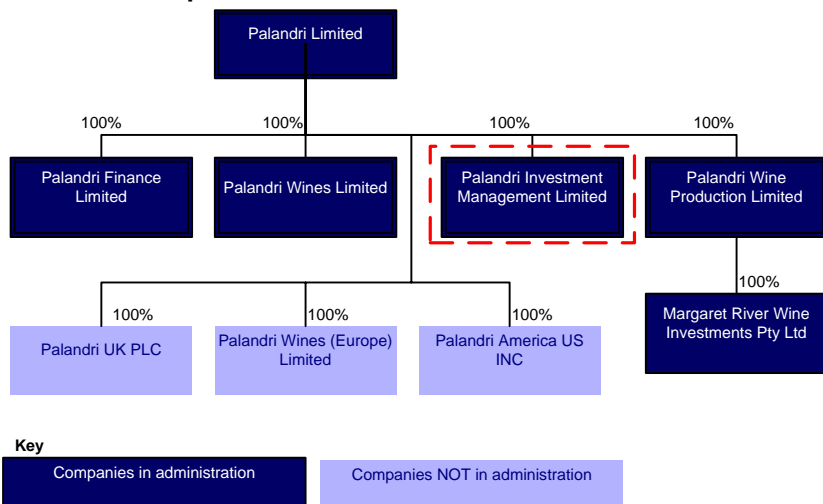
This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Corporate details, history and report as to affairs

<b>Organisation Name:</b>	<b>PIML – ACN 091 709 769 Limited</b> <b>formerly Palandri Investment Management Limited</b>
<b>ACN:</b>	091 709 769
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	22 February 2000
<b>Registered Office:</b>	Level 3, Kings Park Road West Perth
<b>Principal Place of Business:</b>	Level 3, Kings Park Road West Perth
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 22 February 2000)  Christopher John Brown (Appointed 28 November 2003) Robin Elliott Day (Appointed 13 July 2004) Maria Rosa Cheer (Appointed 22 November 2006)  Rohan Jackson Youngman (Appointed 19 February 2007)
<b>Company Secretary:</b>	Maria Rosa Cheer (Appointed 20 July 2007) Keybridge Capital Limited (Fixed and Floating). Registered 1 December 2006.
<b>Registered Charges:</b>	
<b>Auditor:</b>	Bentley's MRI (Perth Partnership)

## Palandri Group structure



## History

The principal activity of the PIML was the marketing and sale of prospectuses relating to Schemes. From 1 July 2006, the company expanded its services to include the provision of administration and operational support services. The company holds an Australian Financial Services Licence (AFSL), number 247418. In late 2007, PIML applied to ASIC to have its AFSL amended to enable it to operate as Responsible Entity of Schemes. This application is still open.

## Report as to affairs

Report as to affairs	Note	Book Value \$000	ERV \$000
<b>Unencumbered assets</b>			
Other assets	1	20	-
<b>Total assets</b>		<b>20</b>	<b>-</b>
Priority creditors	2	(19)	(19)
Unsecured creditors	2	-	(229)
<b>Surplus / (deficit)</b>		<b>1</b>	<b>(248)</b>

Our comments in relation to the financial position are as follows:

### Note 1 – Other assets

Other assets comprise a bond provided for the issue of an Australian Financial Services licence. This amount is unlikely to be recovered.

### Note 2 – Priority and unsecured creditors

Employee entitlements include annual leave accruals for two employees. We anticipate the amount payable to be significantly higher due to redundancy entitlements payable. Unsecured creditors are estimated to be approximately \$229k based on PIML's management accounts.

## Funds available for unsecured creditors

<b>Recoveries by Administrator</b>		<b>\$</b>
Cash	194.13	
<b>Total recoveries by Administrators</b>	<b>194.13</b>	
<b>Payments by Administrators</b>		<b>\$</b>
Bank charges	30.00	
<b>Total payments by Administrators</b>	<b>30.00</b>	
Cash at bank	164.13	
<b>Estimated future recoveries</b>		
Nil	-	
<b>Total future recoveries</b>	<b>-</b>	
<b>Remaining Administrators' liabilities</b>		
Administrators' remuneration to 3 May 2008	14,261.00	
Administrators' remuneration from 4 May to 11 July 2008	2,000.00	
Administrators' remuneration from 12 July to 12 September 2008	2,942.00	
Administrators' remuneration from 13 Sept - 7 Oct 2008	2,000.00	
Administrators' disbursements (estimate)	939.20	
Liquidators' remuneration (estimate)	2,000.00	
<b>Total future liabilities</b>	<b>24,142.20</b>	
Funds available for unsecured creditors	(23,978.07)	

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. We make the following comments in respect of each option:

### Winding up PIML

At the second creditors meeting, creditors may resolve that PIML be wound up. Should they do so, PIML would be placed into liquidation and is taken to have nominated the Administrators, to be Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets in accordance with the Act and would also be required to complete a thorough investigation into PIML's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of PIML include:

1. the moratorium available under the voluntary administration process would cease
2. the liquidator would be empowered to recover potential voidable transactions, as outlined in Section 8 of this report
3. The liquidator would be required to conduct an investigation into the affairs of PIML pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that PIML or any company in the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, would immediately fail and all entities in the Group would be wound up. In liquidation, it is likely that affairs of each entity (other than PFL) would be pooled and any recovery across the Group would be distributed to the pooled creditors.

The result to creditors of PIML, of it going into liquidation, would likely be a return to creditors of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which are detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning PIML to the Directors. This is not a commercial proposition at this stage given PIML is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors would be pooled and would receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them will not prove for a dividend in the DOCA and the fund will be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA would likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and a relatively small reduction in creditors' claims. All other estimated recoveries would be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary, by accepting the DOCA creditors will be accepting 2.2 cents per dollar (\$1m divided by \$44.9 in creditor's claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for

- PIML to execute a Deed of Company Arrangement
- PIML's administration to end
- PIML to be wound up

and the reasons for those opinions.

## Winding up PIML

It is our opinion that it would be in the creditors' best interests for PIML to be wound up as it provides a higher likely return to creditors than that which would be available under the proposed DOCA.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario is the proposed contribution of \$1m by the Group's Directors and a relatively small reduction in creditors' claims. In consideration for this creditors will be foregoing any potential recoveries which may be available to liquidator.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end because PIML is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for the PIML to be wound up.

Dated this 26th day of September 2008



For and on behalf of

**Gary Doran, Neil Cussen & John Greig**

**Joint and Several Administrators**



### **STRICTLY PRIVATE AND CONFIDENTIAL**

**PFL – ACN 090580500 Limited (Administrators Appointed)**

**formerly Palandri Finance Limited**

**Supplementary report to creditors pursuant to section 439A of the Corporations**

**Act 2001**

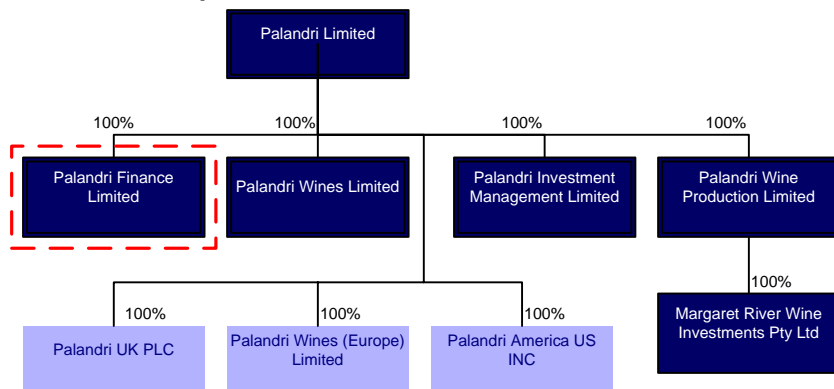
**26 September 2008**

This report creditors is to be read in conjunction with the report to creditors of the Palandri Group dated

26 September 2008.

# Background

## Palandri Group structure



### Key

Companies in administration

Companies NOT in administration

<b>Organisation Name:</b>	<b>PFL – ACN 090580500 Limited</b> <b>formerly Palandri Finance Limited</b>
<b>ACN:</b>	090 580 500
<b>State of Incorporation:</b>	WA
<b>Registration Date:</b>	22 December 1999
<b>Registered Office:</b>	Level 3, 76 Kings Park Road WEST PERTH WA 6005
<b>Principal Place of Business:</b>	Level 3, 76 Kings Park Road WEST PERTH WA 6005
<b>Current Directors:</b>	Darrel Arthur Jarvis (Appointed 22 December 1999) Christopher John Brown (Appointed 28 November 2003) Robin Elliot Day (Appointed 13 July 2004) Maria Rosa Cheer (Appointed 22 November 2006)
<b>Company Secretary:</b>	Maria Rosa Cheer (Appointed 20 July 2007)
<b>Registered Charges:</b>	The Public Trustee of Queensland, Fixed charge. Registered 21 June 2004 The Public Trustee of Queensland, Fixed charge. Registered 23 March 2005 Keybridge Capital Limited, Fixed charge. Registered 8 November 2007
<b>Auditor:</b>	Bentley's MRI Perth Partnership

## History

PFL was incorporated on 22 December 1999 and is a registered financier under the Financial Sector (Collection of Data) Act 2001. The Company is a 100% owned subsidiary of PL.

The principal activity of PFL was to provide loans to investors in various Schemes. The loans were intended to fund the investor's ownership in the Schemes or the management fees payable during the first four years of the Schemes.

In order to provide these loans to investors, PFL raised funds by issuing Notes, Debentures, borrowing funds from PL, and from the sale of part of its loan book to third party financiers.

## Notes

PFL issued notes to the public, being "Palandri Notes Series 1" pursuant to a prospectus dated 1 March 2005 and a supplementary prospectus dated 15 August 2005. The first prospectus was fully subscribed by 30 June 2005 and raised \$10M by issuing 100,000 Notes, each with a face value of \$100. The supplementary prospectus was fully subscribed and raised a further \$2M by issuing 20,000 Notes, each with a face value of \$100. In total the "Palandri Notes Series 1" offer raised \$12M. Both prospectuses were issued subject to the terms of a trust deed dated 1 March 2005 (Trust Deed), being the date the first prospectus was issued. Parties to the Trust Deed include:

- PFL (as borrower)
- Public Trustee of Queensland (as Trustee)
- Palandri Limited (as the guarantor)

On 1 March 2005, PFL provided the PTQ a fixed charge registered with the ASIC as no. 114 2773, as security in respect to the \$12M Note issue. Also on this date, the PTQ, PL and PFL entered into an agreement wherein PL agreed to guarantee all of PFL's obligations to Note holders under the Trust Deed.

As at 15 February 2008, there was approximately \$11.396M outstanding to Note holders.

On 22 February 2008 PTQ issued a demand on PL under its guarantee.

# Background continued

## Debentures

PFL issued Debentures pursuant to a Debenture Information Memorandum dated 4 May 2004. The offer was fully subscribed by 31 August 2004 and the Company raised \$7M by issuing 70,000 Debentures with a face value of \$100 each.

The Debenture Information Memorandum was issued subject to the terms of a trust deed dated 4 May 2004 (Debenture Trust Deed). Parties to the Debenture Trust Deed include:

- PFL (as borrower)
- Public Trustee of Queensland (as Trustee)
- Palandri Limited (as the guarantor)

On 4 May 2004 PFL provided the PTQ a fixed charge registered with the ASIC as no. 1053562 as security in respect to the \$7M debenture issue. Also on this date, the PTQ, PL and PFL entered into an agreement wherein PL agreed to guarantee all of PFL's obligations to Debenture holders under the Debenture Trust Deed. As at 15 February 2008, there was approximately \$3.997M outstanding to Debenture holders.

## Loans from parent company

PL provided loans to PFL so that PFL could meet operating costs and discharge liabilities. During FY2007 PL lent \$2.761M to PFL to repay monies to Debenture and Note holders. During FY2006 PL provided \$0.565M to PFL for the same purpose. As at 30 June 2007 PFL had a loan balance from PL of \$4.808M.

## Appointment of Administrators

The appointment of Voluntary Administrators occurred on 15 February 2008, by resolution of directors pursuant to Section 436A of the Act.

On that same day, PTQ exercised its right pursuant to a fixed charge over certain of the Company's accounts receivable and appointed Andrew Saker and Darren Weaver as Joint and Several Receivers (the Receivers). The appointment by PTQ was made pursuant to registered charge number 1142773 which had been given to PTQ to secure \$11.396M which was owed to Note holders.

On 26 February 2008 the Voluntary Administrators made and were successful in an application to the Supreme Court of Western Australia seeking ratification of their appointment. The Voluntary Administrators were concerned as to whether or not the directors had conducted the meeting wherein they passed the resolution to appoint Voluntary Administrators in accordance with the Company's memorandum and articles of association.

Subsequently, the Receivers, the Voluntary Administrators and PTQ entered into a Deed of Forbearance. Under that Deed, the Voluntary Administrators agreed to certain reporting obligations to PTQ and the Receivers retired. In addition, PTQ agreed to forbear from appointing a Receiver under the first and second charges, so that the Voluntary Administrators can continue to realise the assets in the most cost effective manner for the benefit of all the company's creditors.

## Background continued

A first meeting of creditors was held on 27 February 2008 pursuant to Section 436E of the Act. At that meeting our appointment Administrators was confirmed.

Creditors were asked if they would like to resolve to appoint a Committee of Creditors. No resolution was passed on this and creditors asked to defer the resolution regarding the nominations for a Committee of Creditors to the second meeting of creditors. There were no other resolutions passed at the first meeting of creditors.

### **Sale of the loan book**

PFL engaged in the practice of selling part of its loan book to generate funds to allow it to lend further monies to project investors.

During FY2006 PFL sold \$5.6M of loans and in FY2007 sold a further \$4.19M of loans. The principal third party buyer of these loans during this time was United Pacific Finance Pty Limited. The contracts of sale to United were on the basis of 80% of the purchase price payable upfront with the residual payable as the loans are repaid to United from the borrower.

### **Lending activities**

As mentioned above the primary purpose of raising funds was so that PFL could provide loans to investors.

Typically the process required the investor to apply to PFL to fund their investment subject to PFL's credit criteria. The loans, if approved were to be conducted on normal commercial terms with full recourse to the borrower. Security was taken by PFL over the lease, management, shares (if applicable) and in some instances third party guarantees were provided.

## Report as to affairs

Palandri Finance Limited Report as to affairs	Notes	Book value \$'000	ERV \$'000
<b>Unencumbered Assets</b>			
Cash at bank	1	109	109
Loans unencumbered	2	38	12
Net Assets – Subject to costs of Administration		<b>147</b>	<b>121</b>
<b>Assets subject to specific charges</b>			
Loans Receivable	3	11,664	2,049
Owing to Note holders	4	(11,397)	(11,397)
Available to creditors		267	(9,348)
Loans Receivable	3	4,276	1,232
Owing to Debenture holders	5	(3,990)	(3,990)
Available to creditors		286	(2,758)
Loans Receivable	3	4,315	469
Keybridge	6	(14,750)	(3,000)
Available to creditors		(10,435)	(2,532)
<b>Surplus / (Shortfall)</b>		<b>(9,735)</b>	<b>(14,517)</b>
Contingent Assets	7	Unknown	Unknown
Priority Creditors	8	(28)	(28)
Unsecured Creditors	9	(197)	(197)
<b>Net Surplus / (Shortfall)</b>		<b>(9,960)</b>	<b>(14,742)</b>

The financial position of PFL as estimated by PFL's Directors is summarised opposite. Our comments in relation to the financial position are as follows:

### Note 1 - Cash at Bank

Upon our appointment the bank account of the company had funds of \$109,231.

### Note 2 - Unencumbered Loan

The company had issued one loan that has not been taken as security. This loan's recoverability has been impaired by a Court order which resulted in a write-off of a large percentage of its value. Accordingly it is estimated that only \$12,000 of this loan will be collected.

### Note 3 - Loans Receivable

This represents the face value of the loans given to investors and the Director's estimates of their likely recovery.

### Note 4 - Notes Secured Creditor

The book value of loans given as security for the Notes issued is \$11.664M. The amount owing to Note holders, being the secured claim of PTQ is \$11.397M.

### Note 5 - Debentures Secured Creditor

The book value of loans given as security for the Debentures issued is \$4.276M. The amount owing to Debenture holders, being the second secured claim of PTQ is \$3.99M.

### Note 6 - Other Secured Creditor - Keybridge Capital Limited

Keybridge has been granted a fixed charge over a portion of the loan book, as security for advances made to other companies in the Palandri Group of \$3M.

## Report as to affairs continued

Palandri Finance Limited Report as to affairs	Notes	Book value \$'000	ERV \$'000
<b>Unencumbered Assets</b>			
Cash at bank	1	109	109
Loans unencumbered	2	38	12
Net Assets – Subject to costs of Administration		<b>147</b>	<b>121</b>
<b>Assets subject to specific charges</b>			
Loans Receivable	3	11,664	2,049
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<b>Surplus / (Shortfall)</b>		<b>(9,735)</b>	<b>(14,517)</b>
Contingent Assets	7	Unknown	Unknown
Priority Creditors	8	(28)	(28)
Unsecured Creditors	9	(197)	(197)
<b>Net Surplus / (Shortfall)</b>		<b>(9,960)</b>	<b>(14,742)</b>

### Note 7 - Contingent Assets

The directors have identified a potential claim for action against one of the company's former legal advisors. This relates to advice given surrounding the issue and redemption of the Notes. The possibility of success of any claim, and the estimation of any realisation from such a claim would be subject to further investigations and legal advice.

### Note 8 - Priority Creditors

Priority creditors of the company are made up exclusively of the employee entitlements of the former loan book manager of the company. These entitlements include statutory obligations for unpaid annual leave, long service leave, and superannuation. These entitlements have a priority ahead of unsecured creditors.

### Note 8 - Priority Creditors continued

At this stage, it is uncertain whether there will be sufficient funds to pay all outstanding employee entitlements. Any distribution for employee entitlements is highly contingent on successful collection of the loans receivable. In the event that there are insufficient funds in this regard and the company is placed in liquidation, employees will be able to lodge a GEERS claim with the DEWR.

### Note 9 - Unsecured Creditors

Unsecured creditors of the company are made up of predominantly trade creditors. These are mostly legal costs incurred in dealing with the redemption of Notes and Debentures.

Included in the total of \$196,730 is a claim of \$16,370 from PTQ for costs associated with their role as trustee of the Notes and Debentures issue. It is uncertain at this stage if PTQ's costs would be included as a secured claim.

It should be noted that any claim that PTQ and Keybridge have, which is not discharged through the collection of the secured assets (the loan book), will have the same rights as unsecured claims in a winding up of the company.

## Status of loan book collection

Status / loan type	Debentures	Notes	Warehouse	Other	Total
Current	121,834	1,850,379	712,276	1,002,063	3,686,553
Minor default	1,038,431	1,828,200	229,608	21,108	3,117,347
Serious default	2,027,709	7,940,740	3,323,044	-	13,291,493
<b>Total loan book</b>	<b>3,187,974</b>	<b>11,619,319</b>	<b>4,264,928</b>	<b>1,023,171</b>	<b>20,095,393</b>
Secured liabilities	4,051,400	11,744,700	2,250,000	-	18,046,100
<b>Surplus / (deficiency)</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>	<b>Unknown</b>
Funds collected to date	125,474	475,636	105,305	105,179	811,594
Collection ratio	3.9%	4.1%	2.5%	10.3%	4.0%

### Loan classified as serious default

Debentures		Notes		Warehouse loans	
Borrower	Balance at 15-Feb-08	Borrower	Balance at 15-Feb-08	Borrower	Balance at 15-Feb-08
CONSORTIUM -1	508,752	CONSORTIUM -10	426,030	CONSORTIUM - 14	376,947
CONSORTIUM -2	693,280	CONSORTIUM -11	801,467	HILL, DION	35,613
MARGARET RIVER WBT	74,886	CONSORTIUM -12	52,857	MARGARET RIVER WBT	25,823
MARGARET RIVER WBT	79,932	CONSORTIUM -13	1,042,999	MARGARET RIVER WBT	256,984
MCKINNEY	57,673	CONSORTIUM -3	545,099	MARGARET RIVER WBT	299,544
REIHL	29,606	CONSORTIUM -4	145,358	PRESTIGE PROPERTY DEV	398,073
TALISKER SKYE	447,804	CONSORTIUM -5	172,447	VICARIO NO 14 PTY	1,193,073
WARD	25,535	CONSORTIUM -6	330,358	WRESTWAY PROPERTY	736,987
WARD	110,241	CONSORTIUM -7	264,287		<u>3,323,044</u>
	<u>2,027,709</u>	CONSORTIUM -8	660,717		
		CONSORTIUM -9	662,038		
		EDDY	200,958		
		JONES, J	77,244		
		STRATEGIC & CONSULT.	34,977		
		TAX PLANNING PROFS.	23,100		
		VICARIO NO 14 PTY	2,401,027		
		MORRIS, P	99,778		
			<u>7,940,740</u>		

### History

We are continuing to collect PFL's loan book and to date have collected \$811,594. Accounts that are classified as minor default have been served written demands in respect of arrears and if payment is not received will be referred for legal action. Accounts that are classified as serious default have been served written demands in respect of arrears and if payment is not received will also be referred for legal action.

We cannot estimate what deficiency (if any) may exist after we have exhausted all efforts to collect PFL's loan book.

### Investigation

We are continuing to investigate the activities of PFL prior to our appointment. These investigations largely centre around the collectability of loans that are now classified as 'serious default' and specifically loans due from Consortium Management Australia Pty Ltd for \$6.7 million and also Vicario No. 14 Pty Ltd for \$3.6 million. These loans represent around 77% of all loans in serious default and significantly contributed to the Group's failure.

We have identified a personal guarantee from the director of Vicario No. 14 Pty Ltd and have commenced legal action.

We are still investigating the loans to Consortium Management Australia Pty Ltd and its role in both PFL's and the Group's failure.

## Funds available for unsecured creditors

<b>Recoveries by Administrators</b>		<b>\$</b>
Cash at Bank on Appointment	121,631.29	
Bank Interest	726.99	
Loan Income	105,178.70	
Income From Warehousing Loans	105,305.40	
Income From Notes Loans	475,636.15	
Income From Debenture Loans	125,474.04	
<b>Total recoveries by Administrators</b>	<b>933,952.57</b>	
<b>Payments by Administrators</b>		<b>\$</b>
Electricity	163.45	
Professional Fees	1,160.00	
Rent Paid (Commercial)	8,540.00	
Stationery & Printing	249.86	
Sub-Contractors	18,436.27	
Cleaning and Repairs	455.00	
Staff Expenses	63.45	
State Payroll Tax	79.31	
Bank Charges	250.80	
Legal Fees	76,044.66	
Administrators Remuneration	205,407.50	
Sub-Contractors	896.81	
GST paid	30,066.73	
<b>Total payments by Administrators</b>	<b>341,813.84</b>	
Cash at bank	592,138.73	

<b>Estimated future recoveries</b>	<b>High</b>	<b>Low</b>
Collection of loans	6,000,000.00	2,500,000.00
<b>Total future recoveries</b>	<b>6,000,000.00</b>	<b>2,500,000.00</b>
<b>Remaining Administrators' liabilities</b>		
Administrators' remuneration from 29 March to 21 September 2008	158,274.10	158,274.10
Administrators' remuneration from 21 Sept - 7 Oct 2008	20,000.00	20,000.00
Administrators' disbursements (estimate)	7,978.50	7,978.50
Liquidators' remuneration (estimate)	240,000.00	100,000.00
<b>Total future liabilities</b>	<b>426,252.60</b>	<b>286,252.60</b>
Funds available for secured creditors	6,165,886.13	2,805,886.13
Secured creditor liability	15,796,100.00	15,796,100.00
<b>Funds available for unsecured creditors</b>	<b>(9,630,213.87)</b>	<b>(12,990,213.87)</b>

# Alternatives available to creditors

## Explanation of alternatives available to creditors

It is our obligation to make a recommendation to creditors on which alternative is in the best interests of creditors. Our recommendation is based on what is in the best interests of creditors with regard to repaying their existing debts. I make the following comments in respect of each option:

### Winding up PFL

At the second creditors meeting, creditors may resolve that PFL be wound up. Should they do so, PFL will be placed into liquidation and is taken to have nominated the Administrators, to be the Liquidators should no other nominations be received. As Liquidators, we would be required to realise the assets and distribute the proceeds in accordance with the Act and will also be required to complete a thorough investigation into PFL's past dealings and affairs and the past actions of the Directors. The effects of the liquidation of PFL include:

1. the moratorium available under the voluntary administration process will cease
2. the liquidator will be empowered to recover potential voidable transactions, as outlined in Section 8 of this report
3. The liquidator will be required to conduct an investigation into the affairs of PFL pursuant to Section 533 of the Act and lodge a report with the ASIC in respect of the same.

In the event that PFL or any company in the Group is placed into liquidation then the proposed DOCA, summarised in Section 10 of this report, will immediately fail and all entities in the Group will be wound up. In liquidation, it is likely that the affairs of each entity will be pooled excluding assets specifically charged to secured creditors, and any recovery across the Group will be distributed to the pooled creditors.

The result to unsecured creditors of PFL, of it going into liquidation, will likely be a return to creditors of between 0 and 26 cents in the dollar. The calculation of the potential return to the pooled creditors is set out in Section 9 of this report. This return is contingent upon the liquidators successfully recovering funds as a result of their investigation, which are detailed in Section 8 of this report.

### Bringing the administration to an end

It is possible that the creditors may consider ending the administration and returning PFL to the Directors. This is not a commercial proposition at this stage given PFL is insolvent.

## Alternatives available to creditors

### Proposed DOCA

The Directors of the Group have proposed a DOCA in which all the Group's creditors will be pooled and will receive a distribution under the DOCA. The DOCA's funds comprise \$1m contributed by the Group's Directors, \$1.06m from the sale of the Group's vineyards and potential recoveries from rebates of GST and WET. The Group's Directors and entities associated with them will not prove for a dividend in the DOCA and the fund will be distributed in accordance with the priorities set out in Section 556 of the Act. The DOCA will likely result in a return to creditors of between 3.2 and 16.1 cents in the dollar.

It is our opinion that the proposed DOCA may not provide the best return to the Group's creditors. The only advantage of the DOCA over a liquidation is the additional \$1m being offered as a contribution by Group's Directors and a relatively small reduction in creditors' claims. All other estimated recoveries will be the same under a liquidation. However, the proposed DOCA prevents the Group from pursuing claims against third parties which may result in a higher return to creditors.

In summary by accepting the DOCA creditors will be accepting 2.2 cents per dollar (\$1m divided by \$44.9m in creditors claims) as consideration for foregoing any other recoveries which may be available to a liquidator.

# Administrators' opinion

## Introduction

Pursuant to Section 439A of the Act this is our statement as Administrators setting out our opinion regarding whether it would be in the creditor's best interests for

- PFL to execute a Deed of Company Arrangement
- PFL's administration to end
- PFL to be wound up,

and the reasons for those opinions.

## Winding up the Group

It is our opinion that it would be in the creditors' best interests for PFL to be wound up as it provides a potentially higher return to creditors than that which would be available under the proposed DOCA.

## Proposed DOCA

It is our opinion that it would not be in the creditors' best interests to accept the proposed DOCA because the only additional benefit over a liquidation scenario is the proposed contribution of \$1m by the Group's Directors and a relatively small reduction in creditors' claims. In consideration for this creditors will be foregoing any potential recoveries which may be available to a liquidator.

## Ending the Administration

It is our opinion that it would not be in the creditors' best interests for the administration to end because PFL is insolvent.

## Summary

We, having regard to the information available to us, have formed the opinion that it would be in the creditors' best interests for PFL to be wound up.

Dated this 26th day of September 2008



For and on behalf of

Gary Doran, Neil Cussen & John Greig

Joint and Several Administrators

## Appendix 7 - Committee of inspection

### Committees appointed by resolution at 1st meeting of creditors on 7 March 2008

<b>Palandri Finance Limited</b>	<b>Company/Status</b>
Phillip Whiteley	Planna Partners Pty Ltd
Brian Sharp	Public Trustee of Queensland
<b>Palandri Limited</b>	<b>Company/Status</b>
Michael McPherson	Employee
Brian Sharp	Public Trustee of Queensland
Gerlinde Watson	Portavin
<b>Palandri Wine Production Limited</b>	<b>Company/Status</b>
Michael McPherson	Employee
Ian Crockett	Quenby Viticultural Services
Gerlinde Watson	Portavin
<b>Palandri Wines Limited</b>	<b>Company/Status</b>
Michael McPherson	Employee
Ian Crockett	Quenby Viticultural Services
Gerlinde Watson	Portavin
Tony Riggall	Landlord - Frankland River No. 1
Rohan Youngman	Director, PIML
Brian Sharp	Public Trustee of Queensland
<b>Other Group entities</b>	
Palandri Investment Management Limited	NO COMMITTEE FORMED
Margaret River Wine Investments Pty Limited	NO COMMITTEE FORMED

# Deloitte.

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