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The Manager
Company Announcements Office
Australian Stock Exchange Limited
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Sydney NSW 2000

**ANNOUNCEMENT TO THE MARKET**

Dromana Estate Limited (**Dromana**) is pleased to announce that it has entered into agreements with Hong Kong based companies, Shanghai Now Limited (**Shanghai**) and Mercoroz Limited (**Mercoroz**) with respect to an investment in Dromana and an agreement to distribute wine in China.

These agreements represent a major milestone in the history of Dromana and will provide a platform for significant growth in Australia and New Zealand. These agreements provide the opportunity for a major restructure of the Dromana Group to unlock the value in the wine business and the leisure property project in which Dromana has an interest. The restructure of Dromana will occur in two stages, Stage 1 now and Stage 2 to be completed over the next few months, as described below. In essence, the restructure will result in the existing wine business being transferred to a new entity to be owned by the Dromana shareholders in the same proportions as they currently hold shares in Dromana, with Dromana becoming a leisure property development company in which current Dromana shareholders will retain an interest.

## Stage 1 (now)

1. Shanghai has invested $A1 million in Dromana in the form of shares as outlined below and debt funding as discussed in paragraph 2. Dromana has issued 13,458,350 shares to Shanghai at $A0.04 per share to raise $A538,334 of additional working capital. This represents 14.51% of Dromana's issued capital post the issue of shares, and will make Shanghai the largest individual shareholder on the Dromana share register.

Jinalec Pty Ltd (Jinalec) will see its equity position reduced to 11.81% as a result of the placement to Shanghai.

2. Shanghai has also provided Dromana with a loan of $A461,666, repayable on 7 July 2012. This loan has options attaching to convert into shares in a new wholly owned entity, Mornington Winery Group Limited (**Mornington**) on the basis of 25 shares for each $A1 of debt. The terms of this loan are in essence identical to the convertible notes held by Twelfth Vilmar Pty Ltd and others, in terms of conversion, interest rate, repayment terms and security, but with the ability to convert the loan into shares in Mornington rather than Dromana. The security over the assets and undertaking of Dromana held by Twelfth Vilmar Pty Ltd on behalf of itself and entities controlled by current director and chairman David Craig and former director Richard Green, now extends to Shanghai as a fourth party. Twelfth Vilmar Pty Ltd is controlled by current director and managing director Geoff Bell.

3. As a result of the above investment, the wine assets and business have been transferred from Dromana to Mornington. Certain assets transferred will be subject to an independent valuation to establish a market value for Mornington. Consideration for the transfer of the wine assets and business is in the form of 92,740,060 fully paid ordinary shares, which mirrors the number of shares on issue by Dromana post the issue of shares to Shanghai. The Twelfth Vilmar Pty Ltd convertible notes and the Shanghai loan referred to above have also been transferred to Mornington together with the wine assets which secure the debt.

4. The Directors of Mornington comprise the existing 4 Directors of Dromana (Messrs Craig, Bell, Genser and Heaney), with Shanghai having the right to nominate an additional 3 Directors to the Board of Mornington and 1 Director to the Board of Dromana.

5. Dromana and Mornington have entered into an exclusive distribution Agreement with Mercoroz with respect to sales of wine in China. Under this agreement, Dromana and Mornington will become the exclusive supplier to Mercoroz of wine sourced from Australia and New Zealand. This agreement will see Dromana and Mornington sourcing wine from other wineries within Australia and New Zealand to provide to Mercoroz for the China market. We believe that the market for Australian and New Zealand wines in China has the potential for significant growth in the immediate future and this agreement puts Dromana and Mornington in a strong position to capitalise on this growth.

6. Under the distribution agreement, Mercoroz has been issued 5,000,000 options to acquire shares in Mornington at an exercise price of $A0.04 per share, on achieving a sales target of $US3,000,000 of gross sales in China over the next 3 years.

7. Mercoroz has sub-distributors appointed in North and South China, and an additional 10,000,000 options over shares in Mornington have been issued to Mercoroz for allocation to those sub-distributors, as follows. Options attaching to sub-distributor 1 have been issued on the following basis – 5,000,000 options to acquire shares in

Mornington at an exercise price of $A0.05 per share on achieving a sales target of $US1,500,000 of gross sales in China over the next 2 years. If sub-distributor 1 achieves sales of $US750,000 in year 1, then 50% of the options can be converted into shares in Mornington at $A0.04. Options attaching to sub-distributor 2 mirror those issued for sub-distributor 1.

**Stage 2**

1. Stage 2 of the restructure of Dromana and Mornington is expected to occur over the next 6 months, once a permit is issued to construct and operate a Hotel/Conference Centre, Day Spa and Restaurant (the leisure property development project) on the property owned by Jinalec and leased to Dromana and Mornington.

2. Ownership of the leisure property development project rests with Tuerong Investments Pty Ltd as trustee for the Tuerong Investments Unit Trust (Tuerong Investments) owned as to 75% by Jinalec (the property owner) and 25% by Beng Investments Pty Ltd (an entity owned and controlled by Director, Ben Genser).

3. The following re-structure will occur, subject to shareholder approval, as follows:

    (i) Mornington will be de-merged from Dromana by way of an in specie distribution of the shares held by Dromana in Mornington to all Dromana shareholders on a 1 for 1 basis. The ownership of Mornington will then be exactly the same as that in Dromana. Subject to ASX approval, Mornington will be separately listed on the ASX and commence a new era as a wine producer and operator in the newly formed corporate structure.

    (ii) On de-merger, Mornington will issue 2,500,000 options to Shanghai, and a further 1,500,000 options will be issued to an associate of Mercoroz, all exercisable at $A0.04 per share at any time over a 5 year period.

    (iii) Dromana will acquire the investment in Tuerong Investments from Jinalec and Beng Investments Pty Ltd based on an independent valuation of the leisure property development project. Consideration will be in the form of fully paid ordinary shares in Dromana. Existing Dromana shareholders' interests will be diluted as a consequence. The number of shares to be issued will be determined on the basis of an independent valuation of the assets of Dromana post the in-specie distribution of the shares in Mornington and will be subject to shareholder approval.

    (iv) Dromana's investment in Jinalec and Jinalec's investment in Dromana in the form of convertible notes totalling $A900,000 will be redeemed and repaid as part of the acquisition of Jinalec's interest in Tuerong Investments.

    (v) As a consequence of the above, Jinalec will retain ownership of the property. Jinalec will lease part of the property to Dromana for the leisure property development and the vineyard and winery area to Mornington, in each case on commercial terms to be independently determined at the time of the restructure. Jinalec will remain as a significant shareholder of Dromana and Mornington.

The Directors of Dromana believe that the above developments will significantly strengthen Dromana's position financially and enhance its growth prospects within Australia and New Zealand. Partnering Mercoroz in supplying wine into the growing China market is a major step forward by Dromana in establishing itself as a leading producer and distributor of wines for export. The opportunities for growth and profit now exist. Separating the wine business and the leisure property project will enable each business to develop on its own merit. Our challenge going forward is to capitalise on these opportunities and create significant value for shareholders.

David Craig
**Chairman**

Geoff Bell
**Managing Director**