

CROUCH INSOLVENCY

CHARTERED ACCOUNTANTS

Personal and Corporate Insolvency Solutions

Level 28
31 Market Street
Sydney NSW 2000

Tel (02) 8262 9333

Fax (02) 8262 9300

admin@crouch.net.au

www.crouch.com.au

23 October 2007

To the creditor as addressed

Dear Sir/Madam,

**HERITAGE FINE WINES PTY LTD
(IN LIQUIDATION) (RECEIVER & MANAGER APPOINTED)
ACN 093 310 715
REPORT TO CREDITORS**

I hereby provide a further report on the progress of the liquidation.

SALE OF ALL HFW WINE REALISES \$1.23 MILLION

During April and May 2007 I undertook a nationwide advertising and direct marketing process inviting parties to tender for the purchase of the company portfolio. I approached the major retail chains and various parties who had expressed an interest in purchasing HFW wine.

Whilst there was significant interest in purchasing the HFW wine it quickly became apparent that for the vast majority of labels, sales would only be achieved at a discount to the auction realisable value.

Having regard to the results of the tender process I formed the view that the vast majority of the wine labels held by the company were a depreciating asset and the HFW wine should be sold without delay to avoid further storage and insurance costs and thereby maximise the return available from the current wine holdings.

I approached auction houses Grays and Langton's who both offered to discount their normal selling charges to secure sales of the HFW wine.

In June and July 2007, approximately 58,000 bottles representing 650 labels of wine held in the company's name were sold via Grays as part of an on-line auction held over a 6 week period. The sale of this wine has realised \$1,230,532. The sale results exceeded the offers I received from the tender and direct marketing process and the prices achieved were generally well above the reserve prices. The results of the sales may be summarised as follows:

Purchase Price per bottle	Auction Price Realised per bottle
\$100 to \$500	\$129
\$50 to \$100	\$25
20 to 50	\$17
Less than 20	\$10

Details of wine sales are available on request. I will post the results of the HFW house wine sales on a label by label basis together with the results of the lien wine sales on my web page after the sale of the lien wine has been completed in or about December 2007.

PENDING SALE OF ALL 108,000 BOTTLES OF HFW 'LIEN' WINE

I have exercised my lien over investor wine subject to outstanding levies and storage charges ("lien wine"). The lien wine comprises 107,922 bottles previously held by a total of 297 investors.

I have formed the view that the ongoing storage and insurance costs of the lien wine exceed any premium in sale proceeds that I might receive from a sale of this wine at any time during the next 12 months. Accordingly I have determined that it is in the best interests of creditors to sell the HFW lien wine without delay.

After consultation with various auction houses, I have engaged Grays Asset Services Pty Limited to sell the lien wine via on-line auction run via their website at www.graysonline.com.au. The auction is expected to commence on or about 25 October 2007. Investors and creditors are welcome to participate in the on-line auction if they so choose and pick up any rare or missing or otherwise good value labels as they see fit.

COURT RULES LIQUIDATOR CAN NOT PROVIDE WINE SALES SERVICES

On 10 September 2007 I made an application to the Supreme Court of New South Wales seeking directions from the Supreme Court that I was justified in my capacity as liquidator in offering to provide wine selling services to investor's for their wine holdings in regard to wine previously held with the company. This application was made on the basis that I had previously reserved the right to sell investor wine as part of the sale of wine storage contracts to Wine Investment Services Pty Ltd (WIS) and was on the basis that it was within my powers as liquidator as part of the continuing operations of the business previously actively conducted by HFW.

In response to this application, the Court has determined that it was not satisfied that my functions and powers as liquidator are such as to justify the provision of such services to investors and refused to make the directions I sought. I have taken legal advice but have not been able to determine any alternative method by which I can assist investors to sell their wine.

As a consequence of the Court's determination, I cannot offer any services to investors in regard to the sale of their wine. This is an unfortunate development as investors will now be deprived of the benefit of pooling their wine to take advantage of economies of scale. Investors must now determine if they wish to hold or sell their wine without the benefit of any services or advice from my office. The contract with WIS also prevents me from providing to investors details of any other alternative opportunities to sell wine or to notify investors of discounted selling commissions I was negotiating for the benefit of investors.

SETTLEMENT OF CLAIM AGAINST DIRECTORS

In accordance with my recommendation, which was supported by my Senior Counsel's advice, on 4 June 2007 the Committee of Inspection voted in favour of a resolution that the liquidator may in his absolute discretion settle all claims against the directors and compromise all debts payable by the directors for an amount which he deems fit.

Having regard to the nature of the claim, the views of the Committee, my legal advice and the inherent costs, risks and delays involved in litigation, I formed the view that it was in creditors' interests generally to enter into a deed of settlement with the former directors. This deed was executed in June 2007. Under the terms of this deed Heritage Fine Wines Pty Ltd have released all claims the company or I may have against any of the former directors. This does not release any claims the investors may have against the directors of the company directly arising from false or misleading conduct. The terms of the release are confidential and without admission of any liability by the directors.

The terms of the settlement do not preclude any actions the Australian Securities and Investments Commission ("ASIC") may wish to take.

The terms of the deed do not affect my continuing obligation to submit detailed accounts of my receipts and payments to ASIC on a six monthly basis. These statements are publicly available and may be accessed via ASIC at www.asic.gov.au.

APPOINTMENT OF JOINT LIQUIDATOR & RECEIVER AND MANAGER

At a further meeting of the Committee of Inspection, initially held on 27 July 2007 and reconvened on 31 July 2007, the Committee voted in favour of a resolution endorsing the appointment of Shabnam Amirbeaggi, a partner of Crouch Insolvency, as Joint and Several Liquidator. At a meeting of the Committee of Investors, also held on 27 July 2007, a similar resolution was passed endorsing Shabnam's appointment as Joint and Several Receiver and Manager and Liquidator.

On 6 August 2007 the Supreme Court of New South Wales ordered that Shabnam Amirbeaggi be appointed as Joint Liquidator and as Joint Receiver and Manager. My appointment continues on a joint basis with Shabnam.

APPROVAL OF PAYMENT OF FEES AND EXPENSES

At the reconvened meeting of the Committee of Inspection held on 31 July 2007, the Committee resolved that 'the payment of the remuneration of the liquidator and staff from the period 4 May 2005 to 30 June 2007 be calculated at the hourly rates of professional fees of Crouch Insolvency and approved in the amount of \$1,335,836.20 (\$1,214,396.55 plus GST)'

On 6 August 2007 the Court approved payment of my fees incurred in my capacity as Receiver and Manager for the period 1 December 2006 to 30 June 2007 in the amount of \$525,163.16 (including GST) together with payment of third party expenses in the amount of \$368,348.31 (including GST).

DIVIDEND ESTIMATED AT 5 TO 10 CENTS

As a consequence of the settlement with the directors, sale of wine storage contracts and house wine and other recoveries, I now estimate that sufficient funds shall be available to allow for a dividend to be paid to ordinary unsecured creditors at the rate of approximately 5 to 10 cents per dollar. This estimate is subject to the adjudication of all proofs of debt received from creditors, costs and any unforeseen issues arising.

Dividends are expected to be paid as funds are received via two instalments in June 2008 and June 2009.

I confirm that pursuant to existing Court Orders it shall not be necessary for investors that have suffered a loss to lodge a formal Proof of Debt in the liquidation of the company (unless specifically requested to do so). Claims of these investors calculated on the basis of the amount paid for the lost wine shall be automatically noted in the liquidation.

In this regard I shall over the next 3 months, write to all investors setting out my estimate of the amount of their claim against the company in respect of lost or missing wine. If investors disagree with my estimate of their loss they shall have an opportunity to submit details of their claim in a formal Proof of Debt. Any such formal claims received shall be subject to adjudication by me.

Please contact Tarnya Tkachenko if you require any further information.

Yours faithfully

HERITAGE FINE WINES PTY LIMITED

**NICHOLAS CROUCH
JOINT LIQUIDATOR
JOINT RECEIVER & MANAGER**