

# 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](mailto:admin@crouch.net.au)

[www.crouch.com.au](http://www.crouch.com.au)

18 October 2006

Dear Sir/Madam,

**HERITAGE FINE WINES PTY LTD (IN LIQUIDATION)  
(RECEIVER AND MANAGER APPOINTED)  
ACN 093 310 715**

## EXECUTIVE SUMMARY

The HFW storage business has been sold. From November 2006 storage and distribution will be performed by the Blue Hills Liquor Distributors Group. I expect distribution platform will be operational from late October or early November 2006.

I request that all storage and levy charges, including storage for October 2006, be paid in full by 24 October 2006.

The sales advisory committee report is detailed herein.

Both myself and Blue Hills are in the process of establishing an on-line wine sales platform. It is anticipated that the wine sales platform shall operate as follows:

- During November 2006 investors should be able to access the sales platform on-line via the WAM system,
- Median auction valuation figures, per wine label, shall be disclosed for each investor's portfolio on a label by label basis.
- Investors shall have an opportunity to instruct us (via the on-line system) to proceed to negotiate sales of some or all of their wine with reserve prices set by investors.
- A sales commission estimated to be in the amount of 10% to 15% of sale price shall be payable when wine is sold.

## NOTICE OF SALE OF WINE STORAGE BUSINESS

I refer to my circular to investors dated 4 September 2006.

I am pleased to advise that on 6 October 2006 I entered into a contract for the sale of the wine storage business with Wine Investment Services Pty Limited, a member of the Blue Hills Liquor Distributors Group ("Blue Hills").

The sale agreement provides for, amongst other things, the following:

- All investor storage agreements to be transferred to Blue Hills;
- All future wine deliveries to be undertaken by Blue Hills;
- The on-line WAM wine management system to be transferred to Blue Hills;
- All investor wine subject to outstanding levies to be held on behalf of the Receiver and Manager (pursuant to the court approved lien); and
- Blue Hills to establish a wine 'pick face' and commence wine deliveries within a specified period.

## **Who is Blue Hills?**

In 2002, Blue Hills principal Mr David James purchased the business of Blue Hills. Today this business is a leading, independently owned, supplier of liquor to Sydney restaurants and hotels. This business operates from Homebush Bay in Sydney.

Blue Hills has obtained suitable temperature and humidity controlled secure storage facilities. These facilities have been inspected and approved by our insurance providers.

Blue Hills have advised that they shall contact all investors shortly to provide further information regarding future storage and delivery services. In the meantime, should you have any queries, Blue Hills may be contacted on 02 4962 4011.

## **Wine Deliveries to re-commence within 2 to 3 weeks**

Over the course of the next 2 to 3 weeks, all wine shall be moved to warehouses controlled by Blue Hills. Wine deliveries and collections shall commence (under the control of Blue Hills) as soon as the relocation is completed and the 'pick face' and delivery systems are established. Blue Hills has undertaken to have these processes in place within 2 to 3 weeks.

All outstanding wine return requests that were processed on the WAM system and paid for prior to the suspension of deliveries on 17 August 2006 are to be undertaken by Blue Hills as a matter of priority. Details of these requests have been provided to Blue Hills as part of the sale agreement.

Blue Hills advise that they shall be in contact with those investors that have outstanding wine return requests over the course of the next 2 to 3 weeks.

## **Receiver's Final Account: Please Pay by 24 October 2006**

To facilitate a smooth handover of the storage business to Blue Hills, I request that all investors pay all outstanding Storage and Levy charges by 24 October 2006.

Until further notice, investors may continue to access the WAM system via my website at [www.bankruptcy.net.au](http://www.bankruptcy.net.au) (and follow the 'Heritage' links) to pay outstanding invoices on-line via credit card or BPay.

## **Receiver to sell wine to satisfy unpaid levies**

In accordance with previous advice, I have supplied Blue Hills with a list of all wine subject to unpaid levies and have notified Blue Hills of my lien over this wine. None of this wine shall be released by Blue Hills without my consent.

I have initiated processes to sell wine subject to my lien to recover unpaid levies. If you have unpaid levies and wish to avoid the sale of your wine you should contact my office immediately and pay any outstanding amounts.

Full details of any levies and/or charges outstanding and tax invoices may be obtained on-line via the WAM system.

## **SALES ADVISORY COMMITTEE ADVICE**

### **Current Economic Environment**

As you are aware the current market for sales of premium wine is poor.

David Clarke, Chairman of McGuigan Simeon Wines Limited, recently stated "The Australian wine industry is going through one of the most difficult periods in its 200 year history. Over

the past 3 years Australia has built up 1 billion litres of excess wine. We don't believe the balance will come back into the market before 2009."

The Australian Wine and Brandy Corporation ("AWBC") in its 2005/2006 annual report stated "a succession of high yielding seasons, growing competition in the global wine marketplace and a tightening operating environment (unfavourable exchange rates, consolidating retail market, consumer trends favouring lower priced wine) all mean that recovery of the supply-demand balance in an oversupplied Australian wine sector is more likely to be on a longer rather than shorter timeline."

**1 Billion Litres of Excess Wine in Australia**

	<u>2004</u>	<u>2005</u>	<u>2006</u>
Production	1,420	1,425	1,365
Domestic Sales	414	426	435
Export Sales	575	657	725
Total Sales	989	1,083	1,161
Annual Oversupply	431	342	204
Cumulative Oversupply	431	773	977

*Table represents millions of litres*

HFW investors are most likely aware that the AWBC records show Australia's wine exports did grow 12% to reach a record of approximately 725 million litres or \$2.8 billion. However, the market that is relevant to HFW investors is premium wines valued at greater than \$10 per bottle. This market is small and represents only around 3% of total exports or 19.1 million litres. The domestic market is also a small segment of the total wine market.

It follows that the actual export and domestic market for HFW wine is relatively small.

The AWBC report indicates from 2002 to 2005 there was a decline in sales in the greater than \$10 per bottle category and above. The decline in sales was almost entirely as a result of cuts in exports at the high price points to the US market. This trend appears to be consistent with sales in the domestic market where labels are forced to compete more aggressively in the higher price points resulting in stronger competition among a larger number of players in the relatively small premium wine marketplace.

Although the oversupply of wine was a major contributor to its drop in the sales price, the AWBC annual report states that a number of uncontrollable factors affect the export market and the same factors have generally affected the domestic market:

1. The appreciation of the Australian dollar;
2. Increased competition from other global producing nations;
3. Continued consolidation of retail outlets in international markets;
4. Recent downward shifts in preferred price points by the major importers;
5. Consolidation of major corporations in the alcoholic beverages sector.

Domestic sales and exports of high priced and specialised premium wines is not an easy task in the oversaturated market.

## **General Observations from SAC & Others**

I have received advice from sales advisory committee and numerous other parties regarding the preferred method of maximising the realisation of the HFW cellar.

I wish to thank all parties for their valuable contributions, specifically Messrs Brian McGuigan and Christopher Burr (Uvine-UK) for their contributions.

**The vast majority of advice that I have received is that the maximum realisable value of the HFW cellar will be achieved where the wine is sold slowly over the period of 1 to 3 years.**

A minority of views that I have received have indicated that “the first loss is the best loss” and the wine should be sold now to avoid further holding costs and/or capital costs.

Ultimately it is the matter for each investor to determine how they will deal with their own investment. It is my belief that, subject to stock with a short shelf life, the majority view is the preferred approach for maximising the realisation of the HFW stock.

Each investor must resolve this issue independently having regard to their own independent professional advice, circumstances and wine holding. I do not purport to know what is the best strategy for each individual investor.

I suggest that the investors be cognisant of traditional general rules of insolvency:

1. Auctions will realise an immediate return with no further costs;
2. An orderly sale will typically realise a greater return than auction but will nevertheless incur a holding cost.

Blue Hills, who have now assumed control of storage and distribution, have indicated they will offer discounts for ongoing storage. Details should be available shortly.

Investors should expect that the famous and established brands, such as Penfolds Grange and Henschke Hill of Grace, will sell for a good to reasonable price provided they are selectively offered for sale and not offered to the market at the same time.

To date, approximately 800 of the 2900 investors have taken possession of some or all of their wine. This represents some 300,000 of the 1.4 million bottles. I note that approximately 1000 investors had a portfolio of less than 300 bottles which would typically be capable of storage and consumption at home.

Investors should be mindful that the majority of the HFW cellar is purportedly high quality wine. Unfortunately a number of labels have no established brand name in the marketplace. It follows that unfortunately there is a large volume of HFW wine that has an auction realisable value in the range of \$5-10 per bottle.

Grays Auctioneers have advised the average auction value of the HFW cellar is \$25.91 per bottle. The average replacement value of the HFW cellar is \$33.60 per bottle.

HFW investors will recall the average purchase price was \$41.18 per bottle.

During November 2006, I intend to upgrade the WAM website to permit each investor to access their portfolio and review the estimated auction value of each of their labels on a line by line basis.

These auction valuations must be regarded as a guide and not a guarantee of gross return. The valuations are based on a 6-12 month sale period via auction.

I note that the auction houses will typically charge investors, as sellers, a sales commission of 10% to 18%. Auction houses typically charge a buyers premium of another 10%-15%.

Accordingly, auction fees may approximate up to 30% of the gross sale price. The leading auction houses have declined my request to offer HFW investors a discount for volume.

### **Sale of Investor Wine via HFW**

It is my view that, the auction process should only be used as a last resort. It is my experience that generally better returns are realised by sale as a going concern, via tender or direct negotiations with pre-determined prospective purchasers.

Investors can instruct HFW/Blue Hills to sell their wine via direct negotiations with domestic and international wine wholesalers and retailers, at or above a reserve price set by the investor.

During November 2006, I will invite investors to log on to the existing webpage and nominate a reserve price and quantity that they wish to sell.

A sales commission of approximately 10%-15% of the gross sale price will be payable by investors upon the successful sale. Details of costing will be determined and disclosed during November 2006. Investors may withdraw their wine for sale at anytime prior to the sale.

Currently, I have details of several hundred parties which I wish to explore sale options.

In addition to the services offered by Blue Hills, my office will initially utilise 5 staff including 2 new sales staff to begin a marketing campaign through a variety of sources including if viable:

1. Online public sales;
2. Negotiations with domestic and international:
  - a. brokers/wine merchants and dealers;
  - b. wholesalers;
  - c. retailers;
  - d. auctioneers;
3. Utilisation of resources and distribution channels that Blue Hills Liquor offer, including use of their position as the largest independent wholesaler of wines to restaurants in the Sydney metropolitan area;
4. Sales Advisory Committee connections and other interested parties.

The wine that is offered for sale through HFW/Blue Hills should is unlikely to be sold through a massive auction; instead it will gradually be sold over a period of 1 to 3 years.

It is expected that each month a quantity of wine will be made available for purchase with the view of obtaining regular supply contracts for domestic and international consumption. It is unlikely that the wine will be offered to tender as a whole, as disclosing the quantity of wine that is available may affect the sale price of a label.

I have been approached by a small number of parties who have indicated that, subject to price and volume, they have a desire to purchase the entire portfolio of wine for sale. To date, I have been unable to provide this information and look forward to receiving instructions for sale from investors.

Investors should be mindful that in Europe where similar companies in liquidation have offered the large volume of wine for sale, such as Ascot Fine Wine Fund and Bordeaux Wine Investments (known as BVI), the tender process resulted in “cherry picking” of the cellar. Thereby approximately 25% of the preferred and well known labels were sold quickly for a reasonable return and the balance being sold at a distressed price. The European results indicate this process should be avoided. For this reason, I have kept HFW cellar database strictly confidential.

Investors must acknowledge that the sales process will be dynamic and may change depending on the market. Ultimately I will use my discretion to realise the wine for the maximum value in prevailing circumstances through all means available.

## **Disclaimer**

It is important to stress that investors must not construe this circular as investment advice. Investors are encouraged to obtain their independent professional advice regarding the sale of their wine. My office and Blue Hills specifically refrain from providing any investment advice.

The sale of wine service that we propose to offer shall be on the basis they we shall use our best endeavours. Obviously we can not guarantee any sales or profits whatsoever.

Notwithstanding that Blue Hills has committed to sell investors wine over the long term, the services offered by my office will be subject to Court approval and only offered if the services are viable and in the best interests of investors and creditors of HFW. I continue to encourage investors to consider all sale options of their wine.

My office and Blue Hills look forward to the challenge ahead.

Should you require any further information please contact Tarnya Tkachenko of my office or Lisa Harrison of Blue Hills.

**Yours faithfully**

**HERITAGE FINE WINES PTY LTD**

**NICHOLAS CROUCH  
RECEIVER AND MANAGER  
LIQUIDATOR**