

CROUCH INSOLVENCY

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21 October 2005

To the Investor as addressed

Dear Sir/Madam,

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

IMPORTANT INFORMATION: The following report contains important information concerning your wine investment and meetings of investors of Heritage Fine Wines Pty Limited. It is strongly recommended that you read this material carefully. Matters discussed in this report may impact upon your ability to recover your wine investment.

PROGRESS REPORT AND NOTICE OF MEETINGS OF INVESTORS

I advise that on 4 May 2005 I was appointed as Liquidator of Heritage by order of the Supreme Court of New South Wales. On this date the Court also ordered that the resignation of Peter Ngan, of Ngan & Co, as Liquidator be accepted.

On 17 May 2005 the Court further ordered that I be appointed as Receiver and Manager of all wine over which Heritage is bailee.

On 17 October 2005 I was also appointed Receiver and Manager of the wine currently at wineries and other offsite locations, subject to rights and entitlements of parties in possession of that wine. Attempts to recover that wine are ongoing and a full report will be provided at the next investors' meetings.

I refer to my circular to investors dated 6 July 2005 and to the meetings of investors held on 27 and 28 July 2005.

I hereby provide an update on the progress of the receivership.

A. EXECUTIVE SUMMARY

Currently there are 1,316,512 bottles held by the Receiver and Manager available to satisfy claims of 1,605,988 bottles.

I expect to make recommendations to the Court that ownership be determined as follows:

EXPECTED DISTRIBUTION OF WINE*	BOTTLES
STOCK AVAILABLE FOR DISTRIBUTION	
Stock on Hand as at Appointment	1,278,391
ADD Stock Recovered by Receiver To Date	38,121
Stock on Hand as at Today	1,316,512
RECEIVER'S RECOMMENDATION TO COURT AS TO DISTRIBUTION#	
Company Stock	28,349
Private Stock	2,744
Unresolved (Including Potential Retention of Title Claims)	54,280
Available for Distribution to Investors	1,231,139
KNOWN & POTENTIAL LOSSES	
Paid by Investor but Winery not paid by Heritage	155,517
Paid by Investor, Winery part paid by Heritage or Claim against Winery	102,495
Warehouse Loss (Unders)	31,464
Total Known & Potential Losses	289,476
TOTAL CLAIMS	1,605,988

* Subject to change as reconciliation progresses

Subject to lien asserted by previous liquidator

The reconciliation of claims by investors to bottles held should be concluded by the end of October 2005. I will then approach the court to obtain directions as to how to apportion losses on a label by label basis.

Investor meetings are to be convened in Sydney and Melbourne on 24 and 25 November 2005 to report on apportionment of losses, distribution of wine, remuneration and a final levy (having regard to levy refunds and additional costs incurred).

The Court will determine my application for orders for the distribution of all investor wine held on 12 December 2005.

Thereafter, you will be given the choice to either collect, sell or store your wine.

Completion of the stocktake and reconciliation has been delayed as a result of a range of unforeseen complications. These complications have largely arisen as a result of inconsistencies in wine label descriptions and coding.

Wine distribution is expected to occur during the first half of 2006. It is expected to take 3-6 months to distribute the wine. To reduce costs, I expect to outsource this project.

The second levy of \$1.10 per bottle (including GST) is now payable by all investors. The final date for payment of the second levy is 4 November 2005. Please note that each investor has a new BPay reference number.

A final levy is likely to be raised prior to completion of the receivership.

B NOTICE OF MEETINGS OF INVESTORS

Notice is hereby given that two meetings of investors shall be held as follows:

IN SYDNEY: Date: 24 November 2005

Time: 2.00 pm

Venue: Sydney Masonic Centre
66 Goulburn Street
Sydney NSW 2000

IN MELBOURNE: Date: 25 November 2005

Time: 2.00 pm

Venue: Melbourne Convention Centre
La Trobe Theatre
Cnr Flinders and Spencer Street
Melbourne VIC 3000

The proposed Agenda for these meetings is:

1. To consider my report set out below on the progress of the receivership.
2. To consider any further updates on the stocktake and reconciliation process as posted prior to the meetings on my website at www.bankruptcy.net.au/heritage.
3. To consider and, if thought fit, approve the Receiver and Manager's recommendations concerning the allocation of title and distribution of wine, as set out in this report and/or as set out in documents made available on my website prior to the meetings.
4. To receive a summary of receipts and payments.
5. To discuss matters generally concerning the receivership.
6. To consider, and if thought appropriate, approve Receiver and Manager's remuneration and expenses.
7. To consider, and if thought appropriate, approve a final levy.

A final agenda and proxy form shall be posted to my website at www.bankruptcy.net.au/heritage by 10 November 2005.

C PROGRESS REPORT

I hereby provide my report on the progress of the receivership. This report is provided under the following headings:

1. Committee of Investors
2. Progress of wine reconciliation – unforeseen complications
3. Next step – recommendations regarding allocation of wine
4. Progress of investigations
5. Payment of investor levies
6. Summary of receipts and payments
7. Receiver and Manager's remuneration and expenses

1. COMMITTEE OF INVESTORS

At the abovementioned meetings, investors resolved in favour of a Committee of Investors ("Committee") being formed, comprising the following:

Elected at Melbourne meeting:

Marilyn Andrew
Leon Bannister
Nick Newton
Luke Dobbyn
Richard Middleton

Elected at Sydney meeting:

Mariano Rosetto
Mark Doble*
Hamish Gidley-Baird
Gordon Dadd
Garry Ford
Scott Witt*

(* as proxy holders for a number of investors)

I have convened a meeting of the Committee on 21 October 2005 to discuss the preliminary results of the wine stocktake and reconciliation.

As discussed at the previous meetings of investors, the Committee has no statutory or legal authority in relation to the matter and has been formed as a convenient means of receiving investors input into the receivership process. No resolutions passed at a meeting of the Committee shall be binding. Any such resolutions shall serve only as a guide to the Committee's views. The Committee's views may, however, be considered by the Court in any future applications concerning the receivership process.

2. PROGRESS OF WINE RECONCILIATION – UNFORSEEN COMPLICATIONS

The on-going reconciliation of warehouse stock and investor claims has given rise to an array of unforeseen factors that have lead to significant complications and delays in the finalisation of the process.

The reconciliation has been continuing under six (6) major task areas as follows:

- 2.1. Completion of physical stocktake
- 2.2. Comparison of stocktake reports to investor sales records
- 2.3. Assessment of disputed investor claims and cut-off date for claims
- 2.4. Identification of private wine holdings
- 2.5. Identification and recovery of wine held at wineries
- 2.6. Wine subject to claim by former Liquidator (P Ngan)

2.1 Physical stocktake

The physical stocktake of all wine stock at the primary warehouse sites was completed by Grays Auctioneers and Valuers ("Grays") by 31 July 2005. A summary of the Grays stocktake report by location is provided below:

Location	Number of bottles
Artarmon, NSW	217,606
Blacktown, NSW* - High value	52,205
Blacktown, NSW* - Mixed	23,006
Blacktown, NSW* - Bulk	377,033
Blacktown, NSW* - Receiver's Collection	38,204
Dandenong, VIC	241,324
Red Hill, VIC	175,776
Wetherill Park, NSW	191,358
Total	1,316,512

(*Note: Blacktown stock was moved from Millers, Alexandria to Blacktown in mid-July 2005)

The company maintained various subsidiary stock records (by location) in excel format. As a check for completeness of the stocktake report a rigorous label by label comparison of the Gray's report and the company's subsidiary stock records was undertaken. This comparison gave rise to various anomalies, requiring investigation and, where necessary, amendments to the stocktake reports. By way of example these anomalies included:

- Inconsistencies in label descriptions
- Duplication of descriptions for single wine labels
- Data transposition problems
- Inadvertent inclusion of non-related third party stock in company stock figures.

2.2 Comparison of stocktake to investor sales records ("WIMS")

The major task area that has been conducted over the last 2 months has been to conduct a painstaking comparison of wine label descriptions per the stocktake reports and the company's WIMS system.

In this regard a receivership database has been established to allow direct comparison of the physical wine stock (by label, quantity and location) with the record of investor wine per the WIMS system. This database produces a Variance Report that allows variances between the stocktake and WIMS system to be produced showing variances by label and quantity.

A line by line analysis of this report showed that many of the over and under variances resulted from inconsistencies in label description and not necessarily from an actual excess or shortfall of a specific wine. The labelling inconsistencies arose for a variety of reasons, including:

- 'Short form' or abbreviated wine descriptions being used from time to time (e.g. 'Penfolds St Henri' v 'Penfolds St Henri Shiraz');
- Wineries adopting more elaborate label descriptions for bottled wine than for wine sold pre-bottling. (e.g. '2000 Kilikanoon Shiraz Clare Valley' v '2000 Kilikanoon Covenant Shiraz Clare Valley');
- Inconsistencies in the order of the vintage, winery and variety descriptors (e.g. '1988 Penfolds Grange' v 'Penfolds Grange 1988');
- Changes in winery ownership between order and delivery (e.g. '2002 Thumb Print Winery Paul Linder Baroosa Valley Shiraz' v '2002 Mouthpiece Wines Barossa Valley Shiraz');
- Changes in international naming protocols (e.g. 'Penfolds Hermitage' v 'Penfolds Shiraz');
- Failure to record bottle volume with label descriptions; and
- Simple spelling errors.

In addition, the wine coding system used by the company was found to be unreliable in that instances were found whereby single wine types were found to have been allocated multiple code numbers. For example, five (5) codes were found to have been allocated for the single wine variety '1996 James Irvine Grand Merlot'.

Following the line by line review and rationalisation of wine labels total number of labels has reduced from that originally disclosed on WIMS of 2,008 down to 1,279 (being a net reduction of 729 labels).

The 7 October 2005 Variance Report shall now form the basis of my recommendations concerning the allocation and distribution of wine.

2.3 Assessment of disputed claims and cut-off date for claims

Disputed claims relate to claims submitted by investors that disagree with the company's WIMS records of their portfolio details (as supplied with the Claim Forms attached to my 6 July 2005 report).

I am continuing my process of assessment of the disputed claims and have, to date, considered approximately 170 such claims. I am in the process of communicating my assessment in regard to these claims to individual investors.

Examination of these claims has given rise to further unforeseen problems concerning the accuracy of the WIMS data. These problems have included:

- Stock releases to investors that had not been recorded in WIMS
- New portfolio purchases not reflected on WIMS
- Errors in recording of Investor entity code numbers
- Portfolio releases not recorded in WIMS (eg V590 and V591)

Extensive work has been undertaken to amend investor portfolio information where necessary in the Receiver's investor database to correct these issues.

To facilitate the completion of the reconciliation of the wine held by the company and wine subject to investor claims, I have approached the Court for directions to set a final cut off date for acceptance of such claims.

On 22 September 2005 the Supreme Court of New South Wales directed, amongst other things, that:

- I accept disputed claims to wine over which I am the Receiver and Manager from investors up to 5pm on 24 October 2005 ("the cut-off").
- I thereafter proceed to reconcile claims to wine based on claims received by the cut off and otherwise by records of the company.

In accordance with the terms of the Court direction I have:

- Issued notices to approximately 650 investors that have yet to submit claims, giving notice of the cut-off date;
- Advertised the cut-off date in the Australian Financial Review and The Australian newspapers; and
- Posted a copy of the cut-off notice on my website a www.bankruptcy.net.au.

I anticipate that further disputed claims may be received as at result of this process.

2.4 Identification of Private Wine holdings

As previously reported, numerous persons had delivered privately owned wine to the company for storage on their behalf. Such private stock may have been in addition to stock purchased by the investor through the company.

The process of identification and reconciliation of private stock has been complicated as a result of the shortcomings in the company's records pertaining to private stock. The records relied upon to date have included:

- The company's warehouse records of private stock receipts and movements (incomplete),
- Various supplementary records pertaining to individual private stock holdings,
- Staff evidence concerning the collection of private stock holdings,
- The physical stocktake completed by Grays,
- Investor claims pertaining to private stock.

From the reconciliation processes to date I have identified 50 investors holding a total of 2,967 bottles of private stock.

I have recently commissioned Grays to conduct a further inspection of the high value wine held at Blacktown to assist in the final determination of private stock.

2.5 Identification and recovery of wine held at wineries

I have conducted further investigations into wine potentially held at wineries on behalf of the company and/or wine investors. In this regard, I have contacted 93 wineries as identified from the company's books and records to be known suppliers.

I have facilitated the collection of 38,121 bottles representing an investor cost of approximately \$1,587,412 for the benefit of investors.

I have identified 102,495 bottles representing \$3,507,976 held with wineries or subject to other claims which are potentially recoverable for the benefit of investors. Typically, investors have paid Heritage in full for this wine and the wineries have been partly paid by Heritage or Heritage has fully paid and the winery or a third party is asserting a possessory lien. Subject to legal arguments regarding title, investors who have a claim to this wine, may be required to pay a special levy to collect this wine. Alternately investors may elect to accept delivery of the wine to the extent that the wineries have been paid.

I have determined that 155,517 bottles will not be recoverable. Whilst investors have paid for this wine in full in the amount of approximately \$4,897,698 the relevant wineries have not received any payment whatsoever. The majority of this wine was purchased immediately prior to cessation of trading by Heritage.

2.6 Wine subject to claim by prior Liquidator (P Ngan)

A quantity of wine remains subject to a lien claimed by the former Administrator and Liquidator, Mr Peter Ngan of Ngan & Co, Chartered Accountants.

The total number of bottles subject to Mr Ngan's claim is estimated to be 147,857, with a estimated cost to investor value of \$4.5 million.

I anticipate that this matter shall be subject to determination by the Court shortly.

3. NEXT STEP – RECOMMENDATIONS REGARDING ALLOCATION OF WINE

My next step to facilitate the ultimate distribution of wine shall be to formulate my detailed recommendations concerning the allocation and distribution of investor wine. It is planned that these recommendations shall be presented to a meeting of investors to be held in November and, subject to that meeting, shall be presented to the Court for consideration on 12 December 2005.

I have set out below some examples of the indicative ownership categories I anticipate shall be used for the purposes of the Court application.

Category	Category descriptions
A	Investor claims and warehouse stock reconcile exactly
B	Warehouse stock exceeds investor claims
C.1	Investor claims exceed warehouse stock – No indicia of ownership of individual bottles (other than by label description), A pro-rata calculation of wine per investor claim results in whole bottle allocations (e.g. Investor claims = 20, No. of bottles = 10)
C.2	Investor claims exceed warehouse stock – No indicia of ownership of individual bottles (other than by label description), A pro-rata calculation of wine per investor claim results does not allow for whole bottle allocations (e.g. Investor claims = 20, No. of bottles = 9)
C.3	Investor claims exceed warehouse stock – Barcoding allows ownership of each bottle to be ascertained
C.4	Investor claims exceed warehouse stock – Barcoding allows ownership of some bottles to be ascertained
C.5	Investor claims exceed warehouse stock – Other indicia allows ownership of each bottle to be ascertained
C.6	Investor claims exceed warehouse stock – Other indicia allows ownership of

	some bottles to be ascertained
C.5	Investor claims exceed warehouse stock – V codes and pallet numbering allows ownership of quantities of bottles to be ascertained.
D	Wine ordered by investors. None held in the warehouse.

The above list is not intended to be exhaustive and is likely to be expanded substantially during the course of the detailed application. It is likely that certain labels may require specific consideration if the circumstances surrounding the purchase and/or identification of the wine are found to be unique.

4. PROGRESS OF INVESTIGATIONS

At the meetings of investors held in July 2005, investors voted, amongst other things, in favour of authorising me to incur certain costs to conduct investigations into potential causes of action that may be available to investors.

Investors were invited to complete an Investors' Questionnaire concerning their dealings with the company. To date I have received approximately 100 completed questionnaires.

The further investigation work undertaken has included the following:

- Consolidating information received as a result of the questionnaire process;
- Conducting interviews of former officers of the company; and
- Recovery of certain computer based company records.

The final determination of losses suffered by investors, if any, shall be relevant to any future potential cause(s) of action. Any such losses shall be largely determined through the current stocktake and reconciliation process.

In addition, as company Liquidator, I have lodged a preliminary report with the Australian Securities and Investments Commission pursuant to Section 533 of the Corporations Act regarding any potential offences. The contents of this report are confidential.

5. PAYMENT OF INVESTOR LEVIES

5.1 First levy

In my previous report I advised, amongst other things, of a proposal to impose a First Levy upon investors in the initial amount of \$1.10 per bottle claimed (including GST) as a means of raising funds to meet the costs associated with the receivership.

At the meetings held on 27 and 28 July 2005, investors voted strongly in support of the levy proposal.

Over 2,100 investors have now paid the First Levy and the total levy payments as at 11 October 2004 are in the amount of \$1,400,923, inclusive of GST.

Tax invoices in relation to these payments are due to be issued within two weeks.

5.2 Second levy now due

On 9 August 2005 the Supreme Court of New South Wales ordered, amongst other things, that I be authorised to impose a voluntary levy on investors to an amount of \$2.20 per bottle inclusive of GST to discharge the costs and expenses associated with the receivership. This amount is inclusive of the First Levy amount and, accordingly, authorises the imposition of the voluntary Second Levy in the amount of \$1.10 per bottle inclusive of GST.

Pursuant to the Court order I now request payment of the Second Levy in the amount of \$1.10 per bottle inclusive of GST by 4 November 2005. This amount is calculated based on the total number of bottles subject to your received claims or, in the event that you have not lodged a Claim Form, based on the company's books and records.

I have attached a Payment Form / Tax Invoice relating to the payment of the Second Levy. Payment may be made by cheque, Bpay or Credit Card (Visa, Mastercard or Bankcard). Please note that each investor has a new BPay reference number.

Please note that all levy payments should be directed to my collection agents, Citibureau Collections Pty Limited at the following address:

Citibureau Collections Pty Limited
PO Box 7134
St Kilda Rd Post Office
Melbourne VIC 8004
Tel. 03 9866 6177

5.3 Further levy

In my report dated 6 July 2005 I anticipated that the receivership would be funded by way of two levies. Having regard to the degree of levy refunds and unforeseen complications and resultant extended period in which the reconciliation has been undertaken, I expect that a third and final levy will need to be raised prior to the conclusion of the receivership.

Any such further levy shall require Court approval and shall incorporate any final credits or refunds arising as a result of the non-recovery of investor wine.

6. SUMMARY OF RECEIVERSHIP RECEIPTS AND PAYMENTS

A summary of my receivership receipts and payments for the period 17 May 2005 to 10 October 2005 will shortly be available to investors via our web site.

7. RECEIVER AND MANAGER'S FEES

Attached as Annexure B is a memorandum of the professional fees of my staff and myself for the period 25 July 2005 to 7 October 2005. As shown on the memorandum, the total professional fees incurred by my staff and myself for the period is in the amount of \$579,047.37 including GST. These fees are in addition to the fees approved for payment by resolution of investors and by the Court for the period up to 25 July 2005.

My professional fees have exceeded my initial estimates. This is a reflection of the complexity of this matter and as a result of the unforeseen complications that have arisen during the process, as described above in this report.

A detailed account of our professional services will be tabled at the forthcoming meeting of the Committee of Investors on 21 October 2005. Subsequently, on 24 October 2005, I will apply to the Court for approval of my fees.

8. CONCLUSION

Unfortunately, investor losses will be in the range of \$6 to \$11 million.

I expect the wine/investor reconciliation to conclude before Christmas and distribution of the wine should take place over a 3-6 month period beginning in the new year.

A second levy of \$1.10 is now payable and must be paid by 4 November 2005. A third and final levy is likely to be payable before distribution will occur. Please note that each investor has a new BPay reference number.

Investors will not receive their wine unless the levy is paid in full. The costs of my office recovering late levy payments will be passed on to the relevant investor. Where an investor pays the levy and the court determines an investor is not entitled to a bottle claimed, the levy for that bottle will be refunded in full.

Thank you for your patience to date.

To discuss this matter please contact Tarnya Tkachenko of my office.

Yours faithfully
HERITAGE FINE WINES PTY LIMITED

NICHOLAS CROUCH
RECEIVER AND MANAGER

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