

CROUCH INSOLVENCY

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10 February 2006

To the Investor as addressed

Dear Sir/Madam,

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

INVESTOR UPDATE - WINE DISTRIBUTION AND STORAGE

I refer to my circular to investors dated 22 December 2005 and now provide further information concerning the distribution and/or storage of your wine.

EXECUTIVE SUMMARY

Wine distribution has been delayed as a result of difficulties in obtaining appropriate insurances to cover wine during the distribution process. Distribution is also subject to the finalisation of a satisfactory agreement with a third party to undertake 'pick, pack and dispatch'.

I am continuing efforts to resolve these issues and, if necessary, may seek further directions from the Court. I remain optimistic that distribution shall commence at the end of this month.

Subject to the resolution of the above matter, you shall be able to make an election, via my website, as follows:

- To continue to store your wine – at an average cost of 16 cents per bottle per month; and/or
- To recover your wine via collection or delivery at an average cost of \$1.00 per bottle plus delivery charges.

Charges shall vary depending on your bottle quantity and your delivery or storage requirements.

Unfortunately the final levy is \$3.08 (plus GST) per bottle. A refund of up to \$1.00 per bottle may be payable to investors on conclusion of the receivership.

Wine distribution and/or storage is to be managed 'on-line' via a Wine Administration Management System ("WAM"). WAM shall be accessible via my website and shall allow for on-line management of:

- Your storage and/or distribution election,
- Payment of storage and/or distribution charges (via Bpay or credit card),
- Payment of your Final levy (via Bpay or credit card), and
- Access to your updated Investor Reconciliation Statement.

WAM is expected to be accessible via a link on my website at www.bankruptcy.net.au from 25 February 2006. I shall send further notice confirming accessibility to WAM and advising of your secure access password as soon as possible.

All levy payments shall be due within 14 days of the abovementioned notice date (and are therefore expected to be due by 13 March 2006). Levies remaining unpaid after the due date shall be recovered via the sale of wine.

REPORT OVERVIEW

This report is provided under the following headings:

1. Delay in wine distribution;
2. Your options for the continued storage and/or distribution of your wine;
3. The internet processing of your storage and/or distribution requests;
4. Your Investor Reconciliation Statement;
5. The payment of your Final Levy amount;
6. The payment of storage and/or distribution fees and charges;
7. Insurance arrangements;
8. The Sales Advisory Committee;
9. The sale of the business;
10. Potential insurance recoveries;
11. Investors' claims in the liquidation.

1. Delay in wine distribution

Regrettably, the distribution process is yet to commence as a result of some recent complications that have arisen concerning insurance arrangements during distribution.

Despite extensive efforts, I have been unable to obtain appropriate insurances to deal with the risk of losses during the despatch and delivery process. I am also continuing negotiations with a third party to undertake 'pick, pack and dispatch' of the wine. Unless these matters are able to be resolved to my satisfaction within the next week, it shall be my intention to approach the Court for further directions concerning wine distribution.

I remain optimistic that the abovementioned matters can be resolved and that wine distribution shall commence by the end of the month.

Investors are advised that, whilst all due care has been taken during the reconciliation and stock count process, the possibility remains of small variances arising in stock numbers during the delivery process. Accordingly, I am unable to warrant that further losses shall not be sustained by investors.

2. Your options for wine distribution and/or storage

Subject to the resolution of the above issue, you may make a choice concerning the future of your wine portfolio from the following options:

Option 1 – Continued storage:

I have negotiated wholesale storage arrangements to allow me to continue to store your wine on your behalf on a month to month basis.

If you choose to continue to store your wine, you shall have the advantage of receiving recommendations from the Sales Advisory Committee regarding the future sale of your wine. Further comments in regard to the Committee's recommendations are provided below.

I anticipate that a sale of Heritage's remaining business assets shall occur within 3 to 6 months. In the event of a sale it is my intention that any continuing storage contracts with investors shall be transferred to a new purchaser. It shall be a requirement of any sale contract that rates for storage remain fixed to February 2007 subject to CPI adjustment.

Option 2 - Distribution:

You may choose to recover your wine as soon as possible. Your further options in this regard shall be to:

- Recover all or part of your portfolio,
- Specify a delivery address,
- Specify a delivery date, or
- Attend the warehouse to collect your wine.

Depending upon the number of investors that choose this option, I estimate that distribution shall take 2 to 3 months.

Under either of the abovementioned options a minimum storage period of 3 months shall apply. You shall also be required to enter into a formal Retail Storage and Distribution agreement.

3. Internet processing of wine distribution and storage

An internet based Wine Administration Management system ("WAM") is being established to provide for the efficient and reliable processing of investor wine distribution and/or storage requests.

WAM shall allow direct on-line processing of your instructions for the distribution and/or storage of your wine as well as the payment of final levies and storage and distribution charges. A summary of the functions is provided below:

WAM Functions

- To view and, if necessary, amend your contact details including postal addresses, email addresses and telephone numbers.
- To view your final Investor Reconciliation Statement setting out details of your wine portfolio.
- To insert instructions for the future storage and/or distribution of your wine, including the delivery address or collection option.
- To accept or reject and download the storage and distribution agreement.
- Provide information on the status of your wine return request.
- Provide a statement of your levy account including the Final Levy amount currently due and payable.
- Calculates the amount of Storage and Distribution charges payable by you based on the information submitted in your wine return request.
- To pay on-line by way of Bpay or Credit Card debit the Final Levy amounts and Storage and/or Distribution charges.
- To provide Tax Invoices in electronic form and/or hardcopies.

WAM is expected to be accessible via a link on my website at www.bankruptcy.net.au from 25 February 2006. I shall send further notice confirming accessibility to WAM and advising of your secure access password as soon as possible.

It is intended that all future communications and dealings regarding your wine shall be undertaken via WAM. If you are unable to access the internet or require assistance using WAM please contact Tarnya of my office.

4. Your Investor Reconciliation Statement

An updated statement of your wine portfolio shall be accessible via the Portfolio Enquiry screen in WAM. This statement shall incorporate some reconciliation adjustments that have been processed since 17 November 2005 and, accordingly, may vary from the statement previously supplied to you.

The new statement shall incorporate changes required as a result of:

- The recovery of additional wine following the resolution of Retention of Title and/or other contractual disputes,
- The adjustment to some investors' claims,
- The resolution of the lien previously claimed by the former Administrator and Liquidator, Peter Ngan, and subsequent release of wine, and
- The adjustment of claims to round down for fractional bottle losses.

Whilst no further reconciliation adjustments are expected in regard to the vast majority of investor portfolios, it is possible that some minor future adjustments may be required. Such adjustments may affect a limited number of investors.

5. Your Final levy payment

At a meeting of the Committee of Investors held on 2 February 2006 a resolution was passed in support of a final levy in the amount of \$3.08 per bottle (plus GST).

On 6 February 2006 the Supreme Court of NSW ratified a final levy in the amount of \$3.08 per bottle (plus GST). The total levy payable by you shall be set out in the Investor Financial Statement available

on WAM. The final levy calculation shall be based on the number of bottles available to you per your updated Investor Reconciliation Statement.

The calculation of the Final Levy incorporates, amongst other things, a provision in respect of the total unpaid levies to date together with a further provision for the estimated non-payment of the Final Levies. Subject to the full recovery of levies via investor payments or sale of investor wine (of non-paying investors), I expect that all investors shall receive a levy refund at the conclusion of the receivership in the amount of up to \$1.00 per bottle (excluding GST).

The due date for payment of all levies is expected to be 13 March 2006.

The final levy amount has increased from the previous estimate (of \$1.75 per bottle plus GST) primarily as a result of my decision to undertake wine distribution in my capacity as Receiver and Manager as opposed to transferring this function entirely to a third party (as was previously envisaged).

My decision to undertake the wine distribution was made having regard to the following:

- The security of investor wine,
- Reservations expressed to me by some investors concerning the transfer of distribution to a third party,
- The reluctance of logistics companies to accept risk of distributing wine,
- My responsibilities to establish an efficient and reliable distribution process, and
- My dissatisfaction with alternate distribution proposals.

Payment of your final levy amount may be made by Bpay or Credit Card debit via WAM as from 25 February 2006 to 13 March 2006. Alternatively cheque payments can be made in favour of "Heritage Fine Wines Pty Limited (Receiver and Manager Appointed)" and should be forwarded directly to my office.

Investors should note that levy payments by cheque shall necessitate processing delays of at least 14 days. Please note that payments should no longer be forwarded to Citibureau.

You are reminded that pursuant to existing Court Orders, the recovery of your wine is subject to the payment in full of the levies. I am entitled to sell wine belonging to those investors that fail to pay levies by the due date for the purposes of recovering the amount of the unpaid levies (together with the amount of my costs incurred in such sale and recovery processes). Under the terms of the Court Orders the above sale process is subject to the expiration of a prescribed notice period.

A summary of my receipts and payments to date and estimated future receipts and payments is available on my website at www.bankruptcy.net.au.

6. Storage and distribution charges

A full schedule of distribution charges and storage rates shall be available on WAM. All investors shall be liable for storage charges for a minimum three (3) month period commencing from 1 February 2006 to accommodate the estimated timing for wine distribution.

Distribution and/or storage charges vary depending on:

- Number of bottles held;
- Despatch location (Sydney v Melbourne);
- Delivery within metropolitan areas;
- Delivery outside metropolitan areas;
- Delivery at assigned times; and/or
- Collection of wine by investors.

As a guide the following costing scenarios would apply to an average investor (holding 442 bottles).

Scenario A – Distribution of all wine

For distribution, investor must pay for three months storage plus picking plus delivery.

- The storage and picking will cost \$1.00 per bottle.
- The delivery (including insurance) will depend on the destination, for example, delivery to the Sydney metropolitan area would cost approximately \$3.60 per case, whilst delivery to the Melbourne metropolitan area would cost approximately \$8.70 per case.

Scenario B – Continue to store all wine

If the investor chooses to continue to store all wine the storage charge would be 16 cents per bottle per month (including insurance).

7. Insurance arrangements

As mentioned above, I have been unable to date to establish insurances to my satisfaction to cover the wine during the future distribution processes. I am continuing efforts to resolve this issue. In the event that I am unable to establish satisfactory insurances I may seek further directions from the Court in regard to the distribution process.

The established policy provides, amongst other things, for the following limits:

Industrial Special Risks / Crime	<ul style="list-style-type: none"> • Limit of \$1,000,000 any one loss in respect of the wine held at BAM stores and \$500,000 at other locations. • Excess of \$10,000 in respect of any one event.
Marine Transit	<ul style="list-style-type: none"> • Limit of \$1,000,000 any one loss, excess \$500 each and every loss.

Further details of existing insurance policy documents shall be available via my website. You may wish to establish your own insurance cover in respect of your wine if, for any reason, you are dissatisfied with the existing cover.

8. Sales Advisory Committee

As previously advised, a Sales Advisory Committee has been formed comprising:

Brian McGuigan -	Founder of McGuigan Wines and Australia's premier exporter of wine.
Theo Karedis -	Founder of wine retail chain, Theo's Liquour.
Nick Greiner -	Former Premier of NSW.
Adrian Reid -	Wine expert.
Mark Doble -	Lawyer.
Nicholas Bulleid -	Winemaster.

Some Committee members have advised that they have held preliminary discussions with local and overseas liquor wholesalers and retailers with a view to selling all of the Heritage wine. I have also held preliminary discussions with major local retail chains and wine exporters.

I am advised that there is merit in selling investors' wine collectively. I propose that this office facilitates the sale of investor wine and envisage a process as follows:

- Reserve prices to be set based on auction realisable prices or as otherwise nominated and agreed with investors.
- Sales commissions would be payable to meet the costs associated with the sale process and are estimated in the range of 5 to 12%.
- Investor participation shall be on a voluntary basis.
- My involvement shall be limited to a guardian role to minimise costs.

Information available to me suggests that the premium wines held by Heritage investors constitute approximately 60% of Australia's annual premium wine consumption. As such it could be reasonably expected that an immediate release of all such wine for sale on the local market could have an adverse impact on the sales prices achieved for those wines.

Possible sales strategies to ensure optimum prices are achieved include:

1. Wine to be sold through wholesale channels,
2. Overseas markets to be targeted,
3. Exclusive sales agents to be appointed in each market,
4. The establishment of a fixed marketing period of, say, 3 – 24 months for sale of wine to be set,
5. Where possible pursue recovery of the Wine Equalisation Tax of approximately \$4.50 per bottle from export sales together with Austrade rebates of 50 cents for each dollar spent on overseas promotion.

Any investor that wishes to utilise the Sales Advisory Committee service is requested to indicate their interest via WAM.

I expect the Sales Advisory Committee shall provide some preliminary recommendations within 4 to 8 weeks.

9. The sale of the business

At the investor meetings held in November 2005 I advised investors that discussions were continuing with Cellarit Pty Limited ("Cellarit") concerning the potential sale of the business and future storage and distribution arrangements. For various reasons no contract was ultimately entered into with Cellarit and, as a result, I have made alternate arrangements to store and/or distribute wine on behalf of investors generally.

I am advised that an offer to Heritage investors may be viewed at Cellarit's website at www.cellarit.com. Alternatively, phone (02) 9363 9991 or email (info@cellarit.com) for details. Investors should not regard this as an endorsement by me of Cellarit's services or offer.

As mentioned above, I anticipate that a sale of Heritage's remaining business assets shall now occur within 3 to 6 months.

10. Potential insurance recoveries

My lawyers initially encountered some difficulties in accessing Heritage's original insurance policies. These have recently been accessed and I have received preliminary legal advice in regard to the policies. The policies include Industrial Special Risks, Directors' and Officers' Liability, Public/product liability, Excess Burglary, Electronic Equipment, Corporate Travel and Marine Cargo/Transit.

Pursuant to my legal advice, I have (in my capacity as Liquidator) notified certain Officers and/or Directors in regard to potential claims I consider may exist against them in regard to, amongst other things, wine shortfalls. I am investigating further what claims may be made against any Directors and Officers. In the event that claims are brought against Directors or Officers, it is possible that all or part of such claims may be met by the proceeds of the Directors' and Officers' Liability insurance policy.

I am continuing to explore potential recoveries under the company's insurance policies.

11. Investors' claims in the liquidation

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.

Should you require any further information please contact Tarnya of my office.

Yours faithfully
HERITAGE FINE WINES PTY LIMITED

NICHOLAS CROUCH
RECEIVER AND MANAGER
LIQUIDATOR