

CROUCH INSOLVENCY

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20 May 2005

TO INVESTORS

Dear Sir/Madam,

HERITAGE FINE WINES PTY LTD (IN LIQUIDATION) (RECEIVER & MANAGER APPOINTED) ACN 093 310 7157

Circular to investors on the progress of the administration

The director of the above company appointed Mr Peter Ngan, of Ngan & Co, as Administrator of the company on 2 March 2005. The company was placed into liquidation on 5 April 2005 by a resolution of creditors. On 4 May 2005 the Supreme Court of NSW appointed me liquidator of the company and ordered that the resignation of Mr Peter Ngan as liquidator be accepted.

Appointment as Receiver and Manager

On 16 May 2005, the Court ordered that I be appointed Receiver and Manager of the investors' wine. On this date the Court made further orders and directions which, in general terms, give me authority:

- to take control of the wine stock,
- to relocate the wine,
- to undertake a stock count and reconciliation and
- to encumber the stock to a financier to meet my costs incurred in dealing with the wine (amongst other things).

The Court also directed that I prepare an inventory of wine stock by 5 August 2005 and that I return to Court for further directions concerning the disposal and distribution of the wine.

A copy of the Court Order is available on our web site.

Stock reconciliation

Mr Ngan has advised me that the company's accounts did not enable him to accurately reconcile approximately 3,000 investors to approximately 1.2 to 1.5 million bottles of wine stock held in 5 primary and up to 50 secondary locations.

I have engaged appropriate industry experts to assist me with my fresh attempt to prepare a stock and investor reconciliation. I am hopeful, but give no assurances, that up to 80% of the wine on hand is capable to being reconciled to investors.

My enquiries to date indicate that wine to the value of up to \$8 million is partly paid and, therefore, not available to investors. I am unable to estimate the particulars of other types of stock losses at this time. In accordance with the Orders referred to above, I will seek Court directions regarding the process of apportioning any loss between the investors in approximately 3 months.

The stock reconciliation of approximately 600 lines of wine will take 2 to 3 months and cost around \$1 per bottle. I am presently without any funding.

I propose to make a further application to Court for an Order authorising me to levy a fee of approximately \$1 per bottle on investors to discharge my costs and expenses associated with the

stock and investor reconciliation. I estimate these costs and expenses (to be incurred over the next 3 months) to be approximately \$1 million.

Status of wine stock

I have consented to a Court Order that I will not sell, dispose of or part with possession of the wine. Accordingly no stock will be released to any investor under any circumstances. I am required to vacate the storage facility at Alexandria forthwith. A suitable alternative location is currently being determined.

I anticipate that in 3 months each investor will have the following options:

1. Accept delivery of their wine as identified by the stock and investor reconciliation process. This may necessitate additional delivery and handling costs to be paid by investors.
2. Continue to store their wine; in which case investors would be responsible for ongoing storage and insurance costs.
3. Sell their wine. The costs of realisation will vary in accordance with the process undertaken.

Other matters

I am also making enquiries into various matters associated with the company's failure and future options, including:

1. The ability for the company to be recapitalised under new management.
2. The merits of any claims by investors for losses under the company's existing insurance policies.
3. The conduct of all directors, officers and promoters of the company in the period leading up to the appointment of the liquidator and, in particular, whether or not any breaches of the Corporations Act appear to have occurred.

It would be appreciated if investors could refrain from calling my office with general wine stock enquires until I have the results of my stock and investor reconciliation to hand. I will report to investors within 3 months regarding these results and their options. To contact my office please use the following options:

By email: heritage@crouch.net.au

Call centre for **Heritage Hotline: TEL (02) 9949 0748.**

All material developments will be disclosed at our web page: www.bankruptcy.net.au/heritage.htm

Yours faithfully

HERITAGE FINE WINES PTY LTD

**NICHOLAS CROUCH
LIQUIDATOR
RECEIVER & MANAGER**