



## CIRCULAR TO INVESTORS

### BACKGROUND

On 6 October 2006, Wine Investment Services Pty Ltd acquired the business of Heritage Fine Wines Pty Ltd (in liquidation)(receiver and manager appointed) from the liquidator of that business, Nicholas Crouch of Crouch Insolvency.

Wine Investment Services Pty Ltd is not related to Crouch Insolvency or to the original operators of Heritage Fine Wines. As will be explained below, we are an independent group of companies with significant experience in wine production, wine sales and logistics/distribution.

The purpose of this circular is to answer some frequently asked questions from you, the investor.

### WHAT IS OUR RELATIONSHIP WITH YOU?

Investors may recall that Crouch Insolvency created a system which required investors to agree to an Investor Storage and Distribution agreement before being able to deal with their wines on the WAM System.

That agreement can be accessed by each investor by logging onto the WAM site and clicking on the link "Make my storage/distribution choice" on the homepage. A copy of the agreement will appear in a box in the middle of your screen. You can then access various parts of that agreement by scrolling down. Critically, the prices that were charged by Crouch Insolvency can be found midway through that document where the schedules begin.

Essentially, on the acquisition of the Heritage business by Wine Investment Services, these agreements were assigned from Crouch Insolvency to us. We are not entitled to, nor intend to, charge any special levies or one off fees that Crouch Insolvency charged. On the contrary, the only charges that we will be charging investors under that agreement will be the ongoing storage and insurance charges and the distribution costs for any deliveries or collections that we are directed to arrange.

Having said that, Wine Investment Services is committed to having the most competitive rates for storage and distribution that it can. Already, some of the storage and distribution rates have been altered. Details of those alterations are at our site, [www.wineinvestment.com.au](http://www.wineinvestment.com.au).

We are constantly reviewing offers made by other storage providers. Part of our difficulty in doing so is that many other providers have hidden rates that are not advertised, including rates excluding insurance and non advertised delivery charges. If you have information that suggest that our competitors are charging less, then we welcome receiving the same so that we can fulfill our commitment to provide the best rates possible.

### I HAVE A CONTRACTUAL RELATIONSHIP WITH YOU, BUT WHO ARE YOU?

Wine Investment Services Pty Ltd is part of a significant group of companies which has its primary focus in the liquor industry.

Our group can be summarized as a vertically integrated wine producer and seller of beverages (both alcoholic and non alcoholic). However, the group also operates a large printing business. The various entities in the group are outlined as follows:

#### **Property Holdings**

Vineyards and wineries– vineyard holdings in the Upper Hunter Valley, McLaren Vale and Hunter Valley (Pokolbin) regions respectively. Associated with these vineyards are cellar doors and restaurants on several of the estates. There are also wineries on three of the estates, the largest being in the Upper Hunter Valley

Commercial and other properties – the group has significant commercial and residential holdings, both developed and undeveloped in Sydney, Newcastle, Port Stephens, Rutherford and South East Queensland. Several of the properties are occupied by other operations in the group.



## **Wine Production**

Wine National Pty Ltd conducts the grape growing and wine manufacturing businesses, primarily from the Upper Hunter Valley.

The wines are produced under the following brands, all wholly owned by the company: James Estate, Basedow, Marienberg, Fern Hill, Serenella, Bay Hill Estate and Four Corners (Australian ownership only).

The company had previously established significant export sales and has for a number of years won awards for the growth of its export business as set out below:

- 2001 – Hunter Region Export Award – Agribusiness
- 2001 – Finalist in Premiers NSW Export Awards
- 2002 – Hunter Region Export Award – Agribusiness
- 2002 – Finalist in Premiers NSW Export Awards
- 2002 – Finalist in Australian Business Limited Presidents Award
- 2003 – Hunter Region Export Award – Agribusiness
- 2003 – Hunter Region Export Award – Special Recognition for Upper Hunter Valley Exports
- 2003 – Finalist in Premier’s NSW Export Awards
- 2005 – Hunter Export Awards – Upper Hunter Valley Export Award
- 2005 – Hunter Region Exporter of the Year Award
- 2005 – Finalist in Premiers NSW Export Awards
- 2006 – Hunter Export Awards – Upper Hunter Valley Export Award
- 2006 – Hunter Region Exporter of the Year Award
- 2006 – Finalist Hunter Manufacture Awards
- 2006 – Finalist in Premier’s NSW Export Awards

## **Broad range beverage distribution – Blue Hills Liquor**

Liquor National Pty Ltd is the key entity that operates the business of distributing beverages on a wholesale basis. The key features of the business are:

The group distributes a broad range of beverages to various retailers.

The primary specialization is the distribution of alcoholic beverages to licensed restaurants in the Sydney metropolitan region.

The business also distributes alcoholic beverages to a lesser extent to licensed clubs and pubs.

The business also supplies selected bottle shops including some Woolworths and Coles owned bottle shops (but primarily independent liquor outlets).

Blue Hills also distributes soft drinks into the above markets and also to a number of non licensed outlets (such as convenience stores, petrol stations and takeaway food outlets).

In addition Blue Hills is a key member of NILWA (the National Independent Liquor Wholesalers Association), an industry body that has a significant relationship with major alcoholic beverage producers.

Sales to the industry are mainly made through employed sales representatives, each servicing a territory within the Sydney metropolitan area and surrounds.

Behind the sales representatives are account managers who operate from the Blue Hills premises in Homebush, together with a dedicated telemarketing team whose focus is on soft drink beverage sales.

Logistics for Liquor National Pty Ltd is carried out through Blue Hills 7,000 square metre warehouse at Homebush. Generally recognized as one of the industry leaders for the delivery of small mixed orders, Blue Hills Liquor is able to offer quick delivery times for orders made by restaurateurs.

In addition to broad range, the group’s division, Australian Beverage Distributors has dedicated sales representatives located in Newcastle, Queensland, Victoria and South Australia whose primary focus is the sale of high quality wines.



### **Printing – Print National Pty Ltd**

Print National conducts a printing business from premises in Newcastle, the Central Coast and Sydney.

In Newcastle, the digital printing business is conducted from company owned premises at Broadmeadow. From the Central Coast premises the offset printing business is conducted and a Sydney sales office is conducted from the Blue Hills Homebush premises.

The business has its own graphic design team who can design labels, menus, corporate stylings and logos and all other graphic design requirements. In addition Print National also holds a 25% in PDQ Design, a design company that specializes in all types of design including website design.

### **General**

The businesses of the group have achieved recognition in the form of consistent results in the Newcastle & Hunter Valley Fastest Growing 100 companies. Those results, primarily pertaining to the liquor companies, are summarized below:

2001 – top 100

2002 – placed 1st overall and 1st “Wine & Related Industries”

2003 – placed 1st overall and 1st “Wine & Related Industries”

2004 – top 100 and 1st “Wine & Related Industries” and 1st “Regional Exporter”

2005 – top 100 and 1st “Regional Exporter”

2006 – top 100 for each of Print National and Wine National/James Estate (under separate entries)

IF YOU BOUGHT THE BUSINESS IN OCTOBER LAST YEAR, WHY HAS IT TAKEN THIS LONG BEFORE HEARING FROM YOU?

They say nothing in life is easy.

That certainly is the case with the acquisition of the Heritage business! In saying that we are in no way attempting to criticise Mr Crouch or his firm, Crouch Insolvency who have been helpful in the transitioning of the business to Wine Investment Services.

However, there have been a number of delays which have prevented us from hitting the ground running. Those delays, whilst frustrating to ourselves and investors will have benefits in the long term as investors realize their wine investments.

Firstly, it was necessary for us to make sure that the wine stocks that we were taking control over matched what the WAM system said each investor owned. This was a process that Crouch Insolvency carried out. As you may appreciate, the task was a significant one and during this time, not only could investors not utilize WAM to make delivery requests but in addition we were not able to access or use WAM, either to respond to investor queries or to communicate with investors.

The stock to WAM matters were resolved in early December 2006 and we obtained the ability to use the admin side of WAM shortly after that. Upon receiving WAM, it was necessary for us to reconfigure some of the details to replace the details of Crouch Insolvency with those of our own, and to amend the charge rates as set out on our website. With the Christmas break intervening, this was not able to be completed until 17 January 2007. Likewise, until that time, we simply did not have available to us the means to communicate with all investors in a cost effective fashion.

Having said that, one of our objectives is to improve the look and utility of the WAM system, and our own website over time. However, our primary focus is not necessarily on having a website that looks flash. Our approach is a little more pragmatic. Our belief is that a flash website, whilst aesthetically pleasing, will not help investors either manage their investments or to sell their wines to realize maximum returns. Our reasoning for that belief is set out under the heading “OK, But I just want to get out of this investment”.

Instead our focus is to provide a system that allows for investors wishing to dispose of their investment being able to do so for the best prices possible.

In the meantime, we note that we are currently billing in arrears. It is expected that we will be billing January storage charges in early February and then bringing the billings up to date in late February with billings to occur roughly at the same time towards the end of each month. Further, we hope to have a payment option available to investors who wish to pay several months of storage and insurance at the one rate. In doing this, we are seeking to defer storage charges for investors until such time as our sales interface is operational.



#### I HAVE TRIED TO CONTACT YOU WITHOUT SUCCESS

Generally, until now, the only manner in which we have been able to communicate with investors is in response to their emails or telephone queries.

However, it should be appreciated that most investors like you will seek to contact us when something has brought your investment with Heritage to the front of your mind, such as receiving a storage invoice. This leads to a situation where at those times there is a flood of inquiries and at those times, it may be difficult to communicate with us. To help us combat this, we are putting on additional staff to handle routine investor inquiries. In addition, we would urge investors to be patient and perhaps delay making their communications for a short period after a "front of mind" event occurs.

#### I HAVE AN EXISTING WINE DELIVERY ORDER IN THE SYSTEM – WHAT IS HAPPENING WITH THAT?

Sometime in June 2006, and in anticipation of a potential sale of the Heritage business, Crouch Insolvency stopped effecting deliveries for orders received after that date. We also understand that in or around August 2006, once again in anticipation of the sale of the Heritage business. It should be noted that at these points of time we were not the purchaser or intended purchaser of the business.

In fact, another storage provider, Cellarit Pty Ltd was to purchase the business of Heritage and had been involved in extensive negotiations with Crouch Insolvency regarding the same. We understand that this company and the liquidator were not able to reach agreement on key terms and the transaction did not proceed. We entered into negotiations in late September to early October 2006 with the liquidator.

In any event, when we took over the Heritage business, we were not permitted to effect deliveries until such time as the liquidator reconciled the stock on hand with the WAM system, which did not take place until December 2006.

In the meantime, we were arranging for the transfer of the bulk of the stock into our own warehouse facilities so that we would be ready to distribute once we were permitted to do so.

Picking and distributing of the back orders commenced in December 2006. We admit that there were a few teething problems with deliveries which were mainly overcome, many of those problems arising because of the proximity of the deliveries to Christmas.

Unfortunately, as you would expect with investors not being able to have access to the WAM system to order deliveries for a number of months, when the liquidator reactivated the delivery section, there was a flood of requests leading to an extremely high number of deliveries that had to be effected.

It simply was not possible to make much headway in effecting those new deliveries prior to the Christmas shutdown period, especially given that our first job was to clear the backlog of orders from the June to August period. However, we have almost completed picking all the existing orders and it is expected that these will be dispatched next week.

However, it should be noted that orders made where there are outstanding delivery or storage charges will not be picked or dispatched until all monies have been paid, or an alternative arrangement has been made with us.

Further, by virtue of matters which are not necessary to expand on here (except to say that legal action has resulted), it is necessary for us to obtain further information in respect of any order that requires delivery to Cellarit Pty Ltd.

It is expected that once the back orders have been cleared, future orders will be able to be shipped in a more timely manner.

Our aim is to have deliveries turned around quickly. A point that is sometimes lost on some investors who have contacted us is that we cannot charge storage on wines where there has been a delivery order with all charges paid. Yet, we continue to incur costs in storing the product. It makes no sense for us to hold onto wines after a delivery order is made. Every effort is made to try and get orders out as quickly as possible.

As regards the suggestion that the delays in delivery is because we have some nefarious intention to steal the stock, we can only say that to steal an investors stock would not benefit our group a great deal but would have significant disadvantages in terms of both the damage to our reputation and of course, potential charges against our staff!

#### WELL, MY DETAILS HAVE CHANGED NOW, HOW SHOULD I UPDATE THEM WITH YOU

The easiest way for us to update your details is if you send us an email with those details. We can then alter your details in one of our administrative runs.

For those without internet access, a facsimile can be sent to us on +61 2 49624611 or you can call us and we will do what we can to facilitate any changes or effect any transaction.



## OK, BUT I JUST WANT TO GET OUT OF THIS INVESTMENT

For all investors, the Heritage experience has not been a pleasant one. Not only have investors seen the value of their wines drop, but investors have seen losses on the portfolio arising from missing stocks.

However there are a few key things that you need to know in relation to the realization of your investment:

### Historical pricing of wine

Your wine is an investment. Like shares in a stock market, some wines perform better than others in terms of their capital gain. Generally though, the wine market is currently in a depressed state, primarily due to the flow on effects arising from the current oversupply of wine being experienced not only in Australia but worldwide. This oversupply has caused price discounting in recent vintages which has made people perceive "collectable wines" as having less value.

The reality is that investors seeking to sell their wines now will in effect be buying high and selling low, and in some cases, perhaps foregoing gains in future periods, even though it is difficult to predict what the likely price movements in wine will be.

### Size of the Heritage collection

Investors would probably be aware that the Heritage collection of wines that are owned by investors comprise one of the single largest collections of ultra premium and iconic wines in the world, and certainly Australia.

If even a moderate proportion of the wines in the Heritage collection hit the market at one time, then unless there is a good plan for the sale of those wines, then the market will be flooded and the returns that will be able to be realized by investors will be severely compromised.

You should remember that if you are sick of paying fees or otherwise are tired of your investment, so will about another 1,000 investors. If all of you seek to sell your wines at once, then you can be assured that your bad experience may become a worse one!

### Size of the wine market

One of the things that we have noticed with some offers that are out there is that they often state that they have an established retail presence or are a significant online seller of wines.

The problem is, what does this really mean. Joe Blow sitting at home (and quite a few of these operators do run their business from home) can create a web presence and say that they have retail sales. But what sales do they have? In fact, do you even know if they sell their wines through the web sites or whether they simply ship the wines off to a recognized auctioneer or sell it through eBay?

From Euromonitor 2006 reports approximately 51 million cases of wine were sold in 2005. Of these sales, 28 million cases sold were bottles with only 4.2 million cases sold as "full cases" (as opposed to individual bottle sales).

From this, approximately 2 million full case sales are made through direct to consumer channels. These channels represent the wine clubs and societies, auctioneers and online sales. Of these direct to consumer sales, it is estimated (not our estimate but one we agree with) that 11% are made through online channels and through wine auctions. This equates to a mere 220,000 full cases or 2.5 million bottles per annum. Now this figure represents wine sales across all styles and pricings. One would expect that sales of ultra premium and iconic wines would represent a fraction of this amount.

The bulk of the balance of the wines are sold through bottle shops or "off premise" outlets. The balance are wines sold through restaurants and pubs/clubs. These are the markets that our related distribution company, Blue Hills Liquor service.

The point is clear, even if a relatively small number of investors seek to sell their wines through online channels, or even with some auctioneers, then the market is going to be saturated very quickly with the result most likely being strong downward pressure on stock prices.

### The Crouch collection

In the course of acting as liquidator, Mr Crouch has legitimately had vested in him a significant quantity of wine. Now that Mr Crouch has sold the Heritage business, he is looking to complete his liquidation of the company.

As a few would already know, Mr Crouch is currently looking to sell his holdings of Heritage stock. Having regard to what is discussed above, this is only going to further exacerbate the potential oversupply issue with further downward pressure on prices.



I HAVE HAD AN UNPLEASANT EXPERIENCE WITH HERITAGE AND/OR CROUCH, WHY SHOULDN'T I JUST TAKE MY WINE SOMEWHERE ELSE?

Firstly, we are not Heritage Fine Wines. Nor are we Crouch Insolvency.

That of course, is not meant to be a criticism of them but the fact is, we are not responsible for investors making an investment in Heritage nor were we responsible for any levies or charges that were incurred in that companies liquidation.

We have laboured to some degree with the difficulties arising from the transfer of the stock and issues with the WAM system. It of course, does not help that the WAM system is perhaps not the most user friendly investor interface out there.

Having said that, we don't consider these issues as important as getting a sales process in place that delivers the greatest return to investors.

On that score, we have been digesting information about the wines that investors have and preparing a plan that sets out how we will sell the wine, the likely timeframes and the costs. Like all processes involved with the transition of the Heritage business to us, this has been delayed as a result of getting the WAM system fully utilized.

However, the details of our sales plan will be placed on our website anytime now, and the sales interface allowing investors to opt in will follow shortly thereafter.

In essence though the gist of the sales plan is fairly obvious:

If you have the largest collection of wines in Australia, why try and sell it through one of the smallest markets?

Instead, efforts should be made to sell the bulk of the wines in the markets where the bulk of the wines are actually sold. The market that connects to those markets is the wholesale market, which is the market that Blue Hills Liquor has years of experience in.

However, some of the more prominent "collection wines" are probably better off being sold in the auction and online markets. To that extent, we are using our contacts with the various auction houses to establish a method by which wines could be sold through these markets at the best possible cost

Of course, investors are entitled to make their own choice. They may choose to go to another provider because they have had a good experience previously with them. They may choose to go to another provider because they don't have the patience to wait for us to implement our sales plan. That is each individual investors choice. We only remind investors that what they are dealing with is an investment and they should approach it as such. Apparent short term benefits (such as introductory offers from other providers or waiver of storage charges for the short term) will in all likelihood lead to long term pain in the form of even lower returns on your investment.

I HAVE A PORTFOLIO OF WINE THAT I HAVE WRITTEN OFF, CANT YOU JUST TAKE THE WINE AND APPLY IT AGAINST STORAGE CHARGES?

Some investors have basically communicated with the liquidator and effectively disclaimed their wine holdings. In that sense, the liquidator will ultimately be entitled to sell off those wines, recuperate any charges outstanding to him and any expenses involved in the realization of the wines and then remit any balance to investors.

Whilst we are aware of those people who have a lien over the wines in favour of the liquidator, we are not aware of any arrangements or understanding that the liquidator has with these investors. We are more than happy to be advised of any such arrangements.

However, until such times as the liquidator formally takes control of those wines, they remain under your account and as such, the WAM system automatically bills you for those wines. If you have an arrangement with the liquidator where you will surrender your wines for the unpaid charges, then it is open to you to disregard these invoices. In that regard, we will seek to recover those amounts from the liquidator.

Ultimately though, the reality is that we are storing the wine and in doing so we incur a cost. It is grossly unfair, as many investors have suggested, that we bear the cost of storing that wine and remit no charge to either investors or the liquidator.



I DON'T THINK I WILL EVER GET MUCH FOR MY WINE, WHY SHOULDN'T I JUST HAVE IT DELIVERED SO THAT I CAN GIVE IT AWAY OR DRINK IT?

We generate revenue by storing wine. It is not necessarily in our interests to tell investors that they are better off collecting their wine and either giving it away or drinking it.

However, the reality is that a significant number of investors have relatively small holdings of wines and subject to any legal requirements to have it stored with third party providers (say as set out in superannuation laws), many investors may find it more cost effective to store the wines themselves and either drink the wines or give them away.

If you were thinking of taking this action, we would recommend that you review your portfolio on WAM, and review the median auction values that were determined by Crouch Insolvency, and come to your own decision whether this is potentially in your best interests.

We are always happy to talk to investors and try and provide a balanced view as to whether this approach is in their best interests.

THANKS FOR THAT, BUT I STILL WANT TO SELL MY PORTFOLIO- WHAT CAN YOU OFFER?

As set out above under the heading "I have had a bad experience with Heritage/Crouch, why shouldn't I take my wines somewhere else" we are currently working on a comprehensive sales plan and process that will be capable of managing the sale of all investors wines.

We think that this process, for reasons set out elsewhere, will be a far more attractive option than what is being offered by other service providers. We would encourage investors to be patient and wait to see some details of our plan before moving to other service providers.

OK, I APPRECIATE THAT BUT I STILL WANT TO HAVE MY PORTFOLIO DELIVERED, HOW DO I DO THAT

Delivery requests can be made through the WAM system. Investors should click on the appropriate links and follow the relevant prompts.

In making any request, you need to manually place in the number of bottles of each wine that you wish to take delivery of.

Once selected, you can choose the type of packaging that you require. Packaging is either standard or premium. The difference essentially is cartons or individual Styrofoam casings. We would recommend that due to the price differences, the Styrofoam casings be only used for iconic wines and oversized bottles. This is particularly since the individual casings will increase the physical size of the order which may require the order to be placed on a pallet or skid and plastic wrapped at further cost.

You can nominate whether you wish for the goods to be collected or delivered to an address. A list of the delivery charges to various places in Australia (and the collection charges and associated costs) can be found in the Investor Storage and Distribution Agreement. It should be noted that the collection charges, which were previously higher than delivery to almost anywhere in Australia, have been reduced. At this stage it is slightly cheaper to collect the goods from our premises at 16-18 Carter Street, Homebush, NSW, than to have them delivered in the Sydney metropolitan region (which is the cheapest delivery address).

If you are a customer in the Newcastle or Hunter Valley regions, we would encourage that you contact us before making a delivery request as we may be able to make a more suitable arrangement for collection.

Once a delivery order is placed, it is necessary for a number of checks to be carried out by ourselves, which if they are satisfactory, the order can be released for picking and distribution.

At this stage, large orders (ie those that are on skids or pallets) are being sent through third party courier companies such as TNT. For smaller orders, these are sent via Australia Post, primarily due to security reasons.

It is expected that subject to any unusually heavy delivery activity, deliveries will be picked and dispatched within 2-3 days after the order is made. We would allow 7-10 days for the third party couriers and Australia Post to effect delivery of the goods. Naturally, we are attempting to ensure that these third party's provide your delivery in a timely fashion and in accordance with your delivery instructions, but we note that sometimes it can be difficult to control how they deliver your goods.



#### COMMENTS/FEEDBACK

We welcome any comments or feedback. Our preferred method of receiving feedback is via email, simply because it is easier to track and respond to where appropriate. However, we can also be contacted by phone and by facsimile.

We note that many of you have communicated by email with questions which we believe is answered by this circular. In relation to all other queries, we will be responding as soon as is humanly possible.

We look forward to dealing with you.

Yours faithfully

**WINE INVESTMENT SERVICES PTY LTD**