WINE INVESTMENT SERVICES

INVESTOR UPDATE

Well, another financial year has passed now and we thought it might be a good time to recap on where we all are.

Firstly our nomination system is up and running and has been since late May 2007. Quite a significant number of investors have nominated their wines for sale. For those wondering, we have been allowing the nominations to build to a critical point where we have a good portfolio of wines to offer. This then allows us to incorporate the portfolios of nominated wines into both our wholesale catalogues, and where appropriate auction and export catalogues.

Our first wholesale advertising will be in July and the first lists have been distributed to our sales representatives who will be introducing the Heritage wines available for sale to customers. Hopefully by the end of the month we will be able to ascertain how well we can expect to penetrate this wholesale market.

Likewise, we have been negotiating with auction houses in relation to the sale of collectible wines with a view to obtaining discounted commissions that see investors better off selling those wines through us then approaching the auction houses directly. We have also been negotiating with one auction house about the possibility of setting up a wine exchange which can allow investors to directly review and manage the prices offered for the wine and make such alterations as the market conditions dictate. Hopefully if a suitable arrangement can be struck we will be able to update investors in due course.

As indicated in our previous circular, Crouch Insolvency are currently selling their “house” wine through an online auction house. We haven’t been privy to direct feedback as to what prices Crouch Insolvency has been achieving but in any event we expect for the reasons we previously explained that the sale can only create downward pressure on the general prices for the wines, particularly some of the less prestigous wines held by investors.

For those that don’t recall, the house wines of Crouch Insolvency basically are those wines that could not be attributed to investors and the “fractional losses” that many investors suffered arising from the shortfalls in wine stocks as determined by Mr Crouch.

The liquidator has advised us that the sale of the house wines will be followed by a sale of the “lien” wines. These are wines that are controlled by the liquidator for investors who never entered into the storage and distribution agreement. Given that the amount of the “lien wines” is currently twice as large as the pool of “house” wines we expect that this will lead to further downward pressure on prices in the short term.

However, one good thing that may come of the liquidators sale is that the liquidator has generated for his sales. We are hoping that this publicity will allow us to trade off the good reputation that Heritage had for selecting good quality wines.

Effect of drought on prices

Recently there has been significant talk of the effect of the drought on the prices of wines. As many would be aware, the 2007 vintage was one which produced yields of less then 50% in many vineyards, with a corresponding increase in demand (and price) of 2007 vintage grapes.

However, we haven’t yet seen the flow on impact of those grape price increases into the price for bottled wine. Generally, there remains significant stores of wine from previous vintages to feed demand, and there is an expectation that by vintage 2009, yields will return to normal (provided that we do not return to drought conditions and subject to the irrigation issues in South East Australia being resolved satisfactorily for grape growers in that region). However, the industry experts are hoping that with the increases in both domestic demand and exports of wines across the board, by the time yields return to normal, supply and demand will be close to being in balance with a hopeful end to the cheap prices which we have seen recently.

This means that for the time being we are left with a market that can expect a continuance of cheap prices for bottled wine, at least until the surplus from back vintages has been removed from the equation.

Psychologically we sometimes see that this perception of the overall market as being cheap and in oversupply spills into submarkets such as that for super premium wines, and even to some extent the ultra premiums such as the Granges and Hill of Graces. However, the effect of the reduced vintages for such wines will be seen in the smaller volumes for such releases in future years time when the current year vintage comes on the market.

So taking a broadbrush approach one could expect the upshot that by mid 2008 and 2009, there can be some upward pressure on new release super premium and ultra premium wine prices which should filter into higher prices for older vintages, particularly those that have reached their optimum cellaring.

Once again, please don’t hesitate to contact us should you wish to discuss your particular needs.

Regards

WINE INVESTMENT SERVICES PTY LTD