

Company Announcements Office  
The Australian Stock Exchange Limited

By: e-lodgement

## UPDATE ON RESTRUCTURE AND FUTURE STRATEGIC DIRECTION

### 1. BACKGROUND

On 18 June 2005, the Directors of Xanadu Wines Limited ("Xanadu" or "the Company") entered into a sale agreement ("Sale Agreement") with Shuttlehaven Pty Ltd, a company associated with the Rathbone family, to sell the Xanadu Wines Business.

The Sale Agreement is conditional on shareholder approval. A shareholders meeting has been called for 5 August 2005 to approve the sale and to change the Company name to Global Wine Ventures Limited.

### 2. FUTURE DIRECTION

On the basis of shareholder approval the Company will:

- (i) retain the following assets:
  - the Jindawarra, Cow Rock, Featherwhite and associated brands;
  - 1,570,000 litres of bulk wine from vintage 2003, 2004 and 2005;
  - the remaining fire insurance receivable and uncollected debtors; and
  - a small collection of assets including motor vehicles, office and computer equipment.
- (ii) be renamed Global Wine Ventures Limited;
- (iii) continue to be listed on the ASX;
- (iv) have significant carry forward tax losses (subject to compliance with Australian taxation legislation); and
- (v) have a limited level of external debt.

The overall restructure of the Company's financial position is likely to take a further four to six months to achieve an acceptable base from which to build a profitable future. The Company has already commenced a strategic re-direction of the business within the Australian wine industry and will continue this process during the financial restructure.

The vision of the Company is to identify and build a range of wine industry opportunities and to develop these into viable and successful operations. The Company will concentrate on re-building its existing portfolio of branded products, provide specialised services to the wine industry and is considering the formation of a new investment trust tailored for the wine and agricultural industry.

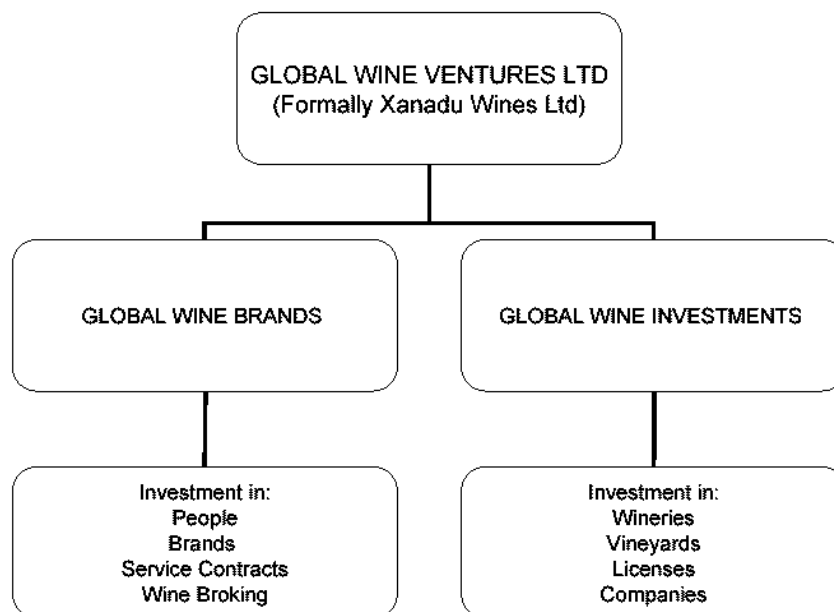
The process has commenced with the Company signing contracts for the provision of brand and market related management roles to third parties within the Australian wine industry.

The Company's Managing Director, Mr. Sam Atkins, believes the current market within the wine industry provides a number of opportunities to purchase or build new brands and assets along with the development of a number of strategic alliances in key markets. Investigations will include a range of wine industry investments to provide a level of protection, during these periods of high competition and brand investment, through the diversification of risk.

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The proposed future structure of the Company is as follows:



Global Wine Investments will seek opportunities in newly formed, small scale, under valued or under capitalised wine businesses, which are often ignored by the larger wine groups and investors. The Company will provide those businesses with financial, commercial and technical support.

The Company, through its wholly owned subsidiary Global Wine Brands, will also seek other wine industry opportunities that are considered to be financially viable and worthwhile including development, investments and/or joint ventures in brands, distribution and other industry services.

All investments will be subjected to significant due diligence. Each venture will be thoroughly assessed financially, technically and commercially, with the requirement that the investment opportunity has, or has the potential for, one or more of the following; a strong brand, solid operations, sound business plans, a diversified distribution base and/or experienced management.

It is expected, over the next one to five years, that a number of investments will become available in the Australian and global wine industry as companies look to further divest assets and consolidate within this highly competitive market environment.

### 3. GOALS AND OBJECTIVES

Over the next six months the Company plans to:

- (i) complete the sale of the Xanadu Wines Business;
- (ii) restructure the Company to ensure the new business has a solid platform to trade forward with low debt levels for the next two to three years (assuming no major acquisitions are made);
- (iii) maintain close cash management; and
- (iv) establish key relationships within Australia and around the world to further develop the business moving forward.

Over the next six months to two years the Company's goals will be to:

- (i) identify and establish key relationships around the world and sign contracts with regards to new brands, distribution and services to be provided; and
- (ii) develop the new range and portfolio of wines that will drive the business over the next ten years.

Over the next two to four years the Company will look to consolidate its position in the world wine markets via consideration of wine related acquisitions in distribution, established brands and distressed physical wine assets that offer positive earnings per share growth to the Company.

In the long term, the Company will continue to consider strategic opportunities to further strengthen the business for the future via merger, acquisition or sales activity.

Xanadu has appointed Norvest Corporate Pty Ltd ("Norvest Corporate") to assist in the company's restructuring post the proposed sale of the Xanadu Wines Business and in achieving the above objectives.

Norvest Corporate will work with the Company's management to ensure the Company maximises its remaining asset value, whilst managing its current and non current liabilities and ensuring the business achieves its long term goals and objectives.

Assistance will be provided in a number of areas, including:

- (i) balance sheet management;
- (ii) appointment of a new Board of Directors; and
- (iii) corporate guidance and governance.

As previously announced, following the sale of the Xanadu Wine Business the majority of the Board of Directors, including the Chairman, will resign. Mr. Sam Atkins will remain as Managing Director of the Company.

It is proposed, subject to shareholder approval, that options amounting to approximately 10% of the expanded capital of the Company will be issued to newly appointed Directors and to management of the Company. Options provide a cost effective and efficient incentive as opposed to alternative forms of incentives such as cash bonuses or increased remuneration. It is essential, if the Company is to achieve its objectives, that the Board and management are able to benefit with the shareholders. It is proposed the exercise price of the options will be consistent with the conversion price of existing convertible notes and will be exercisable at milestones consistent with the future objectives of the Company.

#### **4. FINANCIAL RESTRUCTURE**

The Sale Agreement provides for payment of the following liabilities on settlement:

- \$14.5 million in full satisfaction of the Company's debt with Westpac Banking Corporation Limited;
- an amount of up to \$5.7 million to the convertible note Trustee to pay out all convertible notes of those holders wishing to redeem their notes (refer section 4.1 below); and
- an amount of up to \$2.27 million to Norvest Corporate to pay out their outstanding secured loan (refer section 4.2 below); and

the balance being paid to the Company.

##### **4.1 Convertible Notes on Issue and Further Convertible Note Issue**

The Company currently has approximately \$5.7 million convertible notes on issue. In accordance with the convertible note Trust Deed, if shareholders approve the proposed sale of the Company's main undertaking, note holders can either:

- redeem their convertible notes within 10 business days after completion of the transfer of the main undertaking resulting in the repayment of their outstanding convertible notes plus any accrued interest; or
- convert their convertible notes into shares at 85% of the weighted average price of shares in the Company traded on ASX during the last 30 trading days of the period immediately preceding the conversion date.

In December 2004, as part of the ongoing restructure of the Company's financial position and to assist with working capital requirements, the Directors facilitated secured loans to the Company through Norvest Corporate of \$2.27 million. The secured loan of \$2.27 million was advanced to the Company by Norvest Corporate pending Shareholder approval of the issue of up to a further \$2.27 million convertible notes to the Directors or their nominees.

On 18 April 2005, shareholders approved the issue of up to \$2.27 million convertible notes to the Directors or their nominees on identical terms to the existing notes ("the New Notes"). To date, the New Notes have not been issued as a result of the proposed sale of the business.

Holders of approximately \$0.95 million existing convertible notes, including approximately \$0.37 million held by Directors and \$0.58 million held by one other existing note holder, have informally agreed to redeem their existing notes and immediately reinvest a portion of their monies into \$0.95 million New Notes to be issued pursuant to the shareholder approval obtained at the 18 April 2005 General Meeting of shareholders.

The terms of the New Notes will be amended as follows:

- (i) the New Notes will be unsecured;
- (ii) the conversion price of the New Notes will be fixed at the price existing convertible notes will convert following the 5 August 2005 General Meeting of shareholders;
- (iii) the New Notes will be converting notes and will automatically convert into shares 24 months from issue;
- (iv) the New Notes can only be redeemed if the Company enters into formal administration or at the Company's option at any time. If the Company elects to redeem the New Notes at any time, the New Note holder has the option of converting the New Notes at the conversion price to shares at that point rather than accepting redemption; and
- (v) the New Notes will have a 9% per annum interest rate payable in shares at the end of the 24 month period and any extension thereof.

#### **4.2 Norvest Corporate Secured Loan**

The current outstanding balance of the Directors' secured loan to the Company facilitated through Norvest Corporate is \$2.27 million. \$0.57 million or 25% of the outstanding balance of the Norvest Corporate secured loan will be repaid and immediately reinvested by the Directors in \$0.57 million New Notes.

The \$1.7 million balance of the Norvest Corporate secured loan will remain on the following terms:

- (i) the term of the loan is fixed for two years, extendable by mutual agreement;
- (ii) should the Company complete a capital raising over \$0.5 million, 25% of the amount raised will be applied towards the outstanding loan balance;
- (iii) the loan will become due and payable should the Company become insolvent, if a receiver and manager is appointed, if a judgement is entered into against the Company or if the Company ceases to be actively involved in the wine industry; and
- (iv) interest on the loan is 10% per annum, payable monthly in arrears.

#### **4.3 Pro Forma Statement of Financial Position**

An updated pro forma Statement of Financial Position for the Company is attached as Annexure A. The pro forma reflects the sale of the Xanadu Wines Business, the financial restructure as referred to above and other changes since the issue of the Notice of Meeting for the upcoming meeting of shareholders.

### **5. TIMING TO COMPLETION OF THE SALE**

Should the Company's shareholders approve the sale at the General Meeting of shareholders to be held on 5 August 2005, completion of the sale is likely to occur on or about 22 August 2005 following transfer of the Xanadu Wines Liquor Licence to the purchaser.

The indicative timetable for completion of the sale, including the redemption/conversion process of the existing convertible notes and issue of New Notes referred to in section 4 above, is as follows:

<b>Event</b>	<b>Date*</b>
Shareholder Meeting	Friday, 5 August 2005
Regulatory approval for transfer of the Xanadu Wines Liquor Licence to the purchaser	Friday, 19 August 2005
Sale becomes unconditional	Monday, 22 August 2005
Notice issued to existing convertible note holders on their right to convert or redeem their outstanding notes (refer section 4.1)	Monday, 22 August 2005
Expiry date for receipt of conversion notice from the existing note holders wishing to convert their holdings into ordinary shares (refer section 4.1)	Monday, 29 August 2005
Cheques/shares issued to existing convertible note holders including interest payment from 1 July 2005 to 2 September 2005 (refer section 4.1)	Friday, 2 September 2005
Subscription and issue of \$1.52 million New Notes to the Directors and nominated parties (refer sections 4.1 and 4.2)	Friday, 2 September 2005
Change to the terms of the Norvest Corporate secured loan (refer section 4.2)	Friday, 2 September 2005

\* The above dates are indicative only. The Company reserves the right, subject to the Corporations Act, ASX Listing Rules and the Trust Deed, to vary any of the above dates.

**The Company will present an overview of its future plans and objectives at the General Meeting of Shareholders to be held on 5 August 2005, with a comprehensive strategic plan and direction to be presented at the Annual General Meeting, expected to be held in November 2005.**

*Xanadu Wines Ltd (XAN) is listed on the Australian Stock Exchange Limited. For further information please contact Mr. Sam Atkins, Managing Director of Xanadu Wines Ltd on + 61 8 8331 3000.*

2 August 2005

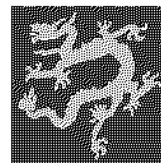
## Annexure A Pro Forma Statement of Financial Position of the Company

Included below is the updated pro forma Statement of Financial Position of the Company post settlement of the sale of the Xanadu Wines Business, financial restructure of the Company and other changes since the issue of the Notice of Meeting for the upcoming meeting of shareholders.

	<b>PRO FORMA A\$m</b>
<b>CURRENT ASSETS</b>	
Cash	0.56
Trade Receivables	1.28
Inventories	3.17
Fire Receivable	0.75
<b>Total Current Assets</b>	<b>5.76</b>
<b>NON-CURRENT ASSETS</b>	
Plant and Equipment	0.15
<b>Total Non-Current Assets</b>	<b>0.15</b>
<b>TOTAL ASSETS</b>	<b>5.91</b>
<b>CURRENT LIABILITIES</b>	
Payables	2.64
Lease Liability	0.07
Provisions	0.70
Provisions (Employees)	0.07
<b>Total Current Liabilities</b>	<b>3.48</b>
<b>NON-CURRENT LIABILITIES</b>	
Norvest Corporate Loan (Secured)	1.72
Lease Liability	0.04
<b>Total Non-Current Liabilities</b>	<b>1.76</b>
<b>TOTAL LIABILITIES</b>	<b>5.24</b>
<b>NET ASSETS</b>	<b>0.67</b>
<b>SHAREHOLDERS EQUITY</b>	
Contributed Equity	46.72
Retained Profits	(46.05)
<b>Total Shareholder Equity</b>	<b>0.67</b>

The Pro Forma Statement of Financial Position above assumes the following:

- (i) redemption of \$5.7 million convertible notes currently on issue;
- (ii) issue of a total of \$1.52 million unsecured New Notes;
- (iii) reduction of \$0.57 million, re-invested as New Notes, of the Norvest Corporate secured loan;
- (iv) non-repayment of the Norvest Corporate secured loan and reclassification of the \$1.72 million balance outstanding to non-current from current as the repayment term of the loan has been fixed to two years;
- (v) repayment of all other secured debt;



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## **Annexure A (continued)**

- (vi) sale of the 3,000 tonne winery based in Margaret River, all land and buildings associated with the Margaret River site, including the cellar door, restaurant, warehousing, art gallery and administration block, 85 hectares of vineyards, the Xanadu, Lagan, Show Reserve and Secession brands, all finished goods relating to the Xanadu, Lagan, Show Reserve and Secession brands, 1,035,000 litres of vintage 2004 and 2005 bulk wine and the current events and wedding bookings at the site;
- (vii) Fire Receivable is the remaining business interruption and loss of profit claim relating to the fire at Margaret River on 26 May 2004;
- (viii) Inventory values will be audited as at the end of the financial year, however the above amount is estimated to be fair market value;
- (ix) Payables include all outstanding grower payments for vintage 2005; and
- (x) Lease liabilities refer to motor vehicles and computer equipment assets that will remain with the business moving forward.