



Coonawarra Premium Vineyards Projects

December 2004 Newsletter

GROUP MANAGING DIRECTOR'S REPORT

We are now in the period prior to harvest when weather can be quite critical to the success or otherwise of the crop. The vineyards are in good shape and a good harvest is predicted. However, hail, high winds or excessive rain or cold weather can affect the crop adversely.

The wine grape market is similar to 2004 and it is likely that a significant portion of the grapes will be processed into bulk wine. Accordingly, arrangements are being made to process any unsold grapes from the 2005 harvest.

We are continuing to provide samples of the 2004 bulk wine to brokers and other interested parties. No realistic offers have been received to date, other than for sales to Watson Wine Group.

As CPV2 investors would know, general meetings were held on 28 January 2005 to consider a restructuring proposal. This proposal was rejected (see overleaf), therefore Project 2 will continue to operate under the terms of its Constitution.

We remain confident in the quality of our vineyards and fruit, and will continue to seek buyers for the bulk wine and uncontracted grapes.

Rex Watson
Group Managing Director

WATSON WINE GROUP

The Investor Wine Offer, released in October 2004, is still available to all investors, their family and friends.

Along with the original release of 2004 Unwooded Chardonnay, 2004 Sauvignon Blanc and 2003 Cabernet Sauvignon, we are delighted to be able to add a fourth wine to our collection: a Cabernet Shiraz Merlot blend. Details of the new release can be found in the enclosed brochure.

Further copies of the brochure can be obtained by phoning Watson Wines on 08 8299 9299.

2005 VINTAGE

It is too early for grape purchasers to make offers on the spot market for uncontracted grapes from the 2005 vintage. Offers have been sought from the top 15 Australian wine grape buyers. The whites are expected to be harvested in late March 2005, with the reds in April and May.

OVERVIEW OF 2004 & 2005 VINTAGES

Industry experts are predicting that market conditions experienced in 2004 are likely to continue through the 2005 vintage. Bruce Redman, President of the Coonawarra Vignerons Association reported to the Phylloxera and Grape Industry Board of South Australia

"Coonawarra produced 62,651 tonnes in 2004 - nearly three times the 2003 harvest, and almost 10,000 tonnes more than the previous record harvest of 53,125 tonnes in 2001. This was in spite of widespread crop thinning. There was a 33% surplus of red varieties, and a 20% surplus of whites.

The record tonnages produced big falls in the average purchase value of most varieties: Cabernet Sauvignon (down \$700), Merlot (down \$850), and Shiraz (down \$1,000 per tonne) were the hardest hit. The average purchase value of white varieties held up reasonable well."

"The forecast [for 2005] is for intake of red varieties to be around 37,000 tonnes (compared with 55,000 tonnes this vintage [2004]) and whites to be around 5,500 tonnes (compared with 8,000 tonnes this vintage). Cabernet Sauvignon remains by far the most important variety for the region, accounting for nearly 50% of the total forecast intake. Despite the lack of forecast growth in intake, there were nearly 80 hectares of Cabernet Sauvignon and Shiraz planted in the region in 2003. Based on the current vineyard area, and using yield estimates of 9t/ha for reds and 10 t/ha for whites, the estimated production

from Coonawarra in 2009 is 50,000 tonnes. This means an approximate surplus of 7,000 tonnes of red varieties and 1,600 tonnes of whites compared with the 2009 preferred intake figures. While demand forecasts do change from year to year, this discrepancy may foreshadow some difficulties for growers without contracts in the future."

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COONAWARRA ESTIMATED AND PREFERRED INTAKE OF GRAPES - TONNES

	2005		2006		2007	
	Estimated	Preferred*	Estimated	Preferred*	Estimated	Preferred*
Cabernet Sauvignon	23,335	18,665	23,484	19,260	22,842	20,368
Merlot	2,381	2,110	2,979	2,791	3,039	2,899
Petit Verdot	151	153	159	156	165	162
Shiraz	7,776	7,169	9,212	8,713	9,705	9,253
Chardonnay	3,641	3,497	3,499	3,330	3,609	3,487
Sauvignon Blanc	632	632	648	648	623	623
Total for Region	37,916	32,226	39,981	34,898	39,983	36,792

Source: 'The 2004 South Australian Winegrape Crush Survey' by the Phylloxera and Grape Industry Board of SA.

Please note that we have omitted grape varieties not relevant to the Project, along with years 2008-2009.

* preferred is the estimated likely demand for grapes by wineries

Coonawarra Premium Vineyards

ARSN 087 876 186

Project

Grapevines

Mild weather conditions during the growing season have left the grapevines in good condition.

Wire lifting operations have been completed through the vineyard and this has been effective in retaining foliage in a vertical position.

Spray programs are almost complete. Slashing of the inter row areas, along with herbicide applications are keeping weeds under control.

Bulk Wine

Processing of the 2004 bulk wine is now complete. Samples have been provided to various brokers for circulation to prospective buyers. No realistic offers have been received to date. Some Chardonnay has been purchased by the Watson Wine Group. Coonawarra Premium Vineyards Limited will continue to search for bulk wine buyers and has sought offers from the top 15 Australian bulk wine purchasers.

The second instalment of processing fees was deducted from your 2004 grape distribution payment.

Nugan Update

The case with Nugan is still being pursued in the Supreme Court of South Australia. At the time of printing no trial date had been set.

Invoice Structure

We receive a lot of queries throughout the year regarding the invoice structure of the Project. To assist you in arranging your budget here is an explanation of the Project's invoicing timetable.

Licence fees are invoiced quarterly - September, December, March, June - and are presently at a rate of \$179.58 per unit per quarter including GST. The Licence fees are reviewed annually as explained in the Explanatory Memorandum (December 2002).

Management Fees are invoiced annually in accor-

dance with the Prospectus. The next fees will be raised in June 2005 for an amount of \$696 per unit + GST & CPI.

Please note that if you sell your units in Coonawarra Australia Property Trust, as a Grower you are still obligated to pay the quarterly licence fees.

Processing fees will be invoiced in June 2005 and a separate advice will be sent to Growers once tonnages have been determined and processing costs finalised with the winery.

Non-Commercial Loss Provisions

The ATO has approached the Manager seeking further information to clarify historical prices and assumptions used in projections concerning the private ruling application for the commissioner to exercise his discretion concerning the non-commercial loss provisions. The Manager has provided the information sought.

Coonawarra Premium Vineyards

ARSN 096 298 074

Project No. 2

Restructure Proposal

On Friday 28 January 2004 general meetings of Growers in the Coonawarra Premium Vineyards Project No.2 and Shareholders in CPV Land Holdings were held. The proposal to restructure the Project was not passed and accordingly the Project will continue to operate as before. The restructure would have resulted in Project 2 being merged into CPV Land Holdings by the Growers acquiring additional shares in CPV Land Holdings. CPV Land Holdings would have acquired other assets and become a self-funded mid-sized wine producing company utilising future crops produced on the vineyard, with no further obligation for Growers to pay fees.

Project 2 Growers rejected the proposal on the grounds that a tax ruling had not been obtained from the Tax Office to provide certainty regarding past tax deductions claimed.

According to some investors, the Deloitte's opinion in their report to Growers did not provide Growers with sufficient comfort that previously claimed deductions would not be clawed back with the addition of penalties and interest.

Some Growers wanted a ruling from the Tax Office on this issue. It was not practical to defer the meeting pending receipt of a ruling as it was expected that a ruling and reconvening of the meeting would take at least 6 months.

Project 2 will continue to operate under the terms

of its Constitution. Fee invoices will continue to be sent to investors at the appropriate time.

Stage 1 - Grapevines

The vines are continuing to develop well. No trimming of shoot tips has been carried out but may be required as the season progresses.

A full pest and disease prevention spray program has been completed across the whole vineyard.

The irrigation system is being used weekly to allow continued development in both the Chardonnay and Sauvignon Blanc blocks. Fertigation is also being applied to these two blocks.

Stage 2 - Grapevines

The vines are looking good with variability reduced compared to last year.

Inter-row areas are being slashed regularly, the herbicide program has been completed and a full preventative spray program is being applied.

Some shoot trimming and bunch thinning may be required later in the season to prevent the vines becoming over-stressed.

Invoicing - Stage 2

Due to the proposed restructure of the Project, the first instalment of the 2004/2005 management fee that was due to be issued to Stage 2 investors in October 2004 was not invoiced at that time. As the restructure proposal was not passed, this portion

of the management fee is now due and payable. This invoice has been sent out and is due by 14 February 2005.

Fees - Stage 1 & 2

2004/2005 management and grant of use fees will be payable in full by 31 March 2005 as per the Prospectus. All future management and grant of use fees will now be payable in March of every year.

Contracts & Processing: Stages 1 & 2

Processing of the 2004 bulk wine is now complete. As the restructure of the Project did not proceed, CPV Land Holdings will no longer purchase the bulk wine. Samples have been provided to various brokers for circulation to prospective buyers. No realistic offers have been received to date. Some Chardonnay has been purchased by Watson Wine Group. Coonawarra Premium Vineyards Limited will continue to search for bulk wine buyers and has sought offers from the top 15 Australian bulk wine purchasers.

The second instalment of the processing costs was payable to the winery in December 2004 and an invoice was issued to Growers on 31 January 2005. It was payable by 14 February 2005.

The next instalment of processing costs will be invoiced in June 2005 and a separate advice will be sent to Growers once tonnages have been determined and processing costs have been finalised with the winery

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