



#### MESSAGE

Dear Croydon Wine Company Shareholders,

Your board of directors thought it was necessary to release a response to the misinformation shared in the email sent by the HOA on Friday 14th February 2020.

The email titled NOTES & COMMENTS FROM THE OPEN FORUM HELD ON THE 6 FEBRUARY 2020, made reference to the Wine Company with information that is both inaccurate and unconstitutional. We have attempted to correct and contextualise these with more detail below.

Point #1:

The Reserve Fund is not currently being replenished: HOA is being constrained as a result of WineCo's cashflow

- Correction, the HOA is not being constrained by WineCo's cashflow - WineCo has been operating on its own steam financially, the issue is some costs have not been invoiced to WineCo, and placed in the loan account instead.

The HOA has not paid WineCo the balance of the Wine Allocation since September 2019, and WineCo had not requested the HOA for the balance due to the buoyancy of our cashflow.

Instead we have continued to operate using the income received through other sales.

WineCo current cashflow is ZAR110k, with more invoices due. WineCo will be settling these open invoices over the next few months, along with its other financial commitments.

WineCo and HOA agreed to a payment plan for the loan account and HOA invoices, where the money due to WineCo for allocation wine would be used to cover monthly HOA expenses, and remaining funds would be used to repay the WineCo loan (initially drawn from the reserve fund).

While WineCo has no say over how the HOA uses the income they receive from WineCo to cover HOA expenses and repaying the loan, we can confirm around ZAR297k of the ZAR1.075 million has been received by WineCo. The balance due to WineCo is required by the end of this financial year, and is being worked through with the HOA - as mentioned this will be used to cover WineCo running costs with the HOA, and about ZAR520,000 will be used for repaying the loan account.

Point #2

Does WineCo owe HOA money?

Yes we do, and yes we are running on our own steam to cover overhead costs while paying off the loan account.

WineCo has implemented a plan to pay this off over 3-4 years.

At this point we are confident we will pay at least ZAR520,000 in this first year.

If we continue with the plan we expect to pay the balance off within the next 2-3 years. (Less than 3 years if our sales and profit projections continue on track)

Please note, once the Loan Account is paid off in Year 4 (or sooner), that ZAR500,000+ will be profit for reinvestment into the business and the estate.

There are also some open invoices that should have been paid, but were not invoiced to WineCo over the past few months.

The transfer of legacy data from Pastel to Xero contributed to these costs not being invoiced to WineCo.

However, we are confident this will be resolved over the next few months.

Point #3

"HOA/WineCo to be Streamlined"

Unfortunately we cannot comment on this as this was the first we had heard about a plan to streamline.

I can confirm the following:

- The Wine Company operates as a Lean Organisation, we have made every effort to keep expenses lean, and invest any money into production, sales and growth of WineCo.
- The trustees have their right to review the feasibility of any aspect of Croydon Vineyard Estate, but they have no authority or right to determine the future of the Wine Company.
- You, collectively as shareholders of WineCo decide its future through democratic voting and shareholder decision-making.
- Our mandate comes from majority shareholders.

It's important to clarify the "business" model on the estate.

- The HOA is a cost centre that covers the running costs of the estate, and is financed by the HOA members.

- The Farm (the vines) is a cost centre that grows the grapes and sells them to WineCo at cost. The Farm is owned by the HOA Members.
- The Winery is an asset owned by the HOA Members, which is managed and maintained by the HOA.
- The Wine Company is a stand alone private limited company that rents the Winery from the HOA, and buys the grapes from the HOA - the shareholders of the Wine Company are the home owners of the Estate.

Currently the only profit centre in this model is the Croydon Wine Company - as the profits grow these will be used to offset the costs of the HOA, the Farm and the Winery (wherever the shareholders see fit to reinvest in the estate).

When one talks of “streamlining” and “reviewing the benefit of WineCo”, it would be a very narrow-minded view without considering the whole model and its interdependencies. It would also be unconstitutional.

The HOA can review the Farm, Winery and its assets, but have no grounds to make a decision on the future of these without changing the constitution through a legal vote by HOA members.

#### Point #4

##### WineCo Financials

Until September of 2019 the WineCo financials were available on the Croydon Vineyard Estate website.

This information is accessible on request now that the website is not maintained.

The reporting since September has been effected by the transfer of accounting system from Pastel to Xero in the following areas:

- Transferring years of legacy data has caused inaccuracies in the financials.
- WineCo uses the same accounting firm as HOA, and the HOA accounting has been prioritised to meet monthly levy obligations.
- Reconciling monthly accounts has been made more challenging with duplication of entries impacting the accuracy of reporting.

It would be negligent and counter productive to release financial information from WineCo at this stage where figures are incomplete and inaccurate.

What do we know at this time:

- WineCo Year-to-date Sales are ZAR3.654 million, against a budgeted full-year target of ZAR3.309 million.
- WineCo Year-to-date Net Profit is at ZAR494,154, against a budgeted full year target of ZAR156,782
- The accuracy of this is being impacted by the following:
  - All costs of Sales have been input to Xero, but the WIP stock (which carries value and profit) still needs to be input into Xero
  - There is duplication of expenses which is corroding the bottom line
  - While sales have been up, these have been largely due to high-volume:low-margin customers, and this will effect final profit margins. This was expected as our strategy was about getting our wine into as many people's hands as possible, and we need these high volume outlets to do that. We are still in the process of exposing the brand as much as possible.
  - PLEASE NOTE: THESE NUMBERS ARE STILL NOT 100% UP TO DATE AND ACCURATE, BUT OUR CONFIDENCE LEVELS IN XERO ARE THE HIGHEST THEY HAVE BEEN SINCE THE TRANSITION FROM PASTEL. WE MAY SEE SOME MOVEMENT, BUT DON'T EXPECT SIGNIFICANT SHIFT.

WineCo will be releasing the 2018/2019 financials once they are signed off - the plan was to release as part of the shareholders pack ahead of the shareholder meeting planned for May.

WineCo has two areas which impact on the HOA budget:

1. The cost of Wine Allocation
2. The CAPEX cost of the Winery

Otherwise, there is no other direct impact to the HOA budget and its spend, and WineCo works with the HOA every year to agree the items listed above.

We are unclear of the context in which the Estate Manager made the following statement, but it is unwarranted and untrue.

“WineCo will be re-assessed at the end of May with regard the way forward”

In 2019 the Board presented a decision to take the "High Road" at the Shareholders meeting. This decision was made after extensive and diligent consideration of the Wine Companies options.

In essence, we as a board and the extended WineCo Team agreed it was in the interests of the shareholders for WineCo to aggressively drive sales to deliver the following:

- Pay back the HOA Loan in full within 3-4 years. (Within Year 1 we will have paid back the first half million.)
- From year 4 the HOA profits would be reinvested back into the business and the HOA once the loan was repaid. This would equate to at least ZAR500,000 injection a year from the Wine Company.

This directive has not changed, and will not change in May. We are as determined as ever to drive sales and repay the HOA loan account.

We are on target with this goal, and may even be in a stronger position by the end of this year, that could allow WineCo to pay back even more in year 1.

The WineCo Team has learnt from the outcome of the HOA Open Forum held on the 6th February.

While this was an HOA event, questions were raised regarding WineCo, and we will do a better job to attend these sessions to avoid this type of communication in the future.

The WineCo team practice an “Open Door” policy and would hope any shareholder with concerns would engage us directly.

In future I would encourage you to contact Phillip Van Den Berg at ([operations@croydon-vineyards.com](mailto:operations@croydon-vineyards.com)) or Chris Graham at ([wineco@croydon-vineyards.com](mailto:wineco@croydon-vineyards.com))

We encourage involvement, and more importantly value constructive input highly.

I would like to end off by reiterating that the WineCo board (of 5 members) are volunteers who have given of their time and

expertise without any expectation in return.

We are fortunate to be supported by an extended team of 12 shareholders, who have taken a hands-on interest in the success of the Wine Company.

We are all committed to the success of your Wine Company, and will always welcome input and support that will help further our goals.

The Wine Company are committed to building the relationships with shareholders, and contributing to the Croydon Community. Food Truck Fridays and recent vineyard block tastings are just two examples that are a testament of the commitment to our community and our brand.

It is disappointing to have to send this email out, which suggests there is a need to defend the Wine Company.

I would encourage you, as shareholders, to please join our WineCo Team meetings and attend the Shareholders Meeting planned for May (Dates to follow).

I am confident you will receive a better clarity of WineCo.

Sincerely,  
Your Board

Chris Graham - Operations Director  
Francois Naude - Sales & Marketing Director  
Jack van Schalkwyk - Finance Director  
Rikus Neethling - Wine Maker  
Nico Grobler - Viticulturist

#### YOUR COMMUNITY PORTAL

\$(standNumber) | \$(name) \${surname} | \${cellNumber}



#### CROYDON VINEYARD ESTATE



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