



thewinesociety

2009 Annual General Meeting

Questions on Notice

26th November 2009

Questions from Victor Boase, Member 34461

Question 1

Impairment charge. Note 4 to the accounts and the Audit, Risk and Governance Report refer to this charge of \$1,138,000 against 2009 profit. A big proportion of this amount relates to the value of customer records of CBD and amounts to something approaching 25% of the purchase price of CBD. With the benefit of hindsight what has changed about the valuation of CBD to bring about this impairment charge and how does this reflect on the original valuation process?

Response

The notes to the accounts deal with how the impairment charge has been calculated at Note 1(n). Specifically the calculation is based on the turnover of the top 100 customers that were acquired with the business and their respective year on year turnover. Accounting standards do not permitted the calculation to include new customers acquired or customers outside the top 100 whose turnover has increased. Nothing has changed in respect of the valuation of CBD, nor has this changed our view on the original calculation process

Question 2

Decline in Profitability. Leaving aside one-off items (profit on Cathedral St and the impairment charge) the accounts indicate a slowing in inventory turn, a shaving of gross margins and a blow out in Other expenses to more than 38% of sales (an all time high) which together have sliced more than \$4M off the bottom line. The loss of sales and increased costs of selling and distribution have been attributed to the GFC but no explanation is offered for the increase in other expenses. Why were other expenses permitted to blow out in this way and what action is planned by management and the board to address this position for the future?

Response

The following table reconciles the operating profits from 2008 to 2009:

<i>2008 Operating Profit before tax</i>	<i>918,000</i>
<i>Effect of decrease in sales</i>	<i>(1,863,000)</i>
<i>Impairment Charge</i>	<i>(1,138,000)</i>
<i>Profit on sale of Cathedral St</i>	<i>1,572,000</i>
<i>Increase in Operating Expenses</i>	<i>(81,000)</i>
<i>2009 Operating Loss before tax</i>	<i>(592,000)</i>

The net movement in operating items for the year ended 2009 shows a decrease in operating profits of \$1,954,000 of which only \$81,000 was made up of the increase in expenses. The 2009 year saw some specific non-recurring items such as the cost of moving from Woolloomooloo to Ultimo and costs in relation to the Society's rebranding.

Not all business costs are variable to sales and as such these fixed costs (specifically what it costs to open the door each day) are a large core of the operating expenditure of the business and were well managed during the year.

Questions from Geoff Goodworth, Member 13367

Question 1

I note the attendances at board meetings and recognise that directors are located in places other than Sydney. Given that fact, attendance at board meetings via telephone is often expedient.

- Which directors attended meetings by telephone during the year?
- How many meetings did each director attend by telephone during the year?
- How long was each director present when attending meetings by telephone during the year?

Response

Attendance at a Board Meeting is attendance irrespective of the method. The attendance at meetings is contained in the Directors Report.

Question 2

Several months ago, I spent almost an hour at the Sydenham and Castle Cove stores searching for a Shiraz wine that contained less than 14% alcohol and was unsuccessful in finding anything that I wanted to buy a dozen bottles of. I acknowledge that the situation has changed in the intervening months as last weekend, I found nine Shiraz wines (15%) listed on the web site that contain less than 14% alcohol. However, I also found that 22 Shiraz wines (37%) did not mention the alcohol content. Also, when I receive emails and letters promoting 'Blockbuster Barossa Shiraz' or similar, I interpret that as sales doublespeak for 14.5% alcohol or higher—wine that I am not interested in. When I looked on the Society web site for more information on such wines, they are usually not listed.

If I remember correctly, there have been several occasions in recent years when the Society undertook to publish the alcohol content for all wines on the web site. When can we expect that undertaking to be completed?

Response

The Society endeavours to maintain as much up to date and relevant information on its website in relation to all products it sells.

Question 3

The 2009 National Health and Medical Research Council (NHMRC) *Australian guidelines to reduce health risks from drinking alcohol* were published in February 2009 and they substantially reduce the recommended maximum figures for alcohol intake. I have two bottles of a McLaren Vale Shiraz that contains 15.5% alcohol (9.2 standard drinks). There are premium sherries available in the Australian market that only contain 8.8 standard drinks in a 750 ml bottle is not the provision of table wines of such high alcohol content irresponsible on the part of The Wine Society and why, by their purchase, is the Society encouraging producers of wines of this nature?

Response

There is no doubt that over the last 10-15 years that alcohols on red wines has been on the increase and now it is not uncommon to see wines with alcohols 15% and over. Higher alcohol in reds is being vigorously discussed within the wine industry. There are several reason behind why it has been happening.

1. There are two main factors involved in the ripening of grapes. There is the sugar ripening and this is what is converted to alcohol and there is phenological ripening, this is all the other flavour development within the grapes. What is occurring is that these are not occurring at the same time or rate. This has also been aggravated by the hotter seasons that we have been having as sugar levels can rise very quickly and flavours do not develop. The problem has been that in many instances (but not all) at what we would accepted as normal alcohols the grapes have green characters which are not acceptable. This can also be linked to viticulture practices and the industry is looking at ways that they can get the flavour profile they require without the higher alcohols.

2. There is also no doubt that the big rich style which has been achieved with the higher alcohols has been directly pushed by some prominent wine writers around the world and these write ups can increase sales and so some wineries have been making to these styles.

The debate will continue within the industry and going forward we hope we can get balanced wines with the lower alcohols as this is the preferred option. This is currently possible by some modern winemaking techniques but it is expensive and requires very specialized machinery and really can only be applied to smaller volumes.

The Society supports and states its support for the responsible service and consumption of alcohol in all of its marketing and related material.

Questions from Alan Johnson, Member 1569

Question 1 Informing the members.

I refer to my question on Notice last year concerning the value of the minutes and the way the Board informs members of what is going on in their mutual society.

I find the response to that question most unsatisfactory and cannot see how the response meets the requirements of the Co-operative principles contained in the NSW Co-operatives Act 1992.

a) It was stated that Qs on Notice would be made available on the TWS website. They either do not exist or are not easily discoverable What is the explanation?

b) In response to my question on the financial future of TWS the response advised that an update would be provided in the Chairman's address at the 2008 AGM. I was not able to attend the AGM. As the minutes made absolutely no mention of the Chairmans response, I and the rest of the membership have no idea what the Chairman said.

It gives the impression the Board is trying its best NOT to inform members and is maintaining a veil of secrecy over what should be frank and open discussion.

It also gives the impression that TWS is being used as a vehicle to run a purel

If the Board feels constrained by its own definition of what should be contained in the Minutes will it consider producing an other form of report to members which actually tells us what is discussed and what issues were raised at AGM?

Will the Board review is Corporate Governance responsibilities, given that no mention was made of this function in the 2009 Audit, Risk & Governance Report?
Will the review consider including the Co-operatives principles as described in the Co-operatives Act as an integral part of its obligations and responsibilities?

Response

There are seven internationally recognised Co-operative principles:

- 1. Voluntary and open membership*
- 2. Democratic member control*
- 3. Member economic participation*
- 4. Autonomy and independence*
- 5. Education Training and information*
- 6. Co-operation amongst co-operatives*
- 7. Concern for the community*

The Co-operative is governed with recognition of the above principles. In fact this has been formalised by both Board and management in the creation of the Head of Membership position. In addition, the co-operative applies the ASX Corporate Governance Council Principles as they can be applied to a co-operative.

Members are communicated with on many levels throughout the organisation including the Annual General Meeting and the distribution of information in relation to the meeting, regularly monthly catalogues containing the CEO's update, an e- newsletter from the aforementioned head of membership and the ability to seek feedback through our online feedback options.

Members also participate in the election of Directors and vote on rule changes.

The Board believes the co-operative publishes sufficient relevant information for members to remain informed on the goings on of the business as well as providing many forms and avenues for feedback

Question 2. CBD Cellars

I quote from the 2007 Annual Report

“Another exciting development has been the recent purchase of CBD Cellars, the leading corporate supplier to the Melbourne and Sydney markets. This business will give us access to premium wine buyers and improve the surpluses for the benefit of all members. In addition their two outlets in those two markets will add further benefits to those members who like the retail experience to supplement their wine purchases. Recent market research commissioned by the Society strongly suggests that our retail experience is an important element in why our members purchase from their Society. Our intention with CBD Cellars is to fully resource this business to become the leading corporate supplier of liquor to the market (From CEO 2007 Annual Report)”

I ask the following questions

- a) How does the acquisition of CBD Cellars benefit members.?
- b) If it is a corporate supplier what percentage of its business is attributed to TWS members? Is there evidence that it has met demand for a “retail experience” from TWS members?
- c) If TWS members business is not significant why should TWS own the business?
- d) Does TWS have the expertise to operate a corporate business in a very competitive liquor market?
- e) Is it appropriate for TWS to move its focus from serving its (co-operative) members to running a retail business? How much of TWS resources is be used to service non-members through CBD cellars?
- f) When the decisions was made to acquire CBD Cellars did anyone on the Board, with their extensive business acumen and experience have cause to question the purchase? How does it fit into the Co-operative nature of TWS?
- g) As it appears that CBD cellars are not contributing value to TWS members does the Board have an opinion on its future?

Response

The Board has recognised since the opening of Castlecove in 2000 that it would be necessary to pursue avenues of revenue outside the co-operative for it to remain viable long term. The acquisition of CBD Cellars was a significant acquisition in pursuit of those outside revenues. The acquisition was undertaken with a view to getting cross business upside as well as purchasing and operational synergies. Ultimately, profits from TWS operations, other than the Co-operative, assists members by contributing to the costs of running the co-operative business and therefore reducing the prices charged to members for their wine, and contributing to significant freight and events and education subsidies which totalled over \$2,000,000 in 2009.

The CBD Business operates in conjunction with and takes advantage of the significant liquor industry knowledge held across both TWS and CBD Staff and will continue to develop and grow as new avenues to the beverage marketed are opened up.

The Board will continue to support management in the growth of revenue outside the co-operative for the benefit and interests of members.

Question 3 Retail Outlets and other businesses

The 2008 Audit and Risk Report advised that there was an increase in sales attributable to CBD Cellars and retail stores. Item 22. Related Party Transactions advises of loans and impairments, but it is hard to assess these without knowing what the turnover or other relevant items are. Can the Board advise how each outlet is performing with regard to member versus non- member business, new members enrolled and the like?

Does the Board intend to monitor and report to members on how successful it is in new markets such as societycellars and societyauctions?

Response

The Board monitors on a monthly basis the performance of all of its sales channels and provides management with relevant feedback regarding this performance. New avenues to market such as cellars and auctions are included in this process. Any specific information in relation to the performance of any one channel is commercially sensitive thus the aggregation of numbers in the financial reports distributed to members. The Board does not propose to change its policy in this regard.

Question 4. Item 16 Interest Bearing Liabilities

What do the Hire Purchase Liabilities refer to ? Why was this form of funding necessary?

Response

The Hire Purchase agreement relates to the purchase and finance of a CBD Cellars Van.