



thewinesociety

2010 Annual General Meeting

Questions on Notice

17th February 2011

Questions from Alan Johnson, Member 1569

In the context of the first three key provisions of the Co-operatives Act as articulated on the Fair Trading website vis:

Co-operative principles

1st principle: voluntary and open membership

2nd principle: democratic member control

3rd principle: member economic participation

I request responses for the following questions

1. Why weren't members informed of the delay in the AGM and releasing the annual reports? There were three members Newsletters sent via email to members in November, December 2010 and February 2011. Why weren't members told then? What is the Board trying to hide? I think in previous years it was agreed that the monthly catalogue/magazine would give notice of the AGM and the publication of annual reports. Why has the Board chosen NOT to inform its members?

The Board and Senior Management were focussed on providing Members with a complete and fully informed set of Financial and Annual Reports as well as holding the meeting at a time of year when most Members available to attend have returned from their Christmas break and were in a position to both receive and respond to the AGM Notice of Meeting.

2. In 2008 the GMs presentation forecast great results in 2009 for CBD and retail sales, despite being questioned about the possible effects of the GFC. The evidence shows otherwise, with an apparent decline in membership, revenue and presumably negative contribution from CBD Cellars. In the 2009 GMs presentation we were told "we are recovering well so far (for 2010)". What went horribly wrong after that?

In the five months to November 2009 the business was tracking 2.8% down on prior year, subsequently and for the remainder of the 2010 financial year the average monthly decline YOY in the Member (predominately) catalogue and E-Commerce business was 15%.

3. There have to be strong doubts about TWS having the range and depth of skills to compete and operate outside its core business which is a wine consumer co-operative. More and more TWS seems to be moving away from its Gilbert Phillip's legacy, which it promotes as a point of difference from other competitors. Why does the Board persist in retail activities that provide little benefit to the members? How does on premise business benefit members? Will the Board articulate these benefits and quantify them?

The Board does hold a similar view that its core business is a wine co-operative however it does not hold the view that it can remain and solely operate as a wine consumer co-operative forever. Since the purchase of Castle Cove Cellars in 2000, the board has pursued a strategy of providing Members with greater purchasing opportunities other than that of a catalogue and a regular tasting dozen. The advent of the internet as a consumer purchasing tool has also meant that TWS has had to pursue strategies in this direction to meet the ever broadening purchasing habits of consumers. To narrow the available purchasing mechanisms of consumers is to narrow the available market of TWS and its potential membership. As an example, over 85% of product sold at Castle Cove is to Wine Society Members, very few of these were Members when the store opened in 2000, however many have seen the benefit of not only the wine club but its expanded Retail operation and have joined and maintained Membership as a result. This venture benefitted not only the existing Members upon opening, it has benefitted the entire Membership ever since.

4. In the 2009 GM's presentation he stated "(TWS) will continue to operate to the co-operative philosophy and for the benefit of our members". As someone who has previously worked in the commercial sector can he tell the members how this is being achieved? What, in his view, clearly demonstrates evidence of the co-operative philosophy in TWS operations?

The co-operative philosophy and principles are outlined in Part 1, Division 3 Section 6 of the Co-operatives Act and have been outlined in part at the preamble to the questions on notice

Voluntary and open Membership

The Wine Society is a democratically member owned, controlled and operated Co-operative that is open to all persons whom on application intend to become active Members of the Cooperative.

Democratic Member Control

Members are invited to participate in many aspects of the Co-operative including participating in the election of Directors and attendance at general meetings.

Member Economic Participation

Members are obliged through their contract with the Co-operative and each other Member to support the Co-operative through purchasing and remaining an active Member

All the above are evidenced in the day to day operations of the Co-operative as well as being evidenced through some other objects as outlined in the Co-operatives rules. Members receive significant freight benefits not generally genuinely available through other wine clubs, the Co-operative assists industry through its Young Winemaker Award, the Co-operative assists the community through its wine education programs, the Co-operative assists the socially disadvantaged through its use and support of Prestige Packaging (a organisation that runs sheltered workshops) for the packing and dispatch of its tasting dozens.

5. In the Vision statement of 2009 TWS claims (inter alia) to be a recognized and respected member of the wine industry. According to the 2010 accounts (ref page 7 notes 10 & 15) **Inventories** are listed at \$4,846,000 whereas **Trade and other payables** are listed at \$7,179,000. This suggests we owe our suppliers (the wine industry) over \$2,000,000. As well there is an operating loss on almost \$800,000 to November 2010. Will the Board explain
- How will this be done when the wine industry is doing it tough and TWS cannot pay its way on time? I note the Chairman's reference to spreading the name and reputation of the TWS in his report. Is this what he meant?
 - Why would the industry (growers / suppliers) want to do business with TWS on favourable terms when it cannot pay its bills on time?

Management continues to work closely with suppliers in maintaining both supply and relationships to ensure that the organisation continues as a going concern. Despite the negative inferences above, there has been no slowdown in submissions to the tasting panel for the supply of wine to the business.

6. The Annual Report advised that a new retail outlet is to be opened in Elizabeth St. City. Can the Board outline how an essentially single bottle sale outlet (compared to TWS outlets with parking) will pay its way? How do we know we won't be burdened with another CBD Cellars style financial liability? What capital and expense contribution will TWS make for this outlet?

The Elizabeth St outlet will operate using a Licence obtained in the original CBD Cellars acquisition. The estimated additional costs of setup and fitout to open the store are \$250,000. The store will be operated identically to its CBD Carrington St twin (Runner up in NSW LSA Liquor store of the year in 2009 and 2010) which provides a substantial contribution to the benefit of Members.

7. The Auditors Report describes a very frightening future for the TWS. Given that an operation loss of almost \$800,000 has been incurred to November 2010, and that we can expect an annual loss of well over \$1,000,000, will the board explain how volume and revenue will be increased to keep the bankers, and our suppliers happy, and TWS solvent? What is the current financial position?

There has been no material change to the financial position of the organisation as to that disclosed in the 2010 Financial Report. Management and the Board continue to work on both revenue and costs to return TWS to profitability

8. Reference is made to the value of unbooked intangibles such as licenses and intellectual property. Can you advise what the net the value of these is estimated to be and what time frame applies to "ordinary course of business" Would their realisation have an adverse effect on TWS ability to operate?

The value of the unbooked intangibles is included in the total value of assets referred to in the Directors Report. The realisation of these assets in the ordinary course of business refers to realising them in a time and fashion where both the buyer and seller are willing and not forced in the transaction which depending on the specific asset may be in the range of six to twelve months. The realisation of some intangible assets may not inhibit the present position of the organisation but may adversely impact the future ability of TWs to continue to provide Members benefits at levels they are presently accustomed.

9. I have read and re-read the annual report for 2010 and can find no apology, no explanation or comment for any bad decisions. There was no reason given for the delay in the AGM. Will the Board explain to members who is responsible and who is accountable? Are there any KPIs for the Board? Will the Board consider sacrificing some of its benefits until TWS becomes marginally profitable?

The Board is both responsible and accountable to members for the performance of the business as is any Board to its group of shareholders. The question implies that there have been bad decisions in the context of the result and that some explanation or comment on these should be made to Members for these "bad decisions". The Board works consistently and diligently on the business and with management to achieve the best possible result for the business in the short, medium and long term.

Any Board Member needs to be remunerated for both their time and risk expended on matters relating to the organisation they have been elected to govern and as such whilst the Board has taken a 10% reduction on their Directors fees. Staff salaries have been frozen since September 2009.

10. In the interest of democratic participation, why can't the Board publish its results before it conducts the Board elections so that members may be more fully informed of performance by the candidates? Just how long does it take to prepare the accounts? Why can't the election be conducted after their publication? The present culture of secrecy is unacceptable.

The Board does not accept that there is a present culture of secrecy. The timetable for the publication of accounts as well as election of Directors was and has always been well published in the June Catalogue each year which is distributed to all members. The completion of the Financial Report for the current year was problematic at best whilst the Society negotiated and continues to negotiate the availability of finance facilities. Notwithstanding this, even in the ordinary course of competing a financial year's reports, the timetable and archaic formal processes for elections as required by the Co-operatives Act, as compared to the electronic means available for Corporations, makes the completion and distribution of Financial Reports prior to the distribution of election material near impossible.

11. I am concerned that the current rules impose no limit on the number of terms (in total or continuously) which directors can serve? Incumbency is the greatest asset for re-election especially when voting is done without knowledge of the state of the Society. It can also promote a culture of self preservation and self belief. Will the Board re-visit the question of Directors terms of office? When last considered by the membership, it was lost but a substantial percentage (over 30%) supported the proposition.

New Directors have now been elected in the past two years. Given this outcome the Board has not changed its view and does not believe there is the need for rules to impose a time limit on the term of office. Members themselves have the chance to offer themselves for election. Members have also demonstrated that where, in their collective opinion, a suitable qualified candidate exists, they receive the support of the Membership

12. The 2010 reports show a decrease in members capital, but the Chair advised that we had 2,995 new members (less than the 5,170 of 2009) Will the Board advise of the net membership gain (new, resigned or forfeited) for 2010 and undertake to report this regularly in future annual reports? It was done in the past. Does the Board have a view of the optimum membership needed to give TWS a viable future?

1,461 Members resigned and 6,411 Members forfeited. Other than this year when a more details review of operations was necessary this information has always been included in that section of the Director Report. The Board has not formed a view as to the optimum number of Members needed to give TWS a viable future other than to comment that the Co-operative belongs to Members and therefore it is also in their interests to contribute to its viable future.

13. I note the life of the computer software is scheduled to end in 2012. Will the Society be in a position to replace or upgrade this vital part of its operation, given its financial position and breaches of its bank covenants and doubts about it as a going concern?

The SAP computer software will undergo a useful life evaluation at the end of the current year as is required by Accounting Standards and the Corporation Law each and every year. The software is well maintained and patches kept up to date and as at the present time there is no requirement to replace the software nor is there any obligation to expend monies on its upgrade outside normal operational budgeted amounts.

14. In January 2011 I was surprised to receive via mail a flyer for Zonte's Footstep at \$14.99. Was this a mass or selective mail out? Was the wine tasted and rated by the Wine Panel? What was the overall cost of the promotion? Did TWS derive any financial benefit from this exercise?

The wine formed part of normal promotional material distributed by TWS and was selected in the normal manner. The estimated cost of the mail out is \$2,000 with net sales revenue of \$30,000.

15. In two recent editions of SMH Good living there have been two full page ads for TWS. How many new members responded? When members forfeit or resign does anyone from TWS do any follow up to find out why?

160 New Members joined directly as a result of the advertisements. TWS has longstanding practices and procedures in place for collecting reasons for leaving for resigned members. Due to the nature of leaving of a forfeited member, contact and follow up is more problematic

16. In the 2009 Minutes it states "The Chair noted that it would now become practice to have a Directors Remuneration agenda item at each Annual General Meeting whereas in prior years it has only been an item when remuneration was proposed to change. Where is it?

Director's remuneration will form part of General Business as there is no specific resolution to put to Members. Director's have resolved to reduce their fees below that approved by Members last year

17. For the record will you advise which members of the Board have real and demonstrated experience in wine production, wine or liquor retail, or retailing or marketing as their principal means of career or employment.

The qualifications and experience of the Directors is contained in the Directors Report forming part of the Financial Report as well as being published to all Member's together with the biographies and qualification and experience of all candidates prior to each Directors election/re-election. Director profiles are also contained on the Society's website.