



**the**wine**society**

**2010**

**ANNUAL REPORT  
TO  
MEMBERS**

Annual General Meeting Date  
17<sup>th</sup> February 2011

**Australian Wine Consumers' Co-operative Society Limited**  
**Annual Report 2010**  
**Chairman's Report**

THE YEAR IN REVIEW

It is with great disappointment that we again report a deficit for the Society of \$569,033 for the 2010 financial year. The deficit for the year was incurred on slightly increased sales numbers over 2009, however market conditions and increased competition has resulted in some margin erosion. Costs have been well contained and are \$1.1m down on the previous year and in line with 2008 costs.

The Society performance has been significantly impacted by the activities of the large retailers, the current oversupply and increased competition, all of which have created significant challenges for our business in maintaining both sale volumes and margin.

- Reported deficit before taxation of \$569,033, a slight improvement of 4% (2009: deficit of \$592,023)
- Operating deficit of \$420,678 an improvement of 59% (2009: deficit of \$1,026,000)
- Notional surplus of \$3,221,244 (up 10%) (2009 \$2,937,059 (up 6.5%))
- 2,995 (2009: 5,170) new members
- Society labels awarded 3 gold, 9 silver and 17 bronze medals
- Follow up to the launch of John Boston Premium Lager with Boston's Mill Pale Ale

Notwithstanding the above, we were still able to provide significant financial and non financial benefits to members as well as continual reinvestment in our Society.

In the 2010 financial year, members still received a total freight subsidy (the excess of cost over freight recovery) of \$1,858,914 mainly via the \$1,200 free freight initiative. I am pleased to report that we still have 12,484 loyal and rewarded members who qualify for this fabulous initiative.

Also approximately 3,000 Members attended any one of the over 100 events held by our events team. As you would be aware The Society subsidises the cost of both arranging and holding these events and our contribution to that effect this year was \$181,742.

Maintaining and growing the membership base is an important aspect of our ongoing operations and we are pleased to welcome the 2,995 new members who joined the Society during the last year.

Following on from the successful launch and acceptance of our first beer, John Boston premium Lager in 2009 The Society launched Boston's Mill Pale Ale in mid 2010, first released in bottle and now also available in tap, visit [www.johnboston.com.au](http://www.johnboston.com.au) for more details. The introduction of The Society's own beers has enabled it to grow its business model and over time diversify its business risk. Integral in this strategy has been the creation of John Boston Premium Beverages which entity markets The Society's products and some agency lines to on-premise establishments such as restaurants, pubs and clubs. At the time of writing we have approximately 150 on-premise clients and additionally are distributing our tap beer to 20 outlets. We are also having increasing success in

having The Society's products ranged with retail competitors such as Dan Murphys, Ice Box and Porters Liquor. The advantages of such expansion include diversifying our risk and additionally spreading the name and reputation of The Wine Society.

Whilst we have put effort and resources into the development of the beer brand we have also focused on growing recognition of our own brands, in addition the Society labelled wines we are also very proud of the quality and market acceptance of our other own brands such as Kettle Lane and Riverstones and additionally other brands for which we have exclusive distribution rights. We see significant long term benefit to the members in developing brands and hope to report further developments in coming years.

Since my last report and due to the delays in convening the current AGM we have in fact held both the 9<sup>th</sup> and 10<sup>th</sup> Young Winemaker Awards nights held at sold out events at the Westin Hotel, these fantastic landmark events have become a must attend for members and the industry. More importantly nomination as a finalist and ultimately winning an award is seen in the industry as a recognition of a talent both of now and the future. 2009 saw Ryan Aggiss from Flying Fish Cove receiving the coveted Young Winemaker of the Year Award with Anna Pooley from Heemskerk Wines being likewise heralded in 2010.

As Members would be aware we have a longstanding policy of where appropriate entering our own wines in wine shows throughout Australia and are always proud of our wine selections and in particular our own Society label wines. Awarded, 3 gold, 9 silver and 17 bronze medals, our Society label always delivers value well above their price point. Our Kettle Lane 2009 Riesling was also awarded Best Australasian Riesling 2010 by Winestate Magazine

The Society has also entered into a number of agency distribution arrangements with several wineries as well as an Australian Whisky producer. This is not only an exciting extension of our member benefits but compliments nicely with our on premise and corporate customer base

On a positive note we will be opening a new retail store in Elizabeth St in February 2011 which will be another landmark site for The Wine Society.

Finally, I thank you our members for your support throughout the past year and into the future. We continue to look for ways to improve our business in both a commercial and membership and member benefit sense and look forward to continuing in our endeavours to provide you with the best possible wines at the best available price.

Robert Whitton  
Chairman  
December 2010

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**Audit, Risk and Governance Committee Report**

The Audit Risk and Governance Committee consist of three non-executive member Directors. The members of the Committee during 2009-2010 are:

Geoffrey P Ballard (Chairman)  
John Love  
Terry Stapleton

Details of the qualifications of the members and their attendance at Committee Meetings throughout the financial year are detailed in the Directors' Report enclosed in this Annual Report.

The role and responsibility of the Audit Risk and Corporate Governance Committee is detailed in the Charter which is available on the Wine Society's web site. The Committee is charged with including in the Annual Report a statement describing the responsibilities and activities of the Committee. This includes:

*"to report to the Board and provide appropriate advice and recommendations on matters relating to financial and accounting reporting practices, the independence of the external auditors, internal controls, risk management, corporate governance principles, best practice and legal compliance in order to facilitate decision making by the Board."*

The Committee is also required under its Charter to *"review the annual financial statements and reports of the Co-operative in conjunction with the Chief Financial Officer, including ensuring that they are consistent with Committee members' information and knowledge and are adequate for members' needs"*.

In discharging this role the Charter states the Committee:

*"does not have executive powers or authority to implement action in areas over which management has responsibility. It does not have any delegated financial responsibility; nor does it have any management functions and is advisory to the Board only"*

The Committee met formally five times in 2009 – 2010. Following on from last year the Committee's major focus was on the business risk associated with the Society's deteriorating liquidity; and the concomitant need for additional working capital. Being the Committee's primary concern, numerous informal additional working party meetings were convened for the purpose of establishing a pro-active framework and process, in which the Board and management could review, assess and respond to this primary business risk.

Last year in the Committee's Report it was stated, inter alia, *"the Board is looking at a number of options to redress the position and thereby improve our working capital position and reduce our overall gearing from its current level"*.

The position however has further deteriorated in 2009 – 2010. Despite a 1.03% increase in operating revenue over the previous year your Society incurred a loss of \$569,000. This was exacerbated by the non cash expenses incurred pertaining to asset impairment charges of \$148,000, in addition to depreciation and amortisation

charges of \$606,000. There may be unrecognised offsets however insofar as the market value of some intangible assets such as liquor licenses is believed to be considerably in excess of the recorded book value.

More significantly however, is the actual net cash outflow of \$599,000 which is significantly higher than the \$169,000 net cash outflow incurred in the previous year.

With retained profits of \$3.39m following the current year's loss and members' equity of \$2.116m. The debt to equity ratio, after allowing for interest bearing liabilities (loan funds and bank overdraft) of \$4.615m has increased to 83%. This is a high and unsatisfactory level of gearing.

The Committee draws your attention to the Review of Operations in the Annual Report wherein the assumptions underlying the belief that your Wine Society will be able to pay its debts as and when they fall due, Note 2 to the accounts and the Events post balance date together with the Auditor's Report on page 32 are detailed.

Geoff Ballard  
Chairman, Audit, Risk and Governance Committee  
December 2010

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**Wine Committee Report**

Briefly, the prime purpose of the Wine Committee is to oversee the tasting panels and the wine buying cycle from product planning, assessments, price points and intended use through to sales success, quality assurance and slow moving stocks re-assessment.

The current membership of the Wine Committee is Ian Walsh, Greg Melick, Lance Hogan, Paul Foster and chaired by Ian McKenzie, all of whom are extremely well qualified in wine assessment and have day to day contact with the wine industry and its associated endeavours. Paul joined the committee following his election to the Board in 2009 and is well known to many of our members having been involved in wine education for the Society for many years and his input into our regular tasting panels is invaluable. Having a committee with such experience arguably gives The Wine Society a clear advantage over all our competitors giving our Members confidence that only appropriate wines are sourced.

This year the tasting panel met on 29 occasions and assessed 2721 wines, of which 1077 met our quite stringent criteria. This represents a pass rate of 39.6% which is marginally less than last year but reflects our continuing high standards. The concept of more focussed targeting of wine producers who are more consistent in wine quality terms introduced last year appears to have been successful in that we are tasting fewer but better wines than in previous years. Also the program introduced last year whereby guest panellists are invited onto the tasting panels continues to be of considerable benefit.

As usual, of the many classes of wines tasted, the Aussie icons, shiraz, riesling and semillon were the strongest and we were presented with many more quality pinot noirs than in the past. The weakest wines presented continued to be merlot and "other" dry reds. With the glut of sauvignon blanc facing the New Zealand industry we were presented with numerous examples with considerable variation in quality and price, although it would be fair to say that prices have plummeted in more recent times. Pinot gris/grigio was also of variable standard but as winemakers become more experienced with this variety we are tending to see some better examples. Chardonnays were real 'Jekyll and Hydes' this year with some outstanding wines tasted but sadly also some extremely poor ones. The finer and more elegant modern style is certainly gaining in popularity but we are cognizant of the fact that many of our Members still prefer the more robust style. Good value cabernet sauvignons continued to be quite difficult to find.

We are continuing to assess and source wines from around the world to add interest to our range and as we have in the recent past we will continue to offer interesting wines from Argentina, Chile and South Africa as well as from the more traditional European countries France, Spain and Italy. However, with the pressure on reducing stock holdings our program of sourcing some fine (and relatively expensive) French wines has been deferred until trading conditions improve.

The range of wines under our own labels continues to expand and as a form of benchmarking we enter many of these into national wine shows with solid results, achieving 3 gold, 9 silver and 17 bronze medals. Winestate Magazine favourably reported on a number of Society label and Kettle Lane wines.

Ian Walsh and Ian McKenzie have been pro-active in sourcing some great wines for the Best in Society release and for our own super premium Dr. Gilbert Phillips label. Rather than waiting for wines to be submitted from producers we visited known high quality producers and selected wines 'in the raw' from a range offered and then blended them to our own specifications. This year we have sourced an outstanding chardonnay from Mornington Peninsula and an equally outstanding shiraz from the Pyrenees in this fashion.

The Society has had two sparkling wines from the 2010 vintage made from grapes grown in the King Valley. These wines are currently 'en tirage' on yeast lees and will be disgorged as and when ready. Again this is a pro-active way of sourcing what we require.

The Australian wine industry continues to face considerable surpluses with many grapes left on the vine during the 2010 harvest, some of which were potentially of high quality. Wine producers continue to face considerable pressure in the traditional international export markets of the UK and USA but there have been some significant sales in China but at relatively low margins. The domestic market has benefited from these depressed international sales with plenty of sound quality wines being sold at what might have been regarded as ridiculous prices a couple of years ago. This has led to an extremely competitive market with reduced margins and reduced profitability.

The Wine Committee is proud of its achievements and we are quite certain the quality of wines selected for our Members continues to be of the very highest standard.

Ian McKenzie  
Chairman, Wine Committee  
December 2010

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**Sales and Marketing Committee Report**

This Committee comprises two Board members, the Society Chairman, the CEO and me. Its brief is to examine all member benefits and services, promotional techniques and public relations and to provide input, experience and expertise in those areas. As an advisory committee, the Chairman reports progress to the Board at its monthly meeting.

The main focus of the committee this year was on developing new opportunities and exclusive brands with a view to enhancing member benefits.

Member acquisition has declined over the past twelve months, the focus being more on organic means of recruitment rather than expensive recruitment campaigns. Our member-get-member program continues to be a source of new members. The education and events programs also gain many new members. Retaining older loyal members has continued to be a priority.

The last twelve months trading period has been extremely difficult, caused by a general downturn in retail sales, difficult economic conditions and fierce competition. To counter this, the Society has broadened its range of exclusive products to members, with the emphasis on quality. As well, The Wine Society/CBD Cellars retail stores offer members (and customers as a whole) a competitive range of quality products.

As reported last year, our Events and Education program has continued to take on a more national focus, with the team visiting most states, capital cities and regional areas. Our flagship event, The Wine Society Young Winemaker of the Year Awards continues to attract much interest with both the industry and the media.

Our product range is increasing and improving, our prices remain competitive and our selection of Society Own Label wines are of superior quality, many receiving medals from wine shows. The John Boston beer has proved very successful so a second beer, Boston's Mill Pale Ale has been introduced. These beers have opened the doors to enable The Society's wholesaling arm to increase its distribution of Society exclusive wines and beer to restaurants, hotels and bottle shops.

These innovations ensure that The Society is well poised to recover from the current difficult trading conditions, common to all retail liquor retail outlets

Lance Hogan  
Chairman, Sales & Marketing Committee  
December 2010