THE AUSTRALIAN WINE CONSUMERS'
CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
ARBN 068 836 699

ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2010

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
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DIRECTORS' REPORT

The Directors of The Australian Wine Consumers' Co-operative Society Limited ("The Society") present their report and the audited financial report of The Society and its controlled entities for the year ended 30 June 2010. The financial report was authorised for issue on 16th December 2010. The Society has the power to amend and reissue the financial report.

DIRECTORS

The directors in office during the financial year and up to the date of this report are as follows:

ROBERT WHITTON	**(Chairman)**
Qualifications:	B Bus, Dip Phys Ed, Grad Cert Forensic Studies, FCA, CFE, AFAIM, MAICD, IP, JP.
Experience:	An Official Liquidator and Trustee in Bankruptcy with over 24 years experience. Partner in an insolvency practice and company director with wine industry experience.
Meetings Attended:	
Directors'	10 (11 maximum)
Audit Risk and Governance Committee	1 (1 maximum)
Sales and Marketing Committee	3 (3 maximum)
JOHN LOVE	**(Deputy Chairman)**
Qualifications:	B Com, MBA (AGSM), CPA, FTIA, FFin, FAICD, FAMI, JP.
Experience:	Over 38 years experience in Banking and Finance, Currently consultant, Company Director, Extensive experience in Wine Industry Management and partner in Victorian vineyard.
Meetings Attended:	
Directors'	11 (11 maximum)
Audit Risk and Governance Committee	5 (5 maximum)
GREG MELICK	
Qualifications:	AM, RFD, S.C., SJW, BA, LL.B, Notary Public.
Experience:	Senior Counsel admitted in all states. Extensive management experience including senior officer in Army Reserve and former Commonwealth and State Statutory Officer. Extensive wine experience including national and international judging since 1990 and owner of Tasmanian vineyard.
Meetings Attended	
Directors'	9 (11 maximum)
Wine Committee	2 (2 maximum)
PAUL PENLINGTON FOSTER	(elected 26 November 2009)
Qualifications:	BA.
Experience:	Wine educator. Wine writer. Wine presenter. National/International wine tour guide. Manager/Winemaster, The Wine Society, 10 years. Wine Society Tasting Panel, 15 years. Vin de Champagne award (Professional). Wine Brotherhood of St Stephen (Alsace). Wine Press Club award.
Meetings Attended:	
Directors'	6 (6 maximum)

DIRECTORS' REPORT (CONTINUED)

IAIN McKIMM	(Retired 26 November 2009)
Qualifications:	Dip Surv, GDip IT, GDip Bus Tech, M Comp.
Experience:	Senior executive of several IT companies.
Meetings Attended	
Directors'	5 (5 maximum)
Audit Risk and Governance Committee	1 (2 maximum)
GEOFFREY BALLARD	(Chairman of Audit Risk and Governance Committee)
Qualifications:	B.A., B.Ec., M.App. Fin. (Macquarie), CPA, FTIA.
Experience:	Over 27 years experience in investment and capital markets in both public and private sectors in a number of senior roles. Currently a private Company Director and the Responsible Manager for a major Victorian power utility.
Meetings Attended:	
Directors'	10 (11 maximum)
Audit, Risk and Governance Committee	4 (5 maximum)
TERRY STAPLETON	
Qualifications:	FFin.
Experience:	A high level of business experience over many years with ANZ Bank. Now retired
Meetings Attended:	
Directors'	10 (11 maximum)
Audit, Risk and Governance Committee	4 (5 maximum)
IAN MCKENZIE	(Chairman of Wine Committee)
Qualifications:	RDOen (Hons), SJW.
Experience:	Over 51 years winemaking experience, formerly Chief Winemaker for B.Seppelt and Sons (8 years) and Southcorp Wines (11 years) Currently a wine show judge with over 35 years experience, many of which as Chairman of Judges for numerous wine shows, and a wine industry consultant with Australian and International clients
Meetings Attended:	
Directors'	10 (11 maximum)
Wine Committee	2 (2 maximum)
LANCE HOGAN	(Chairman of Sales and Marketing Committee)
Experience:	30 years in the wine industry in several senior positions in retail, wholesale and production, longest serving General Manager of The Wine Society (1987-1996), currently director of the Liquor Stores Association NSW and past Director and Treasurer of Wine Communicators of Australia, wine author and wine judge. Presently self-employed wine industry consultant.
Meetings Attended:	
Directors'	11 (11 maximum)
Sales and Marketing Committee	3 (3 maximum)

SECRETARY

The co-operative secretary in office at the end of the financial year is as follows:

RON CORBY

Qualifications:	B Com, CA.
Experience:	26 years accounting and finance experience covering both Chartered and commercial accounting fields. Director of Winemaking Tasmania Pty Limited.
Meetings Attended:	
Board of Directors	10
Audit, Risk and Governance Committee	3

DIRECTORS' INTEREST IN CONTRACTS

Other than as disclosed in Note 22 of the Financial Statements, no director or their related entity holds any interest, whether directly or indirectly, in a contract or proposed contract with The Society or a related corporation.

PRINCIPAL ACTIVITIES

The Society and its controlled entities operate as a retailer in the wine industry by the provision of a range of products and services to its members and the general public.

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

No significant changes in the state of affairs of the Group occurred during the financial year.

PROFIT OR LOSS

The net operating loss of The Society and its controlled entities for the financial year was $569,033 (2009:$988,023).

DISTRIBUTIONS TO MEMBERS

Under the Rules of The Society no portion of the income or property of the Co-operative, howsoever derived, shall be paid or transferred directly or indirectly by way of dividend, or bonus to the members of the Co-operative.

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation in relation to any of its activities.

REVIEW OF OPERATIONS

The Directors have concluded on balance that based on all the available facts and information, there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable and is a going concern. In reaching this conclusion the Directors have had due regard to, amongst other things, the following:

- Operating losses of approximately $780,000 have been incurred by the group on a year to date basis in the current 2010/2011 financial year,
- The receipt of a breach notice from the group's bankers notifying the group that it is in default of its facility agreement in so far as the group has failed to maintain its interim quarterly interest covenant. The notice further advises that the bank reserves all of its rights in relation to the default and to take whatever action it considers appropriate under the facility agreement, without any further notice to the group.
- Notwithstanding receipt of the breach notice referred to above, an ongoing dialogue with the group's bankers, Westpac, over the past 12 months has been on the basis of continuing support of the group with a view to ensuring that in the 2010/2011 and future financial years the group will be re-structured and profitable and able to meet its banking interest cover covenant.
- Management's presentations and representations regarding changes to the estimated operating revenue and costs of the group for the remainder of the current financial year. These include a review of staffing levels, a review of operational locations including consolidation of distribution from a central location and the sale and the impact of the sale of intangible assets. In that regard the Directors have had access to both a rolling twelve month forecast that reflects a profitable operation over the ensuing twelve months from the date of this report as well as a positive reforecast EBITDA for the current 2010/2011 financial year. Directors have applied a series of sensitivities to the analysis of the information supplied by management to test its robustness given any further deterioration in the businesses of the group.
- Management's presentations and representations regarding future cash flows of the group and the ability of the group to meets its ongoing obligations as and when they fall due include the existence of non cash expense items for the current financial year that will exceed $600,000 offset partially by required business loan principal repayments of $250,000. The net effect on cash flows of the above two items is to increase cash inflows of the group for the year by $350,000 over and above the forecast operating profit result.
- The group has a significant fixed asset in its Head Office at 66 Bay St and significant unbooked intangible assets in the value of liquor licences and other intellectual property owned by the group. The Directors estimate the gross value of these assets held by the group to be in the range of $11.3m to $13.6m if realised in the ordinary course of business. The group's bankers hold a fixed and floating charge over the group's assets. The ratio of the value of these assets to the amounts currently owing to the group's bankers is in the range of 2.3 to 2.8 to 1.
- The Board is committed to successfully executing its strategic plan in place, to both protect and enhance the continued existence of the core Wine Society business through an appropriate mix of member and non member business.

POST BALANCE DATE EVENTS

There are no matters or circumstances that have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of The Society and its controlled entities, the results of those operations, or the state of affairs of The Society and its controlled entities in subsequent financial years except as disclosed below or included in this report under review of operations and significant changes in the state of affairs.

- Operating losses of $780,000 have been incurred by the group in the five months subsequent to the end of the financial year.
- The receipt of a breach notice from its bankers notifying the group that it is in default of its facility agreement in so far as the group has failed to maintain its interim quarterly interest covenant, The notice goes further to advise that the bank reserves all of its rights in relation to the default and to take whatever action it considers appropriate under the facility agreement, without any further notice to the group.

FUTURE DEVELOPMENTS

The Society continues to pursue expanded business through selling to the general public. Both the parent entity and its subsidiaries will continue to pursue an increasing range of opportunities available in both the direct mail, retail and on and off premise beverage sectors.

AUDITORS

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 32.

INDEMNIFYING OFFICER OR AUDITOR

The Society has not, during or since the financial year, in respect of any person who is or has been an officer or auditor of The Society or a related body corporate indemnified or made any relevant agreement for indemnifying against a liability incurred as an officer, including costs and expenses in successfully defending legal proceedings, with the exception of the following matters.

Pursuant to Members' approval, The Society entered into Deeds of Access and Indemnity with each Director named in this Report which confirm The Society will provide indemnities, pay insurance premiums and provide access to documentation on the terms and conditions contained within the Deed.

During or since the financial year The Society has paid premiums to insure all the Directors named in this Directors' report and the Secretary against liabilities for costs and expenses incurred by them in defending any legal proceedings arising out of their conduct while acting in the capacity of officer of The Society other than the conduct involving a wilful breach of duty in relation to The Society. Disclosure of the amount of the premium is prohibited under the confidentiality clauses of the policy.

Signed in accordance with a resolution of the Directors.

ROBERT WHITTON Director	LANCE HOGAN Director

Dated at SYDNEY this 16th day of December 2010

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STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2010

	Note	CONSOLIDATED 2010 $'000	2009 $'000
Revenue from Continuing Operations			
Sales	3	44,148	43,511
Other Revenues from Continuing Operations		2,848	2,249
Gross Revenue		46,996	45,760
Other Income	3	-	1,572
Cost of Sales		(31,037)	(30,292)
Other Expenses from Continuing Operations			
Distribution		(3,087)	(2,981)
Sales and marketing		(7,045)	(7,628)
Finance and administration		(5,395)	(6,019)
Information technology		(1,001)	(1,004)
Profit (Loss) before income tax		(569)	(592)
Income tax (expense)/benefit	5	-	(396)
Profit (Loss) for the year		(569)	(988)
Other comprehensive income		-	-
Total comprehensive income/(loss)		(569)	(988)

The above statement of comprehensive income should be read in conjunction with the accompanying notes.

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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STATEMENT OF FINANCIAL POSITION AS AT 30 JUNE 2010

	Note	CONSOLIDATED 2010 $'000	2009 $'000
CURRENT ASSETS			
Cash and cash equivalents	8	-	294
Trade and other receivables	9	983	755
Inventories	10	4,846	5,336
TOTAL CURRENT ASSETS		5,829	6,385
NON-CURRENT ASSETS			
Other financial assets	11	224	226
Property, plant and equipment	12	7,872	8,106
Intangibles	13	3,976	4,246
TOTAL NON-CURRENT ASSETS		12,072	12,578
TOTAL ASSETS		17,901	18,963
CURRENT LIABILITIES			
Bank Overdraft	14	305	-
Trade and other payables	15	7,179	7,444
Interest Bearing Liabilities	16	4,264	4,506
Members' capital	17	111	123
Employee Entitlements	18	427	433
TOTAL CURRENT LIABILITIES		12,286	12,506
NON-CURRENT LIABILITIES			
Interest Bearing Liabilities	16	44	28
Members' Capital	17	2,116	2,338
Employee Entitlements	18	66	133
TOTAL NON-CURRENT LIABILITIES		2,226	2,499
TOTAL LIABILITIES		14,512	15,005
NET ASSETS		3,389	3,958
RETAINED PROFITS			
Retained Profits	19	3,389	3,958
TOTAL RETAINED PROFITS		3,389	3,958

The above statement of financial position should be read in conjunction with the accompanying notes.

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED	
	2010	**2009**
	$'000	**$'000**
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sales of goods and services	48,607	47,868
Payments to suppliers and employees	(48,552)	(46,981)
Interest received	10	29
Interest paid	(259)	(369)
Net cash inflow/(outflow) from operating activities (Note 25 (c))	(194)	547
CASH FLOWS FROM INVESTING ACTIVITIES		
Repayment by (Loans to) Subsidiaries	-	-
Payment for intangibles/Other Financial Assets	(61)	(87)
Proceeds from sale Property Plant and Equipment	-	2,377
Payment for property, plant & equipment	(187)	(1,718)
Net cash inflow/(outflow) from investing activities	(248)	572
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (Repayment) Bank Loan	(225)	(1,466)
Proceeds from share issues	161	365
Payments for share redemptions	(93)	(187)
Net cash inflow/(outflow) from financing activities	(157)	(1,288)
Net increase/(decrease) in cash and cash equivalents	(599)	(169)
Cash and cash equivalents at beginning of financial year	294	463
Cash and cash equivalents at end of financial year (Note 25 (b))	(305)	294

The above statement of cash flows should be read in conjunction with the accompanying notes.

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2010

	CONSOLIDATED	
	2010	**2009**
	$'000	**$'000**
Retained profits at the beginning of the financial year	3,958	4,946
Total Comprehensive income/(loss)	(569)	(988)
Total Retained profits at the end of the financial year	3,389	3,958

The above statement of changes in equity should be read in conjunction with the accompanying notes.

1. PRINCIPAL ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements cover the consolidated entity consisting of The Australian Wine Consumers' Co-Operative Society Limited and its subsidiaries following a change in the requirements of the Corporations Act 2001 effective for 30 June 2010.

The financial statements are presented in the Australian currency.

The Australian Wine Consumers' Co-Operative Society Limited is a co-operative limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is 66 Bay St, Ultimo New South Wales.

The following is a summary of the material accounting policies adopted by The Society in the preparation of the financial statements.

(a) Basis of Preparation

This general purpose financial statement has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements and interpretations of the Australian Accounting Standards Board, and the disclosure requirements of the Co-Operatives Act 1992 (as amended) and the Co-Operatives Regulation 2005.

Compliance with IFRS
A statement of compliance with International Financial Reporting Standards (IFRS), cannot be made due to the group applying the not for profit requirements of the Australian Equivalents to IFRS.

Historical cost convention
These financial statements have been prepared under the historical cost convention.

Critical accounting estimates
The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in note 1(g), 1 (o) and Note 2 Going Concern.

Going Concern
The accounts have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

The Directors acknowledge that significant uncertainty exists in relation to the groups trading performance. This uncertainty relates to the group achieving its restated sales budget and being able to operate in a reduced cost environment. The long term viability of the group is contingent on its ability to return its operating performance to surplus and to ensure the availability of financing facilities through meeting its banking covenants.

The Groups cash flow forecasts show this facility is presently sufficient enough to allow the group to pay its debts as and when they fall due subject to the group not incurring any further significant operating losses. Management also needs to be vigilant with respect to working capital and work within the constraints as set by the Board in the Operating Budget.

The Directors believe it is appropriate to prepare these accounts on a going concern basis based on the reasons as outlined in Note 2 Going Concern.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(b) Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of The Australian Wine Consumers' Co-operative Society Limited ("society" or parent entity") as at 30 June 2010 and the results of all subsidiaries for the year then ended. The Australian Wine Consumers' Co-operative Society Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are fully consolidated from the date on which control is transferred. They are de-consolidated from the date that control ceases. Subsidiaries are all those entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are current exercisable or convertible are considered when assessing whether the Group controls another entity.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group.

Intercompany transactions, balances and gains on transactions between Group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

(c) New Accounting Standards and Interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The group has assessed the impact of these new standards and interpretations and concluded that none of the upcoming changes with have a significant impact on the presentation and disclosure of the financial statements.

(i) AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project [AASB 5, 8, 101, 107, 117, 118, 136 and 139] (effective from 1 July 2010)

In May 2009 the AASB issued a number of improvements to AASB 5 Non-current Assets Held for Sale and Discontinued Operations, AASB 8 Operating Segments, AASB 101 Presentation of Financial Statements, AASB 107 Statement of Cash Flows, AASB 117 Leases, AASB 118 Revenue, AASB 136 Impairment of Assets and AASB 139 Financial Instruments: Recognition and Measurement. The Group will apply the revised Standards from 1 July 2010. The group does not expect that any adjustments will be necessary as a result of applying the revised rules.

(ii) AASB 9 Financial Instruments and AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9 (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets. The standard is not applicable until 1 January 2013. The current four categories of financial assets, stipulated in AASB 139 Financial Instruments: Recognition and Measurement, will be replaced with two measurement categories: fair value and amortised cost. AASB 9 only permits the recognition of fair value gains/(losses) in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains/(losses) on debt investments, for example, will therefore have to be recognised directly in profit or loss. The group does not expect any significant impact on the group's financial statements arising from an adoption of the Standard.

(iii) AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project and AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project (effective from 1 July 2010/1 January 2011)

In June 2010, the AASB made a number of amendments to Australian Accounting Standards as a result of the IASB's annual improvements project. The Group will apply the amendments from 1 July 2010. It does not expect that any adjustments will be necessary as the result of applying the revised rules.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(d) Estimation Uncertainty

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual Results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

In particular, information about significant areas of uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the financial statements are described in the following notes:

Note 1(g) Valuation of Stock on hand
Note 1 (o) Customer Records
Note 2 Going Concern

(e) Property, Plant and Equipment

Property, plant and equipment are brought to account at cost, less, where applicable, any accumulated depreciation or amortisation. The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the replacement value of those assets. The expected net cash flows have not been discounted to their present value in determining recoverable amounts.

The depreciable amount of all fixed assets including buildings and capitalised leased assets, excluding freehold land, is depreciated over their estimated useful lives to The Society commencing from the time the asset is held ready for use. The depreciation rates applied on a straight line method are as follows:

Buildings	5%
Plant & equipment	10% to $33^{1/3}$%
Motor Vehicles	15%
Computer hardware costs	$33^{1/3}$%

Leasehold improvements are amortised over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The gain or loss on disposal of all fixed assets is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds of disposal, and is included in the results in the year of disposal.

Interest on finance facilities to acquire assets is expensed as incurred.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(f) Capitalised Computer Software

Capitalised computer software represents those costs incurred in the implementation and enhancement of enterprise systems software. These costs are capitalised on the basis that they contribute to and/or enhance the ongoing business operations of the Society. The useful life of the software is determined having regard to the following factors:

(i) The longevity of the software and the level of development undertaken by the software provider;
(ii) the history and the likelihood of the business changing systems;
(iii) the level of internal and external support available to maintain the software over the useful life; and
(iv) the terms of the licence agreement under which the software is operated.

The amortisation rate applied on a straight line method is 15%.

System rectification costs and those incurred in system developments that do not contribute to the enhancement of functionality are written off as period costs.

The remaining useful life of the capitalised computer software is 2 years (2009: 3 years).

(g) Valuation of Stock on Hand

Stock on hand, consisting of wine and other liquor stocks, has been valued at the lower of cost and net realisable value. Costs are assigned on the basis of weighted average costs.

Raw material, consisting of bulk wine, is recorded at the cost of acquisition from suppliers and is valued at the lower of cost and net realisable value.

The provision for stock obsolescence is a critical accounting estimate and has been calculated having regard to:
(i) The quantity of stock on hand and the volume of sales turnover for that particular item within the last twelve months;
(ii) the particular items qualitative attributes, in particular its cellaring potential;
(iii) the realisable value of the item.

(h) Leases

Leases in which a significant portion of the risk and rewards of ownership are not transferred to the society as lessee are classified as operating leases (Note 21). Payments made under operating leases (net of any incentives received from lessor) are charged to the income statement on a straight-line basis over the period of the lease.

(i) Employee Entitlements

The amounts expected to be paid to employees for their entitlement to annual leave within the next 12 months are provided at anticipated future rates and disclosed as current liabilities. Long service leave entitlements that have vested are shown as current liabilities.

A liability for long service leave is recognised, and is measured as the present value of expected future payments to be made in respect of services provided by employees up to balance date. In assessing expected future payments The Society based the provision on remuneration rates as at balance date for all employees with five or more years of service. The directors believe that this method provides an estimate of the liability that is not materially different from the estimate that would be obtained by using the present value basis of measurement. Related on-costs have also been included in the liability.

The Society has not made provision for non-vesting sick leave as the directors believe it is not probable that payment will be required. Contributions are made by The Society to employee superannuation funds and are charged as expenses when incurred.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(j) Taxation

Under the concept of mutuality, which has applied for many years, The Society is only assessed for income tax on that proportion of income derived from non-members and other external sources.

The income tax expense or revenue for the period is the tax payable on the current period's taxable income adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amount in the financial statements, and to unused tax losses.

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the reporting date and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Current deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax consolidation legislation
The Society and its controlled entities decided to implement tax consolidation legislation and have formed a tax consolidation Group as at 1 July 2004.

As a consequence, The Society, as head entity of the tax consolidation Group, recognises current and deferred tax amounts relating to transactions, events and balances of the wholly owned controlled entities as if those transactions, events and balances were its own, in addition to the current and deferred tax amounts arising in relation to its own transactions, events and balances. Amounts receivable or payable under tax sharing agreements with tax consolidated entities are recognised separately as tax-related amounts receivable or payable. Expenses and revenues arising under the tax sharing agreements are recognised as a component of income tax expense.

(k) Other Financial Investments

Controlled entities

Investments in controlled entities are valued at cost less amounts written off for impairment in the value of investments.

Other Investments

The investments are highly illiquid and there is no ready market and are therefore carried at cost less amounts written off for impairment.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(l) Receivables and revenue recognition

Sales in respect of wines and spirits are recorded when goods have been dispatched to a customer pursuant to a sales order and the associated risks have passed to the customer.

Sales in respect of education courses are recorded when the courses are presented.

Revenue disclosed within the statement of comprehensive income is shown before recovery of freight charges.

All trade debtors are recognised at the amount receivable, as they are generally due for settlement no more than 45 days from the date of recognition except for certain credit card transactions, where settlement terms may be extended to 60 days. Collectability of trade debtors is reviewed on an ongoing basis. Debts which are known to be uncollectable are written off. An allowance for impairment is raised where doubt as to collection exists.

(m) Trade and other payables

These amounts represent liabilities for goods and service provided to The Society prior to the end of the financial year and which are unpaid. The amounts are unsecured and are usually paid within 30 to 75 days of recognition. Warehouse and freight liabilities require settlement within 14 to 21 days following the receipt of an invoice.

(n) Liquor Licences and associated development costs

These amounts represent costs incurred in the acquisition of Liquor Licences together with the establishment costs associated with acquiring the associated business.

Liquor Licences have an indefinite life subject to meeting the requirements of the Acts and Regulations under which the Licences are issued and requirements relating to the ongoing operation of the Licences and Premises to which the Licences attach.

In order to test there has been no impairment of the carrying value of these intangibles the Group uses a fair value model to determine the value of the Licenses on the basis of a multiple of weekly turnover of not less than 20 times.

Management does not consider a change in this assumption to be reasonably possible.

(o) Customer Records

Customer records acquired as part of a business acquisition are recognised separately from goodwill. The customer records are carried at their fair value at the date of acquisition less any impairment losses. Management considers the customer records to have an indefinite life. The fair value has been calculated at a multiple of 1.5 times the margin acquired. Customer records are considered to have an indefinite life because the Group is unable to accurately determine the foreseeable period which that customer will remain a customer. Impairment is therefore assessed based on the revenue derived from the Top 100 customers as a Group during the period of 12 months to the date of acquisition against the revenue derived from the same top 100 customers during the current year.

(p) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the net identifiable assets of the acquired business. Goodwill is not amortised, instead it is tested for impairment annually, and is carried at cost less accumulated impairment losses.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(q) Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO). In these circumstances the GST is recognised as part of the costs of the acquisition of the assets or part of an item of expense. Receivables and payables are stated with the GST amount included. The net amount of GST recoverable or payable to, the ATO is included as a current assets or liability in the Balance Sheet. Cash flows are included in the Cash Flow Statements on a gross basis. The GST component of cash flows arising from investing and financing activities which are recoverable from or payable to, the ATO are classified as operating cash flows.

(r) Sales to persons other than Members

Both the Co-Operative and its subsidiaries hold liquor licences that permit sales to persons other than members. In respect of the Co-Operative these sales are made to persons other than members in respect of events and education courses only, or, through the Co-Operative's subsidiaries, direct through the appropriate licence to persons other than members.

(s) Members' shares

Members' shares represent the purchase by current or prospective members of the Co-Operative of 25 $2 shares as part of the member application process. As these shares are ultimately refundable, they are classified as payables within the financial report.

The Co-Operatives Act provides that a Co-Operative may be required to repurchase the sum of 5% of the value of its shares at the beginning of the financial year and the value of capital subscribed during that year. The amount of 5% is disclosed as a current liability, the remaining value is represented by capital subscribed in the ensuing year to this financial report and therefore the amount at the date of this report is unable to be determined.

(t) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its replacement cost. For the purpose of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of the impairment at each reporting date.

(u) Foreign Currency Transactions and Balances

The consolidated financial statements are presented in Australian Dollars which is The Australian Wine Consumers' Co-Operative Society Limited's functional and presentation currency.

(v) Financial Report Disclosure

The financial report has been prepared in the format required by the Co-Operatives Act 1992 (as amended) and the Co-Operatives Regulation 2005.

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(w) Comparative Figures

Where necessary comparative figures have been adjusted to conform with changes in presentation for the current financial year.

(x) Rounding of amounts

The entity is an entity to which ASIC Class Order 98/100 applies and amounts have been rounded in accordance with the class order.

2. GOING CONCERN

The accounts have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business notwithstanding that at 30 June 2010 the Group had a deficiency in working capital of $6,457,000 (2009 $6,121,000).

The Group meets its day-to-day working capital requirements through an overdraft facility of $550,000 which was extended to it by its bankers on 25 June 2009 and is subject to annual review but may become repayable on demand. The Groups cash flow forecasts show this facility is presently sufficient enough to allow the group to pay its debts as and when they fall due subject to the group not incurring any further significant operating losses. Management also need to be vigilant with respect to working capital and work within the constraints as set by the Board in the Operating Budget.

The Directors have concluded that based on all the available facts and information there are reasonable grounds to believe that the group will be able to pay its debts as and when they become due and payable and is a going concern. In reaching this conclusion the Directors have had due regard to, amongst other things, the following:

- Operating losses of approximately $780,000 have been incurred by the group on a year to date basis in the subsequent 2010/2011 financial year
- The receipt of a breach notice from its bankers notifying the group that it is in default of its facility agreement in so far as the group has failed to maintains its interim quarterly interest covenant, The notice goes further to advise that the bank reserves all of its rights in relation to the default and to take whatever action it considers appropriate under the facility agreement, without any further notice to the group. The present covenant is EBITA must be greater than two times interest expense.
- Management's presentations and representations regarding changes to the operating revenue and costs of the group for the remainder of that financial year. These included a review of staffing levels, a review of operational locations including consolidation of distribution from a central location, the sale and the impact of the sale of intangible assets. In that regard the Directors have had access to both a rolling twelve month forecast that reflects a profitable operation over the ensuing twelve months from the date of this report as well as a reforecast profit and loss for the 2010/2011 financial year; and they have applied a series of sensitivities to the information supplied by management to test its robustness given any further deterioration in the businesses of the group.
- Management's presentations and representations regarding future cash flows of the group and the ability of the group to meets its ongoing obligations as and when they fall due including the existence of non cash expense items for the current financial year that will exceed $600,000 vs. required business loan repayments of $250,000. The net effect on cash flows of the above two items is to increase cash inflows of the group for the year by $350,000 over its forecast operating result.
- Notwithstanding receipt of the breach notice referred to above, an ongoing dialogue with the group's bankers has been continuing with a view to ensuring that in the subsequent and future financial years the group will be appropriately re-structured and profitable such that its meets its banking covenants.
- The group has a significant fixed asset in its Head Office at 66 Bay St and significant unbooked intangible assets in the value of liquor licences and other intellectual property owned by the group.

2. GOING CONCERN (cont'd)

The Groups principal focus has been ensuring that it returns to surplus in the year subsequent to the financial report and in future years. Management has presented and the Board has received, reviewed and accepted management recommendations and reports in this regard. These ongoing actions include a review of staffing levels, a review of operational locations including consolidation of distribution from a central location, the sale and the impact of the sale of intangible assets.

The Directors acknowledge that significant uncertainty exists in relation to the groups trading performance and as a consequence its ability to meet its funding requirements. This uncertainty relates to the group achieving its restated sales budget and being able to operate in a reduced cost environment. The long term viability of the group, and the group's ability to continue as a going concern, is contingent on its ability to return its operating performance to surplus and to ensure the availability of financing through meeting its banking covenants.

The Directors believe it is appropriate to prepare these accounts on a going concern basis based on the reasons as outlined above.

	CONSOLIDATED	
	2010	2009
	$'000	$'000

3. REVENUE

	2010 $'000	2009 $'000
Revenue from continuing operations		
Sales to members - goods	35,661	35,690
- services	265	257
Sales to persons other than Members – goods/services	8,222	7,564
	44,148	43,511
Other revenue		
Volume & Promotional Allowances	2,452	1,968
Insurance Refunds	73	-
Administration charge on forfeiting members	274	245
Miscellaneous Income	16	7
Education subsidy	14	-
Trust Distribution	9	-
Interest from other persons	10	29
	2,848	2,249
Total revenue	46,996	45,760
Other Income		
Profit on Sale of Property Plant and Equipment	-	1,572

4. EXPENSES

Loss before income tax includes the following specific expenses

	2010 $'000	2009 $'000
Expenses		
Bad and doubtful debts	48	42
Depreciation and amortisation		
- Buildings	111	104
- Other Property, Plant and Equipment	310	321
- Capitalised Computer Software	185	161
Employee Benefits	5,765	5,290
Interest Paid	259	369
Allowance for impairment - Intangibles	148	1,138
Rental expenses on operating leases	529	503

	CONSOLIDATED	
	2010	2009
	$'000	$'000
5. INCOME TAX EXPENSE		
Prima facie tax payable/ (benefit) on operating profit (loss) before income tax at 30% (2008: 30%)	(171)	(178)
Benefits from prior period losses written back (recognised)	-	286
Tax losses (recouped) not recognised as benefits	111	-
Mutual income expense (benefit)	60	288
Income tax expense/(benefit)	-	396
The directors estimate that the potential tax losses not brought to account are approximately:	1,305	935

The benefit will only be obtainable if:

(a) the consolidated entity derives assessable income of a nature and an amount sufficient to enable the benefit for the deductions to be realised,
(b) the entity continues to comply with the conditions for deductibility imposed by the law, and
(c) no change in tax legislation adversely affects the entity in realising the benefit from the deductions.

6. KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Directors

The names of directors who have held office during the financial year and up to the date of the report are as follows:

Greg Melick
Robert Whitton
John Love
Iain McKimm (retired 26 November 2009)
Geoff Ballard
Terry Stapleton
Ian McKenzie
Lance Hogan
Paul Foster (elected 26 November 2009)

Full particulars are disclosed in the Directors' report.

All Directors are Key Management Personnel.

6. KEY MANAGEMENT PERSONNEL DISCLOSURES (continued)

(b) Other key management personnel

The names of other key management personnel during the financial year are:

Daryl MacGraw
Ron Corby

All key management personnel were employed by The Australian Wine Consumers Co-Operative Society Limited.

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
(c) Key management personnel compensation		
Short term benefits	798	671
Post employment benefits	65	93
	863	764
Key management personnel and staff of The Society are entitled to purchase wine at discount prices. The amount of the discount applying during the financial year ended 30 June 2010 was up to 20% off the list price.		
Aggregate value of wine purchased by key management personnel	22	26
Aggregate value of discounts received by key management personnel in relation to these purchases	5	6
The above transactions are charged to each Key management personnel 's debtor's account on terms and conditions no more favourable (other than the stated discount) than those which were available to other members.		
The balance of debtors' accounts relating to key management personnel at balance date is current.	-	-

7. AUDITOR'S REMUNERATION

	2010 $'000	2009 $'000
HLB Mann Judd		
Auditing the financial report	95	79
Other services	15	20
	110	99

8. CASH AND CASH EQUIVALENTS

	2010 $'000	2009 $'000
Cash on hand and at bank	-	294
	-	294

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
9. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	741	571
Less allowance for impairment	(11)	(23)
	730	548
Other debtors	191	180
Prepayments	62	27
	983	755
10. INVENTORIES		
Raw materials	585	359
Work in progress	202	268
Finished Goods	4,071	4,721
Allowance for Stock Obsolescence	(12)	(12)
	4,846	5,336
11. OTHER FINANCIAL ASSETS		
Other financial investments at cost		
Term Deposits use as security for lease guarantees	140	140
Interest in Joint Venture	6	32
Shares in Listed Companies	2	2
Units in Unlisted Unit Trust	76	52
	84	86
12. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
Land at cost	2,500	2,500
Building at Cost	4,773	4,773
Accumulated depreciation	(327)	(228)
	6,946	7,045
Leasehold Improvements at cost	194	179
Accumulated amortisation	(121)	(109)
	73	70
TOTAL LAND & BUILDINGS	7,019	7,115
Plant & equipment at cost	2,419	2,247
Accumulated depreciation	(1,566)	(1,256)
TOTAL PLANT & EQUIPMENT	853	991
TOTAL PROPERTY PLANT & EQUIPMENT	7,872	8,106

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The latest independent valuation of freehold land and buildings for mortgage purposes was prepared on 4th March 2009 by Arthur C Zaglas AAPI, Registered Valuer No 3320, of Landmark White valued The Society's property at 66 Bay Street, Ultimo at $5,500,000 with vacant possession exclusive of GST.

The Directors have valued the freehold land and buildings at a replacement cost of $6,970,000 by reference to the independent valuation referred to above.

	Land and Buildings $'000	Plant and Equip $'000	Total $'000
Consolidated 2010			
Balance at the beginning of year	7,115	991	8,106
Additions	15	172	187
Disposals	-	-	-
Depreciation and amortisation expense	(111)	(310)	(421)
Carrying amount at the end of the year	7,019	853	7,872

13. INTANGIBLES

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Non current		
Capitalised computer software	374	537
Customer Records	1,203	1,351
Goodwill	442	442
Liquor Licences and associated development costs	1,957	1,916
	3,976	4,246

	Cap Com Soft $'000	Cust Records $'000	Goodwill $'000	Liquor Licences $'000	Total $'000
Consolidated 2010					
Balance at the beginning of year	537	1,351	442	1,916	4,246
Additions	22	-	-	41	63
Disposals	-	-	-	-	-
Impairment Allowance	-	(148)	-	-	(148)
Amortisation expense	(185)	-	-	-	(185)
Balance at the end of the year	374	1,203	442	1,957	3,976

14. BANK OVERDRAFT

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Bank Overdraft	305	-
	305	-

**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2010**

	CONSOLIDATED	
	2010	**2009**
	$'000	**$'000**
15. TRADE AND OTHER PAYABLES		
Current		
Trade creditors and accruals	6,769	6,918
Sundry creditors	410	526
	7,179	7,444
16. INTEREST BEARING LIABILITIES		
Current		
Bank Loan	4,250	4,500
Hire Purchase Liability	14	6
	4,264	4,506
Non Current		
Bank Loan	-	-
Hire Purchase Liability	44	28
	44	28

The above loan is secured by way of fixed and floating charges over the Group's assets.

(i) Financing Arrangements
Unrestricted access was available at balance date to the following lines of credit. Refer to Note 2.

	2010	2009
Bank Loan Facilities		
Total Facilities	4,800	5,050
Used at Balance Date	4,681	4,500
Unused at Balance Date, expiring 30 June 2011	119	550

17. MEMBERS' CAPITAL

	2010	2009
Current	111	123
Non-Current	2,116	2,338

Capital risk management
The Society manages its liability for members' capital as capital. The amount of members' capital does not change significantly on a yearly basis.

The Society monitors the level of contributions and resignations/forfeiture relative to the liquid assets in the Society. During 2010, the Society's strategy, which was unchanged from 2009, was to maintain sufficient liquid assets within the Society. Liquid assets include cash and cash equivalents and undrawn bank facilities. The ratio of liquid assets to members' capital at 30 June 2010 and 30 June 2009 was as follows:

	2010	2009
Liquid assets of the Society	119	294
Members' capital	2,227	2,461
Ratio of liquid assets to members' capital	5%	12%

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
18. EMPLOYEE ENTITLEMENTS		
Current		
Employee entitlements	427	433
Total employee entitlements	427	433
Non-current		
Employee entitlements	66	133
19. RETAINED PROFITS		
Balance at the beginning of the year	3,958	4,946
Profit (Loss) for the year	(569)	(988)
Balance at the end of the year	3,389	3,958

20. CONTROLLED ENTITIES

(a) The Society is incorporated in Australia and operates predominately in the retail direct marketing of wine and associated products in Australia.
(b) The ultimate parent entity in the Group is the Australian Wine Consumers' Co-Operative Society Limited.
(c) The registered office is situated at 66 Bay St, Ultimo NSW, Australia.
(d) Details of related entities and ownership interests are set out below:

	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %	Investment at cost 2010 $'000	Investment at cost 2009 $'000
TWS Wholesale Pty Limited	Australia	100	100	-	-
Winecel Investments Pty Limited	Australia	100	100	-	-
Winecel Limited	Australia	100	100	-	-
Winecel Retail (No1) Pty Limited	Australia	100	100	-	-
Winecel Retail (No2) Pty Limited	Australia	100	100	-	-
Winecel Retail (No3) Pty Limited	Australia	100	100	-	-
Winecel Retail (No4) Pty Limited	Australia	100	100	-	-
Winecel Retail (No5) Pty Limited	Australia	100	100	-	-
Winecel Retail (No6) Pty Limited	Australia	100	100	-	-
Winecel Retail (No7) Pty Limited	Australia	100	100	-	-
The Wine Society Limited	Australia	100	100	-	-
				-	-

21. CAPITAL, LEASING AND OTHER COMMITMENTS

	CONSOLIDATED 2010 $'000	2009 $'000
(a) Operating leases:		
Due within one year	562	509
Due within one and five years	941	508
Due beyond five years	129	-
	1,632	1,017

The Group leased various premises under non-cancellable operating leases expiring within two to six years. The leases have varying terms, escalation clauses and renewal rights. On renewal, terms are renegotiated.

22. RELATED PARTY TRANSACTIONS

(a) Other transactions with directors and director related entities

During the year the group purchased grapes to the value of $33,130 from Collina Del Re Pty Limited an entity associated with Director John Love.

During the year the group engaged the services of Paul Foster the Winemaster Pty Limited to conduct wine education classes and other services to the value of $3,507.

Aggregate amount payable to directors and their director related entities at balance date:

	2010	2009
Current Liabilities	34,000	-

(b) Identification of Related Parties

Ownership interests in related parties

Details of related entities and ownership interests are set out in Note 20 (Controlled Entities).

(c) Details of indemnification of Directors and Officers are disclosed in the Directors' Report.

23. EVENTS SUBSEQUENT TO BALANCE DATE

No significant events have occurred since the balance sheet date which would impact on the financial position of the Group disclosed in the balance sheet as at 30 June 2010 or on the results and cash flows of the Group for the year ended on that date except as disclosed below or included in Note 2 Going Concern:

- Operating losses of $780,000 have been incurred by the group in the five months subsequent to the end of the financial year.
- The receipt of a breach notice from its bankers notifying the group that it is in default of its facility agreement in so far as the group has failed to maintain its interim quarterly interest covenant, The notice goes further to advise that the bank reserves all of its rights in relation to the default and to take whatever action it considers appropriate under the facility agreement, without any further notice to the group.

24. PARENT ENTITY DISCLOSURES

	2010 $'000	2009 $'000
Current assets	3,933	4,485
Total assets	18,140	19,214
Current liabilities	11,651	11,825
Total liabilities	13,833	14,296
Retained earnings	4,307	4,918
Net surplus/(deficit)	(611)	(668)
Other comprehensive income	-	-
Total comprehensive income	(611)	(668)

Parent Guarantees of Subsidiaries
The Parent Entity has provided a letter of support to various subsidiaries to provide financial support if necessary to enable them to pay their debts as and when they fall due.

Parent Contingent Liabilities	Nil	Nil
Parent Contractual Commitments for Acquisition of Property, Plant & Equipment	Nil	Nil

25. CASH FLOW INFORMATION

(a) Reconciliation of Cash and cash equivalents

For the purpose of the statement of cash flows, cash includes:
(i) cash on hand and in at call deposits with banks or financial institutions, net of bank overdrafts; and
(ii) investments in money market instruments maturing within less than two months.

(b) Cash at the end of the year is shown in the statement of financial position as:

	CONSOLIDATED 2010 $'000	2009 $'000
Cash and Cash Equivalents (Note 8)	-	294
Bank Overdraft (Note 14)	(305)	-
Net Cash	(305)	294

(c) Reconciliation of cash flow from operations with operating profit (loss) after income tax

	CONSOLIDATED 2010 $'000	2009 $'000
Operating profit (loss) after income tax	(569)	(988)
Non-cash flows in operating result		
Depreciation and amortisation	606	586
Administration charge on forfeiting members	(301)	(271)
Profit on sale of Fixed Assets	-	(1,572)
(Decrease)/Increase Allowance for Impairment	148	1,140
Changes to provisions		
(Decrease)/Increase in employee provisions	(73)	(473)
Changes in assets and liabilities,		
Decrease/(Increase) in trade and term debtors	(228)	576
Decrease/(Increase) in inventories	490	(236)
Decrease/(Increase) in deferred tax asset	-	396
Increase/(Decrease) in accounts payable	(267)	1,389
Cash inflows from operating activities	(194)	547

26. FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks; market risk (including, fair value interest rate and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Group. The Group uses different methods to measure different types of risks to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks and aging analysis for credit risk.

Risk Management is carried out by the Chief Financial Officer under the instruction and supervision of the Audit and Risk Committee. The Board provides written principles for overall risk management. The Board review financial risk management issues on a monthly basis. There are no changes in the strategies used to manage the financial risks from the previous period.

26. FINANCIAL RISK MANAGEMENT (continued)

The Group and the parent entity hold the following financial instruments:

	CONSOLIDATED 2010 $'000	CONSOLIDATED 2009 $'000
Financial Assets		
Cash and cash equivalents	-	294
Trade and other receivables	983	755
	983	1,049
Financial Liabilities		
Bank Overdraft	305	-
Trade and other payables	7,179	7,444
Members' capital	2,227	2,461
Interest Bearing Liabilities	4,308	4,534
	14,018	14,439

(a) Market Risk

Market risk is the risk that the fair value of future cash flows of financial instruments will fluctuate due to changes in market variables such as equity prices or interest rates. Market risk is managed and monitored by ensuring investment activity is as per Board strategy and targets. There is no significant or material exposure to foreign exchange rate risk. There is no significant or material exposure to price risk.

The Group has significant interest-bearing liabilities and therefore the Group's income and operating cash flows are materially exposed to changes in market interest rates.

	30 June 2010		30 June 2009	
	Weighted Average Interest rate	**Balance $'000**	Weighted Average Interest rate	Balance $'000
Bank Overdraft	6.51%	305		-
Bank Loans	6.36%	4,250	5.5%	4,500
Hire Purchase Liability	8.14%	58	7.5%	34
Net Exposure to cash flow interest rate risk		4,613		4,534

The effect of a change in profit (loss) based on an interest rate change of 1% is $46,130 (2009: $45,340).

(b) Credit Risk

Credit risk arises from cash and cash equivalents, as well as credit exposures to customers. The Group has no significant concentrations of credit risk. The Group has policies in place to ensure that sales of products and services are either accompanied by an upfront method of payment, usually a major credit card, or alternately only made to customers with an appropriate credit history.

The credit quality of cash and cash equivalents can be assessed by reference to external credit ratings or through ageing analysis. Financial institutions used by the Group are AA rated by Standard & Poors rating categories. Trade and other receivables contain no material amounts which are past due or impaired.

26. FINANCIAL RISK MANAGEMENT (continued)

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close-out market positions. The Group manages liquidity risk by continually monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

Financing Arrangements

The Group and the parent entity have access to the following undrawn borrowing facilities at the reporting date. Refer to note 2 regarding the continued availability of these facilities.

	CONSOLIDATED	
	2010 $'000	2009 $'000
Floating rate		
Expiring beyond one year	119	550

Maturity of financial liabilities

The tables below analyse the Group's and parent entity's financial liabilities into relative maturity Groups based on the remaining period at the reporting date to the contracted maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Group – at 30 June 2010	<6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total contractual cash flows	Carrying amount
Non-derivatives							
Non-interest bearing	7,179	111	-	-	-	7,290	7,290
Variable Rate	4,000	264	-	44	-	4,308	4,308
Total Non-derivatives	11,179	375	-	44	-	11,598	11,598

Group – at 30 June 2009	<6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total contractual cash flows	Carrying amount
Non-derivatives							
Non-interest bearing	7,444	123	-	-	-	7,567	7,567
Variable Rate	4,250	256	-	28	-	4,534	4,534
Total Non-derivatives	11,694	379	-	28	-	12,101	12,101

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
ARBN 068 836 699

DIRECTORS DECLARATION
YEAR ENDED 30 JUNE 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 6 to 30 are in accordance with the Co-Operatives Act 1992, including:

(i) complying with Accounting Standards (including the Australian Accounting Interpretations) and the Co-Operatives Regulation 2005; and

(ii) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that The Society will be able to pay its debts as and when they become due and payable as outlined in Note 2.

The notes to the financial statements include a statement of compliance with International Financial Reporting Standards.

This declaration is made in accordance with a resolution of the directors.

Robert Whitton
Director

Lance Hogan
Director

Dated at Sydney this 16th day of December 2010

HLB Mann Judd

Accountants | Business and Financial Advisers

THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
ARBN 068 836 699

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of The Australian Wine Consumers' Co-Operative Society Limited:

As lead auditor for the audit of The Australian Wine Consumers' Co-Operative Society Limited for the year ended 30 June 2010, I declare that, to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of The Australian Wine Consumers co-operative Society Limited and the entities it controlled during the year.

P. Meade

P B Meade
Partner

HLB MANN JUDD
Chartered Accountants

Sydney
16th December 2010

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**THE AUSTRALIAN WINE CONSUMERS CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
ARBN 068 836 699**

INDEPENDENT AUDITOR'S REPORT

To the members of The Australian Wine Consumers' Co-Operative Society Limited:

We have audited the accompanying financial report of The Australian Wine Consumers' Co-Operative Society Limited ("the Society"), which comprises which comprises the statement of financial position as at 30 June 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of principal accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the Society and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 6 to 32.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the company's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the company's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, provided to the directors of The Australian Wine Consumers Co-operative Society Limited on 16 December 2010, would be in the same terms if provided to the directors as at the time of this auditor's report.

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HLB Mann Judd

THE AUSTRALIAN WINE CONSUMERS CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
ARBN 068 836 699

INDEPENDENT AUDITOR'S REPORT (continued)

Auditor's Opinion

In our opinion:

(a) the financial report of The Australian Wine Consumers' Co-Operative Society Limited is in accordance with the Co-Operatives Act 1992, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2010 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the *Co-operatives Regulation 2005;*

Significant Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, we draw attention to Note 2 to the financial statements which describes the significant uncertainty related to the Society and its consolidated entity's ability to operate as a going concern.

As set out in note 2 to the financial statements, the group's ability to settle its debts as and when they fall due and to continue to fund the daily operations is contingent upon:

- changes to the operating revenue and costs of the group for the remainder of the year;
- a review of operational locations including consolidation of distribution from a central location; and
- the sale of intangible assets.

In the event that the Society and its consolidated entities do not return to a surplus in the year subsequent to the financial report and certain asset sales are delayed, the group's ability to continue as a going concern will be reliant on its ability to renegotiate terms with creditors.

The outcome of these events cannot be presently determined with certainty as outlined in note 2, however, the directors anticipate these matters will occur within a timeframe sufficient to meet the cash flow needs of the group and accordingly the financial report is prepared on a going concern basis.

In addition, significant uncertainty exists in relation to the group's trading performance and as a consequence its ability to meet its funding requirements. This uncertainty relates to the group achieving its restated sales budget and being able to operate in a reduced cost environment. The long term viability of the group and the group's ability to continue as a going concern is contingent on its ability to return its operating performance to surplus and to ensure the availability of financing through meeting its banking covenants.

HLB Mann Judd

HLB MANN JUDD
Chartered Accountants

P. Meade

Sydney
22 December 2010

P B Meade
Partner