



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

ARBN 068 836 699

ANNUAL REPORT

FOR THE YEAR ENDED 30 JUNE 2011

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
AND ITS CONTROLLED ENTITIES
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**ANNUAL REPORT
FOR THE YEAR ENDED 30 JUNE 2011**

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**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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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 2011. The financial report was authorised for issue on 28th November 2011. 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:

JOHN LOVE

(Chairman since May 2011)

Qualifications: B Com, MBA (AGSM), MIRM (Deakin), CPA, FTIA, FFin, FAICD, FAMI, JP.

Experience: Over 45 years' experience in Banking and Finance. Currently consultant, Company Director. Extensive experience in wine industry management and currently the managing partner in a Victorian vineyard.

Meetings Attended:
Directors' 12 (12 maximum)
Audit Risk and Governance Committee 4 (4 maximum)

GEOFFREY BALLARD

(Deputy Chairman since May 2011)

Qualifications: B.A., B.Ec., M.App. Fin. (Macquarie), CPA, FTIA.

Experience: Over 28 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 (10 maximum)
Audit, Risk and Governance Committee 4 (4 maximum)

ROBERT WHITTON

(Chairman of Audit, Risk and Governance Committee)

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 25 years' experience. Partner in an insolvency practice and Company Director with wine industry experience.

Meetings Attended:
Directors' 12 (12 maximum)
Audit Risk and Governance Committee 1 (1 maximum)
Sales and Marketing Committee 1 (1 maximum)

GREG MELICK

Qualifications: AO, 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 a Tasmanian vineyard.

Meetings Attended
Directors' 11 (12 maximum)
Wine Committee 1 (1 maximum)

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DIRECTORS' REPORT (CONTINUED)

PAUL PENLINGTON FOSTER

Qualifications: BA.

Experience: Wine educator. Wine writer. Wine presenter. National/International wine tour guide. Manager / Winemaster at The Wine Society for 10 years. Wine Society Tasting Panel member for 15 years. Vin de Champagne award (Professional). Wine Brotherhood of St Stephen (Alsace). Wine Press Club award.

Meetings Attended:
Directors' 11 (12 maximum)
Wine Committee 1 (1 maximum)

TERRY STAPLETON

(resigned 31 December 2010)

Qualifications: FFin.

Experience: A high level of business experience over many years with ANZ Bank. Now retired

Meetings Attended:
Directors' 6 (7 maximum)
Audit, Risk and Governance Committee 3 (3 maximum)

IAN MCKENZIE

(Chairman of Wine Committee)

Qualifications: RDOen (Hons), SJW.

Experience: Over 52 years' winemaking experience. Formerly Chief Winemaker for B.Seppelt and Sons (8 years) and Southcorp Wines (11 years). A wine show judge with over 35 years' experience, many of which serving as Chairman of Judges for numerous wine shows. Wine industry consultant with Australian and International clients

Meetings Attended:
Directors' 8 (12 maximum)
Wine Committee 1 (1 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 a Director of the Liquor Stores Association NSW, and a past Director and Treasurer of Wine Communicators of Australia. Wine author and wine judge. Presently self-employed wine industry consultant.

Meetings Attended:
Directors' 11 (12 maximum)
Sales and Marketing Committee 1 (1 maximum)

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DIRECTORS' REPORT (CONTINUED)

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 11
Audit, Risk and Governance Committee 2

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 \$2,575,100 (2010: \$569,033).

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.

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DIRECTORS' REPORT (CONTINUED)

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 regard to, amongst other things, the following:

- (a) The receipt of a breach notice from the Group's bankers, Westpac, 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.
- (b) Notwithstanding receipt of the breach notice referred to above, an ongoing dialogue with the Group's bankers over the past 24 months has been on the basis of continuing support of the Group with a view to ensuring that in the 2011/2012 and future financial years the Group will be re-structured and profitable.
- (c) Westpac notified the Group in March 2011 that it would be required to repay its facilities by 30 June 2011. The Group and Westpac entered into a forbearance agreement from the time of notification to 30 June 2011. This forbearance agreement was further extended to allow the Group to complete the sale of its 66 Bay St Ultimo premises.
- (d) The Bay St property is currently the subject of an enforceable contract for sale in the sum of \$5,300,000. Following expected settlement in early January 2012 the Group will be able to repay its finance facilities from the proceeds of sale.
- (e) The balance of the proceeds from sale, estimated at \$1,400,000, will be used to pay down amounts owing to suppliers and other creditors to the Group. This will have the effect of reducing the working capital deficit of the business from \$6,447,000 to \$1,287,000 on completion of the sale. It is estimated that the working capital deficit will continue to reduce post completion of the building sale to approximately \$630,000 by October 2012.
- (f) Despite the significant reporting loss for the year ended 30 June 2011, the results of operations for that year were an EBITDA of \$722,000 and a net cash inflow from operations of \$905,000. The reported loss included asset impairment charges of \$2,347,000 which are a non-cash expense.
- (g) Operating losses of approximately \$400,000 have been incurred by the Group on a year to date (to end of October) basis in the 2011/2012 financial year,
- (h) Management has made 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 segments and locations and the sale and the impact of the sale of intangible assets. In that regard the Directors have had access to both a rolling fourteen month forecast that reflects a profitable operation over this period as well as a positive reforecast EBITDA for the current 2011/2012 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.
- (i) Management's presentations and representations regarding future cash flows of the Group and the ability of the Group to meet 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 \$450,000.
- (j) The Group has 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 \$6m to \$8m if realised in the ordinary course of business.
- (k) The Board has resolved to exit all loss making enterprises in a structured and commercial manner and it is expected that this will be completed no later than June 2012.

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DIRECTORS' REPORT (CONTINUED)

POST BALANCE DATE EVENTS

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 Wine Society and its controlled entities, the results of those operations, or the state of affairs of The Wine Society and its controlled entities in subsequent financial years are disclosed below or included in this report under Review of Operations and significant changes in the state of affairs.

- Operating losses of approximately \$400,000 have been incurred by the Group in the four months subsequent to the end of the financial year ended 30 June 2011.
- The extension of a period of forbearance by Westpac to allow the Group to complete the sale of the 66 Bay St Ultimo premises.
- The sale of the Co-operative's 66 Bay St Ultimo premises, currently in progress, for gross proceeds of \$5,300,000, resulting in the recording of an impairment loss of \$1,765,000 in the 2011 financial year.

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 31.

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 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.



JOHN LOVE
Director



ROBERT WHITTON
Director

Dated at SYDNEY this 28th day of November 2011

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30 JUNE 2011**

	Note	CONSOLIDATED	
		2011	2010
		\$'000	\$'000
Revenue from Continuing Operations			
Sales	3	40,787	44,148
Other Revenues from Continuing Operations	3	<u>2,806</u>	<u>2,848</u>
Gross Revenue		43,593	46,996
Other Income	3	480	-
Cost of Sales		(28,914)	(31,037)
Other Expenses from Continuing Operations			
Distribution		(2,504)	(3,087)
Sales and marketing		(6,820)	(7,045)
Finance and administration		(7,248)	(5,395)
Information technology		<u>(1,162)</u>	<u>(1,001)</u>
Profit / (Loss) before income tax		(2,575)	(569)
Income tax (expense)/benefit	5	<u>-</u>	<u>-</u>
Profit / (Loss) for the year		(2,575)	(569)
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income/(loss)		<u>(2,575)</u>	<u>(569)</u>

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 2011

	Note	CONSOLIDATED 2011 \$'000	2010 \$'000
CURRENT ASSETS			
Cash and cash equivalents	8	136	-
Trade and other receivables	9	992	983
Inventories	10	<u>5,419</u>	<u>4,846</u>
TOTAL CURRENT ASSETS		<u>6,547</u>	<u>5,829</u>
NON-CURRENT ASSETS			
Other financial assets	11	167	224
Property, plant and equipment	12	6,081	7,872
Intangibles	13	<u>2,844</u>	<u>3,976</u>
TOTAL NON-CURRENT ASSETS		<u>9,092</u>	<u>12,072</u>
TOTAL ASSETS		<u>15,639</u>	<u>17,901</u>
CURRENT LIABILITIES			
Bank overdraft	14	-	305
Trade and other payables	15	9,056	7,179
Interest bearing liabilities	16	3,444	4,264
Members' capital	17	94	111
Employee entitlements	18	<u>400</u>	<u>427</u>
TOTAL CURRENT LIABILITIES		<u>12,994</u>	<u>12,286</u>
NON-CURRENT LIABILITIES			
Interest bearing Liabilities	16	-	44
Members' capital	17	1,784	2,116
Employee entitlements	18	<u>47</u>	<u>66</u>
TOTAL NON-CURRENT LIABILITIES		<u>1,831</u>	<u>2,226</u>
TOTAL LIABILITIES		<u>14,825</u>	<u>14,512</u>
NET ASSETS		<u>814</u>	<u>3,389</u>
RETAINED PROFITS			
Retained Profits	19	<u>814</u>	<u>3,389</u>
TOTAL RETAINED PROFITS		<u>814</u>	<u>3,389</u>

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 2011**

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from sales of goods and services	44,967	48,607
Payments to suppliers and employees	(43,779)	(48,552)
Interest received	12	10
Interest paid	(295)	(259)
	<u>905</u>	<u>(194)</u>
Net cash inflow / (outflow) from operating activities (Note 25 (c))		
CASH FLOWS FROM INVESTING ACTIVITIES		
Payment for intangibles	(254)	(61)
Proceeds from sale other financial assets	6	-
Proceeds from sale of liquor licence	1,125	-
Payment for property, plant & equipment	(501)	(187)
	<u>376</u>	<u>(248)</u>
Net cash inflow / (outflow) from investing activities		
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds (Repayment) bank loan	(865)	(225)
Proceeds from share issues	118	161
Payments for share redemptions	(93)	(93)
	<u>(840)</u>	<u>(157)</u>
Net cash inflow / (outflow) from financing activities		
Net increase / (decrease) in cash and cash equivalents	441	(599)
Cash and cash equivalents at beginning of financial year	<u>(305)</u>	<u>294</u>
Cash and cash equivalents at end of financial year (Note 25 (b))	<u><u>136</u></u>	<u><u>(305)</u></u>

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 2011**

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
Retained profits at the beginning of the financial year	3,389	3,958
Total comprehensive income / (loss)	<u>(2,575)</u>	<u>(569)</u>
Total retained profits at the end of the financial year	<u>814</u>	<u>3,389</u>

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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.

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 Accounting Standards.

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 judgment 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 Group's 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 as required.

The Group's 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 for the reasons as outlined in Note 2 Going Concern.

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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 2011 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 currently 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 2011 reporting periods. The Group has assessed the impact of these new standards and interpretations and concluded that none of the upcoming changes will have a significant impact on the presentation and disclosure of the financial statements.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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 recognised 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 recognised 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. Refer also Note 12 for details of impairment loss recognised in the year ended 30 June 2011, to reflect the estimated loss on sale of land and buildings subsequent to balance date. 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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 between 1 and 3 years (2010: 2 to 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 item's 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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 realise 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.

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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 90 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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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 from, or payable to, the ATO is included as a current asset or liability in the Statement of Financial Position. Cash flows are included in the Statement of Cash Flows 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. 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.

(w) Comparative Figures

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

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

1. PRINCIPAL ACCOUNTING POLICIES (continued)

(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 Group's 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 2011 the Group had a deficiency in working capital of \$6,447,000 (2010: \$6,457,000).

The Directors have concluded that based on all available facts and information, and in particular after having considered profit and loss and cash flow forecasts presented by Management, 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 able to operate as a going concern. Set out below is further rationale for this conclusion.

Westpac bank extended an original 30 June 2011 forbearance period for repayment of its debt facilities to allow the Group reasonable time to complete the sale of the 66 Bay St Ultimo premises. This building is currently the subject of an enforceable contract for sale in the sum of \$5,300,000 with settlement scheduled for early January 2012. The Group will repay in full its debt obligations to Westpac from part of the sale proceeds.

Remaining proceeds from the building sale, estimated at \$1,400,000, will be used to pay down balances owing to suppliers and other creditors to the Group. Combined with the bank debt repayment, this will have the effect of reducing the working capital deficit of the business from \$6,447,000 to \$1,287,000. It is forecast that the working capital deficit will then continue to reduce to approximately \$630,000 by October 2012 through a positive operational cash flow despite operating losses of approximately \$400,000 which have been incurred by the Group on a year-to-date (to end of October) basis in the 2011/2012 financial year.

Management has made representations regarding the estimated operating revenue and costs of the Group for the remainder of the current financial year and through to 31 December 2012. These representations are after taking into consideration a review of staffing levels, operational segments and locations and the sale (and the impact of the sale) of intangible assets during this period. The Directors have had access to both a rolling fourteen month (from the date of this report) forecast that reflects a profitable operation, as well as a positive forecast EBITDA for the 2011/2012 financial year. Directors have applied a series of sensitivities to the analysis of the information supplied by management to test its robustness in the circumstances of any further deterioration in the businesses of the Group.

Further, the Board has resolved to exit all loss making enterprises in a structured and commercial manner and it is expected that this will be completed no later than June 2012.

The Group's principal focus has been ensuring that it returns to surplus in the year subsequent to the financial report and then in future years. Management has presented and the Board has received, reviewed and accepted management recommendations and reports, covering the operational matters outlined above in this regard. The Directors acknowledge that 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.

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

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FOR THE YEAR ENDED 30 JUNE 2011**

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
3. REVENUE		
Revenue from continuing operations		
Sales to members - goods	31,982	35,661
- services	165	265
Sales to persons other than Members – goods / services	8,640	8,222
	<u>40,787</u>	<u>44,148</u>
Other revenue		
Volume & promotional allowances	2,346	2,452
Insurance refunds	3	73
Administration charge on forfeiting members	328	274
Miscellaneous income	42	16
Education subsidy	6	14
Trust distribution	16	9
Joint venture income	53	-
Interest from other persons	12	10
	<u>2,806</u>	<u>2,848</u>
Total Revenue	<u>43,593</u>	<u>46,996</u>
Other Income		
Profit on Sale of Liquor Licence	<u>480</u>	<u>-</u>
4. EXPENSES		
Loss before income tax includes the following specific expenses:		
Expenses		
Bad and doubtful debts	28	48
Depreciation and amortisation		
- Buildings	109	111
- Other Property, Plant and Equipment	337	310
- Capitalised computer software	209	185
Employee benefits	5,667	5,765
Interest paid	295	259
Allowance for impairment		
- Intangibles	582	148
- Buildings	1,765	-
Loss on sale of Property, Plant and Equipment	31	-
Rental expenses on operating leases	<u>552</u>	<u>529</u>

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
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CONSOLIDATED
2011 2010
\$'000 \$'000

5. INCOME TAX EXPENSE

Prima facie tax payable / (benefit) on operating profit / (loss) before income tax at 30% (2010: 30%)	(773)	(171)	
Tax losses (recouped) not recognised as benefits	29	111	
Mutual income tax expense / (benefit)	744	60	
Income tax expense / (benefit)	-	-	

The Directors estimate that the potential tax losses not brought to account are approximately:	1,841	1,938	
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The benefit from potential tax losses 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 Geoff Ballard	Terry Stapleton (resigned 31 Dec 2010) Ian McKenzie Lance Hogan Paul Foster
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Full particulars are disclosed in the Directors' Report.

All Directors are Key Management Personnel.

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

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	
	2011	2010
	\$'000	\$'000
(c) Key management personnel compensation		
Short term benefits	794	798
Post-employment benefits	66	65
	860	863

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 2011 was up to 20% off the list price.

Aggregate value of wine purchased by key management personnel	24	22
Aggregate value of discounts received by key management personnel in relation to these purchases	6	5

The above transactions are charged to each key management person's debtors 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.	-	-
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7. AUDITOR'S REMUNERATION

HLB Mann Judd		
Auditing the financial report	90	95
Other services	18	15
	108	110

8. CASH AND CASH EQUIVALENTS

Cash on hand and at bank	136	-
	136	-

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**NOTES TO THE FINANCIAL STATEMENTS
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	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
9. TRADE AND OTHER RECEIVABLES		
Current		
Trade receivables	761	741
Less allowance for impairment	(32)	(11)
	<u>729</u>	<u>730</u>
Other debtors	203	191
Prepayments	60	62
	<u>992</u>	<u>983</u>
10. INVENTORIES		
Raw materials	391	585
Work in progress	149	202
Finished goods	4,891	4,071
Allowance for stock obsolescence	(12)	(12)
	<u>5,419</u>	<u>4,846</u>
11. OTHER FINANCIAL ASSETS		
Other financial investments at cost		
Term deposits used as security for lease guarantees	90	140
Interest in joint venture	-	6
Shares in listed companies	2	2
Units in unlisted unit trust	75	76
	<u>167</u>	<u>224</u>
12. PROPERTY, PLANT AND EQUIPMENT		
Land and buildings		
Land at cost	2,500	2,500
Building at cost	4,773	4,773
Allowance for impairment	(1,765)	-
Accumulated depreciation	(422)	(327)
	<u>5,086</u>	<u>6,946</u>
Leasehold Improvements at cost	194	194
Accumulated amortisation	(135)	(121)
	<u>59</u>	<u>73</u>
TOTAL LAND & BUILDINGS	<u>5,145</u>	<u>7,019</u>
Plant & equipment at cost	2,550	2,419
Accumulated depreciation	(1,614)	(1,566)
TOTAL PLANT & EQUIPMENT	<u>936</u>	<u>853</u>
TOTAL PROPERTY PLANT & EQUIPMENT	<u>6,081</u>	<u>7,872</u>

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

12. PROPERTY, PLANT AND EQUIPMENT (continued)

The Directors have written down by way of an impairment loss of \$1,765,000 the value of the 66 Bay St Ultimo building to its net realisable value from sale of \$5,160,000.

	Land and Buildings \$'000	Plant and Equip. \$'000	Total \$'000
Consolidated 2011			
Balance at the beginning of year	7,019	853	7,872
Additions	-	501	501
Disposals	-	(81)	(81)
Allowance for Impairment	(1,765)	-	(1,765)
Depreciation and amortisation expense	(109)	(337)	(446)
	<u>5,145</u>	<u>936</u>	<u>6,081</u>
Carrying amount at the end of the year			

**CONSOLIDATED
2011 2010
\$'000 \$'000**

13. INTANGIBLES

Non current		
Capitalised computer software	373	374
Customer records	1,021	1,203
Goodwill	442	442
Liquor licences and associated development costs	1,008	1,957
	<u>2,844</u>	<u>3,976</u>

	Capitalised Computer Software \$'000	Customer Records \$'000	Goodwill \$'000	Liquor Licences \$'000	Total \$'000
Consolidated 2011					
Balance at the beginning of year	374	1,203	442	1,957	3,976
Additions	208	-	-	46	254
Disposals	-	-	-	(595)	(595)
Impairment allowance	-	(182)	-	(400)	(582)
Amortisation expense	(209)	-	-	-	(209)
	<u>373</u>	<u>1,021</u>	<u>442</u>	<u>1,008</u>	<u>2,844</u>
Balance at the end of the year					

**CONSOLIDATED
2011 2010
\$'000 \$'000**

14. BANK OVERDRAFT

Bank overdraft	-	305
	<u>-</u>	<u>305</u>

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
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	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
15. TRADE AND OTHER PAYABLES		
Current		
Trade creditors and accruals	8,678	6,769
Sundry creditors	378	410
	9,056	7,179
16. INTEREST BEARING LIABILITIES		
Current		
Bank loan	3,400	4,250
Hire purchase liability	44	14
	3,444	4,264
Non-Current		
Bank loan	-	-
Hire purchase liability	-	44
	-	44

The bank 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 notwithstanding that the Group is in receipt of a breach notice from its bankers notifying the Group that it is in default of its facility agreement. Refer to Note 2 for more detailed information.

Bank Loan Facilities

Total facilities	3,750	4,800
Used at balance date	3,400	4,681
Unused at balance date, expiring 30 June 2011. Refer Note 2	350	119

17. MEMBERS' CAPITAL

Current	94	111
Non-Current	1,784	2,116

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 2011, the Society's strategy, which was unchanged from 2010, 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 2011 and 30 June 2010 was as follows:

Liquid assets of the Society	433	119
Members' capital	1,878	2,227
Ratio of liquid assets to members' capital	23%	5%

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	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
18. EMPLOYEE ENTITLEMENTS		
Current		
Employee entitlements	400	427
Non-Current		
Employee entitlements	47	66
Total employee entitlements	447	493
19. RETAINED PROFITS		
Balance at the beginning of the year	3,389	3,958
Profit / (Loss) for the year	(2,575)	(569)
Balance at the end of the year	814	3,389

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		Investment at cost	
		2011	2010	2011	2010
		%	%	\$'000	\$'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	-	-
Winecel Retail (No8) Pty Limited	Australia	100	100	-	-
Winecel Retail (No9) Pty Limited	Australia	100	100	-	-
The Wine Society Limited	Australia	100	100	-	-
				-	-

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
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CONSOLIDATED
2011 2010
\$'000 \$'000

21. CAPITAL, LEASING AND OTHER COMMITMENTS

(a) Operating leases:

Due within one year	440	562
Due within one and five years	456	941
Due beyond five years	-	129
	896	1,632

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

As a condition of the sale of the Bay St Ultimo property the Group has leased back the premises for a minimum of five years with effect from completion of the sale which is expected to take place in early January 2012. The base net lease rental is approximately \$450,000 per annum.

22. RELATED PARTY TRANSACTIONS

(a) Other transactions with Directors and Director related entities:

Nil

(2010: 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 \$5,036

(2010: 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:

Current Liabilities	22,471	34,000
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(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.

**THE AUSTRALIAN WINE CONSUMERS' CO-OPERATIVE SOCIETY LIMITED
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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

23. EVENTS SUBSEQUENT TO BALANCE DATE

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 Wine Society and its controlled entities, the results of those operations, or the state of affairs of The Wine Society and its controlled entities in subsequent financial years are disclosed below or included in Note 2 Going Concern.

- Operating losses of approximately \$400,000 have been incurred by the Group in the four months subsequent to the end of the financial year ended 30 June 2011.
- The further extension of the forbearance period to 17 January 2012 by Westpac to allow the Group to complete the sale of the 66 Bay St Ultimo premises.
- The sale of the Co-operative's 66 Bay St Ultimo premises, currently in progress, for gross proceeds of \$5,300,000, resulting in the recording of an impairment loss of \$1,765,000 in the 2011 financial year

(2010: 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 2011 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.)

	2011 \$'000	2010 \$'000
24. PARENT ENTITY DISCLOSURES		
Current assets	4,724	3,933
Total assets	15,813	18,140
Current liabilities	12,424	11,651
Total liabilities	<u>12,470</u>	<u>13,833</u>
Retained earnings	<u>3,343</u>	<u>4,307</u>
Net surplus / (deficit)	(2,841)	(611)
Other comprehensive income	<u>-</u>	<u>-</u>
Total comprehensive income	<u>(2,841)</u>	<u>(611)</u>

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

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**NOTES TO THE FINANCIAL STATEMENTS
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	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
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:		
Cash and Cash Equivalents (Note 8)	136	-
Bank Overdraft (Note 14)	-	(305)
	<u>136</u>	<u>(305)</u>
Net Cash	<u>136</u>	<u>(305)</u>
(c) Reconciliation of cash flow from operations with operating profit (loss) after income tax		
Operating profit (loss) after income tax	(2,575)	(569)
Non-cash flows in operating result		
Depreciation and amortisation	655	606
Administration charge on forfeiting members	(371)	(301)
Loss on sale of fixed assets	31	-
Profit on sale of liquor licence	(480)	-
(Decrease) / Increase allowance for impairment changes to provisions	2,347	148
(Decrease) / Increase in employee provisions	(47)	(73)
Changes in assets and liabilities,		
Decrease / (Increase) in trade and term debtors	(9)	(228)
Decrease / (Increase) in inventories	(573)	490
Decrease / (Increase) in other financial assets	50	-
Increase / (Decrease) in accounts payable	1,877	(267)
	<u>1,877</u>	<u>(267)</u>
Cash inflows from operating activities	<u>905</u>	<u>(194)</u>

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, Risk and Governance Committee. The Board provides written principles for overall risk management. The Board reviews 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.

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**NOTES TO THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30 JUNE 2011**

26. FINANCIAL RISK MANAGEMENT (continued)

The Group holds the following financial instruments:

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
Financial Assets		
Cash and cash equivalents	136	-
Trade and other receivables	992	983
	<u>1,128</u>	<u>983</u>
Financial Liabilities		
Bank overdraft	-	305
Trade and other payables	9,056	7,179
Members' capital	1,878	2,227
Interest bearing liabilities	3,444	4,308
	<u>14,378</u>	<u>14,019</u>

(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 2011		30 June 2010	
	Weighted Average Interest rate	Balance \$'000	Weighted Average Interest rate	Balance \$'000
Bank overdraft		-	6.51%	305
Bank loans	6.49%	3,400	6.36%	4,250
Hire purchase liability	8.14%	44	8.14%	58
Net exposure to cash flow interest rate risk		<u>3,444</u>		<u>4,613</u>

The effect of a change in profit / (loss) based on an interest rate change of 1% is \$34,440 (2010: \$46,130).

(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 aging 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.

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**NOTES TO THE FINANCIAL STATEMENTS
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26. FINANCIAL RISK MANAGEMENT (continued)

(b) Credit Risk (continued)

As at 30 June 2011, trade receivables of \$334,399 (2010: \$219,114) were past due but not impaired. The aging analysis of these trade receivables is as follows:

	CONSOLIDATED	
	2011	2010
	\$'000	\$'000
Up to three months	266	164
Beyond three months	68	55
	334	219

There are no other material amounts within trade and other receivables which are past due or impaired

(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	
	2011	2010
	\$'000	\$'000
Floating rate		
Expiring within one year	350	119

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 2011	<6 months	6-12 months	1-2 years	2-5 years	> 5 years	Total contractual cash flows	Carrying amount
Non-derivatives							
Non-interest bearing	9,056	94	89	242	1,453	10,934	10,934
Variable Rate	3,444	-	-	-	-	3,444	3,444
Total Non-derivatives	12,500	94	89	242	1,453	14,378	14,378

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	106	287	1,723	9,406	9,406
Variable Rate	4,000	264	-	44	-	4,308	4,308
Total Non-derivatives	11,179	375	106	331	1,723	13,714	13,714

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DIRECTORS DECLARATION
YEAR ENDED 30 JUNE 2011

In the Directors' opinion:

- (a) the financial statements and notes set out on pages 6 to 29 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 2011 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.

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



John Love
Director



Robert Whitton
Director

Dated at Sydney this 28th day of November 2011

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 2011, 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 B Meade
Partner

Sydney
28 November 2011

HLB Mann Judd (NSW Partnership) ABN 34 482 821 289

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**THE AUSTRALIAN WINE CONSUMERS CO-OPERATIVE SOCIETY LIMITED AND ITS
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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 Limited ("the Society"), which comprises the statement of financial position as at 30 June 2011, the statement of comprehensive income, the statement of changes in equity and the statement of cash flows for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration for the consolidated entity as set out on pages 6 to 30. The consolidated entity comprises the Society and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the Society are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Co-operatives Act 1992* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error.

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. Those 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 Society'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 Society'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.

Matters relating to the electronic presentation of the audited financial report

This auditor's report also relates to the financial report of the Society for the financial year ended 30 June 2011 included on the Society's website. The Society's directors are responsible for the integrity of The Australian Wine Consumers Co-operative Society Limited's website. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial

THE AUSTRALIAN WINE CONSUMERS CO-OPERATIVE SOCIETY LIMITED AND ITS
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INDEPENDENT AUDITOR'S REPORT (continued)

report identified above. If users of the financial report are concerned with the inherent risks arising from publication on a website, they are advised to refer to the hard copy of the audited financial report to confirm the information contained in the website version of the financial report.

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 28 November 2011, would be in the same terms if provided to the directors as at the time of this auditor's report.

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 2011 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 meet its funding requirements is contingent upon:

- achieving its restated sales budget and being able to operate in a reduced cost environment;
- the ability to return its operating performance to surplus.

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.


HLB MANN JUDD
Chartered Accountants


P B Meade
Partner

Sydney
28 November 2011