

Australian United Retailers Limited

2006

Annual Report



FOODWORKS

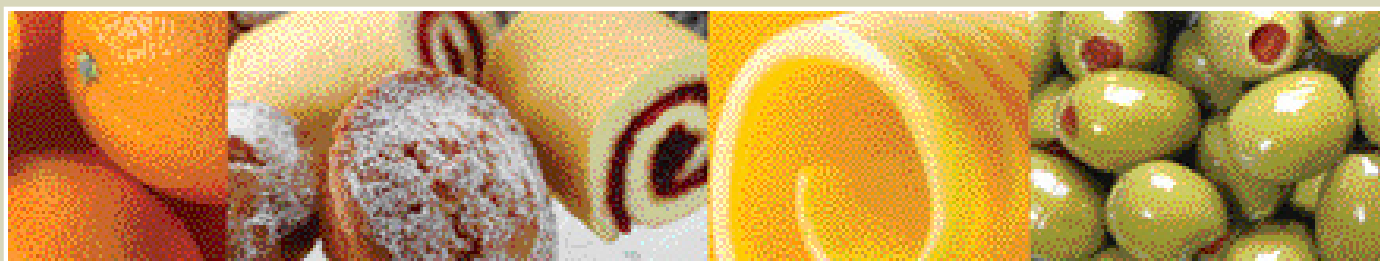
What can we do for you today?

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Registered Office and Melbourne Support Office

Level 1, 1601 Malvern Road, Glen Iris
Victoria , Australia 3164
P: 03 9809 8600 F: 03 9809 8699
Toll Free: 1800 356 395

Queensland Support Office

27 Hi Tech Court, Eight Mile Plains
Queensland, Australia 4113
P: 07 3340 5200 F: 07 3340 5299
Toll Free: 1800 651 580

W: www.foodworks.com.au

Chairman's Report



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

The 2006 year has seen fulfilled the promise of the merger which created our new company.

FoodWorks has been established as an outstanding contemporary retailing brand with more than three hundred and fifty stores now proudly identified in our striking colours and design. The financial outcomes expected from the merger are being delivered. The company has been restructured to provide a more targeted and relevant business development support to our shareholders in their businesses. Like for like sales growth in FoodWorks stores leads the industry. Much has been achieved.

Rather than bask in the glory of our recent success, our retail shareholders, our Board of Directors and our staff team have not drawn breath before embarking on our next great endeavour. The entrepreneurial spirit, willingness to work for a common goal and fierce independence of FoodWorks retailers has generated a new and challenging goal for the company, which was emphatically supported at our recent conference.

FoodWorks will raise approximately \$20 million in capital to fund an ambitious growth strategy which will support the refurbishment, expansion or establishment of 150 or more FoodWorks stores over the next few years. We will build a strong retail support system focused primarily on growing the prosperity of our retailers. We will recruit, train and place into FoodWorks stores a new generation of retailers to help our foundation members to aggressively grow the FoodWorks brand and presence in the market.

FoodWorks is not content to rest on its laurels but wants to become the fastest growing food retailer in the country with the most profitable retailers in the industry.

Our 2006 conference clearly endorsed the Board's growth strategy. Our retail shareholders gave clear direction about the preference to raise capital internally, thus retaining 100% ownership of the company. The challenge for the Board and staff team in the 2007 year is to detail the implementation plan, gain formal shareholder approval and then begin to realise the vision.

The FoodWorks story has been exciting so far but the future promises to be even more exhilarating and rewarding for all of us. On behalf of the Board and staff team I thank our shareholders for their continuing confidence in the company and we all look forward to taking another major step forward as we strive to become a truly great company.

John Bridgfoot
CHAIRMAN

CEO's Report



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

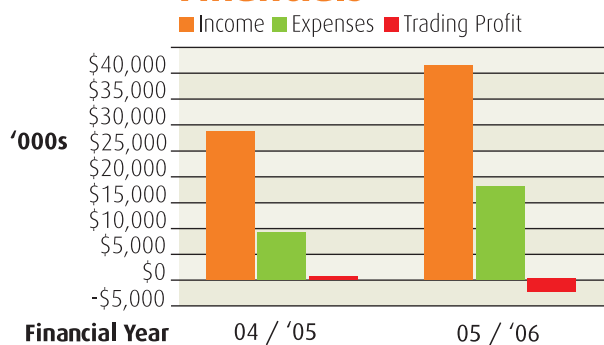
The Australian supermarket scene continues to evolve at an ever quickening pace. FoodWorks has achieved much in the past year to consolidate, develop and implement our retail strategy.

Financial Performance

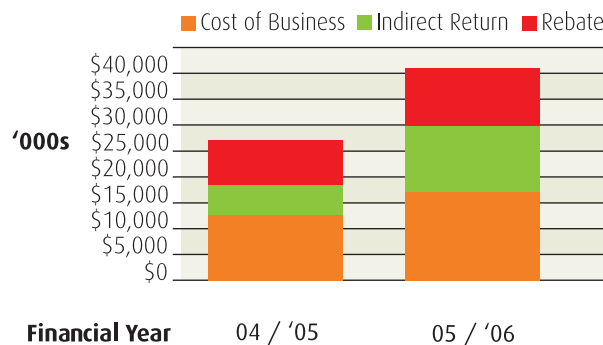
The company delivered a trading performance \$0.733M above the estimate in the pre-merger Offer Information Statement for the financial year 05/06. Incomes were ahead of plans significantly, reflecting solid volume throughout and strong supplier investment in the FoodWorks business. Store rebranding costs were above planned spend, consistent with the rebranding of an additional thirty branded stores and a significant number of new FoodWorks members.

Rebates and indirect returns to members were up from \$17.3M in 04/05 to \$29.6M in 05/06 (73% of company income).

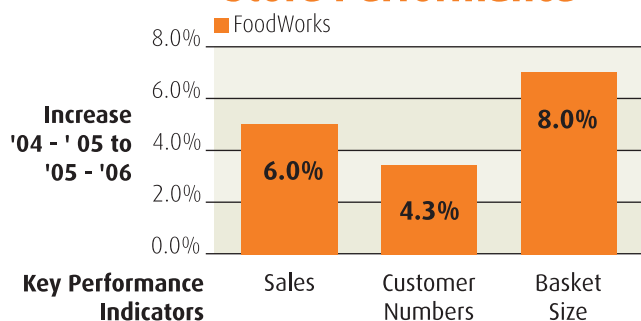
Financials



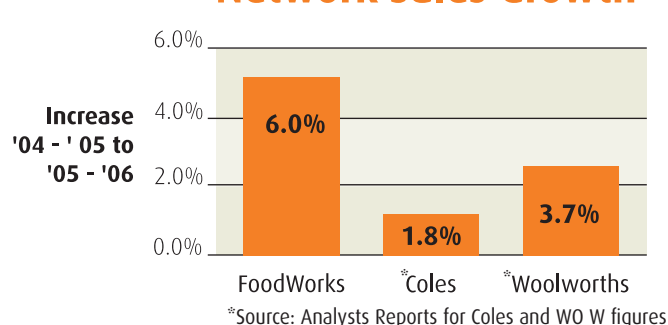
Member Returns



Store Performance



Network Sales Growth



Store Sales Performance

Store sales grew 6% on a like-for-like basis across the network. It is pleasing to note that our customer count grew 4.3% and basket size grew 8% over the 05/06 financial year.

CEO's Report



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Communication of Vision and Values

Both the Board and Executive Management Team spent significant time further developing both the company's vision and values and communicating these across our retailer and support staff networks.

Strategy and Direction

The Board and Executive Management Team conducted a strategic review of the company during the past year. This project was aimed at assessing our current performance in the market in the post merger consolidation period and to further identify next steps to further position the company and its shareholders' businesses for the long term, centred on growth. The 06/07 financial year will see this growth strategy operationalised after appropriate shareholder sign-off.

Finance

The focus of finance has been to provide timely and accurate financial and management reports, to best enable the Board and management to take commercially sound decisions, which in turn maximise the delivery of member services and rebate returns to shareholders.

An industry leading rebates scheme has been developed, with which to reward retail members in line with their support of the business' key drivers. This has resulted in a more equitable dissection of the returns to members, while rewarding growth.

The year has also seen the winding up of several obsolete subsidiaries, which simplifies the company's legal reporting requirements.

Information Technology

The ScanWorkss system has now established itself as an essential management tool from which were retrieved detailed scan data from over 280 branded sites. This data provides vital information for our category and business development teams to effectively measure and monitor their progress. The in-store reporting to retailers has also proved invaluable.

The release of our 'Connect' telecommunications initiative also proved highly successful. This package offers members the best available deals from Telstra and the Commonwealth Bank for services including fixed and mobile telephone plans, telephone systems, CBA EFTPOS.

National Brand Launch

A new FoodWorks advertising campaign comprising TV, radio and mobile billboards was launched, as each media region's store rebranding was completed during 2005; a National Launch across all regions took place in November.

The campaign program was presented to members at a series of meetings based on media regions, with an enthusiastic response from retailers.

The launch campaign materials were developed by FoodWorks advertising agency – Smart and features four television commercials, two radio advertisements and two mobile billboard executions. Accompanying materials also include new handbill design, local press templates, point of sale tickets and new uniform wardrobe.

CEO's Report



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Local Area Marketing

Through our local area marketing function we aim to provide our retail members with the tools to tap into their local communities, while providing consistency of message between our national advertising platform and local marketing and advertising initiatives.

This service has been assisted greatly this year by the appointment of an in-house graphic design function which has resulted in greater output and cost savings for the business.

In-House Design Function

The in-house design function was established in the Melbourne support office in January 2006. This function has enabled greater control, consistency and output of all FoodWorks collateral materials including newsletters, brochures, local area marketing materials and handbill design.

Merchandise

A significant initiative for the past year has been the introduction of key benchmarks for both our business and store performance.

Store financial analysis for the EDGE program and weekly business performance reporting by store and state highlighting sales, basket size and customer count have been established.

In the promotions area we have successfully amalgamated print and distribution suppliers ensuring price competitiveness and higher levels of service to the network.

Other undertakings have included the introduction of additional handbill versions to best suit store needs.

The team negotiated additional supplier support for the November 2005 brand launch and a successful Fly & Buy Competition in 2006, in addition to procuring a range of supplier exclusive deals for FoodWorks retailers.

Private Label

The FoodWorks Private Label program is building into a major differentiator for FoodWorks stores. The repositioning of Best Buy to be equivalent or better than the national brands in their categories has also contributed to improved sales.

Best Buy bread and milk products were successfully launched creating the momentum to introduce another 32 products. These include kool sticks, ice cream, frozen meals, fruit bars, toilet paper, bacon and spring water.

We continue to honour our commitment to source where ever possible the Best Buy products from local Australian producers.

Tobacco

Tobacolink has continued to grow tobacco product sales in members' stores by an average of 7% over the past twelve months. All three major tobacco manufacturers continue to view Tobacolink as the major independent group that influences the market on the eastern seaboard.

CEO's Report



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Liquor

The new, internal Liquorlink promotional group was formed in November 2005 representing 65% of the Liquor volume of the network. The Liquorlink program has achieved impressive results with a 9% Year on Year (YOY), Like for Like (LFL) scanned sales versus Non Liquorlink growth of 5%. Liquorlink stores on average increased profit by 2% which given the competitive pricing is an excellent result.

Other new initiatives have seen the introduction of sales metrics into weekly store communications package which outlines best sellers, deal specifics and pertinent industry information.

We have also been first to market with a regular inclusion of liquor products on the front page of handbills for the Liquorlink program, which is driving aggressive market leading pricing program and differentiating the FoodWorks liquor offer from competitors.

Space Management

During the past year Space Planning completed Core Range "A Grade" planograms based on current ScanWorks grading data. These planograms are an excellent working tool for all size retailers; ensuring stores are carrying the basic "A Grade" range of products.

Space Management also completed Dairy, Frozen and Household cleaning range reviews.

EDGE Program

The FoodWorks EDGE successful pilot program was launched to provide members with the tools to develop and improve their businesses. The overriding objective of the program was to develop the best stores in the country and to facilitate long term development and growth of the network.

Key components of the program included business performance measurement, adherence to merchandising and promotional initiatives, customer service, store presentation standards and learning and development modules.

Business Development

During another busy year the team increased in size dramatically due to the merger of the Operational Field team into the Business Development structure. Following an extensive selection & recruitment process and 6 month training programme, the new "Growth" based field team are now engaging with the retailer shareholders to develop a store specific business plans.

The planning team also concluded the market Potential Assessments for all 350+ branded stores; this was in addition to assessments necessary to evaluate the 60+ potential new to industry sites currently under review.

In support of these changes we have established the necessary specialist functionality to ensure these opportunities, once identified, are developed in the most cost-effective manner. These resources include Retail Design and Fit-out Project Management.

In addition the team now has a dedicated network development team, solely focused and the sourcing and recruitment of new quality independent supermarkets to the group. They have successfully secured 49 new to FoodWorks stores this year, with 11 of those being new to industry locations.

CEO's Report



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ScanWorks

The ScanWorks program has continued to evolve and we now receive daily scan data from 293 retail members across 7 back office platforms through the automated retrieval of scan data from your back office system. This represents over \$17 Million in weekly retail sales.

Data obtained is utilised in a numerous key business areas:

- League Ladders
- AC Nielsen
- Business Development
- Best Buy
- Scan Deal Rebates
- Shelf Planning
- Category Management
- Promotion Analysis
- Vendor Business Plans
- EDGE Program

In addition to data retrieval we now have over 120 stores subscribed to the ScanWorks reporting module. These stores are enjoying the many benefits which include:

- Overlaying FoodWorks core range with sales
- Benchmarking sales and gross profits by department with similar stores
- Easy to use grid reporting with graphical interface
- 2 years of history at product level
- Trends in customer counts and average basket size
- Promotion versus non promotion splits at department level

Corporate Governance Statement



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

(Links to the Company's website indicated in this statement will be found in the Governance section at www.foodworks.com.au.)

The Board has continued to refine the Company's corporate governance practices in the latest reporting period, following their significant upgrading which took place in the early months following the merger of the two supermarket groups in December 2005. The 10 Principles of Good Corporate Governance and 28 Best Practice Recommendations of the ASX Corporate Governance Council (ASX Principles) continue to serve as a model in this process.

These ASX Principles are primarily intended to provide guidance for listed companies. Nevertheless, apart from some areas which are not relevant to unlisted entities, they provide a good basis for sound governance principles in companies such as ours, and the Board has therefore followed the ASX Principles wherever practicable.

The main corporate governance policies and practices of the Company are set out in the statement below. We expect they will evolve further over coming months as operational structures continue to be refined.

Recognising the Interests of our Stakeholders

The Company is very aware of its important relationships with its many stakeholders – including shareholders, employees, suppliers and service providers, customers of its retailer members, and the wider community where its members operate. The Company regards its governance responsibilities to each of these groups very seriously.

The latest year has been a very important one in the continuing development of relationships for our growing company. The re-branding project provided significant opportunities for interaction with each member, service providers and others as we established new and enhanced standards of identity and presentation for members and their customers. Major new contracts have been bedded down with important suppliers, all designed to improve value, efficiency and transparency.

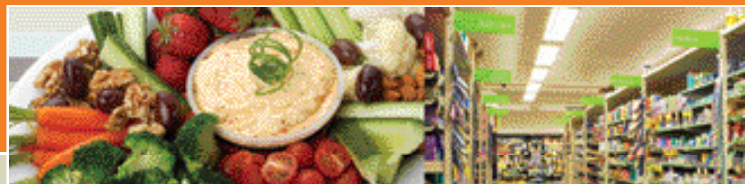
We have continued to keep in close contact with members in various ways, regularly seeking comment and feedback on proposed initiatives. This is helping to shape better outcomes. The EDGE business improvement program is proving to be an important communications link as it embraces all banner stores, providing business and personnel development tools to members. The FoodWorks Newsletter has also been an attractive means of keeping members informed of current events and developments.

Regional member meetings, the FoodWorks annual conference (held last year in Fiji and this year at Cooloom), which is attended by management, staff and directors, provide good opportunities for members and other stakeholders to exchange views with senior management and directors on a wider range of issues. Updates on future Company directions were also provided at the annual conferences in Fiji and Cooloom. The annual meeting of members, to be held in October is a further opportunity for members to ask questions of the Board, and to express views and vote on the various matters of business on the agenda. The Annual Report is also distributed to all members.

The Company has identified in numerous ways with the communities in which its members operate and has been a facilitator in channeling community support for deserving causes. The Company welcomes opportunities to assist members in their local communities in supporting charitable and worthwhile community based initiatives.

The Company's internet website at www.FoodWorks.com.au is regularly updated and provides a range of information under the Governance section of the Member's Area.

Corporate Governance Statement



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Board and Management Roles

The Board has determined those matters which are reserved for itself and has determined the authority of the Chief Executive Officer (CEO).

In summary, the principal matters reserved for the Board include:

- Appointment of the CEO and Company Secretary, approval of the appointment of Executive Staff upon the recommendation of the CEO, recommendations regarding appointment and removal of the auditor, appointment of directors to fill casual Board vacancies;
- Delegations of authority to the CEO;
- Membership and terms of reference of Board committees;
- Assessment of performance of the Company, CEO and Board;
- Succession planning for the CEO and Board members;
- Approval of remuneration and incentive policies and individual executive employment contracts;
- Dividend policy;
- Approval of the annual financial reports, accounting policies and the internal audit plan;
- Approval of any borrowings, and financial arrangements and policies;
- Approval of strategic objectives, the strategic plan and the business plan;
- Approval of proposals for major expansion or changes to the Company's structure or relationships;
- Approval of the capital expenditure budget and major individual expense items and contracts; and
- Risk management policies and risk assessment and insurance policies.

Refer to www.FoodWorks.com.au for the full Statement of Matters Reserved for the Board.

A contract of engagement has been entered into with the CEO, setting out the terms and conditions of his appointment. In addition, the Company has entered into a Deed of Indemnity, Insurance and Access with each director.

Board Structure and Processes

The constitution of the Company, approved by members, sets out the composition of the Board for the initial three years of the merged entity. During this period the Company shall have 10 Directors, five of whom (the "AUG-nominated Directors") shall have been members of AUG and nominated by AUG and five of whom (the "FSG-nominated Directors") shall have been nominated by the Company before adoption by it of this constitution.

If an AUG-nominated Director's office is vacated, the Directors shall appoint in that Director's place a director nominated by the remaining AUG-nominated Directors, and for the first such vacancy only, an Independent Director shall be appointed. If a FSG-nominated Director's office is vacated, the Directors shall appoint in that Director's place a director nominated by the remaining FSG-nominated Directors.

The constitution of the Company defines an Independent Director as one who is regarded as independent in accordance with the ASX Principles as they may exist from time to time.

Half of the Directors shall retire at the 2007 annual general meeting of the Company and the other half at the 2008 annual general meeting, but if eligible, any retiring Director may offer for re-election.

The current Board comprises 2 independent non-executive directors, 6 retail non-executive directors and the Chief Executive Officer, following the resignation of Ben Ryan as a retail non-executive director late in 2005. The Board is giving careful consideration to his replacement, having regard to the complimentary skill sets required in the Board overall, going forward.

Corporate Governance Statement



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

During the course of its annual program of at least 11 scheduled meetings, the Board reviews and approves the Strategic Plan and Financial Budget and systematically reviews all material areas of the Company's activities, including regularly receiving reports and presentations from senior management. This annual program provides for evaluation of its own performance and that of directors.

To assist in the execution of its responsibilities, the Board has appointed two Board committees - an Audit and Risk Committee and a Remuneration and Nomination Committee. These committees have written terms of reference, which are subject to ongoing review. Matters addressed by Board Committees are reported to the Board following each committee meeting. They have no executive powers regarding their findings and recommendations. The Chairman of each Committee is an independent non-executive director. Details of members and their attendance at committee meetings during the year are set out in the Directors' Report.

Ethical and Responsible Decision Making

The Board has adopted as its Code of Conduct, the Code of Conduct of the Australian Institute of Company Directors. This Code sets out the conduct that members would reasonably expect from their Board of Directors - including honesty and good faith, care and diligence, no misuse or abuse of the office of director, independent judgement, confidentiality, and compliance with the letter and spirit of the law and this Code. Refer to www.foodworks.com.au for the full Code of Conduct.

Audit & Risk Committee

The Audit & Risk Committee is responsible for reviewing the integrity of the company's financial reporting, assessing risks arising from the operations and the adequacy of measures taken to moderate those risks, and overseeing the independence of the external auditors. The terms of reference of the Audit & Risk Committee can be found at www.foodworks.com.au.

Members of the Committee are Don Howell (Chair), Gary Aberdeen, John Bridgfoot (ex officio), Wayne Pattison, Michael Reddrop and Michael Timothee. The Committee has met 11 times in the year to 30 June 2006.

Remuneration & Nomination Committee

In relation to the remuneration aspects of its responsibilities, the role of the Remuneration & Nomination Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and ensuring appropriate salary budgets are adopted by the Company. The terms of reference of the Committee regarding its remuneration responsibilities can be found at www.foodworks.com.au.

Regarding the nomination aspects of its responsibilities, the Committee has had regard to the Company's constitution which sets out the Board structure for the first three years. It is currently giving active consideration to the preferred skill set of a new director, following the resignation of a retailer non-executive director.

Members of the Committee are Jack Scanlan (Chair), John Bridgfoot (ex officio), and Deborah Smith. The Committee has met 4 times in the year to 30 June 2006.

Financial Reporting

The nature of the Company's membership and shares is such that the rules applicable to listed public companies regarding "continuous disclosure" (whereby share-price-sensitive information is required to be disseminated to the market immediately) are not relevant to the Company. For this reason the Australian Securities and Investments Commission has exempted the Company from compliance with "continuous disclosure" and half yearly reporting obligations applicable to listed public companies.

Corporate Governance Statement



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Preparation of the Company's annual financial reports are in compliance with all relevant corporate legislation and accounting standards. A pre-condition of consideration of these reports and their recommendation by the Audit & Risk Committee is the Committee's review of a statement in writing to the Board signed by the Chief Executive Officer and Chief Financial Officer. The statement certifies that the Company's financial reports present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with relevant accounting standards.

The external auditor will be available at the annual meeting of shareholders in October to answer questions regarding the conduct of the audit, the preparation of the audit report, questions regarding accounting policies adopted by the Company in relation to the preparation of the financial statements, and the independence of the auditor in relation to the conduct of the audit.

Risk Management

The Board, through the Audit & Risk Committee, oversees the establishment, implementation and ongoing review of the Company's risk management and internal control system.

During the year, under the direction of the Audit & Risk Committee, the Company engaged independent risk professionals to conduct a comprehensive risk analysis and assessment of the Company's activities and exposures. This resulted in the assessment, categorisation and prioritising of all identified risks, following which they have been systematically addressed. This process has also resulted in a more comprehensive and effective insurance coverage program at lower cost.

The directors present their report together with the financial report of Australian United Retailers Ltd ("the Company") and of the consolidated entity, being the Company and its controlled entities, for the financial year ended Friday, 30 June 2006 and auditors report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards.

Operating Results

The names of the directors in office at any time during or since the end of the financial year are:

J Bridgfoot
J Scanlan
D Smith
P Noble
D Howell
M Timothee
G Aberdeen
W Pattison
M Reddrop
B Ryan (Resigned 27 October 2005)

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.

Results

The consolidated loss of the economic entity for the financial year after providing for income tax and eliminating outside equity interests amounted to \$2,707,882.

Items of significance included in this result are:

- Store rebranding costs incurred during the year of \$5,005,431; and
- Income tax benefit recognised as a result of the consolidated loss recorded of \$1,044,264.

Directors' Report



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Review of Operations

The economic entity continued to engage in its principal activity, the results of which are disclosed in the attached financial statements.

Significant Changes in State of Affairs

There were no significant changes in the economic entity's state of affairs that occurred during the financial year, other than those referred to elsewhere in this report.

Principal Activities

The principal activity of the economic entity during the financial year was the provision of marketing services to members. No significant change in the nature of these activities occurred during the year.

After Balance Date Events

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

Likely Developments

The economic entity expects to maintain the present status and level of operations.

Environmental Issues

The economic entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends Paid, Recommended and Declared

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Disclosure Relief

ASIC have granted exemption from continuous disclosure obligations and the lodging of half yearly reports.

Information on Directors

J Bridgfoot	- Non Executive Chairman
Qualifications	- Exec. M.B.A. ; B.A. ; M.A.I.C.D.
Experience	- A director of AUG Ltd (formerly Australian United Retailers Ltd) from 22 September 2001. Has been an independent storeowner and operator since 9 January 1999.
Special Responsibilities	- Member of Audit & Risk Committee, Member of Nomination Committee
J Scanlan	- Independent Non Executive Director
Qualifications	- Bachelor of Laws (Melbourne University) Barrister & Solicitor of the Supreme Court of Victoria Barrister & Solicitor of the Federal Court of Australia
Experience	- A director and chairman of AUR Ltd (formerly FoodWorks Supermarket Group Ltd) since 22 May 1997, Jack was previously a Partner in the firm Scanlan Carroll Commercial Lawyers (1969 - 2000) and since 2000 has been the principal of Charles Consultancy Group Pty Ltd
Special Responsibilities	- Chairman of Remuneration & Nomination Committee

Directors' Report (continued)



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

D Smith	- Non Executive Director
Qualifications	- Dip. Ed. M.A.I.C.D. Graduate Certificate Business Administration
Experience	- A director of AUG Ltd since 4 October 2003, Debbie has been an independent storeowner and operator since 1996.
Special Responsibilities	- Member of Remuneration & Nomination Committee
P Noble	- Executive Director
Qualifications	- Bachelor of Applied Science (Queensland University)
	- M.A.I.C.D.
Experience	- A director of AUR Ltd since 19 August 2002, Peter has 25 years experience with Shell Australia including 4 years as Managing Director of Shell SW Pacific.
Special Responsibilities	- Chief Executive Officer
D Howell	- Independent Non Executive Director
Qualifications	- Certified Practising Accountant
	- M.A.I.C.D.
Experience	- Don has been an independent Non-Executive Director of AUR Ltd since 23 July 1997 and has held senior positions with Mattel Inc and Phillip Murphy Wines and Spirits.
Special Responsibilities	- Member of Audit & Risk Committee
M Timothee	- Non Executive Director
Qualifications	- M.A.I.C.D.
Experience	- A director of AUG Ltd since 26 February 2003, Michael has been an independent storeowner and operator since 1989.
Special Responsibilities	- Member of Audit & Risk Committee
G Aberdeen	- Non Executive Director
Qualifications	- M.A.I.C.D.
Experience	- Gary was appointed a director of AUG Ltd on 22 August 2000. He currently manages the Goondiwindi Co-op AUR Supermarket. Has held this position for 9 years and has been employed in retailing for 27 years.
Special Responsibilities	- Member of Audit & Risk Committee
W Pattison	- Non Executive Director
Qualifications	- M.A.I.C.D.
Experience	- Wayne has been a director of AUG Pty Ltd since 4 October 2003 and he has 22 years experience in the retail industry in Victoria and currently owns 2 stores. He has been a member of Cheers Liquor Group committee for 18 years, including 10 years as its Chairman.
Special Responsibilities	- Member of Audit & Risk Committee
M Reddrop	- Non Executive Director
Qualifications	- Bachelor of Business (Accounting) (Swinburne University of Technology) Associate of the Institute of Chartered Accountants in Australia (ACA) M.A.I.C.D.
Experience	- Michael is the CEO of Reddrop Management Group. Michael has served on AUR Ltd's Board for the past five years and he operates a group of regional supermarkets and other retail businesses located in North East Victoria. Michael spent more than 10 years as a Chartered Accountant and Business Consultant with KPMG in both Australia and the USA.
Special Responsibilities	- Member of Audit & Risk Committee
B Ryan	- Non Executive Director
Qualifications	- Diploma in Management
Experience	- Ben was appointed to AUR Ltd's Board on 30 November 1998. The Ryan family currently own and operate 5 Supermarkets and 3 stand-alone liquor outlets. Ben has been involved in retailing since 1987.
Special Responsibilities	- Member of Remuneration Committee
Ken Sleep	-
Special Responsibilities	- Company Secretary

Directors' Report (continued)



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Meetings of Directors

Directors	Directors' Meetings		Committee Meetings			
			Audit & Risk Committee		Remuneration & Nomination Committee	
	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended	Number Eligible To Attend	Number Attended
J Bridgfoot	11	11	10	6	4	1
J Scanlan	11	11	-	-	4	4
D Smith	11	11	-	-	4	4
P Noble	11	11	-	-	-	-
D Howell	11	9	10	8	-	-
M Timothee	11	11	10	10	-	-
G Aberdeen	11	11	10	10	-	-
W Pattison	11	11	10	10	-	-
M Reddrop	11	11	10	7	-	-
B Ryan (Resigned 27 October 2005)	3	3	-	-	2	2

Indemnification of Officers

ASIC have granted exemption from continuous disclosure obligations and the lodging of half yearly reports.

Directors' Report (continued)



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Indemnification of Officers

During the financial year, the economic entity entered into a Deed of Indemnity, Insurance and Access with each of its directors.

Apart from this, no other indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer of the economic entity.

Auditor's Independence Declaration

A copy of the auditor's declaration under section 307C in relation to the audit for the financial year is provided with this report.

Proceedings on behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the company or intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or any part of those proceedings.

The company was not a party to any such proceedings during the year.

Signed in accordance with a resolution of the Board of Directors:



Director
J Bridgfoot



Director
P Noble

Dated this 22nd day of August 2006

Auditor's Independence Declaration



Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

To the Directors of Australian United Retailers Ltd

In relation to the independent audit for the year ended Friday, 30 June 2006, to the best of my knowledge and belief there have been:

- (i) No contraventions of the auditor independence requirements of the Corporations Act 2001.
- (ii) No contraventions of any applicable code of professional conduct.

PITCHER PARTNERS

G E WALSH
Partner

Melbourne 12th September, 2006.

Income Statement

For The Year Ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity 2006		2005	Parent Entity 2006	2005
		\$	\$	\$		\$
Revenue						
Sales revenue	4	42,994,266	30,629,633	42,994,266		30,629,633
Other income	4	991,564	1,225,592	988,059		495,900
		<u>43,985,830</u>	<u>31,855,225</u>	<u>43,982,325</u>		<u>31,125,533</u>
Distribution to members		(17,032,461)	(11,863,768)	(17,032,461)		(11,863,768)
Merchandising expenses		(6,953,379)	(4,579,134)	(6,953,379)		(4,579,134)
Marketing expenses		(8,191,752)	(4,149,093)	(8,191,752)		(4,149,093)
Business development expenses		(1,428,429)	(401,823)	(1,428,429)		(401,823)
Administrative expenses		(4,673,611)	(3,612,339)	(4,673,611)		(3,612,339)
Retail operations expenses		(3,303,144)	(2,232,522)	(3,303,144)		(2,232,522)
Store rebranding costs		(5,026,548)	(2,106,876)	(5,026,548)		(2,106,876)
Merger costs		-	(710,213)	-		(710,213)
Other expenses		(995,751)	(1,100,158)	(995,491)		(1,100,157)
		<u>(47,605,075)</u>	<u>(30,755,926)</u>	<u>(47,604,815)</u>		<u>(30,755,925)</u>
Finance costs	5	(131,928)	(131,051)	(131,928)		(131,051)
Profit/(Loss) before income tax expense (income tax benefit)		(3,751,173)	968,248	(3,754,418)		238,557
Income tax benefit (income tax expense)	6	1,043,291	(539,422)	1,044,264		(539,422)
Profit/(Loss) from continuing operations		<u>(2,707,882)</u>	<u>428,826</u>	<u>(2,710,154)</u>		<u>(300,865)</u>

The accompanying notes form part of these financial statements.

Balance Sheet

as at 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity 2006		Parent Entity	
		\$	\$	2005 \$	2006 \$
CURRENT ASSETS					
Cash and cash equivalents	7	1,684,990	5,423,719	1,684,990	5,366,337
Trade receivables	8	14,711,745	15,696,100	14,710,641	15,504,516
Inventories	9	386,268	-	386,268	-
Other	10	323,162	212,308	323,059	41,536
TOTAL CURRENT ASSETS		<u>17,106,165</u>	<u>21,332,127</u>	<u>17,104,958</u>	<u>20,912,389</u>
NON-CURRENT ASSETS					
Property, plant and equipment	11	1,156,083	401,127	1,156,083	401,127
Deferred tax assets	12	1,556,306	585,527	1,475,300	503,548
TOTAL NON-CURRENT ASSETS		<u>2,712,389</u>	<u>986,654</u>	<u>2,631,383</u>	<u>904,675</u>
TOTAL ASSETS		<u>19,818,554</u>	<u>22,318,781</u>	<u>19,736,341</u>	<u>21,817,064</u>
CURRENT LIABILITIES					
Trade and other payables	13	17,741,124	18,375,771	18,390,974	18,603,845
Short term borrowings	14	1,753,353	10,692	1,753,353	10,692
Current tax liabilities	15	-	1,042,970	-	1,042,970
Provisions	16	1,041,776	952,546	1,041,776	952,546
TOTAL CURRENT LIABILITIES		<u>20,536,253</u>	<u>20,381,979</u>	<u>21,186,103</u>	<u>20,610,053</u>
NON-CURRENT LIABILITIES					
Payables	13	1,042	1,033	1,042	1,033
Provisions	16	283,965	230,593	283,965	230,593
TOTAL NON-CURRENT LIABILITIES		<u>285,007</u>	<u>231,626</u>	<u>285,007</u>	<u>231,626</u>
TOTAL LIABILITIES		<u>20,821,260</u>	<u>20,613,605</u>	<u>21,471,110</u>	<u>20,841,679</u>
NET ASSETS		<u>(1,002,706)</u>	<u>1,705,176</u>	<u>(1,734,769)</u>	<u>975,385</u>
EQUITY					
Retained earnings/(accumulated losses)	17	(1,002,806)	1,705,076	(1,734,769)	975,385
Parent entity interest		(1,002,806)	1,705,076	(1,734,769)	975,385
Minority interest		100	100	-	-
TOTAL EQUITY		<u>(1,002,706)</u>	<u>1,705,176</u>	<u>(1,734,769)</u>	<u>975,385</u>

The accompanying notes form part of these financial statements.

Statement of changes in equity for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2006	2005
		\$	\$	\$	\$
Total equity at the beginning of the financial year		<u>1,705,176</u>	<u>1,276,392</u>	<u>975,385</u>	<u>1,276,392</u>
Profit for the year		<u>(2,707,882)</u>	<u>428,826</u>	<u>(2,710,154)</u>	<u>(300,865)</u>
Total recognised income and expense for the year		<u>(2,707,882)</u>	<u>428,826</u>	<u>(2,710,154)</u>	<u>(300,865)</u>
Transactions with equity holders in their capacity as equity holders:					
Buy-back of shares, inclusive of transaction costs		-	(142)	-	(142)
Changes in outside equity interest		-	100	-	-
		<u>-</u>	<u>(42)</u>	<u>-</u>	<u>(142)</u>
Total equity at the end of the financial year		<u><u>(1,002,706)</u></u>	<u><u>1,705,176</u></u>	<u><u>(1,734,769)</u></u>	<u><u>975,385</u></u>

The accompanying notes form part of these financial statements.

Statement of Cash Flows for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2005	2006
		\$	\$	\$	\$
CASH FLOW FROM OPERATING ACTIVITIES					
Receipts from customers		49,131,982	20,843,718	48,989,328	20,252,294
Payments to suppliers and employees		(52,593,045)	(16,497,969)	(52,616,587)	(16,362,847)
Interest received		189,284	156,242	161,829	156,242
Borrowing costs		(95,944)	(125,464)	(95,944)	(125,464)
Income tax paid		(1,117,767)	(170,772)	(1,288,436)	-
Net cash provided by/(used in) operating activities	19 (b)	<u>(4,485,490)</u>	<u>4,205,755</u>	<u>(4,849,810)</u>	<u>3,920,225</u>
CASH FLOW FROM INVESTING ACTIVITIES					
Proceeds from sale of property, plant and equipment		18,452	8,000	18,452	8,000
Payment for property, plant and equipment		<u>(978,263)</u>	<u>(340,836)</u>	<u>(978,263)</u>	<u>(340,836)</u>
Net cash used in investing activities		<u>(959,811)</u>	<u>(332,836)</u>	<u>(959,811)</u>	<u>(332,836)</u>
CASH FLOW FROM FINANCING ACTIVITIES					
Proceeds from share issue		9	891	9	891
Proceeds from borrowings		1,753,353	-	1,753,353	228,148
Repayment of borrowings		(35,984)	-	(35,984)	-
Drawdowns of related party loans		-	-	421,702	-
Hire purchase payments		<u>(10,806)</u>	<u>(35,369)</u>	<u>(10,806)</u>	<u>(35,369)</u>
Net cash provided by/(used in) financing activities		<u>1,706,572</u>	<u>(34,478)</u>	<u>2,128,274</u>	<u>193,670</u>
Net increase/(decrease) in cash held		(3,738,729)	3,838,441	(3,681,347)	3,781,059
Cash at beginning of financial year		<u>5,423,719</u>	<u>1,585,278</u>	<u>5,366,337</u>	<u>1,585,278</u>
Cash at end of financial year	19 (a)	<u>1,684,990</u>	<u>5,423,719</u>	<u>1,684,990</u>	<u>5,366,337</u>

The accompanying notes form part of these financial statements.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards, Urgent Issues Group Interpretations and other authoritative pronouncements of the Australian Accounting Standards Board and the Corporations Act 2001.

The financial report covers Australian United Retailers Ltd as an individual parent entity and Australian United Retailers Ltd and controlled entity as an economic entity. Australian United Retailers Ltd is a company limited by shares, incorporated and domiciled in Australia.

This is the first financial report of the economic entity prepared in accordance with Australian Equivalents of International Financial Reporting Standards (AIFRS). The financial reports of economic entity were prepared in accordance with the previous Australian Generally Accepted Accounting Principles (AGAAP) until 30 June 2005. There are certain differences between the accounting policies under AIFRS and AGAAP and where applicable the comparative figures have been restated to reflect these adjustments. The significant accounting policies under AIFRS are provided below. Reconciliations of equity and operating profit/loss between AGAAP and AIFRS are provided under note 28.

The financial report has been prepared on an accruals basis and is based on historical costs. It does not take into account changing money values or, except where stated, current valuations of non-current assets. Cost is based on the fair value of the consideration given in exchange for assets.

The following is a summary of the material accounting policies adopted by the economic entity in the preparation of the financial report. The accounting policies have been consistently applied, unless otherwise stated.

(a) Going Concern

The financial report has been prepared on a going concern basis, which contemplated continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The economic entity incurred a loss from ordinary activities of \$2,707,882 during the year ended Friday, 30 June 2006, and as at that date the economic entity's total liabilities exceeded total assets by \$1,002,706.

The directors consider the going concern basis of accounting is appropriate based on the following conditions existing as at the date of the directors' declaration:

1. continuing support is being provided by its bankers and creditors;
2. current ability to achieve budgeted revenue results; and
3. current negotiations with a number of parties with a view to them contributing the required additional working capital to fund the ongoing trading operation of the Group.

Should all or any of the conditions outlined above not be achieved or maintained, the consolidated entity may in the future not be able to pay its debts as and when they fall due and may therefore be required to realise assets and extinguish liabilities other than in the ordinary course of business with the amounts realised being different from those shown in the financial statement. The financial report does not include any adjustments relating to the recoverability and classification of the recorded assets amounts nor to the amounts and classification of liabilities that may be necessary should the company and the consolidated entity not continue as a going concern.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Principles of Consolidations

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which Australian United Retailers Ltd has the power to control the financial and operating policies so as to obtain benefits from its activities. Details of the controlled entities are contained in Note 22.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Minority interests in the result of subsidiaries are shown separately in the consolidated income statement and balance sheet respectively.

(c) Income Tax

Current income tax expense or revenue is the tax payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

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

(d) Finance Costs

Finance costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Finance costs are expensed as incurred.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Impairment of assets

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired. An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(f) Comparative Figures

Due to the first-time adoption of AIFRS, comparatives have been reclassified and repositioned through retrospective application of AIFRS to the previous year results so as to achieve consistency with current year disclosure.

Contributions are made by the economic entity to an employee superannuation fund and are charged as expenses when incurred.

(g) Revenue

Revenue from sale of goods is recognised upon the delivery of goods to customers.

Interest revenue is recognised when it becomes receivable on a proportional basis taking in to account the interest rates applicable to the financial assets.

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

Other revenue is recognised when the right to receive the revenue has been established.
All revenue is stated net of the amount of goods and services tax (GST).

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:
Merchandising signage - purchase cost on a first-in-first-out basis

(i) Plant and Equipment

Each class of property, plant and equipment is carried at cost or fair value less, where applicable, any accumulated depreciation.

Plant and equipment

Plant and equipment is measured on the cost basis.

Depreciation

The depreciable amount of all fixed assets are depreciated over their estimated useful lives to the company commencing from the time the asset is held ready for use.

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

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements	16.67 - 25 %	Straight Line
Plant and equipment	12.5 - 33 %	Straight Line
Motor Vehicles	22.5 %	Diminishing Value
Furniture, Fixtures and Fittings	7.5 - 20 %	Straight Line
Computer Equipment	33.3 %	Diminishing Value

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions made by the company to an employee superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

(k) Financial Instruments

Classification

The company classifies its financial instruments in the following categories: financial assets at fair value through profit and loss, loans and receivables, held-to-maturity investments, and available-for-sale financial assets. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition and re-evaluates this designation at each reporting date.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Non-interest bearing loans and receivables are designated as receivable 'at call' and are therefore carried at face value.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Non-interest bearing loans and payables are payable on demand and are therefore carried at face value.

(l) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

Operating Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 2: CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future.

The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events which could have a material impact on the assets and liabilities in the next financial year are discussed below:

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends..

NOTE 3: FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable and loans to and from subsidiaries. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments.

Financial risks

The main risks the group is expose to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Cash deposits and interest bearing debt attract interest at the prevailing floating interest rate. See Note 27.

Foreign currency risk

The group is not exposed to any material fluctuations in foreign currencies.

Liquidity risk

The group manages liquidity risk by forecasting and monitoring cash flows on a continuing basis.

Credit risk

The maximum exposure to credit risk at balance date to recognised financial assets, is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the balance sheet and notes to the financial statements.

The economic entity does not have any material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2005	2006
		\$	\$	\$	\$
NOTE 4: REVENUE					
Operating activities					
- sale of goods		42,994,266	30,629,633	42,994,266	30,629,633
- interest	4(a)	189,284	161,829	185,924	161,829
- rent		22,800	13,344	22,800	13,344
- other revenue		779,480	1,050,419	779,335	320,727
Total Revenue		<u>43,985,830</u>	<u>31,855,225</u>	<u>43,982,325</u>	<u>31,125,533</u>
(a) Interest from:					
- other persons		189,284	161,829	185,924	161,829
		<u>189,284</u>	<u>161,829</u>	<u>185,924</u>	<u>161,829</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Note	Economic Entity		Parent Entity	
	2006		2005	2006
	\$	\$	\$	\$
NOTE 5: PROFIT/(LOSS) FROM CONTINUING ACTIVITIES				
Profit/(loss) from continuing operations before income tax has been determined after the following specific expenses:				
Employee benefits expense				
Wages and salaries	7,142,246	5,119,497	7,142,246	5,119,497
Superannuation costs	563,570	605,600	563,570	563,570
Total employee benefits expense	<u>7,735,233</u>	<u>5,759,689</u>	<u>7,735,233</u>	<u>5,712,484</u>
Finance costs expensed				
Other parties	130,986	129,830	130,986	129,830
Hire purchase charges	942	1,221	942	1,221
Total finance costs expensed	<u>131,928</u>	<u>131,051</u>	<u>131,928</u>	<u>131,051</u>
Depreciation of non-current assets				
Leasehold improvements	48,031	11,843	48,031	11,843
Plant and equipment	10,288	5,949	10,288	5,949
Motor vehicles	3,357	7,097	3,357	7,097
Office Equipment	124,273	94,314	124,273	94,314
Furniture, fixtures and fittings	6,205	5,416	6,205	5,416
Total depreciation of non-current assets	<u>192,154</u>	<u>124,619</u>	<u>192,154</u>	<u>124,619</u>
Amortisation of non-current assets:				
capitalised leased assets	-	30,980	-	30,980
Total amortisation of non-current assets	<u>-</u>	<u>30,980</u>	<u>-</u>	<u>30,980</u>
Other expenses				
Bad Debts	-	23,173	-	23,173
Doubtful Debts	63,995	66,827	63,995	66,827
Net loss on disposal of property, plant and equipment	12,701	20,469	12,701	20,469
	<u>76,696</u>	<u>110,469</u>	<u>76,696</u>	<u>110,469</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2006	2005
		\$	\$	\$	\$
NOTE 6: INCOME TAX EXPENSE					
Income tax expense/(benefit):					
Current tax		-	584,562	-	584,562
Deferred tax		(970,779)	(229,766)	(971,752)	(229,766)
Under provision in prior years		(72,512)	184,626	(72,512)	184,626
		<u>(1,043,291)</u>	<u>539,422</u>	<u>(1,044,264)</u>	<u>539,422</u>
Deferred income tax (revenue)/expense included in income tax expense comprises:					
Increase in deferred tax assets		(970,779)	(229,766)	(971,752)	(229,766)
		<u>(970,779)</u>	<u>(229,766)</u>	<u>(971,752)</u>	<u>(229,766)</u>
The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:					
Prima facie income tax payable on profit before income tax at 30% (2005 - 30%)		(1,125,352)	290,474	(1,126,325)	71,567
Add:					
Tax effect of:					
- non deductible merger expenses		-	56,922	-	56,922
- non deductible rebranding costs		-	226,307	-	226,307
- correction of opening deferred tax balances		154,423	-	154,423	-
- other non-allowable items		150	-	150	-
Under provision for income tax in prior year		-	458,408	-	458,408
		<u>(970,779)</u>	<u>1,032,111</u>	<u>(971,752)</u>	<u>813,204</u>
Less:					
Tax effect of:					
- non-taxable gain on acquisition of subsidiary		-	218,907	-	-
- correction of opening deferred tax balances		-	273,782	-	273,782
Over provision for income tax in prior year		72,512	-	72,512	-
Income tax expense attributable to profit/(loss)		<u>(1,043,291)</u>	<u>539,422</u>	<u>(1,044,264)</u>	<u>539,422</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2005	2006
		\$	\$	\$	\$
NOTE 7: CASH AND CASH EQUIVALENTS					
Cash on hand		2,600	2,591	2,600	2,591
Cash at bank		1,681,562	1,590,802	1,681,562	1,533,420
Cash on deposit		828	3,830,326	828	3,830,326
		<u>1,684,990</u>	<u>5,423,719</u>	<u>1,684,990</u>	<u>5,366,337</u>
NOTE 8: RECEIVABLES					
CURRENT					
Trade debtors		13,798,544	14,710,372	13,798,544	14,574,021
Provision for doubtful trade debtors		(210,000)	(146,005)	(210,000)	(146,005)
		<u>13,588,544</u>	<u>14,564,367</u>	<u>13,588,544</u>	<u>14,428,016</u>
Sundry debtors and accrued income		1,123,101	1,131,633	1,122,097	1,076,500
Loans to 4 Square		100	100	-	-
		<u>14,711,745</u>	<u>15,696,100</u>	<u>14,710,641</u>	<u>15,504,516</u>
NOTE 9: INVENTORIES					
CURRENT					
Merchandising signage at cost		<u>386,268</u>	<u>-</u>	<u>386,268</u>	<u>-</u>
NOTE 10: OTHER ASSETS					
CURRENT					
Prepayments		5,081	41,536	5,081	41,536
Income tax refundable		318,081	170,772	317,978	-
		<u>323,162</u>	<u>212,308</u>	<u>323,059</u>	<u>41,536</u>
		<u>323,162</u>	<u>212,308</u>	<u>323,059</u>	<u>41,536</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Note	Economic Entity 2006		Parent Entity 2005 2006 2005	
	\$	\$	\$	\$
NOTE 11: PROPERTY, PLANT AND EQUIPMENT				
Leasehold Improvements				
At cost	825,433	45,774	825,433	45,774
Less accumulated depreciation	(75,879)	(35,224)	(75,879)	(35,224)
	<u>749,554</u>	<u>10,550</u>	<u>749,554</u>	<u>10,550</u>
Plant and Equipment				
Plant and equipment				
At cost	80,795	64,665	80,795	64,665
Less accumulated depreciation	(16,194)	(5,949)	(16,194)	(5,949)
	<u>64,601</u>	<u>58,716</u>	<u>64,601</u>	<u>58,716</u>
Leased plant and equipment				
Capitalised lease assets at cost	-	35,561	-	35,561
Less accumulated depreciation	-	(30,979)	-	(30,979)
	<u>-</u>	<u>4,582</u>	<u>-</u>	<u>4,582</u>
Motor vehicles				
At cost	11,997	52,541	11,997	52,541
Less accumulated depreciation	(1,213)	(28,098)	(1,213)	(28,098)
	<u>10,784</u>	<u>24,443</u>	<u>10,784</u>	<u>24,443</u>
Computer equipment				
At cost	523,569	388,136	523,569	388,136
Less accumulated depreciation	(233,389)	(121,856)	(233,389)	(121,856)
	<u>290,180</u>	<u>266,280</u>	<u>290,180</u>	<u>266,280</u>
Furniture, fixtures and fittings				
At cost	76,253	65,640	76,253	65,640
Less accumulated depreciation	(35,289)	(29,084)	(35,289)	(29,084)
	<u>40,964</u>	<u>36,556</u>	<u>40,964</u>	<u>36,556</u>
Total plant and equipment	<u>406,529</u>	<u>390,577</u>	<u>406,529</u>	<u>390,577</u>
Total property, plant and equipment	<u>1,156,083</u>	<u>401,127</u>	<u>1,156,083</u>	<u>401,127</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 11: PLANT AND EQUIPMENT (Continued)

(a) Movements in Carrying Amounts

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the year.

	Leasehold improvements		Plant & equipment	
	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	\$	\$	\$	\$
2006				
Balance at the beginning of the year	10,550	10,550	58,716	58,716
Additions	784,793	784,793	16,336	16,336
Disposals	(2,340)	(2,340)	(162)	(162)
Transfers	4,582	4,582	-	-
Depreciation expense	(48,031)	(48,031)	(10,289)	(10,289)
Carrying amount at end of year	<u>749,554</u>	<u>749,554</u>	<u>64,601</u>	<u>64,601</u>
2005				
Balance at the beginning of the year	19,952	19,952	-	-
Additions	2,240	2,240	64,665	64,665
Depreciation expense	(11,844)	(11,844)	(5,949)	(5,949)
Carrying amount at the end of the year	<u>10,550</u>	<u>10,550</u>	<u>58,716</u>	<u>58,716</u>
	Leased plant and equipment		Motor vehicles	
	Economic Entity	Parent Entity	Economic Entity	Parent Entity
	\$	\$	\$	\$
2006				
Balance at the beginning of the year	4,582	4,582	24,443	24,443
Additions	-	-	11,997	11,997
Disposals	-	-	(22,299)	(22,299)
Transfers	(4,582)	(4,582)	-	-
Depreciation expense	-	-	(3,357)	(3,357)
Carrying amount at the end of the year	<u>-</u>	<u>-</u>	<u>10,784</u>	<u>10,784</u>
2005				
Balance at the beginning of the year	-	-	43,103	43,103
Additions	35,561	35,561	-	-
Disposals	-	-	(11,563)	(11,563)
Depreciation expense	(30,978)	(30,978)	(7,097)	(7,097)
Carrying amount at the end of the year	<u>4,582</u>	<u>4,582</u>	<u>24,443</u>	<u>24,443</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 11: PLANT AND EQUIPMENT (Continued)

	Furniture, fixtures & fittings		Computer equipment	
	Economic Entity \$	Parent Entity \$	Economic Entity \$	Parent Entity \$
2006				
Balance at the beginning of the year	36,556	36,556	266,280	266,280
Additions	10,613	10,613	154,526	154,526
Disposals	-	-	(6,353)	(6,353)
Depreciation expense	(6,205)	(6,205)	(124,273)	(124,273)
Carrying amount at the end of the year	<u>40,964</u>	<u>40,964</u>	<u>290,180</u>	<u>290,180</u>
2005				
Balance at the beginning of the year	22,363	22,363	108,870	108,870
Additions	19,609	19,609	263,006	263,006
Disposals	-	-	(17,178)	(17,178)
Depreciation expense	(5,416)	(5,416)	(94,314)	(94,314)
Carrying amount at the end of the year	<u>36,556</u>	<u>36,556</u>	<u>266,280</u>	<u>266,280</u>

NOTE 12: DEFERRED TAX ASSETS

The balance comprises temporary differences attributable to:

- Tax losses carried forward	774,919	70,458	698,523	-
- Doubtful debts	63,000	43,802	63,000	43,802
- Employee benefits	397,722	354,942	397,722	354,942
- Non deductible accruals	320,665	116,325	316,055	104,804
	<u>1,556,306</u>	<u>585,527</u>	<u>1,475,300</u>	<u>503,548</u>
Movement in deferred tax assets:				
Balance at the beginning of the year	585,527	355,761	503,548	273,782
Credited/(charged) to the income statement	970,779	229,766	971,752	229,766
Balance at the end of the year	<u>1,556,306</u>	<u>585,527</u>	<u>1,475,300</u>	<u>503,548</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity	
		2006		2005	2006
		\$	\$	\$	\$
NOTE 13: PAYABLES					
CURRENT					
Unsecured liabilities					
Trade creditors		14,579,153	13,657,898	14,579,153	13,657,898
Sundry creditors and accruals		3,161,971	4,717,873	3,161,971	4,717,799
Loans from associates					
AUG Ltd		-	-	649,850	228,148
		<u>17,741,124</u>	<u>18,375,771</u>	<u>18,390,974</u>	<u>18,603,845</u>

NON-CURRENT

Secured liabilities

Redeemable preference shares
comprising:

- Class A Redeemable Preference Shares	688	695	688	695
- Class B Redeemable Preference Shares	354	338	354	338
	<u>1,042</u>	<u>1,033</u>	<u>1,042</u>	<u>1,033</u>

NOTE 14: BORROWINGS

CURRENT

Secured liabilities

Short term bank facility		753,353	-	753,353	-
Bank loans		1,000,000	-	1,000,000	-
Hire purchase liability	24	-	10,692	-	10,692
		<u>1,753,353</u>	<u>10,692</u>	<u>1,753,353</u>	<u>10,692</u>

(a) Items held as security:

- First Registered Mortgage Debenture over the whole of the assets including goodwill and uncalled capital and called but unpaid capital of Australian United Retailers Limited, with relevant insurance assigned to the Bank.
- Guarantee & Indemnity for \$3,283,000 given by Australian United Grocers Pty Ltd.
- First Registered Mortgage Debenture over the whole of the assets including goodwill and uncalled capital and called but unpaid capital of Australian United Grocers Limited, with relevant insurance assigned to the Bank.
- Lease purchase agreements.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity 2006		2005	Parent Entity 2006 2005	
		\$	\$	\$	\$	\$
NOTE 15: TAX LIABILITIES						
CURRENT						
Income tax		<u>-</u>	<u>1,042,970</u>	<u>-</u>	<u>1,042,970</u>	
NOTE 16: PROVISIONS						
CURRENT						
Employee benefits	(a)	<u>1,041,776</u>	<u>952,546</u>	<u>1,041,776</u>	<u>952,546</u>	
		<u>1,041,776</u>	<u>952,546</u>	<u>1,041,776</u>	<u>952,546</u>	
NON-CURRENT						
Employee benefits	(a)	<u>283,965</u>	<u>230,593</u>	<u>283,965</u>	<u>230,593</u>	
		<u>283,965</u>	<u>230,593</u>	<u>283,965</u>	<u>230,593</u>	
(a) Aggregate employee benefits liability		<u>1,325,741</u>	<u>1,183,139</u>	<u>1,325,741</u>	<u>1,183,139</u>	
NOTE 17: RETAINED PROFITS						
Retained profits at the beginning of the financial year		1,705,076	1,276,250	975,385	1,276,250	
Net profit/(loss) attributable to members of the entity		<u>(2,707,882)</u>	<u>428,826</u>	<u>(2,710,154)</u>	<u>(300,865)</u>	
Retained profits/(accumulated losses) at the end of the financial year		<u>(1,002,806)</u>	<u>1,705,076</u>	<u>(1,734,769)</u>	<u>975,385</u>	
NOTE 18: OUTSIDE EQUITY INTERESTS IN CONTROLLED ENTITIES						
Outside equity interest comprises:						
Contributed equity	(a)	<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>	
(a) Outside equity interest in issued and paid-up capital of controlled entities						
AUR Marketing Pty Ltd		<u>100</u>	<u>100</u>	<u>-</u>	<u>-</u>	

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Note	Economic Entity		Parent Entity		2005
	2006		2005	2006	
	\$	\$	\$	\$	

NOTE 19: CASH FLOW INFORMATION

(a) Reconciliation of cash

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

Cash at the end of the financial year as shown in the statements of cash flows is reconciled to the related items in the statement of financial position as follows:

Cash on hand	2,600	2,591	2,600	2,591
Cash at bank	1,681,562	1,590,802	1,681,562	1,533,420
At call deposits with financial institutions	828	3,830,326	828	3,830,326
	<u>1,684,990</u>	<u>5,423,719</u>	<u>1,684,990</u>	<u>5,366,337</u>

(b) Reconciliation of cash flow from operations with profit from ordinary activities after income tax

Profit/(loss) from ordinary activities after income tax	(2,707,882)	428,826	(2,710,154)	(300,865)
Non-cash flows in profit from ordinary activities				
Depreciation and amortisation	192,154	155,598	192,154	155,598
Doubtful Debts - subsidiaries	63,995	66,827	63,995	66,827
Write-off of capitalised expenditure	-	193,227	-	-
Loss on disposal of property, plant and equipment	12,701	20,469	12,701	20,469
Repayment of bank borrowings	35,984	-	35,984	-
Movement in income taxes payable	(1,190,279)	872,198	(1,360,948)	1,042,970
Movement in deferred taxes payable	(970,779)	(503,548)	(971,752)	(503,548)
Interest expense not actually paid	114	1,887	114	1,887
Changes in assets and liabilities				
(Increase)/decrease in receivables	911,828	(12,715,487)	775,477	(12,579,136)
(Increase)/decrease in other assets	44,987	(976,052)	(9,142)	(645,713)
Increase in inventories	(386,268)	-	(386,268)	-
Increase/(decrease) in payables	(634,647)	16,038,269	(634,573)	16,038,195
Increase in provisions	142,602	623,541	142,602	623,541
Cash flows from operations	<u>(4,485,490)</u>	<u>4,205,755</u>	<u>(4,849,810)</u>	<u>3,920,225</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

	Note	Economic Entity		Parent Entity		2005
		2006		2005	2006	2005
		\$	\$	\$	\$	\$
NOTE 19: CASH FLOW INFORMATION (Continued)						
(c) Credit Standby Arrangements with Banks						
Credit facility		15,283,000	16,000,000	15,283,000	16,000,000	
Amount utilised		(1,753,353)	-	(1,753,353)	-	
Unused credit facility		<u>13,529,647</u>	<u>16,000,000</u>	<u>13,529,647</u>	<u>16,000,000</u>	

The major facilities are summarised as follows:

Direct Payment Facility
\$12,000,000 variable interest rate facility provided
by the National Australia Bank.

Commercial Bill Facility
\$2,000,000 variable interest rate facility provided
by the National Australia Bank.

Market Rate Facility
\$800,000 variable interest rate facility provided
by the National Australia Bank.

Business Card Facility
\$250,000 variable interest rate facility provided
by the National Australia Bank

Bank Guarantee
\$233,000 facility provided
by the National Australia Bank

NOTE 20: AUDITOR'S REMUNERATION

Amounts received or due and receivable
by Pitcher Partners for:

- audit services	38,000	55,000	38,000	55,000
- other financial services	18,820	84,650	18,820	84,650
	<u>56,820</u>	<u>139,650</u>	<u>56,820</u>	<u>139,650</u>

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 21: CONTROLLED ENTITIES

(a) Controlled entities

	Country of Incorporation	Percentage Owned (%)	
		2006	2005
Parent Entity:			
Australian United Retailers Ltd	Australia		
Subsidiaries of Australian United Retailers Ltd:			
Australian United Grocers Pty Ltd (formerly Australian United Grocers Ltd)	Australia	100	100
AUR Services Pty Ltd	Australia	100	100
Best-Buy Products Pty Ltd	Australia	100	100
AUR Marketing Pty Ltd	Australia	67	67

NOTE 22: CONTROLLED ENTITIES

(b) Summary of acquisition

There were no acquisitions made by the group during the current financial year.

The following relates to the acquisition made in the previous financial year:

On 28 November 2004, Australian United Retailers Limited acquired one B-class share representing 50% + 1 of the voting rights of Australian United Grocers Limited, an unlisted public company based in Australia specialising in the provision of marketing services to its members. Since the merger AUG has contributed an estimated additional \$12,833,946 in revenues and \$1,136,647 in net profit for the year ended 30 June 2005. Had AUG been acquired at the beginning of the 30 June 2005 financial year the group would have generated an estimated \$9,167,104 in additional revenues and \$811,891 in additional net profit. As AUG Ltd received no consideration for the purchase from AURLtd, the discount on acquisition equal to the fair value of the assets has been recognised as income in the period in which the acquisition occurred.

Details of the fair value of the assets and liabilities acquired and goodwill are as follows:

Purchase consideration:	
Cash paid	-
Total purchase consideration	-
Fair value of net identifiable assets acquired	732,025
Discount on acquisition	732,025

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 22: CONTROLLED ENTITIES (continued)

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	Acquiree's carrying amount	
	\$	\$
Cash	2,329,894	2,329,894
Trade receivables	13,828,973	13,828,973
Other financial assets	1,208	1,208
Other assets	7,185	7,185
Plant and equipment	193,935	193,935
Deferred tax asset	81,979	81,979
Investments	215,167	215,167
Trade payables	(15,700,560)	(15,700,560)
Provision for employee benefits	(439,312)	(439,312)
Current tax liabilities	213,556	213,556
Net assets	732,025	732,025
Net identifiable assets acquired		732,025

Note	Economic Entity		Parent Entity		2005
	2006		2005	2006	
	\$	\$	\$	\$	\$

NOTE 23: CAPITAL AND LEASING COMMITMENTS

(a) Hire purchase commitments

Payable				
- not later than one year	-	10,806	-	10,806
Minimum hire purchase payments	-	10,806	-	10,806
Less future finance charges	-	(114)	-	(114)
Total hire purchase liability	-	10,692	-	10,692
Represented by:				
Current liability	14	-	-	10,692
		-	-	10,692

(b) Operating lease commitments

Non-cancellable operating leases contracted for but not capitalised in the financial statements:

Payable				
- not later than one year	868,895	738,384	868,895	738,384
- later than one year and not later than five years	1,967,532	405,114	1,967,532	405,114
- later than five years	273,978	318,888	273,978	318,888
	3,110,405	1,462,386	3,110,405	1,462,386

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 24: CAPITAL AND LEASING COMMITMENTS (continued)

The first Victorian property lease is a non-cancellable lease with a six year term, with rent payable a month in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 3.25% per annum. Market rent valuations may also be undertaken after four years.

The second Victorian property lease is a non-cancellable lease with a six year term, with rent payable a month in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 3.25% per annum. Market rent valuations may also be undertaken after four years.

The third Victorian property lease is a non-cancellable lease with a four year term, with rent payable a month in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by 3% per annum. An option exists to renew the lease at the end of the four year term for an additional term of four years.

The fourth Victorian property lease is a non-cancellable lease with a 17 month term, with rent payable a month in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the higher of CPI or 4% per annum.

The Queensland property lease is a non-cancellable lease with a ten year term, with rent payable a month in advance. Contingent rental provisions within the lease agreement require the minimum lease payments shall be increased by the higher of CPI (capped at 7%) or 2% per annum. Market rent valuations may also be undertaken every three years. An option exists to renew the lease at the end of the ten year term for an additional term of five years.

Non-property operating leases have an average lease term of 5 years. Assets that are the subject of operating leases include motor vehicles and items of small machinery and office equipment.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 25: RELATED PARTY TRANSACTIONS

(a) Loans to and from directors and director related entities

There were no outstanding loans to and from directors and director related entities at 30 June 2006 (2005: \$nil).

(b) Other transactions with directors and director related entities

Directors or director related entities who hold Australian United Retailers Ltd shares as store members enter into transactions with the company and may have outstanding balances at year end. The directors involved are:

Ben Ryan
Michael Reddrop
Wayne Pattison
Michael Timothee
Gary Aberdeen
Deborah Smith
John Bridgfoot

These transactions are on the same terms and conditions as transactions with other members. The aggregate amount of banner support fees received or receivable and included in the result for the year are \$468,191 (2005: \$623,505). The aggregate amount of rebates paid or payable and included in the result for the year is \$1,303,609 (2005: \$1,853,970).

Director Michael Reddrop and former director Alex Ng are directors of an entity which controls an investment in a Trust. This Trust has five FoodWorks supermarkets as assets. Director related entities associated with the following directors have subscribed for units in the investment trust:

Michael Reddrop
Alex Ng
Peter Noble

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 25: RELATED PARTY TRANSACTIONS (Continued)

(c) Directors' Shareholdings

Aggregate number of shares held at 30 June 2006:

"A" Class redeemable non-cumulative preference shares:

Ben Ryan - no shares (2005: five shares)
Michael Reddrop - four shares (2005: three shares)
Wayne Pattison - two shares (2005: two shares)
Gary Aberdeen - one share (2005: one share)
Michael Timothee - one share (2005: one share)
Deborah Smith - one share (2005: one share)
John Bridgfoot - no shares (2005: one share)

"B" Class redeemable non-cumulative preference shares:

Ben Ryan - no shares (2005: five shares)
Michael Reddrop - four shares (2005: three shares)
Wayne Pattison - two shares (2005: two shares)
Gary Aberdeen - one share (2005: one share)
Michael Timothee - one share (2005: one share)
Deborah Smith - one share (2005: one share)
John Bridgfoot - no shares (2005: one share)

Aggregate number of shares acquired during the period:

"A" Class redeemable non-cumulative preference shares:

Michael Reddrop - one share

"B" Class redeemable non-cumulative preference shares:

Michael Reddrop - one share

Aggregate number of shares disposed of during the period:

"A" Class redeemable non-cumulative preference shares:

Ben Ryan - five shares
John Bridgfoot - one share

"B" Class redeemable non-cumulative preference shares:

Ben Ryan - five shares
John Bridgfoot - one share

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 26: DIRECTORS' AND EXECUTIVES' COMPENSATIONS

(a) Details of Key Management Personnel

(i) The names of directors who have held office during the financial year are:

J Bridgfoot
J Scanlan
D Smith
P Noble
D Howell
M Timothee
G Aberdeen
W Pattison
M Reddrop
B Ryan

(ii) The executives of the parent entity during the financial year are:

B Hyde
G Elliott
G Longmuir
S Meehan
S Thompson
W Vermeend

(b) Compensation of Key Management Personnel

The remuneration committee reviews the remuneration packages of all directors and key management personnel on an annual basis and makes recommendations to the board. Remuneration packages are reviewed and determined with due regard to current market rates and are benchmarked against comparable industry salaries, adjusted by a performance factor to reflect changes in the performance of the company.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 26: REMUNERATION AND RETIREMENT BENEFITS (Continued)

2006	Short-term			Post Employment			Equity	Other Benefits	Total
	Salary & Fees \$	Bonus \$	Non - monetary \$	Super-annuation \$	Prescribed benefits \$	Other \$	Options \$		
Directors									
J Bridgfoot	100,000	-	-	-	-	-	-	-	100,000
J Scanlan	78,750	-	-	-	-	-	-	-	78,750
D Smith	50,000	-	-	-	-	-	-	-	50,000
P Noble	351,413	49,753	26,960	-	36,105	-	-	-	464,231
D Howell	41,667	-	-	8,333	-	-	-	-	50,000
M Timothee	45,872	-	-	4,128	-	-	-	-	50,000
G Aberdeen	-	-	-	50,000	-	-	-	-	50,000
W Pattison	15,000	-	-	35,000	-	-	-	-	50,000
M Reddrop	50,000	-	-	-	-	-	-	-	50,000
B Ryan*	15,291	-	-	1,376	-	-	-	-	16,667
Total	747,993	49,753	26,960	98,837	36,105	-	-	-	959,648
Key Management Personnel									
B Hyde	130,520	16,932	-	23,147	-	-	-	-	170,599
G Elliott*	76,803	25,352	5,467	12,608	-	189,228	-	-	309,458
G Longmuir	235,092	20,548	-	23,008	-	-	-	-	278,648
S Meehan	117,728	5,260	-	11,069	-	-	-	-	134,057
S Thompson	158,633	15,277	19,874	15,652	-	-	-	-	209,436
W Vermeend	130,284	15,781	8,850	24,866	-	-	-	-	179,781
Total	849,060	99,150	34,191	110,350	-	189,228	-	-	1,281,979

* Amounts refer to only part of the financial year.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 26: REMUNERATION AND RETIREMENT BENEFITS (Continued)

2005	Short-term			Post Employment			Equity	Other Benefits	Total
	Salary & Fees \$	Bonus \$	Non - monetary \$	Super-annuation \$	Prescribed benefits \$	Other \$	Options \$		
Directors									
J Bridgfoot*	62,500	-	-	-	-	-	-	-	62,500
J Scanlan	69,375	-	-	-	-	-	-	-	69,375
D Smith*	28,670	-	-	2,580	-	-	-	-	31,250
P Noble	295,268	30,000	26,287	26,574	-	-	-	-	378,129
D Howell	-	-	-	40,625	-	-	-	-	40,625
M Timothee*	28,670	-	-	2,580	-	-	-	-	31,250
G Aberdeen*	-	-	-	31,250	-	-	-	-	31,250
W Pattison*	12,500	-	-	18,750	-	-	-	-	31,250
B Ryan	37,270	-	-	3,355	-	-	-	-	40,625
M Reddrop	40,625	-	-	-	-	-	-	-	40,625
D Williamson*	12,500	-	-	-	-	-	-	-	12,500
A Ng*	-	-	-	12,500	-	-	-	-	12,500
Total	587,378	30,000	26,287	138,214	-	-	-	-	781,879
Specified Executives									
B Hyde*	78,143	-	-	7,033	-	-	-	-	85,176
G Elliott*	107,280	-	9,334	14,710	-	-	-	-	131,324
G Longmuir*	96,448	-	-	8,680	-	-	-	-	105,128
S Meehan*	24,902	-	-	2,241	-	-	-	-	27,143
S Thompson*	64,175	-	3,109	5,776	-	-	-	-	73,060
W Vermeend	117,010	16,081	10,581	22,115	-	-	-	-	165,787
Total	487,958	16,081	23,024	60,555	-	-	-	-	587,618

* Amounts refer to only part of the financial year.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 27: FINANCIAL INSTRUMENTS

(a) Interest rate risk

The economic entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

2006 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	\$	\$	\$	\$	%
(i) Financial assets					
Cash	1,681,562	828	2,600	1,684,990	5.3
Trade and other receivables	-	-	14,711,645	14,711,645	-
Receivables - other related parties	-	-	100	100	-
Total financial assets	1,681,562	828	14,714,345	16,396,735	

2006 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	\$	\$	\$	\$	%
(ii) Financial liabilities					
Short term bank facility	-	753,353	-	753,353	7.5
Trade creditors	-	-	14,579,153	14,579,153	-
Other creditors	-	-	688	688	-
Bank and other loans	-	1,000,000	354	1,000,354	5.9
Total financial liabilities	-	1,753,353	14,580,195	13,668,590	

2005 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	\$	\$	\$	\$	%
(iii) Financial assets					
Cash	1,593,393	3,830,326	-	5,423,719	5.0
Trade and other receivables	-	-	2,349,182	2,349,182	-
Receivables - other related parties	-	-	100	100	-
Total financial assets	1,593,393	3,830,326	15,696,100	21,119,819	

2005 Financial Instruments	Floating interest rate	Fixed interest rate maturing in: 1 year or less	Non-interest bearing	Total carrying amount as per the balance sheet	Weighted average effective interest rate
	\$	\$	\$	\$	%
(iv) Financial liabilities					
Trade creditors	-	-	13,657,898	13,657,898	-
Hire purchase	-	10,692	-	10,692	6.9
Total financial liabilities	-	10,692	13,657,898	13,668,590	

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 27: FINANCIAL INSTRUMENTS (Continued)

(b) Credit Risk

The maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount of those assets, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements.

The company does not have any material credit risk exposure to any single debtor or group of debtors under financial instruments entered into by the company.

(c) Net Fair Values

The net fair value of financial assets and financial liabilities approximates their carrying values as disclosed in the statement of financial position and notes to the financial statements.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 28 RECONCILIATION OF REPORTED AMOUNTS UNDER AUSTRALIAN ACCOUNTING STANDARDS TO AIFRS

(a) Reconciliation of Total Equity of the Economic Entity at 1 July 2004

	AGAAP \$	Adjustment \$	AIFRS \$
CURRENT ASSETS			
Cash and cash equivalents	1,585,278	-	1,585,278
Trade receivables	2,349,182	-	2,349,182
Other assets	38,847	-	38,847
Total current assets	3,973,307	-	3,973,307
NON-CURRENT ASSETS			
Property, plant and equipment	200,184	-	200,184
Total non-current assets	200,184	-	200,184
TOTAL ASSETS	4,173,491	-	4,173,491
CURRENT LIABILITIES			
Trade and other payables	2,337,502	-	2,337,502
Provisions	496,458	-	496,458
Total current liabilities	2,833,960	-	2,833,960
NON-CURRENT LIABILITIES			
Provisions	63,140	-	63,140
Total non-current liabilities	63,140	-	63,140
TOTAL LIABILITIES	2,897,100	-	2,897,100
NET ASSETS	1,276,391	-	1,276,391
EQUITY			
Share capital	142	-	142
Retained earnings	1,276,250	-	1,276,250
TOTAL EQUITY	1,276,392	-	1,276,392

(b) Reconciliation of Operating Profit after Tax of the Economic Entity for the year ended 30 June 2005

	AGAAP \$	Adjustment \$	AIFRS \$
Sales revenue	30,629,633	-	30,629,633
Other income	956,053	269,539	1,225,592
	31,585,686	269,539	31,855,225
Distribution to members	(11,863,768)	-	(11,863,768)
Merchandising expenses	(4,579,134)	-	(4,579,134)
Marketing expenses	(4,149,093)	-	(4,149,093)
Business development expenses	(401,823)	-	(401,823)
Administrative expenses	(3,612,339)	-	(3,612,339)
Retail operations expenses	(2,232,522)	-	(2,232,522)
Store rebranding costs	(2,106,876)	-	(2,106,876)
Merger costs	(710,213)	-	(710,213)
Other expenses	(1,105,825)	5,667	(1,100,158)
	(30,761,593)	5,667	(30,755,926)
Finance costs	(131,051)	-	(131,051)
Profit before income tax	693,042	275,206	968,248
Income tax expense/(benefit)	539,422	-	539,422
Profit from continuing operations	153,620	275,206	428,826

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 28: RECONCILIATION OF REPORTED AMOUNTS UNDER AUSTRALIAN ACCOUNTING STANDARDS TO AIFRS (Continued)

(c) Reconciliation of Total Equity of the Economic Entity at 30 June 2005

	AGAAP \$	Adjustment \$	AIFRS \$
CURRENT ASSETS			
Cash and cash equivalents	5,423,719	-	5,423,719
Trade receivables	15,696,100	-	15,696,100
Other assets	212,308	-	212,308
Total current assets	21,332,127	-	21,332,127
NON-CURRENT ASSETS			
Property, plant and equipment	207,900	193,227	401,127
Deferred tax assets	503,548	81,979	585,527
Total non-current assets	711,448	275,206	986,654
TOTAL ASSETS	22,043,575	275,206	22,318,781
CURRENT LIABILITIES			
Trade and other payables	18,375,771	-	18,375,771
Short term borrowings	10,692	-	10,692
Current tax liabilities	1,042,970	-	1,042,970
Provisions	952,546	-	952,546
Total current liabilities	20,381,979	-	20,381,979
NON-CURRENT LIABILITIES			
Payables	1,033	-	1,033
Provisions	230,593	-	230,593
Total non-current liabilities	231,626	-	231,626
TOTAL LIABILITIES	20,613,605	-	20,613,605
NET ASSETS	1,429,970	275,206	1,705,176
EQUITY			
Retained earnings	1,429,870	275,206	1,705,076
Minority interest	100	-	100
TOTAL EQUITY	1,429,970	275,206	1,705,176

(d) Explanation of changes in accounting policy arising on first-time adoption of AIFRS

There is no impact on the financial statements of the parent entity on first time adoption of AIFRS.

Proceeds on disposal

Under AGAAP gross proceeds on disposal of non current assets were included in revenue. In accordance with AASB 116, the gross proceeds received on disposal of property, plant & equipment are not recognised in the profit and loss in the period.

Discount on acquisition

In accordance with AASB 3, the excess of net assets over consideration will be wholly recognised in the profit and loss in the period.

On first-time adoption of AIFRS, reductions to the carrying amount of non-monetary assets arising out of discounts on acquisition recognised in prior periods have been adjusted and recorded as revenue.

Notes to the Financial Statements for the year ended 30 June 2006

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

NOTE 29: ECONOMIC DEPENDENCE

A significant portion of all income derived results from the supply agreement held with Metcash Trading Ltd Australasia.

NOTE 30: ECONOMIC ENTITY DETAILS

The registered office of the company is:
Australian United Retailers Ltd
Level 1
1601 Malvern Road
Glen Iris Victoria 3146

Directors' Declaration

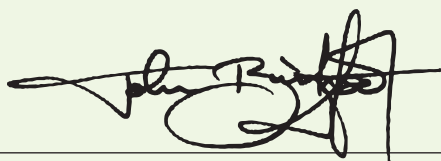
Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

The directors of the company declare that:

1. The financial statements and notes, as set out on pages 7 to 43, are in accordance with the Corporations Act 2001:
 - (a) comply with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) give a true and fair view of the financial position as at Friday, 30 June 2006 and performance for the financial year ended on that date of the economic entity.
2. In the directors' opinion there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

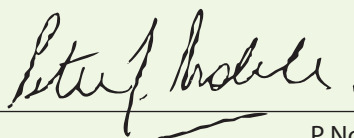
This declaration is made in accordance with a resolution of the Board of Directors.

Director _____



J Bridgfoot

Director _____



P Noble

Dated this 22nd day of August 2006

Independent Audit Report to the Members of Australian United Retailers Ltd

Australian United Retailers Ltd ABN 93 077 879 782 and controlled entities

Scope

We have audited the financial report of Australian United Retailers Ltd for the financial year ended Friday, 30 June 2006 comprising the Directors' Declaration, Income Statement, Balance Sheet, Statement of Changes in Equity, Statement of Cash Flows and notes to the financial statements. The financial report includes the consolidated financial statements of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year. The company's directors are responsible for the financial report. We have conducted an independent audit of this financial report in order to express an opinion on it to the members of the company. Our audit has been conducted in accordance with Australian Auditing Standards to provide reasonable assurance whether the financial report is free of material misstatement. Our procedures included examination, on a test basis, of evidence supporting the amounts and other disclosures in the financial report, and the evaluation of accounting policies and significant accounting estimates. These procedures have been undertaken to form an opinion whether, in all material respects, the financial report is presented fairly in accordance with Accounting Standards and other mandatory professional reporting requirements in Australia and Corporations Act 2001 so as to present a view which is consistent with our understanding of the company's financial position and performance as represented by the results of their operations and their cash flows.

The audit opinion expressed in this report has been formed on the above basis.

Audit Opinion

In our opinion, the financial report of Australian United Retailers Ltd is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's financial position as at Friday, 30 June 2006 and of its performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory professional requirements in Australia.

Inherent Uncertainty Regarding Going Concern

Without qualification to the opinion expressed above, attention is drawn to the following matter. As indicated at note 1(a), the Company is dependent on the following to continue to trade as a going concern:

1. continuing support is being provided by its bankers and creditors;
2. current ability to achieve budgeted revenue results; and
3. current negotiations with a number of parties with a view to them contributing the required additional working capital to fund the ongoing trading operation of the Group.

The financial report has been prepared on a going concern basis as the directors believe that continued support from its existing banker, creditors and proposed shareholders will be sufficient to enable the economic entity to continue to pay its debts as and when they fall due, and that this financial support will continue to be made available.

PITCHER PARTNERS



G E WALSH

Partner

Melbourne 12th September 2006