

Australian United Retailers Limited  
and Controlled Entities  
ABN 93 077 879 782

# 2008

## Annual Report

**FOODWORKS**





# FoodWorks Annual Report 2008

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## FoodWorks Annual Report 2008

### Chairman's Report

The 2008 year has concluded with an above plan financial performance and solid store performances across each state and the FoodWorks network overall. Importantly, significant progress has been made in the development and implementation of the Company Growth Strategy, which was detailed in the Prospectus issued in 2007.

Superior same store and new store growth in the FoodWorks network is a key to significantly growing the Company and the prosperity of FoodWorks Shareholders.

John Bridgfoot  
*Chairman*



This past year we have worked in close partnership with our corporate advisors in preparations for FoodWorks to plan and build significant numbers of new to industry supermarket developments. Your Board hopes to soon finalise a joint venture initiative which will allow our Company to develop its own new to industry stores, providing fantastic opportunities to FoodWorks Shareholders and new entrants to the industry, whilst also opening the way for FoodWorks to develop and operate stores when this is the best solution.

Elsewhere in this report you will find ample evidence of growing confidence and prosperity amongst our FoodWorks Shareholders as they redevelop, expand and refurbish their stores at rates never before seen. Store redevelopments have significantly exceeded plans detailed in the Prospectus. An impressive increase is also apparent in the average (mean and median) FoodWorks store turnover, as larger stores continue to be attracted to join FoodWorks and as existing stores are upgraded and expanded.

Equally important progress has been made in building the FoodWorks capacity and ability to better compete in the crucial supply chain component of the FoodWorks business. Not only is a robust and competitive supply chain crucial to FoodWorks' own profitability, it is of fundamental significance to the prospects for all of the FoodWorks stores in our network. The recently released findings from the Australian Competition and Consumer Commission Grocery Price Inquiry clearly identifies the



## FoodWorks Annual Report 2008

market strength of the chains, the impact of the relatively new entrant Aldi, and the many issues relating to the Metcash business model and the supply chain challenges facing independent retailers.

As a result of the intensive studies of the FoodWorks supply chain performance undertaken by the Board and Senior Management Team during 2007 and 2008, FoodWorks can look to future years confident in the knowledge that it has the capacity and commitment to significantly reshape its supply chain and ensure the best possible solutions are in place for FoodWorks Shareholders. Supply chain redevelopment will continue to be of paramount importance to FoodWorks for the foreseeable future and will be a target for substantial performance improvement.

More immediately, exciting additions to the FoodWorks Private Label offers were brought on-stream during the year with many more planned, including a major import program. It will remain crucial for all FoodWorks Shareholders to increase their support for the Private Label program to drive their own and FoodWorks' prosperity.

I report to our Shareholders that I have the utmost confidence that the Company has positioned itself very well for continued success and wish to thank my fellow Directors, our CEO Peter Noble and all of the FoodWorks staff for their contributions to this outstanding year for FoodWorks.

Thank you to our valued Shareholders for your continuing confidence in the Company and for your steadfast support through 2008 and beyond.



John Bridgfoot

Chairman







## FoodWorks Annual Report 2008

### Chief Executive Officer's Report

The past 12 months has seen FoodWorks and our Shareholders continue on the journey begun in 2007 with the signing of the six year Unity Agreements by Shareholders and the raising of \$10.4 million in capital. This increase in available funds and the stability offered by the Unity Agreements, has allowed us to begin the implementation of the key Growth Strategy elements outlined in the April 2007 FoodWorks Prospectus:

- Property;
- Product and Services;
- People;
- Brand; and
- Systems.

The implementation of these Growth Strategy elements, coupled with the economic impacts of the past six months in particular (January to June 2008) in terms of the rising costs of living, the decrease in consumer confidence and the anticipated impacts of the current ACCC inquiry, has seen both FoodWorks and our Shareholders dramatically change the way we do business in the Australian marketplace.

The last year has seen the opening of the first two FoodWorks “perfect stores” in Bradbury NSW, and Burnside, QLD, and we will see a further three open in the coming months. These will be located in Coolamon, NSW, Casterton, VIC, and East Bundaberg, QLD.

Our Private Label program continues its successful roll out, with our first Products imported from China in the first half of 2008. Continuous development of Best Buy and our other Private Label brands, together with strong support from Shareholders, bodes well for the success of this program.

Peter Noble  
CEO



## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

FoodWorks has seen the evolution of its Senior Management Team with the addition of Rick Wight in the role of Chief Operating Officer (COO) and Stephanie Holmes as Projects Manager – Business Implementation.

The Business Development team which included Retail Development Partners (RDPs) has been restructured to allow the appropriate focus on Business Development and Operations in the business. Simon Thompson (National Manager Business Development) now focuses purely on new business and the expansion of existing FoodWorks Supermarkets, leaving Rick Wight to focus exclusively on the performance of existing and new FoodWorks Supermarkets, and their position in the marketplace via the Operations and Marketing teams.

The addition this year of Retail Coaches into the Operations team also provides a longer-term resource for Shareholders seeking assistance in-store and emphasises the importance of supermarket performance to the FoodWorks business.

We have successfully launched FoodWorks into both Western Australia and South Australia during the last 12 months, making FoodWorks a truly national brand.

These changes are just the first step in a longer journey of change and growth for FoodWorks and our Shareholders. FoodWorks continues to engage corporate advisors such as Booz and Co, SLM and others to ensure that we secure our competitive place in the industry landscape for the long term.





## FoodWorks Annual Report 2008

### Key Achievements

- |                                       |   |
|---------------------------------------|---|
| ✓ Western Australia                   | ✓ Training, Induction, Rostering Programs |
| ✓ South Australia                     | ✓ 370th ScanWorks Store                   |
| ✓ 400th Branded Store                 | ✓ Broadband to Stores                     |
| ✓ 1st Perfect Store (Bradbury)        | ✓ Retail Operations and COO               |
| ✓ 1st FoodWorks Headlease             | ✓ Store Events Program                    |
| ✓ Private Label - 190 SKU's, 5 Brands | ✓ New Voice over IP Phone System          |
| ✓ 1st Shipment of Imported Product    | ✓ Retail Coaches                          |
| ✓ Private Label Logistics Contract    | ✓ New Retailer Advertising and Website    |
| ✓ Study Tour                          | ✓ Supply Chain Study                      |
| ✓ National Stock Exchange Listing     | ✓ Property Model Work                     |

### Financial Performance

The Company delivered a core trading result for the year ended 30 June 2008 of \$2.659m. The Company delivered an overall loss of \$2.792M, after taking account of post Prospectus Growth Strategy spend of \$5.451M.

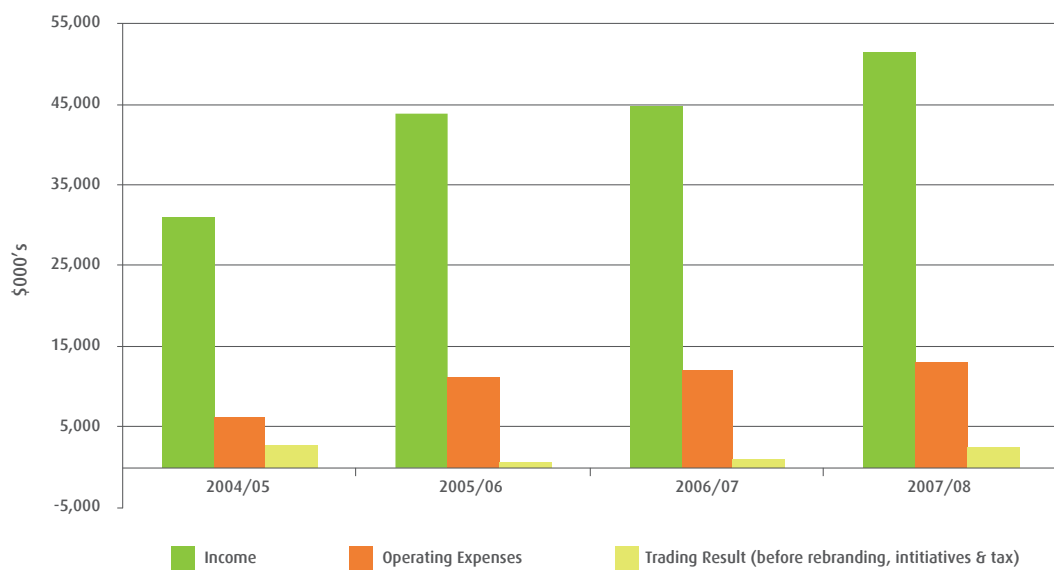
Income was ahead of plan, reflecting solid volume throughout and strong supplier support for the FoodWorks business.



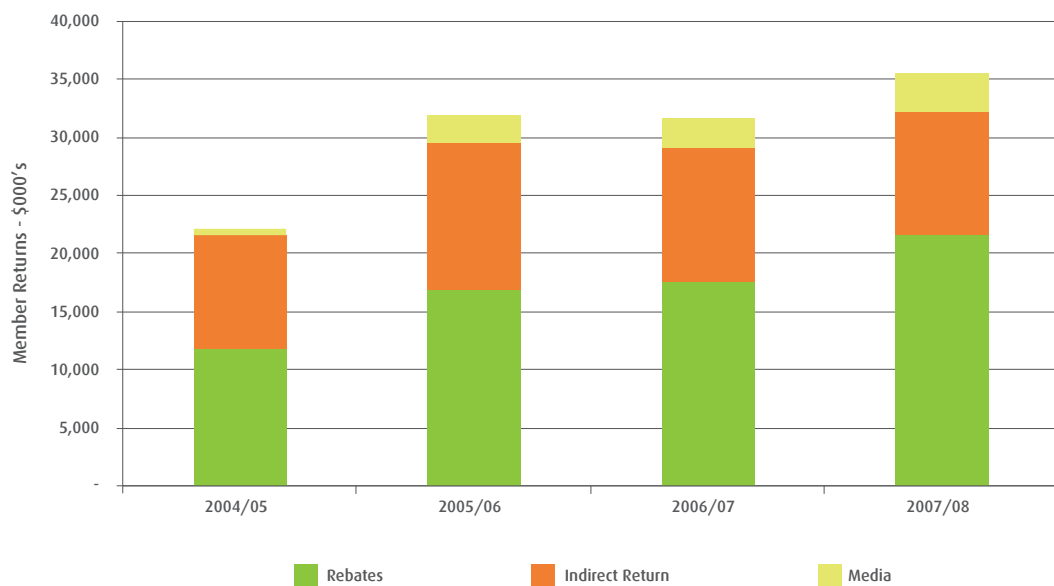
## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

#### Financials

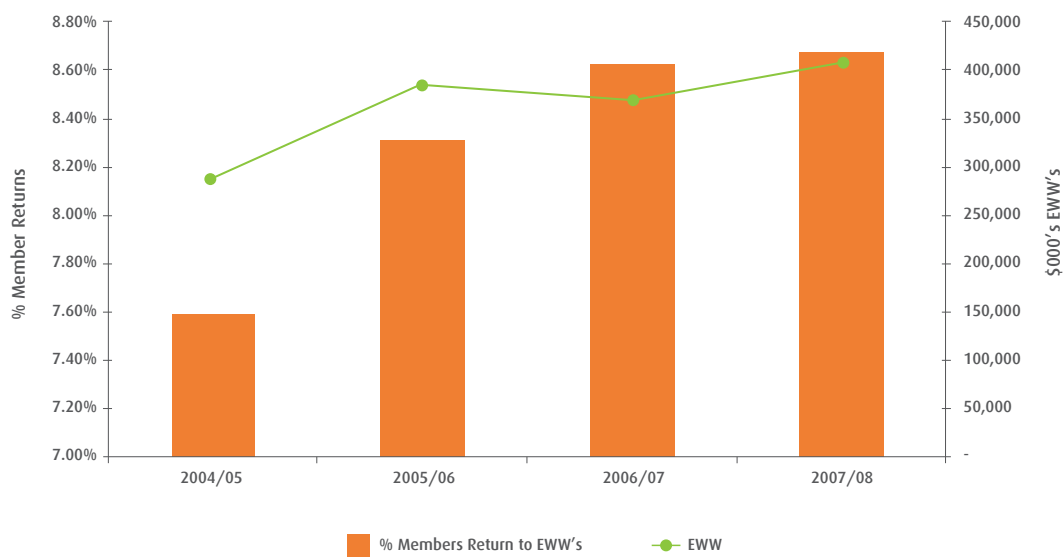


#### Member Returns

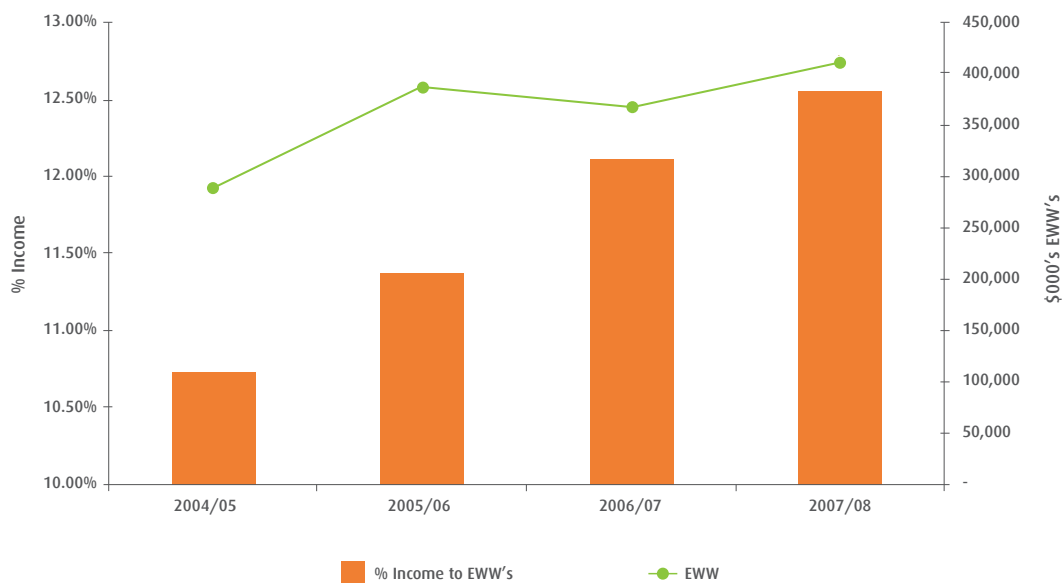


## FoodWorks Annual Report 2008

### Member Returns to EWW's



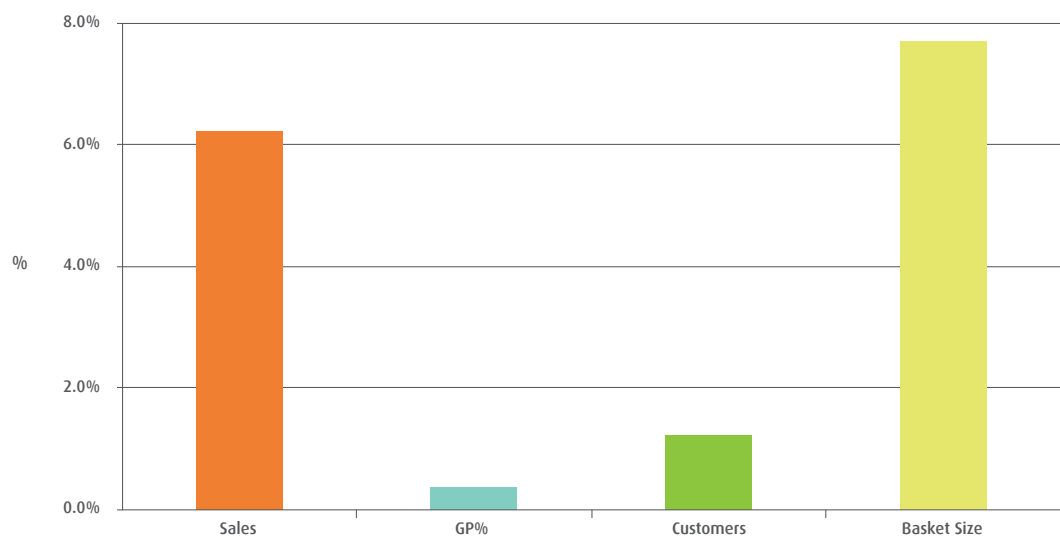
### Income to EWW's



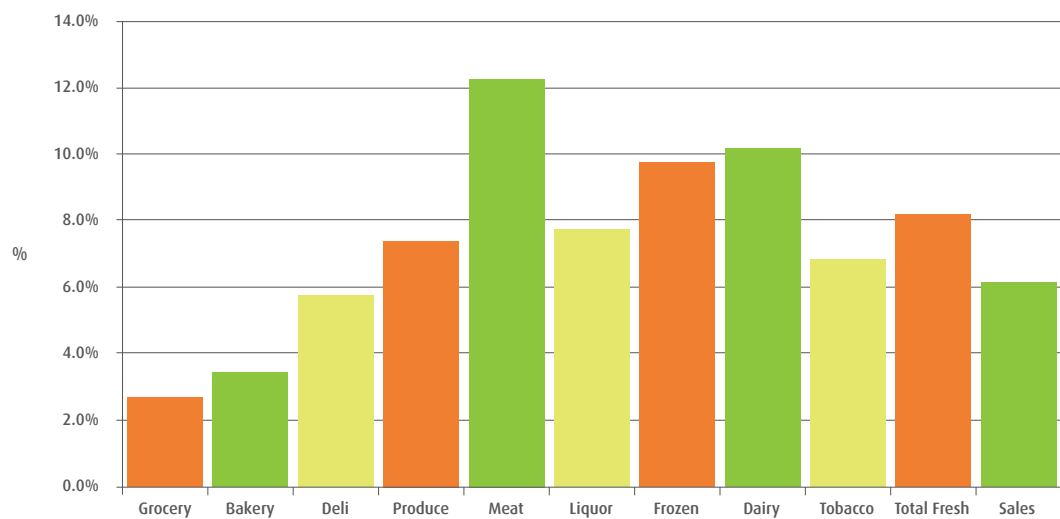
## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

#### Store Sales Performance 2007/2008



#### Growth by Department 2007/2008



## FoodWorks Annual Report 2008

Store sales grew 6.1% on a like for like basis across the network. Customer count grew by 0.9% and basket size increased by 7% over the 07/08 financial year – a strong result in an increasingly competitive marketplace.

### Finance

The focus of the FoodWorks Finance department over the past 12 months has been to provide timely and accurate financial and management reports to best enable the Board and Management Team to take commercially sound decisions, which in turn maximise the delivery of services and rebate returns to Shareholders.

Considerable effort has been made to ensure the statistical and financial deliverables of key Growth Strategies commenced after the capital raising have been accurately measured and monitored.

As a listed Company we now invoke additional compliance responsibilities, all of which have been met in the required time frames.

### Information Technology

The highlight of the past year was the launch of FoodWorks private broadband network. Partnering with internet service provider PACNET, this solution provides FoodWorks Shareholders with a fast, reliable and secure business grade broadband service. In addition to the everyday business uses for high speed internet, this quality link also enables future FoodWorks Growth Strategies to be delivered, including on-line training, EFTPOS over Internet Protocol (IP), FoodWorks intranet, plus many others. After a three month trial across eight sites almost 60 Shareholders have now installed the connection with positive feedback.

ScanWorks, our retail sales data retrieval system, also continues to realise significant benefits to Shareholders along with the crucial information required by the support office. Over 370 sites now electronically transmit scan data daily reflecting over 85% of our branded network.





## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

The retrieved data underpins many of FoodWorks' support services – such as special promotional activities (scan deal rebates), category management, league ladders, analysis of store development potential for new and existing stores, and the creation of meaningful, tailored business plan.

ScanWorks is also a powerful tool for Shareholders (who subscribe to the reporting module) to assist them to benchmark their performances and to make effective merchandising decisions.

FoodWorks also achieved a major milestone with its EFTPOS business partner the Commonwealth Bank (CBA) earlier in the year. FoodWorks was recognised by the CBA for having our 500th EFTPOS member. Shareholders are enjoying extremely competitive credit and debit card rates - an outstanding result which reflects the quality of the CBA deal and our relationship with them.

#### Operations

During the last 12 months the FoodWorks Operations team has split into two groups - Retail Development Partners (RDP's) and Retail Coaches. The reasoning behind this change was the need to focus on Shareholder profitability in-store, through proactively engaging with our Shareholders, and enhancing the services offered by better understanding their needs.

The role of the Retail Development Partner is to assist Shareholders to maximise their store sales and profitability by developing a business plan that encompasses sales, growth, development and profit objectives, and deploying resources to deliver targeted business results.

RDP's work with Shareholders to implement locally the FoodWorks Customer Value Proposition of "We are closer to our customers", and to increase participation in the FoodWorks Private Label products.

Retail Coaches offer specialised in-store support on all aspects of supermarket operations, and the development of action plans to assist Shareholders with the growth of their businesses.





## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

#### Marketing

The scope and focus of the FoodWorks marketing and brand function has been expanded over the past year, building and honing the service at company and local store levels to support Shareholders in a changing marketplace. Among the major achievements delivered from the FoodWorks marketing discipline throughout 2007 – 2008 were:

- New themed National Television Campaigns to create cut-through to viewers and keep the brand top of mind with customers;
- The launch of the redeveloped FoodWorks Website and content management system, allowing greater flexibility and control over content, as well as updating the online visual image of the Company;
- The introduction of a new Store Events Launch Program providing Shareholders with comprehensive support and a toolkit to celebrate milestones with customers such as store openings, store re-launches following major refurbishments and store anniversaries;
- The EDGE Program increased from two to three cycles;
- Expansion of resources in FoodWorks Information Hotline to better service Shareholders and provide faster actioning of requests;
- The generation of extensive positive articles across consumer and trade media at national, state and local levels, aimed at building brand recognition, awareness and action from customers and other key stakeholders; and
- Continued in-house graphic design support enabling FoodWorks to retain control of creating quality brand materials from local area marketing to brochures and catalogues utilising consistent brand imagery and message.





## FoodWorks Annual Report 2008

The marketing and brand challenges of the next phase of development will be clearly focused on FoodWorks' marketplace point of difference, competitive advantage and clarifying what FoodWorks stores are famous for.

### Merchandising

On behalf of its Shareholders, the FoodWorks merchandising team establishes and implements:

- Supplier agreements;
- Private Label ranges;
- Category specific initiatives – i.e. LiquorLink and TobaccoLink; and
- Information, pricing and support services.

#### Supplier Agreements

FoodWorks manages the supply arrangements for over 20,000 product lines on behalf of its Shareholders.

In particular, FoodWorks Shareholders enjoy the benefits of a comprehensive long-term supply agreement with Metcash. The agreement is based on national access to an extensive product range of grocery, perishable, general merchandise, tobacco and packaged liquor items.

In addition to the merchandising and promotional agreements, Shareholders can also take advantage of supplier agreements for business consumables such as EFTPOS and telecommunications services, as well as Chargeback – a centralised, streamlined supplier payment system.

The last twelve months have seen supplier investment in the FoodWorks business increase by over 20%. Suppliers have shown their commitment to our national roll out and support our merchandise direction, allowing us to continuously compete in a very competitive marketplace.



## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

#### Private Label Ranges

FoodWorks' Private Label products historically marketed under the Best Buy brand have diversified into multiple, category specific brands. FoodWorks' Private Label program is intended to differentiate FoodWorks from competitors, build customer loyalty and deliver Shareholders with new sales opportunities, superior gross margins and competitive recommended retail pricing.

Over the past 12 months FoodWorks Private Label has either launched or has in development 212 SKU's in the following new brands:

- Harvest Valley Produce;
- Sunny Bay Snack Co Snacks;
- Top Savers General Merchandise;
- Golden Eagle Scotch;
- The Promenade Traditional Bakehouse.
- Help@Home Clip strips;
- Century Lager Beer;
- Wild Frontier Bourbon;
- Russian Blue Vodka; and





## FoodWorks Annual Report 2008

Best Buy products currently total 98 product lines with a further 22 in the final stages of design and development.

An import program has been set up to enable Shareholders to have access to a competitive offering, by cutting out the importer and distributor costs.

FoodWorks is currently in the process of implementing a Supply Chain mechanism to warehouse and distribute Private Label products to Shareholders, allowing FoodWorks to truly control our own brands and provide an improved service.

Private Label sales for FY08 were in excess of \$26 million and generated a profit to the Company of \$420,518.

### **Category Specific Initiatives – LiquorLink and TobaccoLink**

LiquorLink and TobaccoLink are FoodWorks' innovative, value added merchandising and promotional programs which match regular competitive pricing and promotions support from Liquor and Tobacco suppliers with Shareholder commitments to meet merchandising expectations of suppliers' products.

Both services are optional to Shareholders, and require additional contractual commitments in the form of LiquorLink or TobaccoLink Agreements which are monitored from time to time by the respective suppliers. The LiquorLink and TobaccoLink arrangements are good examples of the potential prize available to both parties when suppliers and Shareholders' objectives are aligned.

We have seen like for like growth in Liquor sales of 7.7% on last year, and 6.9% on last year in tobacco sales – excellent results in these highly competitive categories.



## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

#### Fresh Foods

Fresh Foods sales results over the last 12 months have been exceedingly strong, with a like for like growth of 8.1% over the previous year.

Key highlights include:

- Produce achieving an income in excess of \$1,000,000 for the first time - a 60% increase over last year;
- Delicatessen achieving in excess of \$1,000,000 for income – 14% growth over last year.
- The Launch of the Deli Training Manual via Fresh Food Workshops nationally which has added significant value in store in terms of stock presentation and sales techniques;
- Sales growth for Bakery in the last quarter of the year in excess of 12%;and
- Development of a retail Ready Meat concept and Fresh Meals to Go nationally providing an extended range of quality products to our Shareholders.

#### Information, Pricing and Support Services

Additional services provided include:

- Product Price File Hosting - Shareholders with appropriate Point of Sale and Back Office Systems can elect to have FoodWorks host their product price files in order to save substantial time and effort during promotional periods and manage price changes;
- Space Management - FoodWorks provides Shareholders with product and category range planograms and consumer-focused floor plans to improve store flow and product category footage allocations; and



## FoodWorks Annual Report 2008

- Catalogues – FoodWorks has produced and delivered over 15 million catalogues advertising our range, brand and competitive pricing into homes across Australia drawing customers into our stores.

### Business Development

FoodWorks' Business Development Team encompasses a range of business operations from investigating and planning new business opportunities through to designing layouts and store fit-outs, and providing Shareholders with specialised business plans and advice.

FoodWorks' Business Development Team has continued to evolve towards a "Proactive" development partner for both our Shareholders and commercial developers. Expanding our traditional Design and Fit-Out supervision services now includes competitor combat services, the recruitment of new retailers to the industry and the management of the first and last right of purchase process for stores wishing to sell.

The overall network development activity for the year has resulted in a strong like for like growth of both store numbers and additional square metres as compared to the previous year.

In particular, the quantity of refurbishments and size of new stores have increased significantly.

	Completed FY 06/07		Completed FY 07/08		Additional
	No.	SQ M	No.	SQ M	SQ M added to network
New Stores	39	16,657	49	39,754	23,097
Unbranded to Branded Conversions	6	1,230	5	1,390	160
Extensions	4	3,568	7	9,868	6,300
Refurbishments	25	12,567	56	28,060	10,507
Total Branded Stores	369	N/A	401	N/A	32



## FoodWorks Annual Report 2008

### Chief Executive Officer's Report (continued)

A total of 127 market assessments have been undertaken on both existing and potential sites, and one third of these have proven to be strong potential locations.

Of the current store network, 418 stores have signed a Unity Agreement and during the year the new business team has handled the first and last rights for 34 stores that have been sold, with FoodWorks retaining 25 of those stores.

In addition, the new, structured retailer attraction and induction process was launched in April, along with the dedicated recruitment website "landing page": [www.ownafoodworks.com.au](http://www.ownafoodworks.com.au). This process has not only dramatically increased the number of enquiries from potential retailers, but also ensures that those new Shareholders who join the group are able to run successful, dynamic businesses which support the FoodWorks brand.

Advertising, using the new "Brand that's on your side" theme, has commenced with banner ads online on Seek Commercial and Franchise Business websites. The first print ads in Franchise Business Magazine commenced in May, and have been extended to include Businesses for Sale Magazine, Australian Retailer Magazine, Business Review Weekly (BRW) and a limited Sydney Morning Herald (SMH) pilot in June/early July. Early interest was encouraging (circa 80 visits per day) and continues to increase with recent SMH and BRW activity. To date over 100 enquiries have been made with almost 20 applications sent and seven interviews conducted.

### People and Performance

During the year the People and Performance Team has continued to improve both our service offer to Shareholders and our support to the employees of FoodWorks allowing us to increase their capability and performance through the provision of professional human resource services.

The team has assisted Shareholders through the provision of:

- an in-store Induction program;
- recruitment and selection manuals and in-store training;



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- interviewing guides and questions;
- performance management system and procedures;
- counselling and termination guidelines; and
- wages and rostering systems and training.

These services continue to be provided at no additional cost.

The People and Performance Team supports our Shareholders by providing practical advice in the shape of membership to relevant Industry Associations who provide up to date legal and wages support to all branded stores.

The team has revamped the federal and state funded training offer to stores and is pleased to have introduced the National Retail Association as FoodWorks preferred supplier of training to stores.

We strive to provide best practice human resource policies, procedures and advice which not only comply with all state and national legislative requirements but add true value to the ever changing business. We proactively address such issues as workforce planning, performance management and company culture. The team also addresses such emerging trends as the “war for talent” and “employer of choice” status through practical management of the Company’s succession planning systems and remuneration philosophy.

As Chief Executive Officer I am proud of FoodWorks achievements this year. I extend my thanks to our Shareholders and their teams, support office staff and our Board for their efforts, commitment and belief in our future. I look forward to reporting in twelve months time, on an even greater year of success.



Peter Noble

CEO





## FoodWorks Annual Report 2008

### Directors' Report

Peter Noble  
*CEO*



John Bridgfoot  
*Chairman*



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 30 June 2008 and auditors report thereon. This financial report has been prepared in accordance with Australian Equivalents of International Financial Reporting Standards. Compliance with Australian equivalents to International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRSs).

#### Principal Activities

The principal activity of the economic entity during the financial year was the provision of marketing services to the members.

No significant change in the nature of these activities occurred during the year.

#### Results

The loss of the economic entity for the financial year, after providing for income tax, amounted to \$2,791,895.

#### Review of Operations

A review of the operations of the consolidated entity during the financial year and the results of those operations are as follows:



## FoodWorks Annual Report 2008

The economic entity's core trading result for the year ended 30 June 2008, as follows:

	\$ 000's	\$ 000's
Trading profit for the year ended 30 June 2008		2,659
<b>Less non trading costs:</b>		
Income tax expense	25	
Future state initiative costs	(4,197)	
New store rebranding costs	(1,279)	(5,451)
<b>Consolidated Loss</b>		<b>(2,792)</b>

### Significant Changes in State of Affairs

The Company listed on the National Stock Exchange of Australia in December 2007. No other significant changes in the state of affairs of the economic entity occurred during the financial year.

### After Balance Date Events

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

### Likely Developments

The Company will continue to pursue its operating strategy to create Shareholder value. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the consolidated entity.



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Environmental Regulation

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.

#### Share Options

No options over unissued shares or interests in the consolidated entity were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

#### Indemnification of Officers

During or since the end of the financial year, the economic entity entered into a Deed of Indemnity, Insurance and Access with Janette Kendall and Jeff Ehrenfeld. All other Directors entered into a similar deed in the previous financial year.

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.

#### Proceedings on Behalf of the Company

No person has applied for leave of the 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.



## FoodWorks Annual Report 2008

### Information on Directors

The qualifications, experience and special responsibilities of each person who has been a Director of Australian United Retailers Ltd at any time during or since the end of the financial year is provided below, together with details of the Company Secretary as at the year end.

#### J Bridgfoot

Independent Non Executive Chairman

#### Qualifications

Exec. M.B.A. (Washington State)

B.A. (La Trobe University)

M.A.I.C.D.

#### Experience

John was appointed as a Director on 22 September 2001 of AUG Pty Ltd. In July 2004 John was appointed Chairman of Australian United Retailers Ltd. (AURL). He is currently the Managing Director of Pacific Rim Securities. John was previously an independent store owner and operator from 9 January 1999 until March 2006.

#### Special Responsibilities

Ex-officio member of Audit & Risk, Remuneration & Nomination, Supply Chain and Property Committees.

#### J Scanlan

Independent Non Executive Deputy Chairman

#### Qualifications

Bachelor of Laws (Melbourne University)

Barrister & Solicitor of the Supreme Court of Victoria

#### Experience

A Director (and founding Chairman until July 2004) of AURL since 22 May 1997, Jack was previously a Partner in the firm Scanlan Carroll Commercial Lawyers (1969 - 2000) and has practiced as a Barrister and Solicitor for 40 years.



## FoodWorks Annual Report 2008

### Directors' Report (continued)

**Special Responsibilities** Chairman of the Remuneration & Nomination Committee & Member of the Property Committee.

**D Smith** Non Executive Director

**Qualifications** Dip. Ed. (Townsville)  
Graduate Certificate of Management (University of New England)  
Diploma of Management (University of New England)  
M.A.I.C.D.

**Experience** A Director since 4 October 2003, Deborah has been an independent store owner and operator since 1996. Deborah is a Director of Master Grocers of Australia.

**Special Responsibilities** Chairman of the Property Committee & Member of the Supply Chain Committee.

**P Noble** Executive Director & Chief Executive Officer

**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 four years as Managing Director of Shell SW Pacific.

**Special Responsibilities** Chief Executive Officer, ex officio Member of Audit & Risk, Supply Chain, Remuneration & Nomination and Property Committees.



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### 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. Don brings to the Company over 23 years experience in senior positions including Senior Vice President of Mattel Inc and CEO of Mattel Australia.

#### Special Responsibilities

Chairman of Audit & Risk Committee & Member of the Remuneration & Nomination 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)  
Certified Practising Accountant (USA)  
Candidate Level II : Chartered Financial Analyst  
M.A.I.C.D.

#### Experience

Michael was appointed as a Director of AUR Ltd in November 2000. Michael is the CEO of Reddrop Management Group and 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 Australia, Eastern Europe and the USA. Michael is currently also the CFO of Global Mart (Shanghai) Co Ltd.

#### Special Responsibilities

Member of the Property & the Supply Chain Committees.



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### G Aberdeen

Non Executive Director

#### Qualifications

M.A.I.C.D.

#### Experience

Gary was appointed a Director of AUG Pty Ltd on 22 August 2000. For the past 13 years Gary has been the General Manager/Company Secretary of the Goondiwindi Co operative Society Limited and has won the Retailer of the Year Supermarket Category on numerous occasions. Gary has over 28 years experience in the retail industry. Gary resigned as a Director on 30 July 2007.

#### Special Responsibilities

Member of Audit & Risk Committee until 30 July 2007.

#### N Osborne

Independent Non Executive Director

#### Qualifications

Fellow Australian Institute of Company Directors (FAICD)  
Bachelor of Commerce  
Certified Practising Accountant  
Company Directors Course Diploma (Australian Institute of Company Directors)

#### Experience

With over 18 years experience in the retail industry, Neil was appointed as a Director in November 2006. He is also a Director of Colorado Group, and the Vita Group. Neil has held a variety of senior executive positions with Myer Grace Bros and Coles Myer Ltd, as well as being a former partner of Accenture.

#### Special Responsibilities

Chairman of Supply Chain Committee & Member of the Property Committee.



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### W Pattison

Non Executive Director

#### Qualifications

M.A.I.C.D.

#### Experience

Wayne has been a Director since 4 October 2003 and he has 24 years experience in the retail industry in Victoria. Wayne is a shareholder of two independent retail stores in Victoria. He was a member of CHEEERS Liquor Group committee for 18 years, including 10 years as Chairman.

#### Special Responsibilities

Member of Audit & Risk & the Remuneration & Nomination Committees.

### J Kendall

Non Executive Director

#### Qualifications

Bachelor of Business (Marketing)

#### Experience

Janette was appointed as a Director in August 2007. Janette is Executive General Manager – Marketing of Crown Limited and has a strong background in brand marketing, advertising, promotions and customer relationship management. Previously Janette was a divisional General Manager of Pacific Brands, and the first woman board member of Clemenger, a leading international advertising agency.

#### Special Responsibilities

Member of Supply Chain Committee of the Board and the Company's Marketing Committee.





## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### J Ehrenfeld

Non Executive Director

##### Qualifications

Bachelor of Economics (University of Western Australia)

##### Experience

Jeff was appointed as a Director in September 2007. Jeff has been involved in the supermarket industry most of his life with particular expertise in fresh produce. Jeff's ownership of several independent stores in the Perth area brings a wealth of operational experience to the Board.

##### Special Responsibilities

Member of Supply Chain Committee & Member of the Audit & Risk Committee.

#### K Sleep

Company Secretary

##### Qualifications

Bachelor of Economics (Monash) FCPA FCIS

##### Experience

Ken joined AUR Ltd in December 2004 as Company Secretary, with responsibility for all Board matters, share register, corporate governance and regulatory compliance generally. Previously, Ken was with the Mayne Nickless Group for 31 years, where he held administration, finance and company secretarial responsibilities, and spent the last nine years as Group Company Secretary, with wide ranging secretarial responsibilities for the holding company and all subsidiaries.

In the period since, Ken has provided significant consultancy to a top ASX 100 company on company secretarial, corporate governance and superannuation matters, with limited similar consultancies to other public companies.



## FoodWorks Annual Report 2008

### Meetings of Directors

Directors	Board Meetings		Audit Committee		Property Committee		Remuneration & Nomination Committee		Supply Chain Committee	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
J Bridgfoot	9	9	6	5	2	2	3	3	4	4
J Scanlan	9	9			2	2	3	3	1	1
D Smith	9	9			2	2	2	2	4	4
P Noble	9	9	6	5	2	2	3	2	4	4
D Howell	9	7	6	6			1	1		
M Reddrop	9	9	1	1	2	2			4	4
G Aberdeen (Resigned 30/7/07)	1	1								
W Pattison	9	9	6	6			1	1		
N Osborne	9	9			2	2			4	4
J Kendall (Appointed 31/8/07)	7	6	1						3	1
J Ehrenfeld (Appointed 1/9/07)	7	7	5	5					3	3



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Directors' Interests in Shares or Options

Directors' relevant interests in shares of Australian United Retailers Ltd in the Company are detailed below.

Directors' relevant interests in:	C Class Redeemable Preference Shares of AUR Ltd
Michael Reddrop	720,000
Jeff Ehrenfeld	636,000
Jack Scanlan	240,000
Wayne Pattison	198,000
Deborah Smith	150,000
Peter Noble	120,000
Gary Aberdeen (representing Goondiwindi Co-Op)	108,000

#### 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.

#### Non-Audit Services

Non-audit services are approved by resolution of the audit committee and approval is provided in writing to the Board of Directors. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are detailed below. The Directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.



## FoodWorks Annual Report 2008

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to any entity that is part of the consolidated entity for:	<b>2008</b> <b>\$</b>	<b>2007</b> <b>\$</b>
Assurance Services	79,500	67,670
Taxation services	8,000	49,585



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Remuneration Report

This report outlines the remuneration arrangements in place for Directors and Senior Management personnel of the Company.

#### Remuneration Policy

The Board has established a Remuneration & Nomination Committee whose role includes assisting the Board to establish appropriate remuneration levels and incentive policies for employees and ensuring appropriate budgets for staff salaries are adopted by the Company. The responsibilities of the Committee include to:

- Set policies for senior executives' remuneration;
- Set the terms and conditions of employment for the CEO;
- Review and make recommendations to the Board on the Company's incentive schemes, remuneration policies and superannuation arrangements;
- Review the budget for salaries and monitor expenditure against budget;
- Review the remuneration of Directors; and
- Undertake an annual review of the CEO's performance including setting CEO goals for the coming year and reviewing progress.

The Company's remuneration policy has regard to the following principles:

- Provision of competitive remuneration to attract and retain high calibre personnel on a cost effective basis for the Company;
- Rewards will take into account creation of Shareholder value;



## FoodWorks Annual Report 2008

- Inclusion of a proportion of “at risk” remuneration in remuneration packages for executives;
- Such “at risk” executive remuneration will be subject to demanding performance hurdles;
- Non-Executive Director remuneration will not include any incentive based components;
- Positioning the Company to address future opportunities and respond effectively to business threats; and
- External market remuneration data will be considered when determining executive and Non-Executive Director remuneration structures.

The primary goal of the remuneration arrangements for executives is to enhance the ability of the Company to meet its key strategic objectives.

This is achieved by incorporating a range of fixed and variable remuneration components, which strongly support FoodWorks’ culture of rewarding excellent performance and attitude. The variable component of remuneration relates to the achievement of specific Company and individual objectives.

The remuneration package of the senior executives excluding the CEO is annually assessed against relevant executive market data, supplied by a leading external remuneration consultant. Every two years, the consultant conducts a thorough analysis of the relevant packages to market and every other year, a percentage increase for executive salaries is applied. Each executive is also eligible for a maximum bonus of 20% expressed as a percentage of total remuneration package. 50% of the bonus component is applied for the achievement of ‘global’ targets and 50% is applied to targets which are negotiated for each executive. The global targets for the current year comprise achievement of budgeted Net Profit/Loss, achievement of budgeted Income and containment of operating costs to the budgeted percentage of Income.



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Remuneration Report (continued)

The Chief Executive Officer, who is also an Executive Director, has entered into an employment contract for the period to 30 June 2011. It comprises a base fixed salary and an annual bonus which is dependent on attainment of annual performance targets. In addition, a further significant bonus is payable at the end of the contractual term subject to attainment of several longer term major strategic objectives.

The target criteria for the incentive components of remuneration of the CEO and other senior executives are believed to be the most relevant for their particular responsibilities and their potential contribution to the Company. The criteria are both objective and subjective. Whether the objective targets are met requires comparison of actual results against the targets. Comparison of subjective targets with actual performance usually involves a discussion with the executive and agreement on the extent to which the target has been achieved. In each case these assessment criteria are believed to be the most relevant, given the nature of the various targets and the individuals involved.

Non-Executive Director remuneration is fixed and comprises payment for service on the Board and up to two committees. Levels of remuneration have regard to fees paid by comparable companies, time commitment and responsibilities. External remuneration consultant advice is sought periodically.

The maximum aggregate amount of fees payable to Directors for their service as Directors is subject to approval by Shareholders. No part of Director fees are performance based. However, to more closely align the interests of Non-Executive Directors with those of Shareholders, it is proposed that Shareholders at the 2008 Annual General Meeting will be asked to approve changes to the Company's constitution which will allow such Directors to acquire shares in the Company.



## FoodWorks Annual Report 2008

The names and positions of each person who held the position of Director at any time during the financial year is provided above. Key management personnel including the five named executives who receive the highest remuneration for the financial year are:

### Executives

### Position

Graeme Longmuir

National Merchandising Manager

Simon Thompson

National Business Development Manager

Lloyd Burke

Future State Program Manager

Wayne Vermeend

Chief Finance Officer

Brad Hyde

National Marketing Manager

Penny Reed

National People and Performance Manager

Stephanie Holmes

Projects Manager – Business Implementation

Rick Wight

Chief Operating Officer





## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Directors' and Executives' Compensation

2008	Short term			Post Employment				Total	Performance Related
	Salary & Fees	Cash Bonus	Non-monetary	Super-annuation	Retirement benefits	Equity Options	Other Benefits		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
J Bridgfoot	120,000	-	-	-	-	-	-	120,000	-
J Scanlan	11,667	-	-	81,333	-	-	-	93,000	-
D Smith	62,000	-	-	-	-	-	-	62,000	-
P Noble	373,432	100,698	4,673	77,796	-	-	-	556,599	18
D Howell	18,667	-	-	42,417	-	-	-	61,084	-
M Reddrop	60,000	-	-	-	-	-	-	60,000	-
G Aberdeen	-	-	-	4,167	-	-	-	4,167	-
W Pattison	-	-	-	58,333	-	-	-	58,333	-
N Osborne	61,333	-	-	-	-	-	-	61,333	-
J Kendall*	45,107	-	-	4,060	-	-	-	49,167	-
J Ehrenfeld*	50,000	-	-	-	-	-	-	50,000	-
<b>Total</b>	<b>802,206</b>	<b>100,698</b>	<b>4,673</b>	<b>268,106</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,175,683</b>	<b>-</b>
<b>Executives</b>									
B Hyde*	126,766	49,980	-	44,219	-	-	-	220,965	23
G Longmuir	231,822	50,753	-	47,885	-	-	-	330,460	15
W Vermeend	127,438	35,934	17,847	42,531	-	-	-	223,750	16
S Holmes	120,522	17,373	-	16,380	-	-	-	154,275	11
S Thompson	178,978	42,890	14,124	43,193	-	-	-	279,185	15
L Burke	203,064	25,951	-	20,611	-	-	-	249,626	11
P Reed	145,216	20,435	2,364	15,091	-	-	-	183,106	11
R Wight*	107,516	-	-	9,792	-	-	-	117,308	-
<b>Total</b>	<b>243,316</b>	<b>34,335</b>	<b>239,702</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,758,675</b>	<b>-</b>

\* Amounts refer to only part of the financial year.

\* Executives have the potential to earn a bonus of 20% of their salary

\* P Noble has the potential to earn a bonus of 25% of his salary



## FoodWorks Annual Report 2008

2007	Short term			Post Employment				Total	Performance Related
	Salary & Fees	Cash Bonus	Non-monetary	Super-annuation	Retirement benefits	Equity Options	Other Benefits		
	\$	\$	\$	\$	\$	\$	\$	\$	%
<b>Directors</b>									
J Bridgfoot	150,000	-	-	-	-	-	-	150,000	-
J Scanlan	100,000	-	-	-	-	-	-	100,000	-
D Smith	50,000	-	-	-	-	-	-	50,000	-
P Noble	365,467	99,404	28,038	35,988	-	-	-	528,897	19
D Howell	50,000	-	-	-	-	-	-	50,000	-
M Reddrop	50,000	-	-	-	-	-	-	50,000	-
G Aberdeen	-	-	-	50,000	-	-	-	50,000	-
W Pattison	-	-	-	50,000	-	-	-	50,000	-
N Osborne*	29,167	-	-	-	-	-	-	29,167	-
M Timothee*	15,291	-	-	22,209	-	-	-	37,500	-
<b>Total</b>	<b>809,925</b>	<b>99,404</b>	<b>28,038</b>	<b>158,197</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,095,564</b>	<b>-</b>
<b>Executives</b>									
B Hyde	135,211	15,375	-	24,689	-	-	-	175,275	9
G Longmuir	241,568	35,029	2,926	22,588	-	-	-	302,111	12
W Vermeend	138,617	22,960	19,469	27,194	-	-	-	208,240	11
S Meehan*	54,164	11,284	-	2,179	-	-	-	67,627	17
S Thompson	185,899	21,009	20,669	18,622	-	-	-	246,199	9
L Burke*	131,009	-	-	11,791	-	-	-	142,800	-
P Reed*	103,211	-	-	9,289	-	-	-	112,500	-
<b>Total</b>	<b>989,679</b>	<b>105,657</b>	<b>43,064</b>	<b>116,352</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,254,752</b>	<b>-</b>

\* Amounts refer to only part of the financial year.



## FoodWorks Annual Report 2008

### Directors' Report (continued)

#### Chief Executive Officer's and Chief Financial Officer's Declaration

The Chief Executive Officer and Chief Financial Officer have given a declaration to the Board concerning the Group's financial statements for the year ending 30 June 2008 in accordance with section 295A of the Corporations Act 2001.

#### Corporate Governance

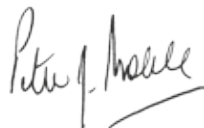
In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Australian United Retailers Ltd support and adhere to, where applicable, the principles of good governance. The Company's corporate governance statement is contained within this Annual Report.

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



Director

J Bridgfoot



Director

P Noble

Dated this 19th day of August 2008



## Auditor's Independence Declaration


### To the Directors of Australian United Retailers Ltd

In relation to the independent audit for the year ended 30 June 2008, 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.



K L BYRNE  
Partner



PITCHER PARTNERS  
Melbourne

Dated this 19th day of August 2008



## FoodWorks Annual Report 2008

### Corporate Governance Statement

(Links to the Company's website indicated in this statement will be found in the Legals section at [www.foodworks.com.au](http://www.foodworks.com.au)).

Evolution of the Company's corporate governance practices has continued in the latest reporting period, reflecting developments within the Company and application of the latest edition which is operative from 1 July 2008, of the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (ASX Principles).

These ASX Principles are primarily intended to provide guidance for ASX listed companies. Nevertheless, apart from some areas which may not be practical for small listed entities, they provide a good basis for sound governance principles in companies such as ours, and the Board therefore continues to follow the ASX Principles wherever practicable.

The main corporate governance policies and practices of the Company are set out in the statement below. They are expected to continue to develop further as the Company continues to move forward on its growth path.

#### 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 Shareholders, and the wider community where its Shareholders operate. The Company regards its governance responsibilities to each of these groups very seriously.

Listing of the Company's C Class preference shares on the National Stock Exchange of Australia (NSX) in December 2007 was a significant initiative, enhancing transparency and liquidity for share ownership. Satisfying stringent corporate governance standards was an important precondition for admission to listing on the NSX.



## FoodWorks Annual Report 2008

Testing the views of Shareholders and obtaining feedback on important directions under consideration are important elements in ensuring we are in-step with the aspirations of our Shareholders.

The FoodWorks Newsletter continues to be important and topical in keeping Shareholders informed of current events and developments. In addition, regional meetings of Shareholders and the FoodWorks annual conference, which are attended by management, staff and Directors, provide good opportunities for Shareholders and other stakeholders to exchange views with Senior Management and Directors on a wide range of issues. The Annual General Meeting of Shareholders (AGM) is a further opportunity for Shareholders to ask questions of the Board, to express views and vote on the various matters of business on the agenda. The Annual Report is also available on our website to all Shareholders and is distributed in hard copy where requested.

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

The Company's internet website at [www.foodworks.com.au](http://www.foodworks.com.au) is regularly updated and provides a range of information regarding corporate governance under the Legals section of the Shareholders Area.

### Board and Management roles

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





## FoodWorks Annual Report 2008

### Corporate Governance Statement (continued)

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, and accounting policies;
- 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](http://www.foodworks.com.au) for the full Statement of Matters Reserved for the Board.*



## FoodWorks Annual Report 2008

The CEO, and by delegation to Senior Management, is responsible for the development of strategy and the day-to-day management of the Company, with the powers, authorities, discretions, and delegations authorised from time to time by the Board. The CEO is also responsible for certifying in writing to the Board, in relation to annual and half year financial statements, that they give a true and fair view of the Company's financial position, are in accordance with relevant accounting standards and the Corporations Act and are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. In addition, the CEO provides comfort that the Company's risk management and internal compliance and control system has been operating effectively and efficiently during the period in all material respects.

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.

Regarding evaluation of the performance of Senior Managers, an ongoing participative process with the CEO is used which involves:

- Clarifying and agreeing on the outcomes/objectives of individual roles;
- Identifying the strengths of each individual and their valuable contribution to the Company;
- Monitoring the process towards the achievement of agreed outcomes and reaching agreement regarding outcomes and objectives and the strategies designed to achieve them; and
- Discussion of the reasons for the performance rating and overall specific goals obtained.

The performance review of Senior Management undertaken during the year followed these principles.



## FoodWorks Annual Report 2008

### Corporate Governance Statement (continued)

#### Board structure and processes

The constitution of the Company, operative until the 2007 AGM, set out the composition of the Board for the initial three years to the 2007 AGM. During this period the Company was to have 10 Directors, with half to be nominated by each of the two companies which merged in 2004 to form the present Company.

Half of the Directors were to retire at the 2007 AGM and the other half at the 2008 AGM, but if eligible, any retiring Director may offer for re-election.

Consequently, five Directors retired at the 2007 AGM, stood for re-election, and were re-elected to the Board. The remaining Directors (excluding the CEO who is not subject to the re-election process under the constitution) will retire at the 2008 AGM, but being eligible, have nominated for re-election to the Board. The Board structure described above was only intended to apply in the initial period following the 2004 merger. Consequently, Shareholders at the 2007 AGM approved changes to the Board structure relevant to the Company's new status as a significantly capitalised entity, in its anticipated commercial landscape. Under the constitution approved by the 2007 AGM, the Board is to have a maximum of 10 Directors of whom at least four will be Retail Directors. At each AGM from 2009 the longest serving one-third of the Directors shall retire from office, but are eligible for re-election.

The Board considers that each of its five non-Retail non-executive Directors is an independent Director.

Gary Aberdeen resigned as a non-executive Retail Director in July 2007. Jeanette Kendall was appointed as a non-executive independent Director from 31 August 2007, and Jeff Ehrenfeld was appointed as a non-executive Retail Director from 1 September 2007.

During the course of its annual program, which included eight scheduled meetings in the current year, the Board examines strategic issues. It reviews and approves the Strategic Plan and Financial



## FoodWorks Annual Report 2008

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 and Board committee performance and that of Directors. Such evaluation has not yet been formally undertaken due to the prescriptive structure of the Board during its initial period. It is expected that evaluation will be undertaken during the 2008/9 financial year. The terms of reference of the Remuneration and Nomination Committee of the Board include developing and implementing a plan for identifying, assessing and enhancing Director competencies and establishing procedures for use by the Committee to evaluate the performance of the Board and each Director.

Details of the skills, experience, expertise, independent status or otherwise, and period of office of each Director, are set out in the Directors' Report.

To assist in the execution of its responsibilities, the Board has appointed four Board committees - Audit and Risk, Remuneration and Nomination, Supply Chain and Property. 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 meeting. Committees have no executive powers regarding their findings and recommendations. The Chair of the Property Committee is a non-executive Retail Director. The Chairs of the other three Board committees are independent non-executive Directors. Details of Committee 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 Shareholders would reasonably expect from their Board of Directors - including honesty and good faith, care and diligence, no misuse or



## FoodWorks Annual Report 2008

### Corporate Governance Statement (continued)

abuse of the office of Director, independent judgment, confidentiality, and compliance with the letter and spirit of the law and this Code.

The Company has a Securities Trading Policy for Directors and staff.

*Refer to [www.foodworks.com.au](http://www.foodworks.com.au) for the full Code of Conduct and the Securities Trading Policy.*

#### Audit and Risk Committee

The Audit and 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 and Risk Committee can be found at [www.foodworks.com.au](http://www.foodworks.com.au).

Members of the Committee throughout the year were Don Howell (Chair), John Bridgfoot (ex officio) and Wayne Pattison. Gary Aberdeen resigned in July 2007. Michael Reddrop concluded his service on the Committee in October 2007 at which time Jeff Ehrenfeld and Janette Kendall were appointed. Janette Kendall concluded her service on the Committee in April 2008. The Committee met six times in the year to 30 June 2008.

#### Remuneration and Nomination Committee

In relation to the remuneration aspects of its responsibilities, the role of the Remuneration and 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.

Regarding the nomination aspects of its responsibilities, the Committee has had regard to the Company's Board structure as set out in the now superseded constitution for the three year period to



## FoodWorks Annual Report 2008

the 2007 AGM. Following that period, the Committee has developed terms of reference appropriate to the new Board structure, which include recommending size and composition of the Board, identifying and developing procedures for the appointment of new Directors, Board committee arrangements, establishing and reviewing Board succession plans, and developing and implementing a plan for identifying, assessing and enhancing Director competencies and establishing procedures for use by the Committee to evaluate the performance of the Board and each Director.

*The terms of reference of the Committee can be found at [www.foodworks.com.au](http://www.foodworks.com.au).*

Prior to the 2007 AGM the Committee coordinated a search for an appropriately skilled and experienced independent non-executive independent Director and non-executive Retail Director, which resulted in the appointment of Janette Kendall and Jeff Ehrenfeld, respectively, to the Board.

Members of the Committee throughout the year were Jack Scanlan (Chair) and John Bridgfoot (ex officio). Deborah Smith concluded her service on the Committee in October 2007 at which time Don Howell and Wayne Pattison were appointed. The Committee held three meetings in the year to 30 June 2008.

### Supply Chain Committee

Terms of reference of the Supply Chain Committee include identifying the benefits, costs and reasons for the current supply chain and identifying ways in which the current supply chain can be improved.

Members of the Committee throughout the year were Neil Osborne (Chair), John Bridgfoot (ex officio), Peter Noble (ex officio) and Michael Reddrop. Jack Scanlan and Debbie Smith concluded their service on the Committee in October 2007 at which time Janette Kendall and Jeff Ehrenfeld were appointed. The Committee met formally on four occasions and informally on several other occasions during the year to 30 June 2008.





## FoodWorks Annual Report 2008

### Corporate Governance Statement (continued)

#### Property Committee

The purpose of the Committee is to develop policy advice and to provide assessments of proposed projects to the Board related to the Company's involvement in retail property and retail businesses. It has recommended circumstances in which the Company might involve itself in the development, procurement, leasing, financing or ownership of retail property sites and/or of retail businesses. It provides advice to the CEO in relation to property proposals and assesses individual proposals against recommended criteria.

*The terms of reference of the Committee can be found at [www.foodworks.com.au](http://www.foodworks.com.au).*

From its inception in October 2007 membership of the Committee has comprised Debbie Smith (Chair), John Bridgfoot (ex officio), Peter Noble (ex officio), Neil Osborne, Michael Reddrop and Jack Scanlan. The Committee met on two occasions during the year to 30 June 2008.

#### Financial Reporting

Following the capital raising under the Prospectus and issuing of the C Class redeemable preference shares in June 2007 the Company has been subject to and has complied with the half yearly reporting obligations applicable to listed public companies and the "continuous disclosure" obligations (whereby share-price-sensitive information is required to be disseminated to the market immediately) prescribed in the Corporations Act.

*The full Continuous Disclosure policy can be found at [www.foodworks.com.au](http://www.foodworks.com.au).*

Preparation of the Company's statutory financial reports is in compliance with all relevant corporate legislation and accounting standards. A pre-condition of consideration of these reports and their recommendation by the Audit and Risk Committee is the Committee's review



## FoodWorks Annual Report 2008

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. In addition, the integrity of the Company's risk management and internal compliance and control systems are certified.

### Risk Management

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

In 2005, under the direction of the Audit and Risk Committee, the Company engaged Marsh as 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, which were systematically addressed.

Marsh was engaged again in February 2007 to review the Company's progress on their earlier risk analysis and assessment. Their report indicated there had been a significant improvement in the risk profile of the Company. The introduction of the Unity Agreement to branded Shareholders and the successful capital raising were important elements in this mitigation of risk. The Audit and Risk Committee has continued to regularly monitor the Company's risk profile and potential risk exposures in the period since, recommending strategies for action, where appropriate.

As part of an ongoing strategic review of the Company's activities a further comprehensive professional risk assessment was completed at the end of the 2008 financial year.

The increasingly favourable risk profile continues to drive a more comprehensive and effective insurance coverage program at lower cost.





## FoodWorks Annual Report 2008

### Consolidated Income Statement for the year ended 30th June 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Supplier Income	5	50,702,237	43,800,903	50,702,237	43,800,903
Sales Revenue	5	55,135	-	55,135	-
Other Income	5	684,933	1,010,484	684,933	1,010,484
<b>Total Income</b>		<b>51,442,305</b>	<b>44,811,387</b>	<b>51,442,305</b>	<b>44,811,387</b>
Cost of Sales		(47,987)	-	(47,987)	-
Distribution to members		(21,701,128)	(17,642,041)	(21,701,128)	(17,642,041)
Cost of Members Services		(7,158,979)	(6,347,622)	(7,158,979)	(6,347,622)
Merchandising expenses		(5,945,356)	(5,480,902)	(5,945,356)	(5,480,902)
Marketing expenses		(4,082,269)	(3,739,300)	(4,082,269)	(3,739,300)
Business development expenses		(1,860,798)	(3,608,930)	(1,860,798)	(3,608,930)
Administrative expenses		(4,752,090)	(5,155,523)	(4,752,090)	(5,155,523)
Information Technology expenses		(806,217)	(831,860)	(806,217)	(831,860)
Retail operations expenses		(1,645,412)	-	(1,645,412)	-
Human Resources expenses		(410,918)	(367,394)	(410,918)	(367,394)
Store rebranding expenses		(1,279,136)	(519,152)	(1,279,136)	(519,152)
Future state initiatives		(4,196,737)	(196,098)	(4,196,737)	(196,098)
Capital raising expenses		-	(660,425)	-	(660,425)
Depreciation		(327,485)	(342,868)	(327,485)	(342,868)
Other expenses		-	(47,957)	-	(47,957)
		(54,214,512)	(44,940,072)	(54,214,512)	(44,940,072)
Finance costs	6	(44,079)	(224,628)	(44,079)	(224,628)
<b>Loss before income tax</b>		<b>(2,816,286)</b>	<b>(353,313)</b>	<b>(2,816,286)</b>	<b>(353,313)</b>
Income tax benefit (income tax expense)	7	24,391	(541,587)	24,391	(460,581)
<b>Loss from continuing operations</b>		<b>(2,791,895)</b>	<b>(894,900)</b>	<b>(2,791,895)</b>	<b>(813,894)</b>
<b>Earnings per share (cents per share)</b>	8				
- basic for profit from continuing operations		(24.15)	(235.47)	-	-
- diluted for profit from continuing operations		(24.15)	(235.47)	-	-
Dividends paid per share (cents per share)		-	-	-	-
Proposed dividend per share (cents per share)		-	-	-	-

\* The accompanying notes form part of these financial statements.



## FoodWorks Annual Report 2008

### Consolidated Balance Sheet as at 30th June 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	9	3,871,350	7,439,086	3,871,350	7,439,086
Trade and other receivables	10	14,420,203	14,300,879	14,419,096	14,299,771
Inventories	11	49,194	65,000	49,194	65,000
Other	12	112,558	1,623	112,558	1,623
<b>TOTAL CURRENT ASSETS</b>		<b>18,453,305</b>	<b>21,806,588</b>	<b>18,452,198</b>	<b>21,805,480</b>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	1,033,099	875,115	1,033,099	875,115
Deferred tax asset	7	1,138,251	1,113,860	1,138,251	1,113,860
<b>TOTAL NON-CURRENT ASSETS</b>		<b>2,171,350</b>	<b>1,988,975</b>	<b>2,171,350</b>	<b>1,988,975</b>
<b>TOTAL ASSETS</b>		<b>20,624,655</b>	<b>23,795,563</b>	<b>20,623,548</b>	<b>23,794,455</b>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	14,985,958	16,439,488	15,635,808	17,089,337
Short term borrowings	15	118,732	610,409	118,732	610,409
Provisions	16	1,895,202	1,695,182	1,895,202	1,695,182
<b>TOTAL CURRENT LIABILITIES</b>		<b>16,999,892</b>	<b>18,745,079</b>	<b>17,649,742</b>	<b>19,394,928</b>
<b>NON-CURRENT LIABILITIES</b>					
Payables	14	296	350	296	350
Long term borrowings	15	425,446	544,178	425,446	544,178
Provisions	16	450,744	334,785	450,744	334,785
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>876,486</b>	<b>879,313</b>	<b>876,486</b>	<b>879,313</b>
<b>TOTAL LIABILITIES</b>		<b>17,876,378</b>	<b>19,624,392</b>	<b>18,526,228</b>	<b>20,274,241</b>
<b>NET ASSETS</b>		<b>2,748,277</b>	<b>4,171,171</b>	<b>2,097,320</b>	<b>3,520,214</b>
<b>EQUITY</b>					
Share Capital	17	7,437,878	6,068,877	7,437,878	6,068,877
Accumulated losses	18	(4,689,601)	(1,897,706)	(5,340,558)	(2,548,663)
<b>TOTAL EQUITY</b>		<b>2,748,277</b>	<b>4,171,171</b>	<b>2,097,320</b>	<b>3,520,214</b>

\* The accompanying notes form part of these financial statements.



## FoodWorks Annual Report 2008

### Consolidated Statement of Changes in Equity for the year ended 30th June 2008

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Total equity at the beginning of the financial year</b>	4,171,171	(1,002,018)	3,520,214	(1,734,081)
<b>Loss for the year</b>	(2,791,895)	(894,900)	(2,791,895)	(813,894)
<b>Total recognised income and expense for the year</b>	(2,791,895)	(894,900)	(2,791,895)	(813,894)
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity net of transaction costs	1,369,107	6,068,284	1,369,107	6,068,284
Buy-back of shares	(106)	(95)	(106)	(95)
Changes in outside equity interest	-	(100)	-	-
	1,369,001	6,068,089	1,369,001	6,068,189
<b>Total equity at the end of the financial year</b>	2,748,277	4,171,171	2,097,320	3,520,214

\* The accompanying notes form part of these financial statements.





## FoodWorks Annual Report 2008

### Consolidated Statement of Cash Flows for the year ended 30th June 2008

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>					
Cash receipts in the course of operations		56,286,579	49,895,709	56,286,579	49,895,709
Cash payments in the course of operations		(60,518,792)	(49,623,581)	(60,518,792)	(49,623,581)
Interest received		441,502	168,553	441,502	168,553
Interest paid		-	(68,564)	-	(68,564)
Income tax refunded		-	178,480	-	178,480
<b>Net cash provided by/(used in) operating activities</b>	19(b)	(3,790,711)	550,597	(3,790,711)	550,597
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>					
Proceeds from sale of property, plant and equipment		-	13,364	-	13,364
Payments for purchases of property, plant and equipment		(491,538)	(123,220)	(491,538)	(123,220)
<b>Net cash used in investing activities</b>		(491,538)	(109,856)	(491,538)	(109,856)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>					
Repayment of bank borrowings		(500,000)	(1,500,000)	(500,000)	(1,500,000)
Equipment Loan payments		(154,488)	(141,454)	(154,488)	(141,454)
Proceeds from share issue		1,369,001	6,068,185	1,369,001	6,068,185
Proceeds from borrowings		-	886,624	-	886,624
<b>Net cash provided by financing activities</b>		714,513	5,313,355	714,513	5,313,355
Net increase/(decrease) in cash held		(3,567,736)	5,754,096	(3,567,736)	5,754,096
Cash at beginning of financial year		7,439,086	1,684,990	7,439,086	1,684,990
<b>Cash at end of financial year</b>	19(a)	3,871,350	7,439,086	3,871,350	7,439,086

\* The accompanying notes form part of these financial statements.



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008

### 1. Statement of Significant Accounting Policies

The financial report is a general purpose financial report that has been prepared in accordance with Accounting Standards 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.

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) Basis of preparation of the financial report

##### *Compliance with IFRS*

Australian Accounting Standards include Australian Equivalents to International Financial Reporting Standards (AIFRSs). Compliance with Australian equivalents to International Financial Reporting Standards ensures compliance with International Financial Reporting Standards (IFRSs).

##### *Historical Cost Convention*

The financial report has been prepared under the historical cost convention, as modified by revaluations to fair value for certain classes of assets as described in the accounting policies.

#### (b) Principles of consolidation

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 21.





## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 1. Statement of Significant Accounting Policies (continued)

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.

#### (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.

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.



# FoodWorks Annual Report 2008

## 1. Statement of Significant Accounting Policies (continued)

### (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.

### (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

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

### (g) Revenue recognition

Revenue from sales 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 recognising 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).



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 1. Statement of Significant Accounting Policies (continued)

#### (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) Cash and cash equivalents

Cash and cash equivalents include cash at bank and in hand and short-term deposits with an original maturity of three months or less held at call with financial institutions and bank overdrafts. Bank overdrafts are shown within short term borrowings in current liabilities on the balance sheet.

#### (j) Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for doubtful debts is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified.

Other receivables relate principally to GST refunds and expense reimbursements outstanding at balance date and are carried at the nominal amount due. Receivables from related parties are recognised and carried at the nominal amount due.

Interest is taken up as income on an accruals basis. A receivable for interest accrued is recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.



## FoodWorks Annual Report 2008

### 1. Statement of Significant Accounting Policies (continued)

#### (k) Investments and other financial assets

The Group has investments in controlled entities.

##### *Investments in controlled entities*

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment. After initial recognition, investments in controlled entities are measured at fair value, having regard to underlying net assets of the controlled entities. Any diminution in value is recorded separately as a reduction in recoverable amount of the investment.

#### (l) Plant and equipment

Each class of 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	22.50%	Diminishing Value
Furniture, Fixtures and Fittings	7.5 - 20 %	Straight Line
Computer Equipment	33%	Straight Line



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 1. Statement of Significant Accounting Policies (continued)

#### - Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cashflows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs, unless the asset's value in use can be estimated to be close to its fair value.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written-down to its recoverable amount.

#### - Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the income statement in the period the item is derecognised.

#### (m) 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.



## FoodWorks Annual Report 2008

### 1. Statement of Significant Accounting Policies (continued)

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.

#### (n) Financial Instruments

##### *Classification*

The group classifies its financial instruments in the following categories: loans and receivables and financial liabilities. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its financial instruments at initial recognition.

##### *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.

#### (o) 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.



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 1. Statement of Significant Accounting Policies (continued)

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.

#### **(p) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

#### **(q) Interest-bearing loans and borrowings**

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the income statement when the liabilities are derecognised as well as through the amortisation process.

#### **(r) Provisions**

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.



## FoodWorks Annual Report 2008

### 1. Statement of Significant Accounting Policies (continued)

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of time value of money is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

#### (s) Contributed equity

Issued and paid-up capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

#### (t) Foreign currency

Both the functional and presentation currency of Australian United Retailers Limited and its Australian subsidiaries is Australian dollars (A\$).

Transactions in foreign currencies of entities within the consolidated entity are converted to local currency at the rate of exchange ruling at the date of the transaction.

The Company does not enter into speculative forward exchange contracts.

#### (u) Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.





## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 1. Statement of Significant Accounting Policies (continued)

Diluted EPS is calculated as the net profit attributable to members, adjusted for:

- cost of servicing equity (other than dividends),
- the after-tax effect of dividends and interest associated with the dilutive potential ordinary shares that have been recognised as expenses, and
- other non-discretionary changes in revenue or expenses during the year that would result from the dilution of potential ordinary shares,

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

#### (v) New Accounting standards and interpretations

The following standards and interpretations have been issued at the reporting date but are not yet effective. When adopted these standards and interpretations are likely to impact on the financial information presented, however the assessment of impact has not yet been completed.

AASB No.	Title	Issue Date	Operative Date
3	Business Combinations	Mar 2008	1 July 2009
8	Operating Segments	Feb 2007	1 Jan 2009
101	Presentation of Financial Statements	Sept 2007	1 Jan 2009
123	Borrowing Costs	June 2007	1 Jan 2009
127	Consolidated and Separate Financial Statements	Mar 2008	1 July 2009
1004	Contributions	Dec 2007	1 July 2008
1048	Interpretations and Application of Standards	Sept 2007	30 Sept 2007
1052	Disaggregated Disclosures	Dec 2007	1 July 2008
2007-3	Amendments to Australian Accounting Standards arising from AASB 8 [AASB 5, AASB 6, AASB 102, AASB 107, AASB 119, AASB 127, AASB 134, AASB 136, AASB 1023 & AASB 1038]	Feb 2007	1 Jan 2009
2007-06	Amendments to Australian Accounting Standards arising from AASB 123 [AASB 1, AASB 101, AASB 107, AASB 111, AASB 116 & AASB 138 and Interpretations 1 & 12]	June 2007	1 Jan 2009
2007-8	Amendments to Australian Accounting Standards arising from AASB 101	Sept 2007	1 Jan 2009
2008-3	Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127 [AASBs 1, 2, 4, 5, 7, 101, 107, 112, 114, 116, 121, 128, 131, 132, 133, 134, 136, 137, 138 & 139 and Interpretations 9 & 107]	Mar 2008	1 July 2009



## FoodWorks Annual Report 2008

### 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.

### 3. Segmental Reporting

The consolidated group's business segments are located in Australia only.

### 4. 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.

#### *Market risk*

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



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 4. Financial Risk Management (continued)

#### *Interest risk rate*

Cash deposits and interest bearing debt attract interest at the prevailing floating interest rate. See Note 25. Interest rate risk is managed by maintaining minimal debt levels, and competitive interest rates. If interest rates were to increase/decrease by 10% as at the reporting date, then the impact on profit for the year and equity is as follows:

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
+/- 10% rate variation	25,700	39,400	25,700	39,400
Impact on pre-tax profit	-	-	-	-
Tax effect	-	-	-	-
Impact on equity	25,700	39,400	25,700	39,400

#### *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 continual basis. The group has access to adequate financing facilities. Refer Note 19(c) for available and used lending facilities.

#### *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 material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the economic entity.

#### *Fair Value*

The fair value of financial assets and financial liabilities approximates their carrying amounts as disclosed in the Balance Sheet and Notes to the financial statements.



## FoodWorks Annual Report 2008

### 5. Revenue From Continuing Operations

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
<b>Operating activities</b>		\$	\$	\$	\$
- supplier income		50,702,237	43,800,903	50,702,237	43,800,903
- sale of goods		55,135	-	55,135	-
- interest	5(a)	441,502	168,553	441,502	168,553
- rent		210,326	-	210,326	-
- other revenue		33,105	841,931	33,105	841,931
Total Revenue		51,442,305	44,811,387	51,442,305	44,811,387
<b>5(a) Interest from:</b>					
- other persons		441,502	168,553	441,502	168,553
		441,502	168,553	441,502	168,553



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 6. Losses From Continuing Activities

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
Profit/(Loss) from continuing operations before income tax:	\$	\$	\$	\$
Employee benefits expense				
Wages and salaries	9,625,613	7,922,364	9,625,613	7,922,364
Workers' compensation costs	33,794	17,724	33,794	17,724
Superannuation costs	807,892	587,950	807,892	587,950
Total employee benefits expense	10,467,299	8,528,038	10,467,299	8,528,038
Finance costs expensed				
Other parties	-	181,940	-	181,940
Equipment loan interest	44,079	42,688	44,079	42,688
Total finance costs expensed	44,079	224,628	44,079	224,628
Depreciation of non-current assets				
Leasehold improvements	159,482	148,091	159,482	148,091
Plant and equipment	9,098	10,648	9,098	10,648
Motor vehicles	398	-	398	-
Office Equipment	148,106	149,789	148,106	149,789
Furniture, fixtures and fittings	10,400	11,529	10,400	11,529
Total depreciation of non-current assets	327,484	320,057	327,484	320,057
Other expenses				
Provision for stock obsolescence	(33,604)	288,604	(33,604)	288,604
Bad Debts	-	16,582	-	16,582
Doubtful Debts	(132,000)	32,000	(132,000)	32,000
Net loss on disposal of plant and equipment	6,069	70,767	6,069	70,767
	(159,535)	407,953	(159,535)	407,953



## FoodWorks Annual Report 2008

### 7. Income Tax

	<b>Economic Entity</b>		<b>Parent Entity</b>	
	<b>2008</b>	<b>2007</b>	<b>2008</b>	<b>2007</b>
	\$	\$	\$	\$
Income tax expense:				
Current tax	-	-	-	-
Deferred tax	(24,391)	541,587	(24,391)	460,581
	(24,391)	541,587	(24,391)	460,581
Deferred income tax revenue included in income tax expense comprises:				
(Increase)/Decrease in deferred tax assets	(28,742)	541,587	(28,742)	460,581
Increase/(Decrease) in deferred tax liability	4,351	-	4,351	-
	(24,391)	541,587	(24,391)	460,581
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% (2007 - 30%)	(845,136)	(105,994)	(845,136)	(105,994)
Add:				
Tax effect of:				
- correction of opening deferred tax balances	-	839,998	-	758,992
- other non-allowable items	6,777	2,165	6,777	2,165
	(838,359)	736,169	(838,359)	655,163
Less:				
Tax effect of:				
- Tax losses deducted	-	(194,582)	-	(194,582)
- Tax losses not brought to account	813,968	-	813,968	-
Income tax expense (benefit) attributable to profit	(24,391)	541,587	(24,391)	460,581
Amounts recognised directly in equity:				
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity:				
Net deferred tax - debited/(credited) directly to equity	-	(99,141)	-	(99,141)
	-	(99,141)	-	(99,141)



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 7. Income Tax (continued)

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Deferred tax assets:				
The balance comprises:				
- Doubtful debts	33,000	72,600	33,000	72,600
- Provision for stock obsolescence	76,500	86,581	76,500	86,581
- Employee benefits	703,784	608,990	703,784	608,990
- Capital raising costs	59,485	79,313	59,485	79,313
- Non deductible accruals	269,833	266,376	269,833	266,376
	1,142,602	1,113,860	1,142,602	1,113,860
Deferred tax liability:				
The balance comprises:				
- Depreciation	(4,351)	-	(4,351)	-
Increase / (Decrease) in deferred tax assets	1,138,251	1,113,860	1,138,251	1,113,860
Future income tax benefits not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in the accounting policies note occur.				
Tax losses	4,370,119	2,174,309	4,370,119	2,093,303

#### Recognition of deferred tax assets

Deferred tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.



## FoodWorks Annual Report 2008

### 8. Earnings Per Share

The following reflects the income and share data used in the total operations basic and diluted earnings per share computations:

	Economic Entity	
	2008	2007
	\$	\$
Net profit attributable to equity holders from continuing operations	(2,791,895)	(894,900)
Net profit for the year	(2,791,895)	(894,900)
	2008	2007
	no.	no.
Weighted average number of ordinary shares for basic earnings per share	11,559,800	380,048
Effect of dilution:		
Share options	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	11,559,800	380,048
Weighted average number of converted, lapsed or cancelled potential ordinary shares included in diluted earnings per share	-	-

There have been no other transactions involving ordinary shares or potential ordinary shares since the reporting date and before the completion of these financial statements.

### 9. Cash and Cash Equivalents

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash on hand	6,197	1,699	6,197	1,699
Cash at bank	3,865,153	7,436,799	3,865,153	7,436,799
Cash on deposit	-	588	-	588
	3,871,350	7,439,086	3,871,350	7,439,086





## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 10. Trade and Other Receivables

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Current</b>				
Trade receivables	12,767,930	13,005,103	12,767,930	13,005,103
Provision for Doubtful Debts	(110,000)	(242,000)	(110,000)	(242,000)
	12,657,930	12,763,103	12,657,930	12,763,103
Sundry debtors and accrued income	1,762,273	1,537,776	1,761,166	1,536,668
	14,420,203	14,300,879	14,419,096	14,299,771

#### 11. Inventories

Merchandising signage at cost	304,194	353,604	304,194	353,604
Provision for obsolescence	(255,000)	(288,604)	(255,000)	(288,604)
	49,194	65,000	49,194	65,000

#### 12. Other Assets

Current				
Prepayments	112,558	1,623	112,558	1,623
	112,558	1,623	112,558	1,623



## FoodWorks Annual Report 2008

### 13. Plant & Equipment

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Leasehold Improvements</b>				
At cost	937,947	842,454	937,947	842,454
Less accumulated depreciation	(347,892)	(188,409)	(347,892)	(188,409)
	590,055	654,045	590,055	654,045
<b>Plant and Equipment</b>				
Plant and equipment				
At cost	160,441	43,687	160,441	43,687
Less accumulated depreciation	(20,816)	(14,134)	(20,816)	(14,134)
	139,625	29,553	139,625	29,553
<b>Motor vehicles</b>				
At cost	10,609	-	10,609	-
Less accumulated depreciation	(398)	-	(398)	-
	10,211	-	10,211	-
<b>Computer equipment</b>				
At cost	820,677	559,205	820,677	559,205
Less accumulated depreciation	(550,407)	(402,625)	(550,407)	(402,625)
	270,270	156,580	270,270	156,580
<b>Furniture, fixtures and fittings</b>				
At cost	56,898	81,119	56,898	81,119
Less accumulated depreciation	(33,960)	(46,182)	(33,960)	(46,182)
	22,938	34,937	22,938	34,937
<b>Total plant and equipment</b>	443,044	221,070	443,044	221,070
<b>Total plant and equipment</b>	1,033,099	875,115	1,033,099	875,115



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 13. Plant & Equipment (continued)

##### (a) Movement in Carrying Amounts

ECONOMIC ENTITY	Leasehold Improvements	Plant and Equipment	Computer equipment	Motor vehicles	Furniture, fixtures and fittings	Total
	\$	\$	\$	\$	\$	\$
Carrying amount as at 1 July 2006	749,554	64,601	290,180	10,784	40,964	1,156,083
Additions	52,582	8,264	55,557		6,817	123,220
Disposals	-	(32,664)	(39,368)	(10,784)	(1,315)	(84,131)
Depreciation charge for the year	(148,091)	(10,648)	(149,789)	-	(11,529)	(320,057)
Carrying amount as 30 June 2007	654,045	29,553	156,580	-	34,937	875,115
Additions	95,492	123,460	261,796	10,609	181	491,538
Disposals	-	(4,290)	-	-	(1,780)	(6,070)
Depreciation charge for the year	(159,482)	(9,098)	(148,106)	(398)	(10,400)	(327,484)
Carrying amount as 30 June 2008	590,055	139,625	270,270	10,211	22,938	1,033,099
PARENT ENTITY	Leasehold Improvements	Plant and Equipment	Computer equipment	Motor vehicles	Furniture, fixtures and fittings	Total
	\$	\$	\$	\$	\$	\$
Carrying amount as 1 July 2006	749,554	64,601	290,180	10,784	40,964	1,156,083
Additions	52,582	8,264	55,557		6,817	123,220
Disposals	-	(32,664)	(39,368)	(10,784)	(1,315)	(84,131)
Depreciation charge for the year	(148,091)	(10,648)	(149,789)	-	(11,529)	(320,057)
Carrying amount as 30 June 2007	654,045	29,553	156,580	-	34,937	875,115
Additions	95,492	123,460	261,796	10,609	181	491,538
Disposals	-	(4,290)	-	-	(1,780)	(6,070)
Depreciation charge for the year	(159,482)	(9,098)	(148,106)	(398)	(10,400)	(327,484)
Carrying amount as 30 June 2008	590,055	139,625	270,270	10,211	22,938	1,033,099



## FoodWorks Annual Report 2008

### 14. Trade and Other Payables

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Current</b>				
Trade payables	11,031,116	12,677,273	11,031,116	12,677,273
Sundry payables and accrued expenses	3,954,842	3,762,215	3,954,842	3,762,214
Loans from associates	-	-	649,850	649,850
	14,985,958	16,439,488	15,635,808	17,089,337
<b>Non Current</b>				
Class B - redeemable preference shares	296	350	296	350

### 15. Borrowings

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
<b>Current</b>				
<b>Secured liabilities</b>				
Bank loans	-	500,000	-	500,000
Equipment loan (Note 22)	118,732	110,409	118,732	110,409
	118,732	610,409	118,732	610,409
<b>Non-Current</b>				
<b>Secured liabilities</b>				
Equipment loan (Note 22)	425,446	544,178	425,446	544,178
	425,446	544,178	425,446	544,178

(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 \$3,200,000 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 Pty Ltd with relevant insurance assigned to the Bank.
- Lease purchase agreements.



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 16. Provisions

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
CURRENT					
Employee benefits	(a)	1,895,202	1,695,182	1,895,202	1,695,182
		1,895,202	1,695,182	1,895,202	1,695,182
NON-CURRENT					
Employee benefits	(a)	450,744	334,785	450,744	334,785
		450,744	334,785	450,744	334,785
(a) Aggregate employee benefits liability		2,345,946	2,029,967	2,345,946	2,029,967
(b) Number of Employees		117	92	117	92



## FoodWorks Annual Report 2008

### 17. Share Capital

	Note	Economic Entity		Parent Entity	
		2008	2007	2008	2007
		\$	\$	\$	\$
Issued and paid up capital					
11,559,800 : (2007 : 11,559,800) Class C Redeemable preference shares	15(b)	7,437,170	6,068,170	7,437,170	6,068,170
708 : (2007 : 707) Class A Redeemable preference shares	15(c)	708	707	708	707
		7,437,878	6,068,877	7,437,878	6,068,877
(a) Future calls		2,052,000	4,050,000	2,052,000	4,050,000
At balance date there were 5,400,000 Class C Redeemable preference shares issued at \$1.12 each called to \$0.74. Future calls are due in April 2009.					
From the April 2008 capital call, \$0.37 remained unpaid on 1,700,000 shares as at 30 June 2008.					
(b) Class C Redeemable Preference Shares					
At the beginning of the reporting period		6,068,170	-	6,068,170	-
Shares issued during the year					
- 4,301,500 on 18 June 2007		-	4,301,500	-	4,301,500
- 5,400,000 on 18 June 2007		-	1,998,000	-	1,998,000
- 1,858,300 on 18 June 2007		-	-	-	-
Second installment received		1,369,000	-	1,369,000	-
Transaction costs relating to share issues		-	(231,330)	-	(231,330)
At reporting date		7,437,170	6,068,170	7,437,170	6,068,170
		No.	No.	No.	No.
At the beginning of reporting period		11,559,800	-	11,559,800	-
Shares issued during year					
- fully paid on 18 June 2007		-	4,301,500	-	4,301,500
- partly paid on 18 June 2007		-	5,400,000	-	5,400,000
- bonus shares on 18 June 2007		-	1,858,300	-	1,858,300
At reporting date		11,559,800	11,559,800	11,559,800	11,559,800
(c) Class A Redeemable preference shares					
At the beginning of the reporting period		707	688	707	688
Shares issued during the year		107	114	107	114
Shares bought back during the year		(106)	(95)	(106)	(95)
At reporting date		708	707	708	707



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 18. Retained Profits

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Accumulated losses at the beginning of the financial year	(1,897,706)	(1,002,806)	(2,548,663)	(1,734,769)
Accumulated losses attributable to members of the entity	(2,791,895)	(894,900)	(2,791,895)	(813,894)
Accumulated losses at the end of the financial year	(4,689,601)	(1,897,706)	(5,340,558)	(2,548,663)

#### 19. Cashflow 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:



## FoodWorks Annual Report 2008

### 19. Cashflow Information (continued)

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
Cash on hand	6,197	1,699	6,197	1,699
Cash at bank	3,865,153	7,436,799	3,865,153	7,436,799
At call deposits with financial institutions	-	588	-	588
	3,871,350	7,439,086	3,871,350	7,439,086
<b>(b) Reconciliation from the net loss after tax to the net cash flows from operations</b>				
Net loss from ordinary activities after tax	<b>(2,791,895)</b>	<b>(894,900)</b>	<b>(2,791,895)</b>	<b>(813,894)</b>
Adjustments for:				
Depreciation	327,485	320,057	327,485	320,057
Doubtful debts	(132,000)	32,000	(132,000)	32,000
Repayment of bank borrowings	-	113,376	-	113,376
Equipment loan interest	44,079	42,688	44,079	42,688
Net loss/(profit) on disposal of property, plant and equipment	6,069	70,767	6,069	70,767
Changes in assets and liabilities:				
(Increase)/Decrease in trade and other receivables	237,173	793,441	237,173	793,441
(Increase)/Decrease in inventories	15,806	321,268	15,806	321,268
(Increase)/Decrease in prepayments	(335,433)	(411,216)	(335,433)	(411,113)
(Increase)/Decrease in deferred tax assets	(24,391)	442,446	(24,391)	361,440
Increase/(Decrease) in current tax liability	-	318,081	-	317,978
Increase/(Decrease) in trade and other payables	(1,453,583)	(1,301,637)	(1,453,583)	(1,301,637)
Increase/(Decrease) in provision for employee entitlements	315,979	704,226	315,979	704,226
<b>Net cash from operating activities</b>	<b>(3,790,711)</b>	<b>550,597</b>	<b>(3,790,711)</b>	<b>550,597</b>
<b>(c) Credit: Standby Arrangements with banks</b>				
Credit Facility	13,094,289	15,891,237	13,094,289	15,891,237
Amount Utilised	(863,883)	(1,409,615)	(863,883)	(1,409,615)
Unused Credit Facility	12,230,406	14,481,622	12,230,406	14,481,622





## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 19. Cashflow Information (continued)

The major facilities are summarised as follows:

Direct Payments Facility

\$12,000,000 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 Guaranteed Facility

\$300,000 facility provided by the National Australia Bank

Equipment Loan Facility

\$544,289 fixed interest rate facility provided by the National Australia Bank

### 20. Auditors' Remuneration

Amounts received or due and receivable by Pitcher Partners for:

	Economic Entity		Parent Entity	
	2008	2007	2008	2007
	\$	\$	\$	\$
- an audit or review of the financial report of the entity and any other entity in the consolidated group	79,500	67,670	79,500	67,670
- other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	8,000	49,585	8,000	49,585
	87,500	117,255	87,500	117,255

### 21. Controlled Entities

(a) Controlled entities

Parent Entity:

Australian United Retailers Ltd

Subsidiaries of Australian United Retailers Ltd:

Australian United Grocers Pty Ltd

National Retailers Group Pty Ltd

Country of Incorporation	Percentage Owned (%)	
	2008	2007
Australia		
Australia	100	100
Australia	100	100



# FoodWorks Annual Report 2008

## 22. Capital and Leasing Commitments

		Economic Entity		Parent Entity	
		2008	2007	2008	2007
(a) Equipment Loan	Note	\$	\$	\$	\$
Payable					
- not later than one year		154,488	154,487	154,488	154,487
- later than one year and not later than five years		476,337	617,950	476,337	617,950
- later than five years		-	12,874	-	12,874
Minimum equipment loan payments		630,825	785,311	630,825	785,311
Less future finance charges		(86,647)	(130,724)	(86,647)	(130,724)
Total equipment loan liability		544,178	654,587	544,178	654,587
Represented by:					
Current liability	15	118,732	110,409	118,732	110,409
Non-current liability	15	425,446	544,178	425,446	544,178
		544,178	654,587	544,178	654,587
<b>(b) Operating lease commitments</b>					
Non-cancellable operating leases contracted for but not capitalised in the financial statements:					
Payable					
- not later than one year		854,319	677,291	854,319	677,291
- later than one year and not later than five years		1,580,373	1,668,209	1,580,373	1,668,209
		2,434,692	2,345,500	2,434,692	2,345,500

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% on the first, second, third and fifth anniversaries of the commencement date.

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 3 years. Assets that are the subject of operating leases include motor vehicles and items of small machinery and office equipment.



## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 23. 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 2008 (2007: \$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:

Michael Reddrop

Wayne Pattison

Gary Aberdeen

Deborah Smith

Jeff Ehrenfeld

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 \$139,007 (2007: \$176,278). The aggregate amount of rebates paid or payable and included in the result for the year is \$1,687,003 (2007: \$1,347,232).

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

Michael Reddrop

Peter Noble

Jack Scanlan

Director Jeff Ehrenfeld provides accounting and administration services through one of his companies to four FoodWorks supermarkets.



## FoodWorks Annual Report 2008

### 23. Related Party Transactions (continued)

#### (c) Directors' Shareholdings

Aggregate number of shares disposed during the year:

"A" Class redeemable non-cumulative preference shares:

Michael Reddrop	1 Share
-----------------	---------

"B" Class redeemable non-cumulative preference shares:

Michael Reddrop	1 Share
-----------------	---------

Aggregate number of shares held at the date of this report:

"A" Class redeemable non-cumulative preference shares:

Michael Reddrop	4 shares (2007: 5 shares)
-----------------	---------------------------

Wayne Pattison	2 shares (2007: 2 shares)
----------------	---------------------------

Gary Aberdeen	1 share (2007: 1 share)
---------------	-------------------------

Deborah Smith	1 share (2007: 1 share)
---------------	-------------------------

Jeff Ehrenfeld	2 shares (2007: 2 shares)
----------------	---------------------------

"B" Class redeemable non-cumulative preference shares:

Michael Reddrop	4 shares (2007: 5 shares)
-----------------	---------------------------

Wayne Pattison	2 shares (2007: 2 shares)
----------------	---------------------------

Gary Aberdeen	1 share (2007: 1 share)
---------------	-------------------------

Deborah Smith	1 share (2007: 1 share)
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## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 23. Related Party Transactions (continued)

“C” Class redeemable preference shares:

Michael Reddrop	720,000 shares (2007: 720,000 shares)
Wayne Pattison	198,000 shares (2007: 198,000 shares)
Gary Aberdeen	108,000 shares (2007: 108,000 shares)
Deborah Smith	150,000 shares (2007: 150,000 shares)
Jack Scanlan	240,000 shares (2007: 240,000 shares)
Peter Noble	120,000 shares (2007: 120,000 shares)
Jeff Ehrenfeld	636,000 shares (2007: 636,000 shares)

In addition to the interest listed above, Michael Reddrop is director of an entity, Superate Pty Ltd, which controls a trust that owns 3 FoodWorks stores, and hence owns both 3 Class A Shares and 3 Class B Shares. Further, entities associated with Michael Reddrop, Peter Noble and Jack Scanlan own units in the relevant trust. The entity Superate Pty Ltd acquired 498,000 Class C shares during the year ended 30 June 2007.

#### 24. Directors' And Executives' Compensation

##### (a) Details of Key Management Personnel

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

J Bridgfoot	G Aberdeen
J Scanlan	W Pattison
D Smith	N Osborne
P Noble	J Kendall
D Howell	J Ehrenfeld
M Reddrop	



# FoodWorks Annual Report 2008

## 24. Directors’ And Executives’ Compensation (continued)

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

B Hyde	L Burke
G Longmuir	P Reed
W Vermeend	S Holmes
S Thompson	R Wight

**(b) Remuneration of Key Management Personnel**

Refer to the directors report for disclosure on the remuneration policies and remuneration for Directors and Executives. Remuneration disclosures are provided in Tables 3 and 4 on pages 40 and 41 of the Directors’ Report.

Grants of performance-related bonuses

Key management personnel have received performance-related bonuses during the period totalling \$344,014 (2007: \$205,061).

The criteria used to determine the amount of compensation is based on key company milestones as determined by the Board.

**(c) Remuneration options: Granted and vested during the year**

Refer to the Directors Report for details of options granted and vested during the year.

**(d) Employment Contracts and Service Agreements**

Refer to the Directors Report for details of employment contracts and service agreements.



## FoodWorks Annual Report 2008

### Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

#### 25. 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:

2008 Financial Instruments	Floating interest rate \$	Fixed interest rate maturing in: 1 year or less \$	Fixed interest rate maturing in: Over 1 to 5 years \$	Non-interest bearing \$	Total carrying amount as per the balance sheet \$	Weighted average effective interest rate %
<b>(i) Financial assets</b>						
Cash	3,865,153	-	-	6,197	3,871,350	6.65
Trade and other receivables	-	-	-	14,420,203	14,420,203	-
Total financial assets	3,865,153	-	-	14,426,400	18,291,553	-
<b>2008 Financial Instruments</b>	<b>Floating interest rate \$</b>	<b>Fixed interest rate maturing in: 1 year or less \$</b>	<b>Fixed interest rate maturing in: Over 1 to 5 years \$</b>	<b>Non-interest bearing \$</b>	<b>Total carrying amount as per the balance sheet \$</b>	<b>Weighted average effective interest rate %</b>
<b>(ii) Financial liabilities</b>						
Trade creditors	-	-	-	11,031,116	11,031,116	-
Equipment loan	-	118,732	425,446	-	544,178	7.29
Total financial liabilities	-	118,732	425,446	11,031,116	11,575,294	-



## FoodWorks Annual Report 2008

### 25. Financial Instruments (continued)

2007 Financial Instruments	Floating interest rate \$	Fixed interest rate maturing in: 1 year or less \$	Fixed interest rate maturing in: Over 1 to 5 years \$	Non-interest bearing \$	Total carrying amount as per the balance sheet \$	Weighted average effective interest rate %
<b>(i) Financial assets</b>						
Cash	7,437,387	-	-	1,699	7,439,086	5.3
Trade and other receivables	-	-	-	14,300,879	14,300,879	-
Total financial assets	7,437,387	-	-	14,302,578	21,739,965	-
<b>2007 Financial Instruments</b>	<b>Floating interest rate \$</b>	<b>Fixed interest rate maturing in: 1 year or less \$</b>	<b>Fixed interest rate maturing in: Over 1 to 5 years \$</b>	<b>Non-interest bearing \$</b>	<b>Total carrying amount as per the balance sheet \$</b>	<b>Weighted average effective interest rate %</b>
<b>(i) Financial assets</b>						
Trade creditors	-	-	-	12,677,273	12,677,273	-
Bank and other loans	-	500,000	-	350	500,350	6.6
Equipment loan	-	110,409	544,178	-	654,587	7.3
Total financial liabilities	-	610,409	544,178	12,677,623	13,832,210	-





## FoodWorks Annual Report 2008

# Notes to and forming part of the Financial Statements for the year ended 30th June 2008 (continued)

### 25. 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.

#### (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.

### 26. Economic Dependence

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

### 27. Corporate Information

The financial report of Australian United Retailers Limited for the year ended 30 June 2008 was authorised for issue in accordance with a resolution of the Directors on 19 August 2008.

Australian United Retailers Ltd is a company limited by shares incorporated in Australia whose shares are publicly traded on the National Stock Exchange of Australia.

The nature of operations and principal activities of the economic entity are described in the Directors' Report.

The registered office of the company is:

Australian United Retailers Ltd  
Level 1  
1601 Malvern Road  
Glen Iris Victoria 3146



## FoodWorks Annual Report 2008

### Directors' Declaration

The Directors of the Company declare that:

1. The financial statements and notes, as set out on pages 44 to 92, 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 30 June 2008 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 19th day of August 2008



# Independent Auditor's Report to the Members of Australian United Retailers Ltd

We have audited the accompanying financial report of Australian United Retailers Ltd and controlled entities. The financial report comprises the Balance Sheet as at 30 June 2008, and the Income Statement, Statement of Changes in Equity and Cash Flow Statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the Directors' declaration 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.

## Director's Responsibility for the Financial Report

The Directors of the Company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

In Note 1, the Directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

## Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments,



## Independent Auditor's Report to the Members of Australian United Retailers Ltd (continued)

the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the Directors, as well as evaluating the overall presentation of the financial report.

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

### Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

### Auditor's Opinion

In our opinion,

- a) the financial report of Australian United Retailers Ltd is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2008 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- b) the consolidated financial report also complies with International Financial Reporting Standards as disclosed in Note 1.



## Independent Auditor's Report to the Members of Australian United Retailers Ltd (continued)

### Report on the Remuneration Report

We have audited the Remuneration Report included in pages 36 to 41 of the Directors' report for the year ended 30 June 2008. The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

### Auditor's Opinion

In our opinion the Remuneration Report of Australian United Retailers Ltd and controlled entities for the year ended 30 June 2008, complies with section 300A of the Corporations Act 2001.



K L BYRNE

Partner



PITCHER PARTNERS

Melbourne

Dated this 19th day of August 2008



## FoodWorks Annual Report 2008

### Shareholder Information

#### **Class A Redeemable Preference Shares.**

One Class A Redeemable Preference Share is issued and allotted to each Approved Storeowner in respect of each Approved Store they operate and control. Other than in certain prescribed circumstances, Class A Redeemable Preference Shares are the only shares that carry voting rights at general meetings of the Company, with the owner of each Approved Store having one vote per store. There were 708 Class A Redeemable Preference Shares issued at 30 June 2008. There are no Substantial Shareholders of Class A Redeemable Preference Shares.

#### **Class B Redeemable Preference Shares.**

Until February 2007, one Class B Redeemable Preference Share was issued and allotted to each Branded Storeowner who signed a Banner Agreement in respect of each Branded Store they operate and control. These shares have no voting rights at general meetings of the Company. There were 296 Class B Redeemable Preference Shares issued at 30 June 2008. There are no Substantial Shareholders of Class B Redeemable Preference Shares.

#### **Class C Redeemable Preference Shares.**

Under the terms of issue and the Constitution, Class C Redeemable Preference Shares issued under the prospectus that are fully paid will convert to Class A Redeemable Preference Shares on 16 June 2009. Until then, other than in certain prescribed circumstances they have no voting rights at general meetings of the Company. There were 11,559,800 Class C Redeemable Preference Shares issued as at 30 June 2008.

Fully paid Class C Redeemable Preference Shares are listed on the exchange operated by the National Stock Exchange of Australia.



## FoodWorks Annual Report 2008

### Shareholder Information (continued)

#### Top 10 holders of fully paid Class C Redeemable Preference Shares as at 30 June 2008

	No of shares	%
PKAT Investments Pty Ltd	600,000	11.7%
Superate Pty Ltd	498,000	9.7%
INVIA Custodian Pty Ltd	222,000	4.3%
Giant Fresh Pty Ltd	180,000	3.5%
Mr James Frederick Wood & Mrs Jane Margaret Wood	132,000	2.6%
AA & MP Pty Ltd	120,000	2.3%
Mr Peter James Noble & Mrs Delphine Noble	120,000	2.3%
Goondiwindi Co-Op Society Limited	108,000	2.1%
Mr Trevor Neil Rickard & Ms Alison Margaret Rickard	104,400	2.0%
Mr Allan Burge & Ms Corine Burge	90,000	1.8%
		42.6%

#### Top 10 holders of partly paid Class C Redeemable Preference Shares as at 30 June 2008

	No of shares	%
Dalewing Pty Ltd	1,080,000	16.7%
Dreyfus Pty Ltd	720,000	11.2%
Melonglow Pty Ltd	660,000	10.2%
Saltbush Springs Pty Ltd	636,000	9.9%
Mr Alex Ng	360,000	5.6%
Mellway Holdings Pty Ltd	300,000	4.6%
Rummage Market Pty Ltd	240,000	3.7%
Seventh Dectex Pty Ltd	168,900	2.6%
Backfence Pty Ltd	160,800	2.5%
Two Fish Pty Ltd	132,000	2.0%
		69.1%









**Registered Office & Victorian Support Office**

Level 1, 1601 Malvern Road, Glen Iris, Victoria, Australia 3146  
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

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