



Offer information statement

Australian United Retailers Limited
ACN 077 879 782 (**AURL**)

AURL lodged this Offer Information Statement with ASIC on 5 September 2008

IMPORTANT INFORMATION

This is an important document that should be read in its entirety. If you do not understand it, you should consult your professional advisors.

CORPORATE DIRECTORY

Company

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Trading as FoodWorks
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Directors

John Bridgfoot – Chairman and Non Executive Director
Jack Scanlan – Deputy Chairman and Non Executive Director
Peter Noble – Chief Executive Officer and Executive Director
Deborah Smith - Non Executive Director
Don Howell - Non Executive Director
Janette Kendall - Non Executive Director
Wayne Pattison - Non Executive Director
Michael Reddrop - Non Executive Director
Neil Osborne - Non Executive Director
Jeff Ehrenfeld - Non Executive Director

Company Secretary

Ken Sleep

Lawyers to the Company

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IMPORTANT NOTICE

This is an offer information statement issued under Part 6D.2 of the Corporations Act (**OIS**). Eligible Applicants should note that this document is not a prospectus and that the content requirements for an OIS (set out in section 715 of the Corporations Act) are less onerous than that required for a prospectus.

The offer contained in this OIS is an invitation to Eligible Applicants to apply for a Class A Redeemable Preference Share(s) in Australian United Retailers Limited.

Eligible Applicants should read this OIS in its entirety before deciding to invest in the Company. In particular, Eligible Applicants should refer to sections 7 and 11 for details of the risk factors that could affect the performance of the Company and for financial information relating to the Company. The Offer does not take into account the investment objectives, personal circumstances (including financial and taxation issues) and particular needs of Eligible Applicants. Eligible Applicants should consider the prospects of the Company in the light of their individual objectives, circumstances and needs. Eligible Applicants should seek professional advice from a solicitor, accountant or other independent financial advisor before deciding to apply for a Class A Redeemable Preference Share(s) in the Company. Neither the Company nor any other person guarantees the success of the Company, the repayment of capital or the payment of dividends.

This OIS is dated 5 September 2008 (**OIS Date**). A copy of this OIS was lodged with the Australian Securities and Investments Commission (**ASIC**) on 5 September 2008. The ASIC does not take any responsibility for the contents of this OIS or the merits of the Offer contained in it.

No securities will be allotted or issued on the basis of this OIS later than 13 months after the OIS Date.

No person is authorised to give any information, or to make any representation, in connection with the Offer, other than that which is contained in this OIS. Any information or representation not contained in this OIS may not be relied on as having been authorised by the Company or its Directors or any other person in connection with the Offer. The Company is not liable for this OIS, or in respect of the Offer, except to the extent required by law.

All financial amounts shown in this OIS are expressed in Australian dollars, unless stated otherwise.

Exposure Period

The Corporations Act prohibits the Company from processing applications in the seven (7) day period after the OIS Date. This period is known as the Exposure Period. This Exposure Period may be extended by the ASIC by up to seven (7) days. The purpose of the Exposure Period is to enable this OIS to be examined by market participants prior to the raising of funds. Applications received during the Exposure Period will not be processed until after the expiry of that period.

Offer for Australian Residents

This Offer is available to Australian residents located in Australia. The distribution of this OIS in jurisdictions outside of Australia may be restricted by law. Persons who obtain this OIS in jurisdictions outside of Australia should seek advice on and observe such restrictions. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. This OIS does not constitute an offer or an invitation in any place outside of Australia where, or to any person whom, it would be unlawful to make such an offer or invitation.

Definitions and Abbreviations

Please refer to the Glossary in section 1 for explanations of defined terms and abbreviations used in this OIS.

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1 Glossary

Glossary

"Application Form" means the application for the issue and allotment of a Class A Redeemable Preference Share in the form attached to, or accompanying, this OIS.

"Approved Store" means a Retail Outlet owned or leased and operated and controlled by a Member which the Directors declare from time to time to be an Approved Store under the Constitution.

"Approved Storeowner" means a storeowner (including Joint Owners) who the Directors declare from time to time to be an Approved Storeowner under the Constitution.

"ASIC" means the Australian Securities and Investments Commission.

"ASTC" means ASX Settlement and Transfer Corporation Pty Limited as approved as the Securities Clearing House under the Corporations Act.

"AUR" means Australian United Grocers Pty Ltd (ACN 009 786 485) – formerly Australian United Retailers Ltd – and in this OIS represents the pre Merger Queensland based business.

"AURL" means Australian United Retailers Limited (ACN 077 879 782) trading as FoodWorks and in this OIS represents the post Merger business.

"Back Office System" (BOS) means the computer system, usually located in the back office, which interacts with the Point of Sale systems and helps a retailer manage their pricing, merchandising, stock, accounts payable and cash management processes.

"Best Buy" means the range of proprietary products developed for FoodWorks and packaged with the Best Buy brand.

"Black and Gold" means the generic brand of products produced for and promoted by Metcash and available to FoodWorks Members who own Approved Stores.

"Board" means the Board of Directors of FoodWorks.

"Brand" means the Business Names, Trade Marks or other Intellectual Property by which the Company promotes FoodWorks Branded Stores and the Company's Private Label program.

"Branded Store" means an Approved Store which the Directors declare from time to time to be a Branded Store under the Constitution.

"Branded Storeowner" means a storeowner who the Directors declare from time to time to be a Branded Storeowner under the Constitution.

"Business Development Finance" means the service provided by FoodWorks to assist Members who own (or would like to own) an Approved Store to apply and qualify for finance from banks or financial institutions.

"Chargeback" means the accounts payable service, where FoodWorks makes payment to a range of suppliers on behalf of stores, and debits the stores for their corresponding supplier purchases.

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"Class A Redeemable Preference Share" means a share in FoodWorks with the rights attached as set out in the Constitution which are required to be issued to all Approved Stores.

"Class B Redeemable Preference Share" means a share in FoodWorks with the rights attached as set out in the Constitution.

"Class C Redeemable Preference Share" means a share in FoodWorks with the rights attached as set out in the Constitution.

"Closing Date" means the date on which the Offer closes, being 5:00pm AEST on 5 October 2009.

"Company" means Australian United Retailers Limited (ACN 077 879 782) trading as FoodWorks.

"Constitution" means the Constitution of FoodWorks (as amended from time to time).

"Conversion Date" means 16 June 2009, being the second anniversary of the date on which Class C Redeemable Preference Shares were first issued under a prospectus lodged with the ASIC.

"Corporations Act" means the *Corporations Act (Cth) 2001*.

"Customer Value Proposition" means the collective offer presented to the customer including product, pricing and presentation.

"Directors" means the Directors for the time being of FoodWorks or such number of them as has authority to act for FoodWorks.

"Eligible Applicant" means an owner or joint owners of an Approved Store or a person who the Directors determine intends to become an Approved Storeowner, has signed (or proposes to sign) a Unity Agreement, and is entitled to apply for the issue of a Class A Redeemable Preference Share under this OIS.

"Eligible Member" currently means any of the following persons as may be determined by the Directors to be eligible to hold shares in the Company:

- (i) an Approved Storeowner;
- (ii) a Branded Storeowner;
- (iii) a Related Party of an Approved Storeowner;
- (iv) an employee of the Company, but provided that the Board has passed a formal resolution confirming such employee(s) of the Company as constituting Eligible Members for the purposes of holding shares in the Company; and
- (v) subject to the passing of the formal resolution in sub-paragraph (iv) above, a Related Party of an employee of the Company.

"Eligible Warehouse Withdrawals" or "EWW" means the cost price of goods purchased by an Approved Store or Branded Store from Metcash, excluding liquor, food service items, cigarettes and tobacco, store expense items, charge through items, and FoodWorks Private Label products.

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"Exposure Period" means the period of seven days after lodgement of this OIS which may be extended by the ASIC by not more than seven days pursuant to section 727(3) of the Corporations Act.

"FoodWorks" means Australian United Retailers Limited (ACN 077 879 782).

"FSG" means FoodWorks Supermarket Group Ltd (ACN 077 879 782) and in this OIS represents the pre Merger Victorian based business.

"LiquorLink" means the specific supply, merchandising and promotional program for Liquor products covered under FoodWorks' LiquorLink Agreement.

"Listing Rules" means the Listing Rules of the NSX and any other rules of the NSX which apply while the Company is admitted to the Official List, each rule as amended or replaced from time to time, except to the extent of any express written waiver by the NSX.

"Member" means a person for the time being entered into the register of members of FoodWorks in accordance with the Constitution.

"Merger" means the merger of the FoodWorks Supermarket Group Ltd (FSG) and Australian United Retailers (AUR) in November 2004.

"Metcash" means Metcash Trading Limited (ACN 000 031 569).

"NSX" means National Stock Exchange of Australia Limited.

"Offer" means the offer of Class A Redeemable Preference Share(s) to Eligible Applicants under this OIS.

"Official List" has the same meaning given to the term "official list" in the Listing Rules.

"Private Label" means the branded products which are proprietary to the Company, including the Best Buy, Promenade and Harvest Valley branded products.

"Point of Sale System" means the computer systems which are in place at the checkout lanes to process customer purchases and includes the scanning equipment, scales and the cash registers.

"Relevant Interest" has the meaning ascribed to it in the Corporations Act.

"Retail Outlet" means a business of supermarket retailing and associated businesses.

"Services" means the primary role of the Company in:

- (i) providing marketing, merchandising and promotional advice and services to the stores of Members who own Approved Stores;
- (ii) acting as an agent for the stores of Members in negotiation of supply agreements and the collection of rebates and allowances on their behalf; and
- (iii) providing such other services as the Members may determine in general meeting from time to time.

"Share" means a share in the Company.

“Storeowner” means the owner or Joint Owners of an Approved Store.

“Substantial Holding” means, in relation to the total number of votes attached to voting shares in the Company, 7.5% or more of the total votes attached to voting shares in which a Member or their associates have a Relevant Interest.

“Supplier” means a supplier of goods or services to the retail industry.

“TobaccoLink” means the specific supply, merchandising and promotional program for tobacco products covered under FoodWorks’ TobaccoLink Agreement.

“Unbranded Store” means an Approved Store which is not a Branded Store.

“Unity Agreement” means an agreement between FoodWorks and:

- (i) in all cases, an Approved Storeowner, setting out the primary role of the Company in providing the Services and which governs the rights and obligations between the Company and the Approved Storeowner; and
- (ii) in some cases, a Branded Storeowner, and which governs the rights and obligations between the Company and the Branded Storeowner; and
- (iii) providing such other services as the Members may determine in general meeting from time to time.

2 Introduction

2.1 What is this document?

Under Chapter 6D.2 of the Corporations Act, an offer of securities for issue needs disclosure to investors unless a relevant exemption applies. Accordingly, AURL has prepared this OIS in connection with the Offer.

This OIS sets out all information that, in the opinion of the Directors, is likely to be material to the decision of an Eligible Applicant whether or not to acquire Class A Redeemable Preference Share(s). The terms of the Offer are set out in section 5 of this OIS.

2.2 Why has this document been provided to you?

Under the Company's Constitution, where applicants meet the Directors' criteria to become an 'Approved Storeowner' (in other words, an Eligible Applicant), they are entitled to be issued and allotted one Class A Redeemable Preference Share in respect of each Approved Store they operate and control. This OIS contains the Offer that is made to Eligible Applicants to acquire a Class A Redeemable Preference Share(s) in respect of their Approved Store(s).

If you are not an Eligible Applicant then you should not apply for a Class A Redeemable Preference Share(s) under this OIS.

2.3 What are the 'key dates' applicable to the Offer?

| Event | Date |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| OIS Lodgement Date at ASIC | 5 September 2008 |
| Offer Opens | 5 September 2008 |
| Offer Closes | This offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 5 October 2009) |
| Shares Issued | Normally after each scheduled Board meeting (see section 5.3) |

2.4 Do you have to pay anything to have a Class A Redeemable Preference Share(s) issued to you and what are the criteria for issue?

Yes, \$1.00.

The Class A Redeemable Preference Share(s) that you apply for will be issued to you provided that:

- you are an Eligible Applicant;
- you have correctly completed an Application Form in respect of each Class A Redeemable Preference Share applied for;
- you have not already taken (or are to take) a transfer or transmission of a Class A Redeemable Preference Share in respect of the relevant Approved Store; and
- you have paid (or have had credited as paid) \$1.00 per Class A Redeemable Preference Share applied for.

2.5 Why do you need a Share?

As noted in section 2.2 above, Eligible Applicants are entitled under the Constitution to be issued and allotted one Class A Redeemable Preference Share in respect of each Approved Store they operate and control. Further, the Unity Agreement provides that your status as an Approved Storeowner only takes effect once a Class A Redeemable Preference Share is issued to you.

Your Class A Redeemable Preference Share(s) will be your link to membership of the Company. As a shareholder you have the right to receive certain information about the Company. There are also voting rights attached to Class A Redeemable Preference Shares. For example, holders of Class A Redeemable Preference Shares can participate in resolutions electing board members. Section 8 contains detailed information about the rights attaching to each class of Shares under the Company's Constitution. Please read this information carefully and seek professional advice if you have any questions.

2.6 There are different classes of Shares. What's the reason for this?

Following the Merger, one Class A Redeemable Preference Share was issued to each Member who signed the Approved Store Agreement and one Class B Redeemable Preference Share was issued to each Member who also signed the Banner Agreement.

On 5 March 2007, the holders of both Class A and Class B Redeemable Preference Shares passed special resolutions varying the rights attached to each share class. In addition, the holders of Class A Redeemable Preference Shares voted to amend the Constitution by creating a new class of Share, Class C Redeemable Preference Shares.

The purpose of these amendments was to enable the Company to undertake a capital raising via an issue of Class C Redeemable Preference Shares under a prospectus lodged with the ASIC on 2 April 2007.

Under the terms of issue and the Constitution, Class C Redeemable Preference Shares issued under the prospectus (including any bonus shares issued subsequently) that are fully paid will convert to Class A Redeemable Preference Shares on 16 June 2009 (the Conversion Date).

Class C Redeemable Preference Shares have been listed on the Official List of the exchange operated by the NSX, a prescribed financial market under the Corporations Act.

As at the date of this OIS, the Company has 705 Class A Redeemable Preference Shares, 282 Class B Redeemable Preference Shares and 11,559,800 Class C Redeemable Preference Shares on issue.

2.7 Once you own a Share, can you sell it or transfer it to someone else?

Yes. However, the Constitution contains certain restrictions on the transfer of Shares. These restrictions are explained in sections 9.3.3 and 9.3.13.

2.8 What is a 'redeemable preference share'?

Essentially, a redeemable share is a share that can be cancelled (redeemed) if certain events occur. As at the date of this OIS, all of the shares issued by the Company are redeemable shares. Primarily, this is to ensure that all Members continue to be Eligible Members. If you cease to be an Eligible Member, the Company will be entitled to redeem your Class A Redeemable Preference Share(s).

A preference share is a share that has some kind of preferential rights in comparison to ordinary shares.

Further details on the rights and restrictions attaching to each class of Shares are set out in section 8.

2.9 Will you get any dividends?

The Company does not expect to make a sufficient profit to pay a dividend until, at earliest, after the 2009 financial year. It is the Directors' current expectations that, after the 2009 financial year (ie 2008/09), the Company will pay 60% of Net Profit After Tax as dividends, subject to the Company's ability to meet any of its then cash funding requirements for the growth of the business and taking into account the capital and trading requirements of the Company at the time.

2.10 Should you subscribe for Shares?

Nothing in this OIS constitutes a recommendation by AURL or any other person concerning the subscription for Class A Redeemable Preference Share(s) or any other securities. The right to apply for a Class A Redeemable Preference Share(s) under this OIS arises as a consequence of your status as an Eligible Applicant. The Company recommends that you obtain independent professional advice in relation to any decision made in connection with this OIS.

2.11 Who can apply for shares under this OIS?

This Offer is only open for acceptance by Eligible Applicants who have not already taken (or are to take) a transfer or transmission of a Class A Redeemable Preference Share in respect of the relevant Approved Store.

2.12 What should you do if you require further information?

If you require further information or have any questions relating to this OIS you should seek independent professional advice.

2.13 Where else can I obtain a copy of this OIS?

Copies can be obtained from the Members section of the Company's website: www.foodworks.com.au or by contacting the Company.

3 Information about the Company, its business and plans

3.1 Background information

Australian United Retailers Limited (AURL) is an independent retail supermarket group trading under the "FoodWorks" Brand. It was created from the Merger of the FoodWorks Supermarket Group Ltd (FSG) and Australian United Retailers (AUR) in November 2004. FoodWorks is the only truly independent supermarket group of significant size in Australia.

The Group's foundation Members include AUR, Foodstore, FoodWorks, Buy Rite, Cut Price, 727, Rite-Way, Tuckerbag, Food-Rite, Foodwise, Food-Way and Night Owl proprietors.

The Merger created a network of stores which has since grown to over 700 stores with annual aggregate store turnover in excess of \$1.6 billion.

The Company has built additional strength and value in its core business and throughout its retail network via:

- the introduction of standardised business processes;
- greater bargaining power with Suppliers;
- increased geographic density which has improved marketing and operational efficiencies; and
- a stronger independent retail supermarket identity to influence change on behalf of independent retailers.

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In particular, since the Merger, the Company has been delivering on the Company's mission to increase retailer prosperity through a significant increase in store wide sales, total income to the Company and distributions to Members who own Approved Stores.

In the last three years, the Board has also invested significantly in raising the levels of governance and professionalism of the Company, to those expected of modern, well established, publicly listed organisations.

The composition of the Board, with retailer and independent directors, the Board Committee structures (refer to the 'corporate governance' section in the Company's accounts for details) and the use of qualified third parties to independently assess and advise on risks are now integral elements of the Company's governance and have been designed to provide appropriate levels of assurance to stakeholders.

The Board also believed that to effectively represent the interests of Members in the competitive Australian supermarket industry, and to take full advantage of the opportunities presented in the medium term, the Company needed to be geared for superior growth. It was for this reason that the Company undertook a capital raising under the prospectus lodged with the ASIC on 2 April 2007.

By way of summary, 9,701,500 class C redeemable preference shares were issued under the prospectus and the total proceeds from the Offer, including all future instalment payments on partly-paid Class C Redeemable Preference Shares, will total \$10,349,500. An additional 1,858,300 bonus Class C Redeemable Preference Shares were also issued in accordance with the prospectus terms.

With the capital raised under the offer contained in the prospectus, FoodWorks is implementing a growth strategy, with the aim being the delivery of a balance of both short term and longer term financial returns to FoodWorks Members. The growth strategy, as set out in the prospectus, concentrates on changes to the Company's business model in five key areas, namely Property, People, Product & Services, Brand and Systems.

Further details of the Company's growth plan are set out in the prospectus. A copy is available upon request.

3.2 The FoodWorks National Network

Since the Merger and subsequent capital raising, FoodWorks has grown to represent a network of branded and unbranded stores, spanning all states and territories across Australia.

Until recently, stores were concentrated in the Eastern seaboard states and supported by offices in Brisbane and Melbourne, with additional representation in NSW. FoodWorks has now become a national business following the expansion into Western Australia and, most recently, South Australia.

3.3 Growth of Member Distributions

One of the Company's most important achievements to date since the Merger has been the evolution and growth of its advanced, competitive distribution scheme to Members who own Approved Stores. This scheme is based on monthly rebates attached to Eligible Warehouse Withdrawals, along with other behavioural rebates aimed at rewarding participation in major initiatives. The Board believes that the distribution scheme has been effective in rewarding the performance and growth of Members who own Approved Stores, and their support of the business' key drivers.

In the last three years, total distributions to Members who own Approved Stores has continued to grow. Over the same period, the total distributions as a proportion of Eligible Warehouse Withdrawals have increased from 3.75% to 4.98%.

3.4 What does FoodWorks do?

The Company's Activities - Overview

FoodWorks has provided the following services to Members who own Approved Stores:

- Negotiating supply arrangements, including pricing, trading terms, logistics, and promotions;
- Building and marketing a range of Private Label (controlled brand) product lines, to improve store sales and margins and generate customer loyalty;
- Conducting marketing and advertising on behalf of Branded Storeowners to grow sales and enhance customer awareness of the FoodWorks Brand;
- Providing a range of support services and tools to assist Members who own Approved Stores to:

run their businesses - such as business plans, Business Development Finance services, product sales benchmarking information, space planning;

manage their businesses - such as training, manuals, price file hosting and maintenance and accounts payable services (e.g. Chargeback); and

reduce the cost of doing business – such as local area marketing, media buying, production and distribution of catalogues, Telstra, and Commonwealth Bank EFTPOS contracts;

- Assisting Members who own Approved Stores regarding store refurbishment and redevelopment opportunities and the management of their development projects;
- Assisting Members who own Approved Stores in their choices of Point of Sale and Back Office systems, and associated support arrangements; and
- Representing the interests of independent retailers generally with governments, industry groups or associations.

Unbranded Stores are able to take advantage of the majority of FoodWorks' services – including all supplier arrangements, the controlled brand ranges including Metcash's Black and Gold products, and FoodWorks' Private Label ranges, catalogues, price file hosting and maintenance, Point of Sale Systems support, the Company's store refurbishment and redevelopment expertise and a competitive structure of distribution to Members who own Approved Stores.

3.5 Key FoodWorks Services

To effectively deliver its diverse range of support services to Members who own Approved Stores, FoodWorks is organised into six primary functions – Marketing, Operations, Merchandising, Business Development, Finance, and People and Performance. The activities of each of these functions are outlined below.

3.6 Marketing

The Marketing function exists to develop and communicate the FoodWorks Brand, Customer Value Proposition and Brand positioning statement on behalf of the Members. The Marketing function also assists Members who own Approved Stores to develop an intimate understanding of their customers, and implement their local store communications in conjunction with the in-store experience they provide to customers.

This is fulfilled through the delivery of effective:

- Brand management;
- Advertising, promotions and creative design;
- Media strategy, planning and buying;
- Local area marketing; and
- Publicity and public relations.

3.7 The Marketing Team

The FoodWorks marketing team also supports Member retailers through the development, management and provision of a number of proprietary programs and initiatives including Delbeato Young StoreCheck consumer research and The EDGE business performance improvement initiative.

3.8 Operations

The FoodWorks Operations team is split into two main groups - Retail Development Partners and Retail Coaches.

The role of the Retail Development Partner (**RDP**) is to assist Member retailers 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.

RDPs also work with Member retailers to implement locally, the overarching Customer Value Proposition of "We are closer to our customers."

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

3.9 Merchandising

On behalf of its Member retailers, 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.

3.10 Supplier Agreements

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

In particular, FoodWorks Member retailers have access to 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. Further details with respect to this agreement are set out in section 9.8.

In addition to the merchandising and promotional agreements, Member retailers 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.

3.11 Private Label Ranges

The Private Label programme is intended to differentiate FoodWorks from competitors, build customer loyalty and deliver Member retailers new sales opportunities, strong gross profit and competitive retail pricing.

Private Label (house brand or control brand) products have grown substantially in recent years for both customers and suppliers and this has provided the opportunity for FoodWorks to accelerate its own programme and capture significant additional income and gross margin for Member retailers.

The Company believes that there is clearly an opportunity to grow substantially beyond the present Private Label base, and remain differentiated from its competitors. With this in mind, FoodWorks is developing a comprehensive Brand architecture programme - a framework of Brands that are category and price sensitive inclusive of brands such as Best Buy, The Promenade, Harvest Valley, Top Savers, Help & Home plus a range of other brands which are currently in development.

FoodWorks will also continue to maintain a strong National Brand presence in stores, representing 90% of store sales.

3.12 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 retailer commitments to meet merchandising expectations of suppliers' products.

Both services are optional to Member retailers, 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 Members' objectives are aligned.

3.13 Information, Pricing and Support Services

Additional services provided include:

- ScanWorks, which is exclusive to FoodWorks and is a management tool collecting scanned product sales data from over 360 branded FoodWorks stores.

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 plans.

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

- Product Price File Hosting - Member retailers 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 Branded Storeowners with product and category range planograms and consumer-focused floor plans to improve store flow and product category footage allocations.

3.14 Business Development

FoodWorks' Business Development function encompasses a range of business operations from investigating and planning new business opportunities through to designing layouts, fitting out stores and providing individual stores with specialised business plans and advice.

The Business Development team has been built around the establishment of the expertise and resources necessary to overcome the traditional barriers preventing Member retailers from undertaking the relays, refurbishments, expansions or relocations necessary to meet their market demand and grow their businesses.

These barriers include:

- Lack of benchmark data necessary to make a confident decision on a store's possible development options;
- Limited specialist expertise – i.e. limited ability to assess and quantify the opportunities, costs and potential return on investment or the high cost of accessing such expertise;
- Limited access to funding, the complexity of meeting financial institutions' application criteria and the financial institutions' lack of understanding of the supermarket industry – particularly independent supermarkets; and
- High cost of development – ad hoc use of contractor and professional services and equipment, without formalised trading terms or standard specification.

FoodWorks' response has been to develop structured systems to assist in analysing existing supermarket floor space (supply) and available supermarket spend from demographics (demand) information. The approach is systematic and comprehensive, having regard to the existing FoodWorks network and to the identification and assessment of opportunities to grow the network either through new stores or the enhancement of existing stores.

In addition to the analysis and development activities, the Business Development team also supports Member retailers with:

- Internal retail design and fit-out services - offering Member retailers a cost effective way to create a new and innovative shopping experience for their customers by focusing on interior fit-outs.
- Business Development Finance - providing Member retailers with a simpler option in gaining finance for new store development and major refurbishments. Relationships have been built with a number of major financial institutions that understand and support the direction of the FoodWorks business. With an in-depth understanding of the information these financial institutions require, Business Development Finance works with Member retailers in preparing appropriate finance applications.

3.15 Finance

The finance team provides financial and management reporting, to best enable the Board and management team to make commercially responsible decisions.

With the supervision of the Audit & Risk Committee, the Company's objective is to fully meet all of its legal and fiduciary corporate obligations, including audited financial statements, payroll related taxes as well as state and federal taxation reporting.

Business controls and systems have been established to maximise income generation, control spending, and mitigate risk areas which optimise the services and financial return to Member retailers. The management of the cash receipts and payables ensures the Company's working capital is as efficiently utilised as possible and does not hinder growth.

In addition to the traditional corporate accounting and governance roles, the finance team also maintains important relationships with direct suppliers such as banks, telecommunications and insurance companies delivering value to Member retailers by reducing their cost of doing business. The Finance team collects and distributes rebates, executes the Chargeback (accounts payable) service and analyses the effectiveness of, and recommends changes to, the rebate scheme.

3.16 People and Performance

FoodWorks has established a People and Performance team which is dedicated to developing the capability of FoodWorks support office staff and providing selected human resources related services to Member retailers.

The People and Performance team provide strategic direction in relation to the capability and development of FoodWorks support staff. The team develops and maintains the Company's human resources policies, to ensure compliance with various state and federal legislation, to provide effective governance and to assist in attracting and retaining staff.

This team is responsible for the attraction, recruitment, induction, development and remuneration and performance management activities for FoodWorks support staff. They are also responsible for determining which of these activities could be provided or co-ordinated effectively on behalf of Member retailers, and for establishing relationships with appropriate human service providers.

3.17 FoodWorks' Vision

FoodWorks' Vision is to offer its Member retailers a smart, contemporary, retail and business system that:

- improves retailer profitability;
- listens to customers and responds to their needs; and
- strives to be Australia's premier independent retail Brand.

Importantly, all key stakeholders (Board, employees, Members and store teams) focus on customer needs as the basis for prosperity.

FoodWorks' unique strength is that the Company is owned by its Members, which comes from the retailer co-operative buying group heritage. The Company exists for its Members and the next phase of growth and development underscores this, as it is about:

- building the business model and financial capacity to grow faster than competitors to take advantage of the opportunities in the Australian supermarket industry in the short to medium term; and
- generating greater returns for Members through sales growth and Member services.

4 Industry overview

If you are an Eligible Applicant, then you are already a participant in or are familiar with the retail grocery and liquor industry. The Company has reached the view that it is not necessary for this OIS to contain information about the industry or market environment in which the Company will operate.

5 Details of the Offer

This section sets out important information in relation to the Offer and its terms.

5.1 Key dates

| Event | Date |
|----------------------------|-----------------------------------------------------------------------------------------------------------------------------------------|
| OIS Lodgement Date at ASIC | 5 September 2008 |
| Offer Opens | 5 September 2008 |
| Offer Closes | This offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 5 October 2009) |
| Shares Issued | Normally after each scheduled Board meeting (see section 5.3) |

5.2 Offer terms

The Company offers to issue to Eligible Applicants who have not already taken (or are to take) a transfer or transmission of a Class A Redeemable Preference Share in respect of the relevant Approved Store one Class A Redeemable Preference Share for each Approved Store that is owned or controlled by that Eligible Applicant.

This Offer is restricted to Eligible Applicants. Each Eligible Applicant must execute a Unity Agreement or an Approved Store Agreement for each retail store in respect of which they wish to become an Approved Storeowner (and must comply with the terms of that agreement). Unless waived by the Company, an Eligible Applicant's status as an Approved Storeowner will only be confirmed when (a) Class A Redeemable Preference Share(s) has/have been allotted to them.

The consideration for each Class A Redeemable Preference Share issued will be \$1.00.

5.3 Offer structure

The only persons eligible to apply for Shares are Eligible Applicants.

By lodging a completed Application Form with AURL in respect of each Class A Redeemable Preference Share applied for, the Applicant is deemed to acknowledge that the Offer set out in this OIS is only capable of acceptance by AURL where the conditions set out in paragraph 5.2 above are met.

The Company will determine whether an Applicant is an Eligible Applicant.

The issue of Class A Redeemable Preference Shares under this OIS will normally be approved at each scheduled Board meeting (usually held every one to two months) for applications received and processed since the last Board meeting. Following the meeting, Class A Redeemable Preference Share(s) shall be issued to Eligible Applicants whose applications have been accepted by the Board.

5.4 Minimal cash will be raised pursuant to the Offer

The purpose of this OIS is not to raise funds for the Company but to comply with the disclosure requirements of the Corporations Act relating to the issue of securities. As noted in sections 2.4 and 5.2 above, the consideration for each Class A Redeemable Preference Share issued under this OIS will be \$1.00. Accordingly, funds raised under the Offer will be minimal, and will be incorporated into the Company's general revenue.

5.5 How to apply for Shares

Applications can be made by completing and lodging the Application Form attached to or accompanying this OIS. A separate Application Form must be completed in respect of each Class A Redeemable Preference Share applied for.

The Application Form must be completed in accordance with the instructions set out in the Application Form.

5.6 Closing Date

Applications are open for a period of 13 months from the date of lodgement of this OIS, unless AURL elects to close the Offer at an earlier date and time, which may be done without further notice.

5.7 What to do if you have queries or want extra copies of this OIS

Applicants who require additional copies of the OIS can contact:

Company Secretary
Australian United Retailers Ltd
Ph: 03 9809 8600
Email: companysecretary@foodworks.com.au

The OIS may be downloaded from <http://www.foodworks.com.au> under the Member's section of the website.

5.8 Company's discretion

The Company also reserves the right to close the Offer early and reject any Application or part thereof.

6 Directors and senior management

6.1 Who are AURL's directors and officers?

The Board of Directors of FoodWorks includes storeowners who have significant experience owning and operating FoodWorks stores.

The Board also includes independent directors who have been appointed to the Board based on their experience and diverse skills outside of supermarket retailing. These skills include financial, accounting, legal, corporate governance, commercial, marketing, operational and management, which enables the Board to:

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- Engage in prudent financial management;
- Set strategy and direction for the Company ;
- Monitor results on an on-going basis;
- Establish compelling Business Plans including stretch targets; and
- Apply best practice corporate governance practices.

The Board comprises the following Directors:

6.1.1 John Bridgfoot - Chairman and Non Executive Director

John was appointed as a director of Australian United Retailers (AUR) in October 2001 and as the Chairman in July 2004, and has been a director and Chairman of AURL since the Merger. He is an ex-officio member of all Board committees.

John is currently the Managing Director of Pacific Rim Securities, a private equities and commodities trader, which he established in 1998.

John was previously an independent retail storeowner and operator from January 1999 until March 2006.

Prior to this, John held a number of senior executive service roles with the Victorian Government from 1985 until 1998, principally in the health industry.

During that time, from 1993 until 1996, John also worked for Arrow Consulting and First Capital Alliance as a business analyst, providing consulting advice to their clientele in the field of economics and securities analysis.

John holds an Exec. Master of Business Administration, Bachelor of Arts and is a Member of the Australian Institute of Company Directors (M.A.I.C.D).

6.1.2 Jack Scanlan - Deputy Chairman and Non Executive Director

Jack was a director and founding Chairman of FoodWorks Supermarket Group Ltd from 1997 until 2004 and has been a director of AURL since the Merger. He is Chairman of the Remuneration and Nomination Committee and a member of the Property Committee of the Board.

Prior to his role as Chairman of FoodWorks Supermarket Group, Jack served as Company Secretary and Legal Advisor to a co-operative group of independent supermarket retailers operating in NSW/VIC (Tuckerbag) from 1989 to 1995.

Until 2000, Jack was a Partner in the firm Scanlan Carroll Commercial Lawyers, and has practiced as a Barrister and Solicitor for 40 years.

Jack holds a Bachelor of Laws (Melbourne University).

6.1.3 Deborah Smith - Non Executive Director

Bringing eleven years retail experience to the Company, Deborah was appointed a director of AUR in October 2003 and has been a director of AURL since the Merger. Deborah is Chair of the Board's Property Committee and a member of the Board's Supply Chain Committee.

Since 1996, Deborah has been an independent retail storeowner and operator.

Deborah holds a Diploma in Education, a Diploma of Management and is a Member of the Australian Institute of Company Directors (M.A.I.C.D).

She is currently completing a Master of Business Administration (MBA) at the University of New England and is a Director of Master Grocers of Australia.

6.1.4 Peter Noble - Chief Executive Officer and Executive Director

With approximately 25 years of senior executive experience, Peter has been Chief Executive Officer and Executive Director of AURL since November, 2004. Prior to that Peter was Chief Executive Officer of FoodWorks Supermarket Group Ltd from December 2001 and Executive Director from August 2002 until the Merger.

Peter has demonstrated strong leadership skills both in managing the FoodWorks business and in playing a significant role in leading change in the independent supermarket industry. He is responsible for developing and managing business strategy, implementing the business plan and leading the team to achieve challenging goals.

Previously, Peter held senior positions with the Shell Group of Companies, including working in Shell International (London), as General Manager and Director of Shell South West Pacific, as Shell Australia's National Commercial Fuels Manager and as National Manager, Shell Shops and Convenience Stores.

In addition, Peter spent 2 years on secondment to Shell Finance, as the Internal Audit Manager, covering Shell Australia's Retail, Commercial, Refining and Services Businesses and providing the Board with an ongoing business control, risk profile, and governance on all matters relating to strategy and operations.

Peter holds a Bachelor of Applied Science (University of Queensland), and has completed a range of Shell's Senior Management Development Programs including their Advanced Management Program in London.

6.1.5 Don Howell - Non Executive Director

Don was appointed as an independent non-executive director of FoodWorks Supermarket Group Ltd in July 1997 and has been a non-executive director of AURL since the Merger. Don is Chairman of the Audit and Risk Committee and a member of the Remuneration and Nomination Committee of the Board.

Don brings to the Company over 23 years experience in senior positions with leading companies including Senior Vice President of Mattel Inc Far East Operations and CEO of Mattel Fischer Price of Australia.

Don is a director of a number of unlisted companies and is a Certified Practicing Accountant.

6.1.6 Janette Kendall - Non Executive Director

Janette Kendall joined the Board in August 2007 and is a member of the Board's Supply Chain Committee and a member of the Company's Marketing Committee.

Janette is Executive General Manager – Marketing of Crown Limited and has a strong background in brand marketing. Prior to her current executive role, Janette was a divisional general manager of Pacific Brands.

Before that Janette had a significant career with Clemenger, a leading international advertising agency, and was the first woman appointed to its Board.

Janette brings general management and marketing skills to the Board table

6.1.7 Wayne Pattison - Non Executive Director

Bringing 25 years experience in the retail industry to the Company, Wayne was appointed a director of AUR in October 2003 and has been a director of AURL since the Merger. He is a member of the Board's Audit and Risk and Remuneration and Nomination Committees.

Wayne is a shareholder of two independent retail stores in Victoria.

Previously, he had a banking career spanning 20 years, including eight years as a Business Development Officer attached to the State Bank of Victoria's marketing department.

Since entering the retail industry, Wayne has held positions on many industry committees and was a member of CHEEERS Liquor Group committee for 18 years, including ten years as Chairman.

Previously, Wayne was Chairman of AUR's Marketing Committee which included sub committees of Standards and Training, Fresh Foods, Liquor and Banners.

Wayne is a Member of the Australian Institute of Company Directors (M.A.I.C.D).

6.1.8 Michael Reddrop - Non Executive Director

Michael was appointed as a director of FoodWorks Supermarket Group Ltd in December 2000 and has been a director of AURL since the Merger. He is a member of the Supply Chain and Property Committees of the Board.

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 also acts as a director of Superate Group, a private equity group that operates three supermarkets throughout Victoria. In 2007, he was appointed Group Projects Director for GlobalMart, a Shanghai China based private equity group that operates more than 250 Hypermarkets, Supermarkets and Convenience Stores in several Chinese provinces. He has since taken up the role of Chief Financial Officer.

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Previously, Michael spent more than ten years as a Chartered Accountant and Business Consultant with KPMG in both Australia and the USA. This included performing audit, financial, and consulting services in North America, and Continental and Eastern Europe. He has grown up in the supermarket industry and is a second generation food retailer.

Michael's qualifications include a Bachelor of Business (Accounting) Swinburne University of Technology, and an Associate of the Institute of Chartered Accountants in Australia (ACA). He has completed the Certified Practising Accountant (USA) examination, and is a Candidate Level II: Chartered Financial Analyst.

6.1.9 Neil Osborne - Non Executive Director

With over 18 years experience in the retail industry, Neil was appointed to AURL as a director in November 2006. He is Chairman of the Board's Supply Chain Committee and a member of its Property Committee.

In 2007, Neil was appointed to the Board of Directors of Colorado Group Limited and the Vita Group, a company listed on the ASX. Prior to this, Neil was a partner with the world's largest consulting and technology services firm, Accenture.

Previously, Neil has held a variety of senior executive positions with Myer Grace Bros and Coles Myer Ltd in corporate and operating brands across finance, supply chain, strategic planning and merchandise including the positions of Myer Chief Operating Executive and CML Group General Manager, Retail Services.

Neil's qualifications include Fellow Australian Institute of Company Directors (FAICD), Bachelor of Commerce (University of Queensland), Certified Practising Accountant, Strategic Management Programme – Monash University Graduate School of Management, Advanced Logistics Programme – University of North Florida and Company Directors Course Diploma – Australian Institute of Company Directors.

6.1.10 Jeff Ehrenfeld – Non Executive Director

Jeff Ehrenfeld joined the FoodWorks Board on 1st September 2007 and is one of four retail Directors on the Board. He is a member of the Board's Audit and Risk and Supply Chain Committees.

He has been involved in the supermarket industry for almost all of his life, with significant expertise in fresh produce in particular.

Jeff is involved in the ownership of several stores in the Perth area and brings a wealth of supermarket operational experience to the Board.

With approximately 30 Western Australian stores now in the FoodWorks group, Jeff's Directorship provides further geographical diversity to the retailer experience on the Board, assisting the understanding of regional differences.

Jeff holds a Bachelor of Economics degree from the University of Western Australia.

6.1.10 Ken Sleep - Company Secretary

Ken joined AURL 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 latter 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 the Toll Group on company secretarial, corporate governance and superannuation matters, with limited similar consultancies to other public companies.

Ken holds a Bachelor of Economics Degree (Monash), and is FCPA and a Fellow of the Chartered Institute of Secretaries.

6.2 The senior management team

FoodWorks' senior management comprises a group of experienced professionals with widespread expertise in their areas of business management, learning and development, marketing, merchandise, property and business development.

The Company's Management Team comprises:

6.2.1 Peter Noble - Chief Executive Officer

See section 6.1.4.

6.2.2 Rick Wright - Chief Operating Officer

In the newly created role of Chief Operating Officer, Rick brings to FoodWorks his strong background in finance, franchising and strategy management.

The COO position was introduced to lead a new Retail Operations function which concentrates on better aligning support service retailer projects, and is accountable for retailer engagement and store performance outcomes. All retailer facing support functions report to the COO, including the Retail Development Partner and Marketing teams.

Rick joined FoodWorks from Blockbuster Australia where he was Chief Executive Officer for ten years and was also Area Senior Vice President - Australia/Asia for five of these.

Working for Blockbuster for 15 years, Rick held a number of senior management positions including the General Manager Development (Company and Franchise), Finance and Administration and Chief Financial Office - Australia/Asia. Previously, Rick also worked for a leading accounting and business services company for eight years in senior business management and accounting roles.

Rick holds a Bachelor of Business Studies and has Associate Chartered Accountant status.

6.2.3 Graeme Longmuir - National Merchandise Manager

In his role as FoodWorks National Merchandise Manager, Graeme Longmuir brings a blend of retail experience working on both the supplier side and retail side for over 20 years. He is responsible for the development and implementation of FoodWorks' merchandise strategy, including edibles, non-edibles, perishables, general merchandise, grocery and Private Label. Prior to joining FoodWorks, Graeme's most recent experience was working for Mitre 10 as Group General Manager Strategy and Development, where he was actively involved in a major supply chain project releasing significant value back to the retailers.

Previously, Graeme has worked for Bunnings Warehouse in the role of Merchandise Manager, controlling a large team and over 45,000 product lines being ranged into the Bunnings network. He also has extensive experience working for Coles/Myer in the Kmart Division where his roles included control of the Kmart marketing and advertising program, the house brand strategy, the sponsorship program and the launching of new concept stores.

On the supplier side, Graeme has worked with a number of major national retail brand suppliers including Amcor, Stanley Tools, Lockwood Locks and a major stationery wholesaler.

6.2.4 Wayne Vermeend - Chief Financial Officer

Wayne brings 20 years of specific wholesale/retail sector experience to FoodWorks. Wayne has effectively overseen the Company's finances since 1997, through major changes including warehouse contract negotiation and subsequent change, interstate expansion, the 2004 Merger, a prospectus issue and successful capital raising. Wayne commenced his wholesale/retail career in Composite Buyers' Liquor and Supermarket divisions and progressed through to Davids Ltd as Campbells Cash & Carry's National Finance & Administration Manager.

A Bachelor of Business graduate with CPA status, Wayne's other career highlights include experience in chartered accounting - auditing, management accounting within the Elders IXL group, and financial accounting within a manufacturing environment (Lockwood), along with a period of self employment providing utility cost consulting advice to businesses.

6.2.5 Simon Thompson - National Business Development Manager

Simon is an Oxford University graduated Architect (RIBA Registered), who brings over 18 years of retail/property development experience to FoodWorks. He is well equipped in his role leading the Business Development team to take away the barriers that have been preventing independent retailers from delivering what consumers need, whether that be a lack of understanding of property development, cost of fit-outs, access to funding or quality of design/store planning.

Simon has held a variety of senior executive roles representing the interests of significant national and international multi-site retailers including Mothercare, British Homes Stores, Rip Curl, Dominos Pizza, NZAA, Seamart, New World, Pak N' Save, Four Square and Columbus Coffee.

6.2.6 Penny Reed - National People & Performance Manager

Penny brings her considerable experience and education in the areas of human resources, industrial relations and retail business management to FoodWorks in her role as National People & Performance Manager.

Through her widespread experience coaching CEOs, mentoring senior management, advising Boards of Directors and developing and delivering effective human resource programs and new performance management systems, Penny is suitably skilled to successfully manage and enhance FoodWorks' human resource and learning and development needs.

Prior to joining FoodWorks, Penny held senior human resource positions with leading retail companies including her roles as the Senior People and Performance Manager with Pacific Brands and Human Resources Manager with Sara Lee Household & BodyCare. She has also worked for Woolworths in the area of training and development.

Penny has had extensive education and training in relevant courses, with her qualifications including a Masters of Human Resources Management (Monash University), Post Graduate Diploma in Industrial Relations/HRM (Victoria University of Technology) and a Bachelor of Business, Retail Management (Victoria University of Technology).

6.2.7 Stephanie Holmes - Project Manager - Business Implementation

As FoodWorks' Project Manager for Business Implementation, Stephanie is accountable for the successful implementation of the operational facets of the business. With a strong operational background from various businesses including Shell Australia Limited, Stephanie brings to FoodWorks an in-depth understanding of the operational aspects of project management, business process development and business review.

With a Bachelor of Business, Stephanie has worked for Shell, developing and implementing a range of initiatives across the business. Other career highlights includes several years as Operations Manager of an international Direct Marketing company overseeing the import and distribution of fast moving consumer goods into Australia and Asia, and time spent working as Operations Manager of several hospitality and gaming businesses.

7 Risk factors

Applicants should carefully consider the following factors and other information in this OIS before deciding to subscribe for a Share(s) in the Company. If any of the following risks actually occur, the Company's business, financial condition, results of operations and prospects for growth may suffer.

7.1 Specific Risks

There are a range of specific risks associated with the Company's operations. Potential investors in the Company should note the following risks prior to subscribing for a share under this Offer.

7.1.1 Litigation and Dispute Risk

From time to time, the Company may be involved in litigation in relation to issues such as contractual, personal injury, employee and other claims which may arise in the ordinary course of business. Depending on the nature of the dispute and the identity of the opposing party, the dispute may involve or result in the other party withholding money to which the Company is entitled. This is especially relevant in the context of the Company's agreement with suppliers. Any claim made against the Company may adversely impact upon the operational and financial performance of the Company. In addition, should the Company decide to pursue claims against a third party, including any party with whom the Company has entered into agreements, this process may incur significant management and financial resources, and a positive outcome for the Company cannot be guaranteed. Further, even if the Company was successful in obtaining a judgment against a third party, the Company may be unable to recover any monies from that party.

7.1.2 Supply Chain Risk

The Company has, via its relationship with Metcash and other suppliers, an extensive supply chain that provides for the procurement and delivery of grocery, dairy and frozen products, fresh products (including produce), liquor and tobacco to FoodWorks Members who own Approved Stores. Significant disruption of any aspect of this supply chain by any major supplier could have a material adverse impact on the Company's operational and financial performance. Such disruptions may occur in a number of ways, including as a result of a dispute between FoodWorks and a Supplier or the inability or unwillingness of a Supplier to comply with the contractual arrangements that are in place with FoodWorks.

Further details of the Company's contractual arrangements with Suppliers are set out in section 9.9.

7.1.3 Retention of Members

Notwithstanding the introduction of the Unity Agreement (see section 9.5), some Member retailers operate under the Approved Store Agreement and / or Banner Agreement (see sections 9.6 and 9.7). There is a risk that these Members may terminate such agreements, which may occur without fault on FoodWorks' behalf following either 30 or 90 days written notice. There is also a risk that the Company may not be able to retain Members that do sign the Unity Agreement, either because of a breach of the Unity Agreement or the Member invalidly terminates the Agreement.

Notwithstanding the current rebate model in place with Member retailers, there is a risk that other competing groups may be able to offer more competitive rebate models to Member retailers, or that the Company may not be able to maintain its current rebate offering. Larger and multiple store retailers make up a significant proportion of the Company's turnover. In this regard, the Company notes that consolidation amongst suppliers may impact upon the level of rebates received by the Company and in turn, the rebates received by Member retailers. This, in turn, could impact on retention of Storeowners. The loss of retailers could have a material adverse impact on the Company's operational and financial performance.

7.1.4 Competitive retail environment

The retail grocery environment in Australia is highly competitive. The major chains are pursuing an active strategy of acquisition, alliance and growth, and will continue to pose a significant challenge to independent grocery retailers. The Company will continue to compete with both the major chains and other independent grocery retailers for target customers. The entry of new retailers, or the actions of current retailers, including a change of strategic direction, along with changes in consumer preference, may have a material adverse effect on the Company's performance. Further, in 2008 the Australian Competition and Consumer Commission (**ACCC**) initiated an inquiry into the competitiveness of retail prices for standard groceries. The outcomes of the inquiry may impact upon the competitive retail grocery environment through resulting legislative change. The results of the inquiry could impact on, amongst other things, the relationship between FoodWorks and Suppliers and the industry more generally, including the imposition of new obligations on participants within the industry such as FoodWorks.

7.1.5 Risks associated with losing key personnel

The Company's ongoing performance will depend to some extent on its key personnel, in particular the Management Team discussed in section 6.2. Despite efforts to retain the services of key employees, the loss of key personnel could have a material adverse effect on the Company's growth prospects. The Company may not be able to recruit suitable replacements within a short timeframe.

7.1.6 Growth Strategy

As noted in section 3.17 above, the Company raised funds through the issue of a prospectus to carry out its growth strategy. These funds were invested in a number of projects, some or all of which are likely to be refined and reassessed over time. If the amount of funding required to complete these projects is higher than anticipated, or there is significant operational failure in executing these initiatives, the Company's financial performance may be adversely affected.

7.1.7 Information Technology

The Company is continually monitoring its information technology systems as well as those of its Members who own Approved Stores. There is a risk that any investment in information technology could be compromised by technological failure, implementation issues or other such difficulties which may have a material adverse impact on capital expenditure, operations and the financial performance of the Company.

7.1.8 Financing Requirements

FoodWorks has been a borrower of funds in the past and may again be a borrower at some time in the future. To that extent, the Company may be exposed to adverse interest rate movements that may increase the financial risk of the Company. There is also a risk that the Company may not be able to secure credit facilities when required, or that the terms of available facilities may not be acceptable to the Company.

7.1.9 Trade Practices Risks

Whilst FoodWorks continually seeks legal advice on a range of operational matters, there is a risk that FoodWorks may be required to alter its actual or proposed business practices to ensure compliance with trade practices legislation. Such alterations may adversely affect the financial performance of FoodWorks.

7.1.10 Shareholder voting

Upon conversion of Class C Redeemable Preference Shares (see sections 8.3.4 and 9.3.5 of this OIS), the composition of eligible voting shareholders (Class A Redeemable Preference Shareholders) will differ significantly from that in existence at the date of this OIS. As such, there is a risk that the current eligible voting shareholders will vote for a change that has a substantial impact on the interests of the Company or Shareholders generally prior to the holders of Class C Redeemable Preference Shareholders having the ability to vote on such matters.

7.1.11 Government Legislation

Australian and international government legislation is subject to review and change from time to time. Any such change is likely to be beyond the control of the Company and could affect the Company's profitability.

Revenues and operating costs of the Company may be affected by change in international, federal, state, or local government laws, regulations or policies, or in taxation legislation.

7.1.12 Liability and Insurance Risk

The Company's insurance arrangements may not be adequate to protect the Company against liability for losses relating to public liability, property damage, product liability, business interruption and other risks that may arise in the course of its operations. Should the Company be unable to maintain adequate insurance to cover these risks or experience claims for losses in excess of the level of its insurance coverage, the Company's financial performance could be materially affected.

7.2 General Risks

Factors such as government legislation, inflation, interest rates, taxation law, accounting standards, natural disasters, social upheaval, war and terrorism may have an impact on prices, operating costs and market conditions generally. The Company's operations and future profitability can be affected by these factors, which are beyond the control of the Company.

The Company's performance will depend significantly on Australian and global economic conditions including inflation, currency fluctuation, interest rates, supply and demand and industrial disruption. Changes in any of these conditions may impact the Company's business and profitability.

8 Rights attaching to Shares

8.1 What rights and restrictions attach to the Class A Shares?

By way of summary, the Class A Redeemable Preference Shares:

- 8.1.1 may only be held by an Eligible Member;
- 8.1.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 9.3.4);
- 8.1.3 carry the sole right to vote (on the basis of one vote for each share held) at general meetings, subject to the limited circumstances in which Class C Redeemable Preference Shares carry a voting right, and the voting restrictions attached to shares in the Company generally (see section 9.3.7);
- 8.1.4 carry the right to participate in any dividend declared and paid by the Company to holders of shares in the class;
- 8.1.5 carry the right, on a winding up of the Company, to participate in any distribution of assets; and
- 8.1.6 carry a restriction on transfer (see section 9.3.13).

8.2 What rights and restrictions attach to the Class B Shares?

By way of summary, the Class B Redeemable Preference Shares:

- 8.2.1 may only be held by an Eligible Member;
- 8.2.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 9.3.4);
- 8.2.3 carry the right to participate in any dividend declared and paid by the Company to holders of shares in the class, but not as of right an entitlement to the same dividend as each other share in the class;
- 8.2.4 do not carry any right to vote at general meetings, but a right to vote at a meeting of the Class B Redeemable Preference Shareholders;
- 8.2.5 do not carry a right to participate on a winding up of the Company or reduction of capital; and
- 8.2.6 carry a restriction on transfer (see section 9.3.13).

8.3 What rights and restrictions attach to the Class C Shares?

By way of summary, the Class C Redeemable Preference Shares:

- 8.3.1 may only be held by an Eligible Member;

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- 8.3.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 9.3.4);
- 8.3.3 carry a limited right to vote at general meetings, subject to the voting restrictions attached to shares in the Company (see section 9.3.7);
- 8.3.4 if fully paid, will automatically convert into one Class A Redeemable Preference Share on the Conversion Date; and
- 8.3.5 carry a restriction on transfer (see section 9.3.13).

As noted previously, shares in this class were issued on or around 18 June 2007 under the prospectus lodged with ASIC on 2 April 2007.

8.4 In what circumstances can Shares be redeemed?

Shares, including Class A Redeemable Preference Shares (i.e. the Shares offered under this OIS), may be redeemed at the discretion of the Board where a 'Redemption Event' occurs in respect of an applicable Member. Relevant Redemption Events include:

- 8.4.1 the Member ceasing (for whatever reason) to be an Approved Storeowner of the Approved Store in respect of which the share was allotted, or otherwise ceasing to be an Eligible Member;
- 8.4.2 the holder becoming bankrupt or insolvent;
- 8.4.3 where the Member is an Approved Storeowner, a Default Event occurs (see section 8.5); or
- 8.4.4 the holder requests in writing that the Company redeems some or all of the Redeemable Preference Shares held by that holder; and
- 8.4.5 the holder fails to give notice within one month that they hold the shares as trustee and the Board reasonably believes that the reason a notice was not given was to avoid disclosing full particulars of the beneficial ownership of the Shares so held.

Shares may only be redeemed in accordance with the Corporations Act. Further details in respect of redemption are contained in section 9.3.4.

8.5 What are 'Default Events'?

Relevant Default Events in respect of an Approved Storeowner include:

- 8.5.1 default or breach of any contractual obligation or commitment owed by the Approved Storeowner to the Company;
- 8.5.2 failure to pay, when due and payable, for goods ordered by or on behalf of the Approved Storeowner from a Supplier;
- 8.5.3 failure to pay, when due and payable, monies owed to the Company;
- 8.5.4 vacation or ceasing to own, lease, operate or control an Approved Store without the prior written consent of the Directors;

- 8.5.5 the acquisition by a person of a controlling interest in the Member and that person did not have a controlling interest in the holder at the time the share was allotted, transferred or transmitted to the holder, without the prior written consent of the Directors; or
- 8.5.6 the acquisition, without the consent of the Directors, by a person of the Relevant Interest in a share held by the Approved Storeowner where the person did not have a Relevant Interest at the time the share was allotted, transferred or transmitted to the Approved Storeowner.

This ability to redeem Shares is necessary to minimise the likelihood that Shares are transferred to individuals or entities that are not approved by the Board.

8.6 What is the 'Redemption Procedure'?

Where a Redemption Event occurs, the Directors have a right at their option exercisable at any time to:

- 8.6.1 Suspend the voting rights attached to the relevant Shares with immediate effect.
- 8.6.2 Give written notice that a Redemption Event has occurred and the Member has 90 days from receipt of the Notice to either transfer those shares to an Eligible Member, or satisfy the Directors that the Redemption Event has been remedied.
- 8.6.3 Upon expiration of that 90 day period, if the Member has failed to either transfer the shares or satisfy the Directors that the Redemption Event has been remedied, the Directors may in their absolute discretion redeem the Redeemable Preference Shares in accordance with the Redemption Procedure and the Corporations Act.

Applicants should note that as under the Corporations Act a redemption can only occur from profits or the proceeds of a further share issue. Further, the occurrence of a Redemption Event will not necessarily result in Class C Redeemable Preference Shares being redeemed.

8.7 What is the 'Redemption Amount'?

The price payable in respect of each Share on redemption will be the aggregate of the price paid (or credited as paid) by or on behalf of the holder in the opinion of the Directors acting reasonably in respect of the issue, transfer, allotment or other disposal of the share to that holder, plus any dividends declared and unpaid in respect of the Share(s) being redeemed.

Applicants should note that the occurrence of a Redemption Event will not necessarily result in Class A Redeemable Preference Shares being redeemed.

8.8 Voting Restrictions

The general position is that the maximum voting entitlement of a Member and their associates with respect to all shares in which they hold a Relevant Interest is limited to 7.5% of the total voting rights attached to the Class A Redeemable Preference Shares. However, Class C Redeemable Preference Shares have a right to vote in limited circumstances. Where Class C Redeemable Preference Shareholders have a right to vote, the maximum voting entitlement of

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a Member and their associates with respect to all shares in which they hold a Relevant Interest can never exceed 7.5% of the total voting rights across each share class.

Where a Redemption Event has occurred but the Board has not exercised its discretion to redeem the relevant Share(s), the holder shall not have the right to vote at any general meeting of the Company (whether or not the Member initially enjoyed such rights) nor the right to vote at a meeting of the holders of the class of shares that the Member holds until such time as the Directors consider that:

- the Member has again become an Approved Storeowner; or
- the Member has again become an employee of the Company.

Notwithstanding the voting restriction, the level of share ownership potentially available to any one Member is unrestricted.

8.9 Future Entitlement to Issue Additional Shares

The Board is empowered in the future to issue further Class C Redeemable Preference Shares for the purpose of raising additional funds, or at the discretion of the Board, in order to attract new Members.

The Constitution allows for a staff share scheme. As at the date of this OIS, no employees have been nominated as Eligible Members and none have been invited to participate in this Offer.

8.10 Risks

Given the limited volume and value of Class A Redeemable Preference Shares issued under this OIS, an investment under the Offer does not involve a significant degree of risk. Regardless, Applicants are advised to carefully consider the Risks Section of this OIS set out in section 7.

9 Additional information

9.1 Incorporation

Australian United Retailers Limited ACN 077 879 782 was incorporated in Victoria on 25 March 1997.

9.2 Rights and Liabilities Attaching to Shares

The rights attaching to Shares in the Company are:

- set out in the Constitution of the Company, and summarised in section 8 above and 9.3 below; and
- in certain circumstances, regulated by the Corporations Act and the general law.

9.3 Constitution

The following is a summary of the key provisions in the Company's Constitution.

9.3.1 General

The rights and liabilities attaching to the Shares are set out in the Company's Constitution, and are regulated by the Corporations Act and the general law. The Constitution is subject to the Listing Rules. Set out below is a summary of the key terms of the Constitution, including the difference between share classes, and the principal rights and liabilities attaching to the Shares. This summary is not exhaustive and is not a definitive statement of the rights and liabilities of the shareholders of the Company. In particular, the summary should be read in conjunction with the summaries of the Unity Agreements, Approved Store Agreements and Banner Store Agreements contained in sections 9.5, 9.6 and 9.7 of this OIS.

9.3.2 Application of Listing Rules

As previously noted, Class C Redeemable Preference Shares are listed on the Official List of the exchange operated by the NSX. As a consequence, the Constitution is subject to the Listing Rules. In particular:

- (i) Despite anything contained in the Constitution, if the Listing Rules prohibit an act being done, the act must not be done.
- (ii) Nothing contained in the Constitution prevents an act being done that the Listing Rules require to be done.
- (iii) If the Listing Rules require an act to be done or not to be done, authority is given for that act to be done or not to be done (as the case may be).
- (iv) If the Listing Rules require the Constitution to contain a provision and it does not contain that provision, the Constitution is deemed to contain that provision.
- (v) If the Listing Rules require the Constitution not to contain a provision and it contains that provision, the Constitution is deemed not to contain that provision.
- (vi) If any provision of the Constitution is or becomes inconsistent with the Listing Rules the Constitution is deemed not to contain that provision to the extent of the inconsistency.

9.3.3 Right to hold Shares

The Company has three classes of shares on issue: Class A Redeemable Preference Shares, Class B Redeemable Preference Shares and Class C Redeemable Preference Shares. From the Conversion Date (when the Class C Redeemable Preference Shares convert into Class A Redeemable Preference Shares - see section 9.3.5 below), the Company will have two classes of share on issue (subject to there being no partly paid Class C Redeemable Preference Shares on the Conversion Date).

There are restrictions on who can hold Shares. In particular, Shares may only be issued, transferred or allotted or otherwise disposed of to an Eligible Member. The onus is on the applicant for such issue, transfer, allotment or disposal to demonstrate

to the Directors that they are qualified to be an Eligible Member. An Eligible Member is defined to be any of an Approved Storeowner, a Branded Storeowner, the Related Parties of an Approved Storeowner or an employee of the Company (provided that the Board has passed a formal resolution confirming such employee(s) of the Company as constituting Eligible Members for the purpose of holding Shares in the Company and, subject to the passing of a formal resolution, a Related Party of an employee of the Company). Public companies (other than a co-operative), an entity controlled by a public company, or (unless otherwise agreed by the Board) a person who is in the employ of, or controls or is controlled by a supplier of goods or services to the retail industry and a Member in respect of whom a Redemption Event has occurred (but where the Board has not exercised its discretion to redeem the Share(s) of that Member) are expressly excluded from the class of Eligible Members.

The Board is submitting to Members at the 2008 FoodWorks Annual General Meeting (**2008 AGM**) proposed amendments to the Constitution which would expand the class of Eligible Members to include approved contractors engaged by the Company. Any change to the Constitution proposed by the Board requires Member approval.

9.3.4 Redemption & Forfeiture

Any Share in the Company may be redeemed if a 'Redemption Event' occurs in accordance with the redemption procedure set out in the Constitution. Redemption Events that may occur in respect of an applicable Member (as determined by the Directors in their absolute discretion) may be summarised as:

- ceasing to be an Approved Storeowner (in the case of a Class A Redeemable Preference Shareholder), a Branded Storeowner (in the case of a Class B Redeemable Preference Shareholder), or otherwise ceasing to be an Eligible Member;
- where the holder is an Approved Storeowner, the occurrence of a Default Event, which includes where an Approved Storeowner is in default of any contractual obligations owed to the Company, fails to pay any amounts owing to either the Company or a supplier or ceases to operate or control an Approved Store;
- the holder (or any controller) becomes bankrupt, makes an assignment or composition with its creditors, dies or becomes of unsound mind;
- the holder becomes insolvent;
- the holder requests that some or all of their redeemable preference shares be redeemed; or
- the holder fails to give notice that they hold their redeemable preference share(s) on trust for a third party.

The price payable in respect of each Share on redemption will be the aggregate of the price paid (or credited as paid) by or on behalf of the holder in the opinion of the Directors acting reasonably in respect of the issue, transfer, allotment or other disposal of that Share to the holder, plus any dividends declared and unpaid in respect of the Share(s) being redeemed.

The Board is submitting to Members at the 2008 AGM a proposed amendment to the Constitution giving the Board discretion to apply a discount to the redemption amount which is payable in certain limited circumstances. Any such amendment to the Constitution proposed by the Board requires Member approval.

Where a Redemption Event occurs in respect of a partly paid Class C Redeemable Preference Share, the Share may be forfeited.

9.3.5 Conversion of Class C Redeemable Preference Shares

Unless redeemed by the Company in accordance with the terms of the Constitution (or where amounts are outstanding), fully paid Class C Redeemable Preference Shares will automatically convert to Class A Redeemable Preference Shares on the Conversion Date.

9.3.6 Partly paid Shares

The Company has a first and paramount lien on every Share which is not fully paid and on all dividends payable in respect of that Share. Such partly paid Shares may not be transferred unless the sum in respect of which the lien exists is paid. Failure to pay a call made in respect of an unpaid portion of a partly paid Share, or where the terms of allotment specify a date for payment of an instalment in respect of a partly paid Share to pay that instalment, may result in forfeiture of the Share in accordance with the procedure set out in the Constitution. Class C Redeemable Preference Shares allotted under the prospectus pursuant to the instalment payment option will be partly paid shares until all three instalments are paid in full.

9.3.7 Voting rights & Restrictions

The voting rights attached to each Share class differ. In particular:

- Class A Redeemable Preference Shares carry one vote for each Share held, to a maximum of 7.5% of the total voting rights attached to the Class A Redeemable Preference Shares.
- Class B Redeemable Preference Shares carry no voting right, other than at a meeting of the Members of the class.
- Class C Redeemable Preference Shares carry a limited voting right until converted. Essentially, until conversion voting rights in the class are limited to certain situations in which the interests or entitlement of the holder may be directly (including adversely) affected by the subject matter of the vote. Where Class C Preference Share holders are entitled to vote, the maximum voting entitlement of a Member and their associates with respect to all Shares in which they hold a Relevant Interest can never exceed 7.5% of the total voting rights attached to each share class.
- As the Class C Redeemable Preference Shares are admitted to the Official List, a Member must comply with the requirements to give information set out in section 671B of the Corporations Act, namely information about substantial holdings in the Company.

9.3.8 General Meeting and Notices

Each holder of Shares will be entitled to receive all notices, accounts and other documents required to be sent to Members under the Constitution and the Corporations Act, and to attend such meetings.

9.3.9 Dividends

Each Share carries the right to participate in any dividend declared and paid to the holders of shares in that class. It is noted that:

- Class C Redeemable Preference Shares rank for dividends in preference to all other share classes, and the holders of shares in that class must be paid before holders of any other share class are paid.
- Class B Redeemable Preference Shares do not as of right have an entitlement to the same dividend as each other share in the class.

9.3.10 Variation of Class Rights

The rights and restrictions attaching to each class of Shares can only be altered if the holders of 75% of the shares issued in that class consent to the variation in writing, or a special resolution is passed at a meeting of the holders of shares in that class. Further, in the absence of prior consent in writing from all Class A Redeemable Preference Shareholders, there can be no variation of class rights that would result in the shares ranking in priority to the Class A Redeemable Preference Shares for payment of any return of capital.

For the avoidance of doubt, the Directors may issue redeemable preference shares that are ranked equally with existing redeemable preference shares (including but not limited to any Class A Redeemable Preference Shares, Class B Redeemable Preference Shares and Class C Redeemable Preference Shares) at any time and from time to time in accordance with the Constitution and no such further issue will be taken to vary or affect the rights of existing holders of redeemable preference shares.

9.3.11 Further Issues of Shares

The Directors may issue further fully paid or partly paid Shares of classes already issued which rank equally with those Shares without the approval of the holders of Shares in that class. Such Shares may be issued on the basis that their dividend entitlement is restricted until a fixed time.

9.3.12 Winding Up

The right to participate in a winding up varies depending on the class of Share. In particular:

- Class A Redeemable Preference Shares and Class C Redeemable Preference Shares carry an entitlement to participate in any distribution of the Company's assets.
- Class B Redeemable Preference Shares do not carry a right to participate in surplus assets on a winding up.

9.3.13 Transfer of Shares

The transfer of Shares is restricted. In particular, with respect to any transfer that is not an ASTC regulated transfer, the Directors may in their absolute discretion refuse to register any proposed transfer or transmission of Shares. Further, Members should be mindful of the restrictions as to who can hold Shares in the Company prior to any transfer.

9.3.14 Directors

The Company currently has ten Directors. The Company's Constitution sets out the manner in which the Board must be constituted, including specifying both a minimum (six) and maximum (ten) number of Directors. The Company may by resolution (or otherwise in accordance with the Corporations Act) remove any Director before the expiration of their period of office and appoint another person in their stead.

9.3.15 Indemnities and Insurance

To the extent permitted by law, and subject to the Corporations Act, the Company is required to indemnify current and past Directors, Secretaries and Officers of the Company against any liability incurred by them acting in their capacity as an officeholder. The Company may also pay legal costs for an officeholder where the action arises as a consequence of their office, and the premium on a policy of insurance.

9.3.16 Amendment of the Constitution

In accordance with the Corporations Act, the Company's Constitution may be modified or repealed by a special resolution passed by Members of the Company.

As noted above, the Board is considering, subject to legal advice, submitting to Members at the 2008 FoodWorks Annual General Meeting proposed amendments to the Constitution which would expand the class of Eligible Members to include contractors engaged by the Company.

9.4 Directors & Employees Benefit Plan

As at the date of this OIS, the Board is considering the adoption of a Directors and Employees Benefits Plan (**Plan**). As such, a Plan may be adopted by the Board prior to the expiration of this OIS. The object of the Plan would be to help the Company recruit, reward, retain and motivate its employees and executive directors by enabling certain employees approved by the Board to become holders of Shares, options and performance rights in the Company.

9.5 Unity Agreements

Most Branded Storeowners have entered into Unity Agreements with FoodWorks. Unbranded Approved Storeowners may also enter into Unity Agreements with FoodWorks.

A Unity Agreement supersedes any prior agreement which a Member who is an Approved Storeowner may have with FoodWorks.

The Unity Agreements set out the rights and obligations of Members who have entered into such an agreement with FoodWorks (**Unity Storeowners**). Unity Agreements generally

continue for a term of six years from their date of commencement, subject to termination provisions and the right of both parties to consent to the renewal of an agreement.

In addition to current Unity Storeowners who have been issued with a Class A Redeemable Preference Share, a Class A Redeemable Preference Share will be issued to all new Members who enter into Unity Agreements in the future.

Under the Unity Agreements, and largely consistent with Approved Store Agreements (see section 9.6) Unity Storeowners must comply with all relevant FoodWorks policies, as well as a range of specific obligations, including the maintenance of adequate stock and staffing levels, stocking recommended levels of allocated brands and compliance with specified store upkeep requirements. Branded Storeowners who have signed Unity Agreements, referred to throughout as Unity Branded Storeowners, are also subject to additional obligations, including ongoing compliance with specified branding criteria, the provision of information relating to store performance, compliance with FoodWorks' promotional programs, the maintenance of accurate sales data and ensuring that staff training and uniform requirements are met.

FoodWorks is required to provide a range of services to Unity Storeowners, primary of which is providing access to negotiated supply arrangements with Suppliers. FoodWorks is also authorised to negotiate, receive and pay proportions of Supplier rebates and allowances on behalf of and to Unity Storeowners.

Unity Branded Storeowners are provided with additional FoodWorks services under the Unity Agreement, primary of which is the ability to use specified FoodWorks intellectual property, subject to a range of conditions, including signage, logos and advertising materials. Unity Branded Storeowners also receive FoodWorks operating documentation and assistance with advertising and training strategies. FoodWorks is also obliged to maintain an advertising, marketing and promotional strategy for all Unity Branded Storeowners, in addition to reviewing and measuring the sales performance and marketing direction of the Unity Branded Stores.

Under the terms of most Unity Agreements, the relevant Unity Storeowners who wish to sell the business of their stores must provide FoodWorks with a right of first and last refusal in relation to the purchase of the business, but only if the sale is to occur during the term of the relevant Unity Agreement, or whilst there is an outstanding financial accommodation provided by FoodWorks to the Unity Storeowner or whilst FoodWorks is the lessor of the relevant store's premises.

9.6 Approved Store Agreements

Those Members who own Approved Stores but have not executed a Unity Agreement are subject to an Approved Store Agreement (and, in some cases, a Banner Agreement). The Approved Store Agreements provide for Members who own Approved Stores to benefit from the wholesale supply arrangements between FoodWorks and the Suppliers (see sections 9.8 and 9.9 of this OIS), as well as outlining primary obligations and benefits to such Members. As mentioned above, a number of Members who own Approved Stores have since entered into Unity Agreements which supersede the old form Approved Store Agreements (see section 9.5 of this OIS).

A party which has entered into an Approved Store Agreement with FoodWorks is issued with a Class A Redeemable Preference Share.

Under the Approved Store Agreement, and in addition to complying with all specified FoodWorks policies, Approved Storeowners must also comply with a range of obligations, including the maintenance of adequate stock and staffing levels, stocking specified levels of allocated brands and compliance with Approved Store upkeep requirements.

Further, and under the Approved Store Agreements, Approved Storeowners are entitled to a range of rebates and allowances from Suppliers.

9.7 Banner Agreements

A number of Members who entered into Approved Store Agreements with FoodWorks also entered into Banner Agreements, which provide for both additional obligations and benefits superseded by Unity Agreements. As with Approved Store Agreements, the Banner Agreements of those parties who have since entered into Unity Agreements will have been superseded by the latter.

Members who entered into Banner Agreements with FoodWorks, referred to as 'Branded Storeowners' and formerly referred to as 'Banner Storeowners', were also issued with a Class B Redeemable Preference Share (refer to section 9.2 of this OIS) per Branded Store.

Members who have entered into Banner Agreements are provided with a range of additional FoodWorks services, primary of which is the ability to use specified FoodWorks intellectual property, including signage, logos and advertising materials.

A condition of Banner Store Agreements which were entered into after May 2006 is that the Branded Storeowners enter into a Deed of Right of Refusal for Store Acquisition (**Deed of Refusal**) with FoodWorks. Under the terms of the Deed of Refusal, a Branded Storeowner who wishes to sell the business of their Branded Store agrees to provide FoodWorks with a right of first and last refusal in relation to the purchase of the business of the Branded Store, but only if the sale is to occur during the term of the Banner Store Agreement, or whilst there is an outstanding financial accommodation provided by FoodWorks to the Branded Storeowner or whilst FoodWorks is the lessor of the Branded Store's premises.

9.8 Metcash Supply Agreement

FoodWorks entered into a supply agreement with Metcash Trading Limited on 3 November 2004. The supply agreement sets out the key terms under which Metcash agrees to supply FoodWorks Members who own Approved Stores with grocery, perishable, general merchandise, tobacco and liquor items for retail sale through supermarkets operated by FoodWorks Members. Further, the supply agreement provides for the provision of rebates on terms contained in the supplier agreement and other benefits from Metcash to FoodWorks on behalf of those FoodWorks Members who own Approved Stores.

9.9 Supply Agreements

In addition to the Metcash supply agreement, as referred to in section 9.8, FoodWorks has entered into numerous supply agreements with various other Suppliers relating to a range of retailer products. These agreements set out the principal terms under which the Suppliers agree to provide various products to FoodWorks Members who own Approved Stores, including the specification of rebate levels.

The supply agreements are either fixed term or open contracts (with no fixed term), with the latter often being subject to a review process that may be initiated by either FoodWorks or the relevant supplier.

The supply agreements specify the relevant terms of trade between FoodWorks and the Suppliers, including the specific rebate levels to be calculated against supplied products and payable to FoodWorks at first instance. Further, these supply agreements outline reporting requirements as well as delivery and invoicing obligations that must be met by the Suppliers.

A Supplier or FoodWorks can generally terminate a Supply Agreement without cause, after having provided written notice of a specified period to the other party.

9.10 Deeds of indemnity, insurance and access

The Company has entered into Deeds of Indemnity, Insurance and Access with the FoodWorks Directors. The Deeds provide that the Company will indemnify its Directors against liabilities, costs and expenses as permitted under the Corporations Act, related to each Director's period of office.

In addition, the Company must arrange and maintain Directors' insurance during each Director's period of office and for a period of 7 years after a Director ceases to hold office. Further, the Company must allow its Directors access to papers, documents and other information relating to the affairs of the Company during the period the Director is a Director of the Company and for a period of 7 years after the Director ceases to hold office.

9.11 CEO employment agreement

In July 2008, the Company entered into a new employment agreement with Peter Noble, the Company's Chief Executive Officer. It operates for the period to 30 June 2011 and incorporates 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.

9.12 Tax Considerations

It is not appropriate to set out, in this OIS, the taxation implications for individual investors based on the current law. Potential investors should seek professional advice as to the implications of ownership of Shares in the Company.

10 Director's statement and Consents

10.1 Directors

Every Director of FoodWorks has given, and has not withdrawn, before the OIS Date, their consent to the lodgement of this OIS with the ASIC and the issue of this OIS in accordance with section 720 of the Corporations Act.

10.2 Pitcher Partners

Pitcher Partners has consented, and has not withdrawn, before the OIS Date its consent to:

- inclusion of its report for the Company in respect of the year ended 30 June 2008 in section 11 of the OIS; and

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- being named in the OIS as the auditor to Australian United Retailers Ltd in the form and context in which it appears in the OIS.

Pitcher Partners has had no involvement in the preparation of this OIS other than being named as auditor to Australian United Retailers Ltd. Pitcher Partners has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this OIS.

10.3 DLA Phillips Fox

DLA Phillips Fox have given and, at the date of lodgment of this OIS with the ASIC, have not withdrawn, their consent to be named in this OIS as lawyers to the Company in the form and context in which they are named.

Dated 5 September 2008

Signed for, and on behalf of, FoodWorks

Peter Noble

Chief Executive Officer and Executive Director

11 Financial information

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:



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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 |
| Less non trading costs: | | |
| Income tax expense | 25 | |
| Future state initiative costs | (4,197) | |
| New store rebranding costs | (1,279) | (5,451) |
| Consolidated Loss | | (2,792) |

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.



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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.



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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.



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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.



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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 |



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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.



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| | | |
|-----------------------------------------------------------------------------------------------------------------------------------------------------------------|--------------------------|--------------------------|
| 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: | 2008 \$ | 2007 \$ |
| Assurance Services | 79,500 | 67,670 |
| Taxation services | 8,000 | 49,585 |



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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;



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- 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.



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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.



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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



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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 | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Directors | | | | | | | | | |
| 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 | - |
| Total | 802,206 | 100,698 | 4,673 | 268,106 | - | - | - | 1,175,683 | - |
| Executives | | | | | | | | | |
| 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 | - |
| Total | 243,316 | 34,335 | 239,702 | - | - | - | - | 1,758,675 | - |

* 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



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| 2007 | Short term | | | Post Employment | | | | Total | Performance Related |
|-------------------|----------------|----------------|---------------|-----------------|---------------------|----------------|----------------|------------------|---------------------|
| | Salary & Fees | Cash Bonus | Non-monetary | Super-annuation | Retirement benefits | Equity Options | Other Benefits | | |
| | \$ | \$ | \$ | \$ | \$ | \$ | \$ | \$ | % |
| Directors | | | | | | | | | |
| 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 | - |
| Total | 809,925 | 99,404 | 28,038 | 158,197 | - | - | - | 1,095,564 | - |
| Executives | | | | | | | | | |
| 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 | - |
| Total | 989,679 | 105,657 | 43,064 | 116,352 | - | - | - | 1,254,752 | - |

* Amounts refer to only part of the financial year.



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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

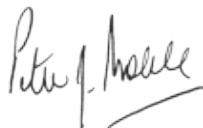
In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Australian United Retailers Ltd support and adhere to, where applicable, the principles of good governance. The Company's corporate governance statement is contained within this Annual Report.

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



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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).

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.



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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 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).



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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 for the full Statement of Matters Reserved for the Board.



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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.



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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



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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



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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 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.

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



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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.

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.



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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.

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.

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



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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.





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Consolidated Income Statement for the year ended 30th June 2008

| | | Economic Entity | | Parent Entity | |
|-------------------------------------------------|------|--------------------|-------------------|--------------------|-------------------|
| | Note | 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 |
| Total Income | | 51,442,305 | 44,811,387 | 51,442,305 | 44,811,387 |
| 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) |
| Loss before income tax | | (2,816,286) | (353,313) | (2,816,286) | (353,313) |
| Income tax benefit (income tax expense) | 7 | 24,391 | (541,587) | 24,391 | (460,581) |
| Loss from continuing operations | | (2,791,895) | (894,900) | (2,791,895) | (813,894) |
| Earnings per share (cents per share) | 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.



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Consolidated Balance Sheet as at 30th June 2008

| | | Economic Entity | | Parent Entity | |
|--------------------------------------|------|-------------------|-------------------|-------------------|-------------------|
| | Note | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| CURRENT ASSETS | | | | | |
| 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 |
| TOTAL CURRENT ASSETS | | 18,453,305 | 21,806,588 | 18,452,198 | 21,805,480 |
| NON-CURRENT ASSETS | | | | | |
| 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 |
| TOTAL NON-CURRENT ASSETS | | 2,171,350 | 1,988,975 | 2,171,350 | 1,988,975 |
| TOTAL ASSETS | | 20,624,655 | 23,795,563 | 20,623,548 | 23,794,455 |
| CURRENT LIABILITIES | | | | | |
| 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 |
| TOTAL CURRENT LIABILITIES | | 16,999,892 | 18,745,079 | 17,649,742 | 19,394,928 |
| NON-CURRENT LIABILITIES | | | | | |
| 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 |
| TOTAL NON CURRENT LIABILITIES | | 876,486 | 879,313 | 876,486 | 879,313 |
| TOTAL LIABILITIES | | 17,876,378 | 19,624,392 | 18,526,228 | 20,274,241 |
| NET ASSETS | | 2,748,277 | 4,171,171 | 2,097,320 | 3,520,214 |
| EQUITY | | | | | |
| 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) |
| TOTAL EQUITY | | 2,748,277 | 4,171,171 | 2,097,320 | 3,520,214 |

* The accompanying notes form part of these financial statements.



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

| | Economic Entity | | Parent Entity | |
|-----------------------------------------------------------------------|-----------------|-------------|---------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Total equity at the beginning of the financial year | 4,171,171 | (1,002,018) | 3,520,214 | (1,734,081) |
| Loss for the year | (2,791,895) | (894,900) | (2,791,895) | (813,894) |
| Total recognised income and expense for the year | (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 |
| Total equity at the end of the financial year | 2,748,277 | 4,171,171 | 2,097,320 | 3,520,214 |

* The accompanying notes form part of these financial statements.



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

| | Note | Economic Entity | | Parent Entity | |
|------------------------------------------------------------|-------|-----------------|--------------|---------------|--------------|
| | | 2008 | 2007 | 2008 | 2007 |
| | | \$ | \$ | \$ | \$ |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| 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 |
| Net cash provided by/(used in) operating activities | 19(b) | (3,790,711) | 550,597 | (3,790,711) | 550,597 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| 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) |
| Net cash used in investing activities | | (491,538) | (109,856) | (491,538) | (109,856) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| 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 |
| Net cash provided by financing activities | | 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 |
| Cash at end of financial year | 19(a) | 3,871,350 | 7,439,086 | 3,871,350 | 7,439,086 |

* The accompanying notes form part of these financial statements.



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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.



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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.



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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).



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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.



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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 |



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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.



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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.



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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 |



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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.



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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:

| | Economic Entity | | Parent Entity | |
|--------------------------|------------------------|-------------|----------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| +/- 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.



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5. Revenue From Continuing Operations

| | Note | Economic Entity | | Parent Entity | |
|-----------------------------|------|-----------------|------------|---------------|------------|
| | | 2008 | 2007 | 2008 | 2007 |
| Operating activities | | \$ | \$ | \$ | \$ |
| - 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 |
| 5(a) Interest from: | | | | | |
| - 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 |



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7. Income Tax

| | Economic Entity | | Parent Entity | |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|------------------------|-------------|----------------------|-------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| 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) |



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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.



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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 |



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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 |
| | \$ | \$ | \$ | \$ |
| Current | | | | |
| 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 |



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13. Plant & Equipment

| | Economic Entity | | Parent Entity | |
|-----------------------------------------|-----------------|-----------|---------------|-----------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Leasehold Improvements | | | | |
| 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 |
| Plant and Equipment | | | | |
| 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 |
| Motor vehicles | | | | |
| At cost | 10,609 | - | 10,609 | - |
| Less accumulated depreciation | (398) | - | (398) | - |
| | 10,211 | - | 10,211 | - |
| Computer equipment | | | | |
| 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 |
| Furniture, fixtures and fittings | | | | |
| 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 |
| Total plant and equipment | 443,044 | 221,070 | 443,044 | 221,070 |
| Total plant and equipment | 1,033,099 | 875,115 | 1,033,099 | 875,115 |



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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 |



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14. Trade and Other Payables

| | Economic Entity | | Parent Entity | |
|----------------------------------------|-----------------|------------|---------------|------------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Current | | | | |
| 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 |
| Non Current | | | | |
| Class B - redeemable preference shares | 296 | 350 | 296 | 350 |

15. Borrowings

| | Economic Entity | | Parent Entity | |
|----------------------------|-----------------|---------|---------------|---------|
| | 2008 | 2007 | 2008 | 2007 |
| | \$ | \$ | \$ | \$ |
| Current | | | | |
| Secured liabilities | | | | |
| 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 |
| Non-Current | | | | |
| Secured liabilities | | | | |
| 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.



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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 |



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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 |



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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:



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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) Reconciliation from the net loss after tax to the net cash flows from operations | | | | |
| Net loss from ordinary activities after tax | (2,791,895) | (894,900) | (2,791,895) | (813,894) |
| 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 |
| Net cash from operating activities | (3,790,711) | 550,597 | (3,790,711) | 550,597 |
| (c) Credit: Standby Arrangements with banks | | | | |
| 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 |



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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 |



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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) Operating lease commitments | | | | | |
| 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.



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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.



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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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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 | |



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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.



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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 % |
|-------------------------------------------|----------------------------------------------|---------------------------------------------------------------------------|------------------------------------------------------------------------------|----------------------------------------|--------------------------------------------------------------------------|-------------------------------------------------------------------|
| (i) Financial assets | | | | | | |
| 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 | - |
| 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 % |
| (ii) Financial liabilities | | | | | | |
| 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 | - |



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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 % |
|---------------------------------------|--------------------------------------|---------------------------------------------------------------|------------------------------------------------------------------|------------------------------------|--------------------------------------------------------------|-------------------------------------------------------|
| (i) Financial assets | | | | | | |
| 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 | - |
| 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 % |
| (i) Financial assets | | | | | | |
| 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 | - |



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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



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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



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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.



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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% |

