

**Australian United  
Retailers Ltd and  
Controlled Entities  
ABN 93 077 879 782**

Financial Report  
For the year ended 30 June 2009

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**AUSTRALIAN UNITED RETAILERS LTD  
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AND CONTROLLED ENTITIES**

**CHAIRMAN'S REPORT**

The principal focus of our company remains, as always, to support the continuing growth of FoodWorks member stores and to grow the FoodWorks brand and presence in the Australian marketplace.

During the 2008/2009 year very significant strides were taken towards achieving the growth aspirations we have long held for our company. FoodWorks has successfully negotiated the opportunity to purchase 45 Coles supermarkets and eight associated liquor outlets from Wesfarmers. The proposed purchase was subject to shareholder approval and, if supported, is to be funded via a vendor finance arrangement over the next three financial years.

As we now know, FoodWorks shareholders subsequently voted overwhelmingly in support of the proposed acquisition from Wesfarmers and the transfer of the stores is scheduled to commence in the early months of the 2009/2010 year.

Directors and management do not underestimate the size of the task ahead to effectively integrate the stores into the FoodWorks family. However, we are confident the resources that will be deployed progressively at every level will ensure the transition is smooth and effective. The store transfer program is flexible and embodies a range of risk mitigation strategies to ensure unforeseen eventualities can be addressed.

Extensive financial and risk modelling was undertaken, firstly to determine whether the proposal was justified and also to test the financial viability of operating 45 company stores. Your company's board and management are confident that the project will be financially beneficial and that our retailing capabilities and operating model are sufficiently robust to cope with the range of possible conditions which we can expect in the period ahead.

The benefits of this major acquisition will flow through to FoodWorks member stores as improved purchasing, increased range and a more aggressive marketing program following the integration of new stores and increased volumes into the FoodWorks network. Consumers across the country will also appreciate a stronger FoodWorks presence and improved competition in the marketplace.

The unyielding support of our shareholders and members is greatly appreciated and highly valued by the Board. We are determined to repay your faith and will continue to work diligently to grow your prosperity and ensure FoodWorks becomes a great Australian retailer.

John Bridgfoot  
Chairman

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**CHIEF EXECUTIVE OFFICERS REPORT**

This financial year has seen us reinforce the strength and security of our business framework by way of further investment in our brand, marketing, merchandising, store development and information technology.

We have used this to drive prosperity for our existing retailers, including supporting the refurbishment or expansion of 37 stores – 12 of which involved major works and opening 36 new stores.

The extension of our business model to include company owned stores has exercised our minds over the last 12 months as we negotiated an exclusive opportunity to purchase 45 Coles stores and eight associated liquor outlets. Our acquisition has enabled us to achieve a major growth opportunity more quickly and most importantly, more cost effectively than we had planned.

The projected sales of these new stores will give FoodWorks an estimated turnover of approximately \$2.3b per annum. This increase in our 'muscle' in the marketplace is something we intend to use to benefit the entire business, including our current network members, and of course strengthen the parent company.

Increasing our brand and market place presence was a key priority of the support team during the 2008/2009 financial year.

Extensive work has been undertaken to drive consumer awareness and engagement through marketing, store development and strong advertised product lines. As a result we maintained our customer count with a 0.04 percent increase in an increasingly more volatile and competitive marketplace.

Ensuring consumers enjoy a quality in-store experience has been a priority for the support team. Providing our members with everything they need to give consumers range, value and service has been the focus for our general merchandise, business development and people and performance teams over the past financial year.

The work of our support team and all of our retailers and their teams has seen us as a company grow sales across the network by 3.92 percent.

This past financial year produced cyclical sales results unlike the consistency of the previous couple of years. Of note was like for like sales growth across the branded network in June of 6.56 percent but relatively flat growth earlier in the financial year.

Of significance here has been the quite dramatic falling away of the economy and a much greater focus by consumers on discretionary spending. This has resulted in changed shopping patterns. This has included much great consumer focus on value, fresh and shopping 'down' the product value chain. The more recent months' sales figures support the trend towards a more stable economy.

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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

We continue look for new opportunities to create growth for the group. We retain the services of a number of advisors to ensure we continue to challenge ourselves and remain a strong, truly independent, Australian owned alternative in the Australian grocery landscape.

**Key Achievements**

- Negotiation, due diligence and execution planning for acquisition of 45 Coles stores and eight associated liquor outlets
- Launch of The Promenade Traditional Bakehouse In-Store Bakery solution
- Major support office information technology upgrade
- Execution of new brand positioning and marketing creative
- Launch of the Sunny Bay Snack Co., Help and Home and Top Saver private label brands
- Delivery of the Fresh Workshops for retailers
- Launch of district meetings
- Development of the FoodWorks Extranet

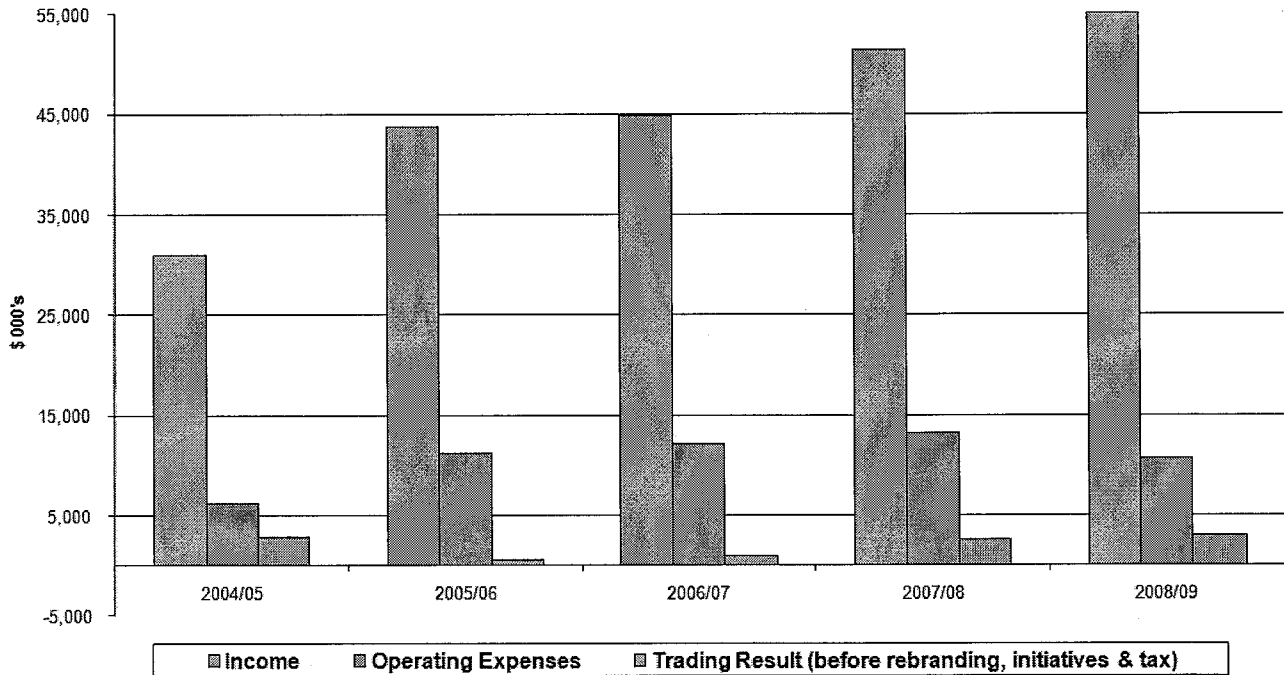
**Financial Performance**

The Company delivered a core trading result for the year ended 30 June 2009 of \$3.768M. The Company delivered an overall loss of \$2.104M, after taking account of post Prospectus Growth Strategy spend of \$4.503M and \$0.587M of costs for the Coles stores acquisition.

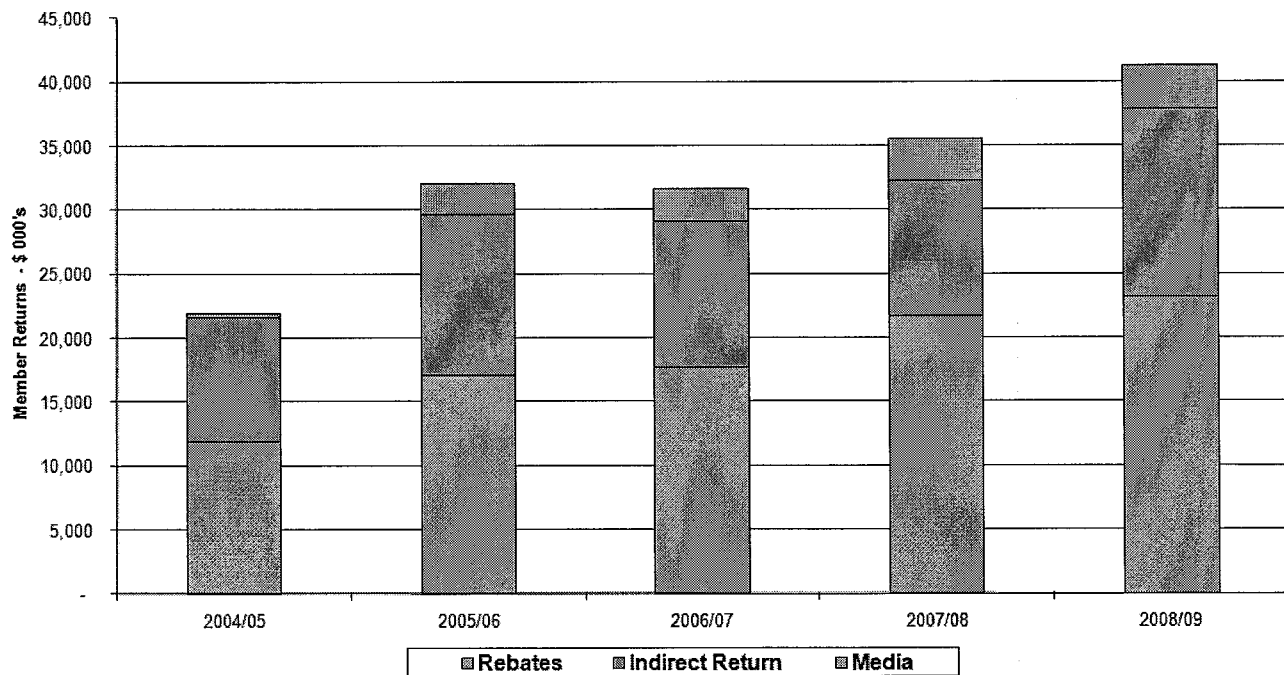
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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

**Financials**



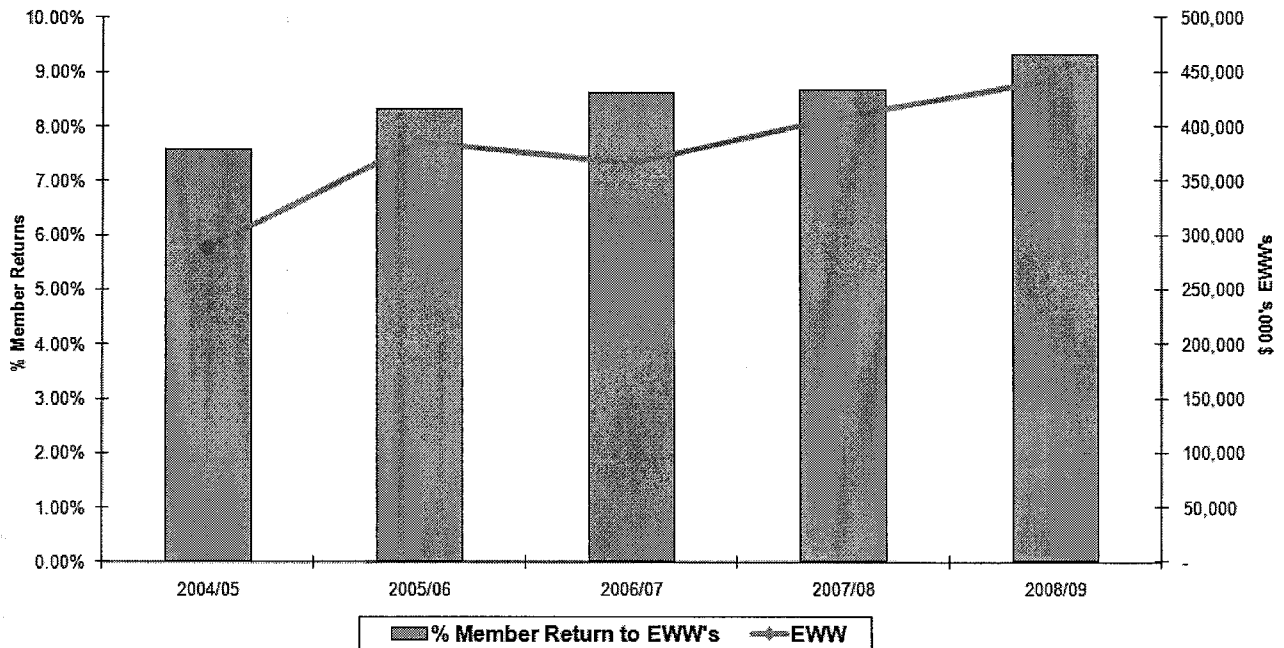
**Member Returns**



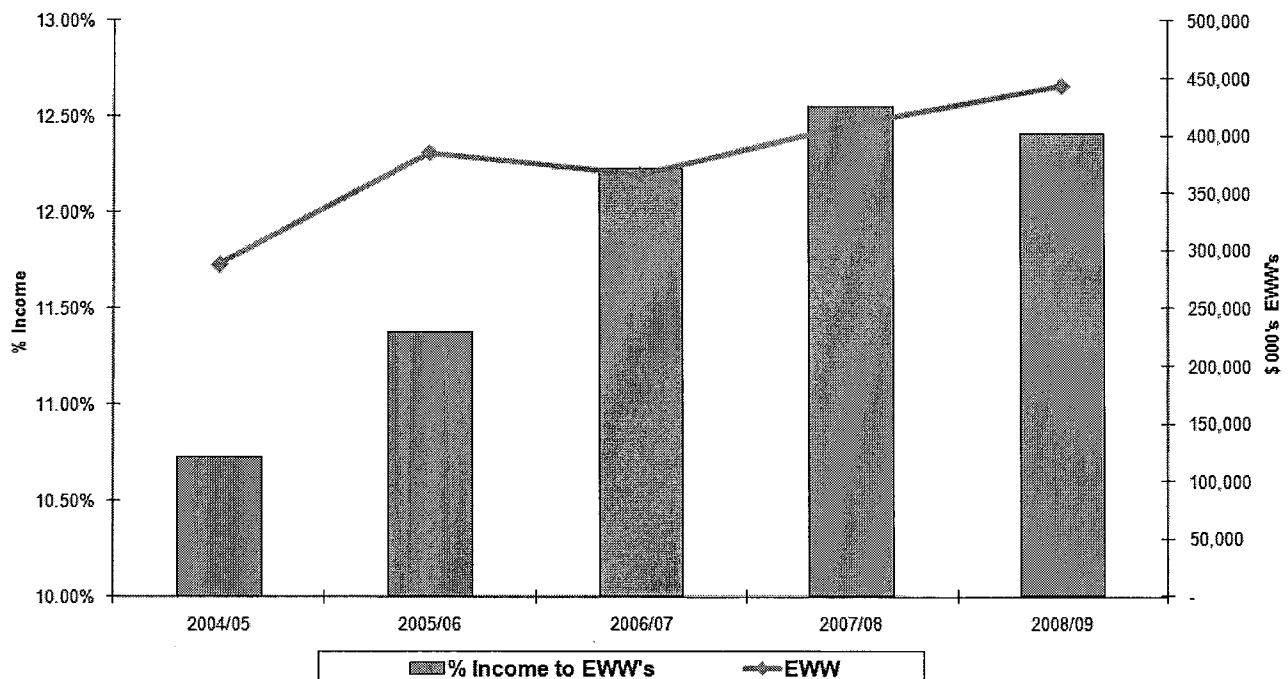
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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

**Member Returns to EWW's**



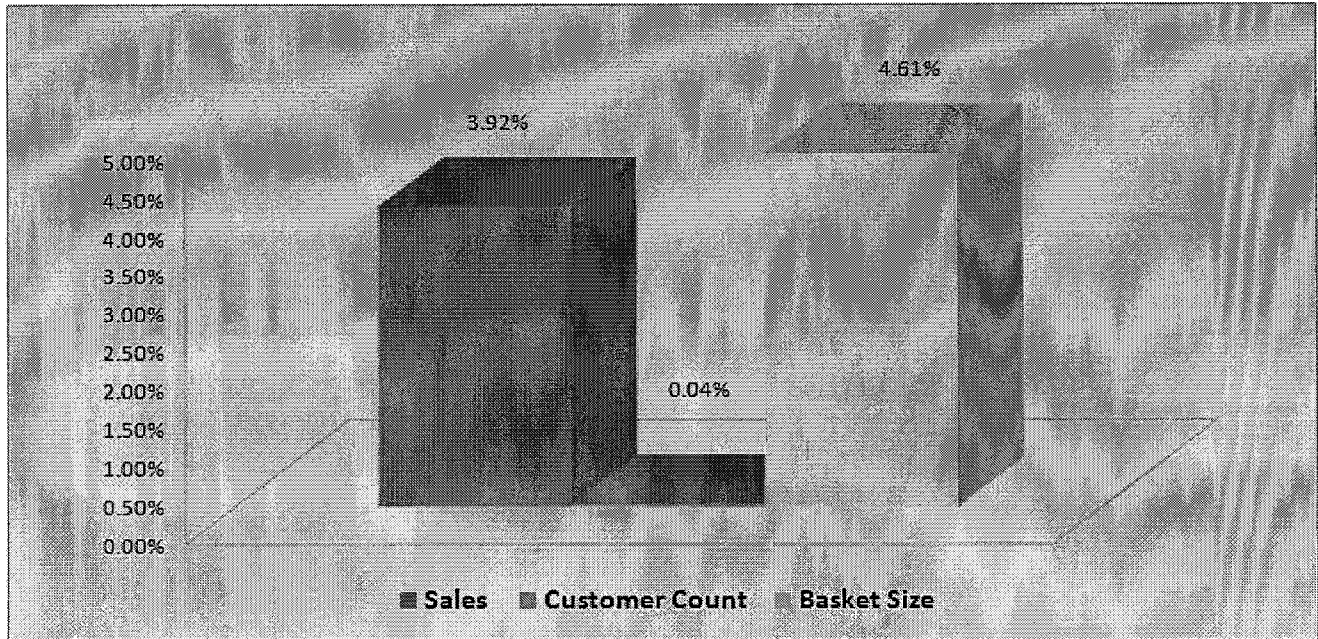
**Income to EWW's**



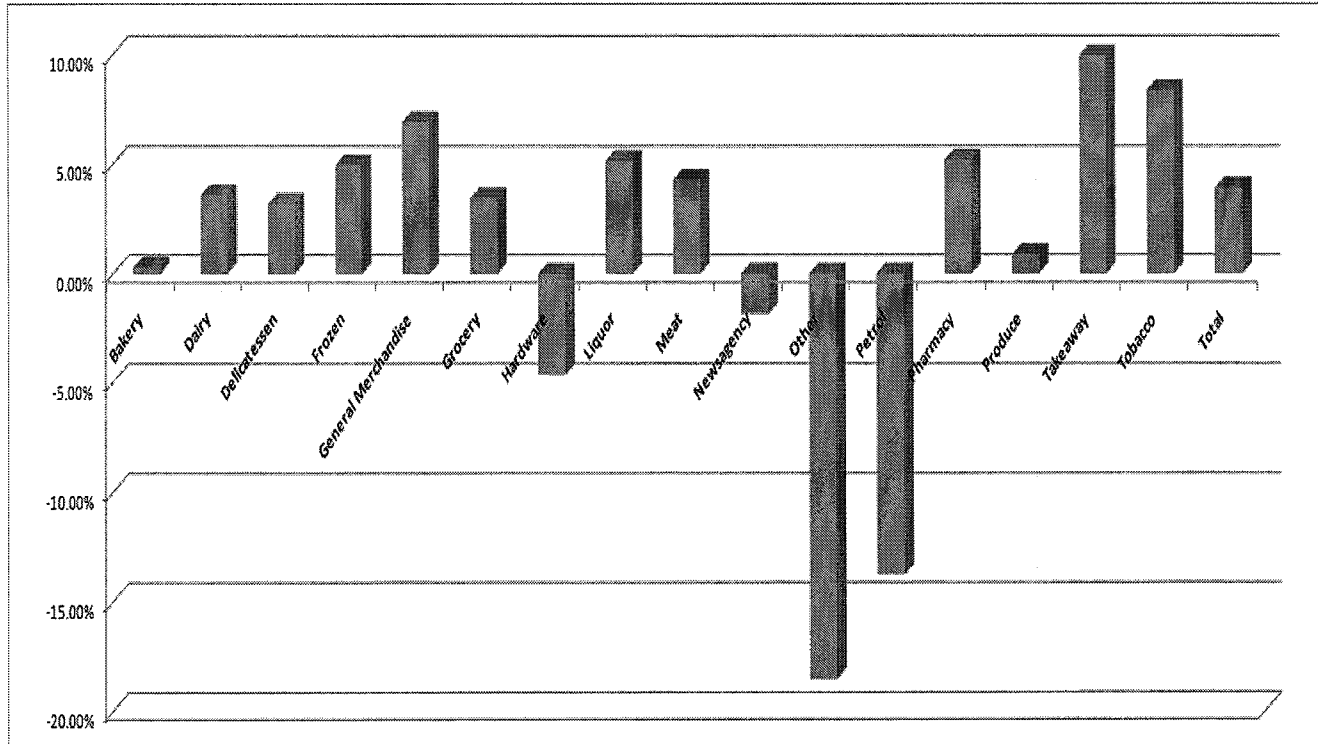
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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

**Store Sales Performance**



**Growth By Department**



Store sales grew 3.9% on a like for like basis across the network. Customer count grew by 0.04% and basket size increased by 4.6% over the 08/09 financial year – a strong result in an increasingly competitive marketplace.



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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

**Finance**

During the 2008/2009 financial year the FoodWorks Finance department has continued to focus on providing timely and accurate finance and management reports to the FoodWorks Board and Management. This reporting provides the FoodWorks Board and Management with the information they need to make commercially sound decisions which maximises the efficient delivery of services and rebate returns to shareholders.

The FoodWorks Finance team also maintained the high level of compliance responsibilities required of a listed company within the specified timelines.

**Information Technology**

The highlight of the 2008/2009 financial year was the completion of the infrastructure upgrade for our parent company AURL. This upgrade involved the replacement of old equipment with a robust, scalable hardware and software solution with improved redundancy. This positions the company for future growth, increases cost efficiency and improves member communication as well as providing greater system redundancy to mitigate technological risk.

The update included:

- Installation of HP blade servers running in a VMWare environment and a HP SAN - allowing for increased data storage requirements
- Upgrading of internal data links – resulting in increased bandwidth and SLAs ensuring 99.99% uptime
- Implementation of Microsoft Sharepoint - providing reporting and analysis services to mine data and cater for the business' increasing business intelligence requirements
- Upgrade of Terminal Server to facilitate increased staff mobility requirements - staff working remotely can now access FoodWorks network drives and email remotely via a secure connection
- Implementation of Kaseya network management and monitoring. This comprises a fully ticketed I.T. helpdesk application, automated security patch updates, traffic monitoring and network watch points including KPIs
- Implementation of Mail Marshall SPAM filtering - which has virtually eliminated all SPAM into users' mailboxes
- Creation of a standard operating environment within the business
- Implementation of Shoretel VoIP phone system

In addition to increasing the security, reliability and efficiency of the central systems the Information Technology team also delivered a number of store specific initiatives including:

- The roll out of the FoodWorks private broadband solution to over 70 bannered FoodWorks stores
- 95% compliance for bannered stores in back office solutions consolidation to the five preferred systems
- The increase in delivery of CBA EFTPOS to include more than 520 retailers. Subscribing stores are enjoying a number of benefits negotiated by FoodWorks including cheaper merchant service fees, higher rebates and free terminal rental for funds that settle into a CBA account
- Increasing the number of ScanWorks compliant member stores to more than 360 resulting in improved data analysis across the business and over and above revenue from AC Nielsen

**Operations**

During the last 12 months the FoodWorks Operations Team has worked with retailers to better understand their needs and assist them in achieving their store specific goals.

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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

The Retail Development Partners (RDPs) continue to be the primary contact between the FoodWorks Support Centre and stores, ensuring we provide efficient and appropriate resources where needed.

RDP's conducted store presentation surveys as part of The Edge retailing standards program. The RDP's worked with numerous stores to better understand their customers' needs by commissioning StoreCheck surveys.

The Operations Team launched a new initiative, the Retail Coaching Program to assist retailers to learn and develop. The Retail Coach role is an in-store coaching resource designed to enhance retailer skills in running a successful business. The Retail Coaches understand the industry, are qualified trainers and understand the FoodWorks offer.

### **Marketing**

The FoodWorks marketing function was reorganised during the 2008/2009 financial year. These changes enabled the increase in return from the available resources to provide greater support to retailers. The major achievements delivered during the financial year were the:

- Establishment of a 'brand advisement council' consisting of experts in strategic planning, brand identity, creative development and media planning
- Appointment of Wellcom, a full service creative agency. Wellcom provide a high quality, cost effective solution to meet our graphic design, creative development, point of sale and advertising production needs
- Development of new branded advertising to drive awareness of the unique selling points of the FoodWorks shopping experience and also the value we offer consumers
- Development and reinforcement of brand guidelines and brand style guide to support the new 'FoodWorks – works for me!' brand positioning
- Refinement of The Edge program to provide coverage over two cycles
- Execution of the Store Events Launch Program which provided retailers with comprehensive event support and a toolkit for stores to use to host customer events such as store openings, birthday celebrations, re-launches and other milestones
- Generation of extensive positive media coverage in consumer, trade and business media at national state and local levels to drive brand awareness, recognition and support for FoodWorks from consumers and other stakeholders
- Provision of in-house graphic design to shareholders and the FoodWorks support team ensuring the quality and consistency of imagery and messaging in brand materials for local area marketing, corporate collateral and other purposes
- Development and execution of two successful consumer promotions with a 293 percent increase in consumer entries from the African Safari Promotion to the Clear Your Debts Promotion

Over the next 12 months the FoodWorks Marketing Team will continue to drive awareness of the FoodWorks brand, points of difference and competitive advantage in the marketplace. The team will continue to support store level activity and is working to provide greater flexibility for local area marketing.

### **Merchandising**

The FoodWorks Merchandising Team undertakes a number of initiatives on behalf of retailers including:

- Establishment and management of supplier agreements
- Private Label product range development and management
- Management of category specific initiatives including LiquorLink and TobaccoLink
- Pricing management and provision of support services

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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

**Supplier Agreements**

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

This includes the management of the comprehensive, long-term supply arrangement with Metcash to extract the maximum benefits for FoodWorks Shareholders. The agreement with Metcash is based on national access to an extensive range of grocery lines, general merchandise, tobacco, packaged liquor and perishable items.

In addition to merchandise and promotional agreements, Shareholders also have access to tailored agreements with business consumables suppliers for services such as EFTPOS and telecommunications. Shareholders can also take advantage of the Chargeback facility, a centralised, streamlined supplier payment system.

During the 2008/2009 financial year the FoodWorks Merchandising team have increased supplier investment in the FoodWorks business by 6.9 percent to more than \$55m.

By continuing to work with our suppliers to drive mutual success we have been able to secure supplier support for our future business objectives and provide members with a continuously competitive merchandise offering to attract consumers.

**Private Label**

The 2008/2009 financial year saw the continuation of the category specific Private Label brand program.

The FoodWorks Private Label program provides consumers with quality and value and our Shareholders with exclusive products with excellent gross margin and competitive recommended retail price points.

In the 2008/2009 financial year the Private Label Team launched 160 new SKUs including the following new brands:

- The Promenade Traditional Bakehouse In-Store Bakery
- Stone Bay Marlborough Sauvignon Blanc
- Top Savers
- Help @ Home
- Sunny Bay Snack Co.

**Category Specific Initiatives – LiquorLink and TobaccoLink**

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

Both services are optional 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 benefits available to both parties when supplier and Shareholder objectives are aligned.

We now have 56 LiquorLink stores in the company. During the 2008/2009 financial year liquor sales grew 2.7 percent. Slower sales were experienced in the first half but growth of 4.4 percent in the second half and 8.0 percent for the last quarter is likely to continue in the current financial year.

TobaccoLink has 430 participating stores. Sales growth of more than 8.4 percent on last year was

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experienced during the 2008/2009 financial year.

### **Fresh Foods**

Fresh Foods sales results over the last 12 months have been exceedingly strong, with a like for like growth of 2.5 percent over the previous financial year.

Key highlights include:

- The launch of the Fresh Produce Training Manual via Fresh Food Workshops, including a focus on one on one training with our specialist teams. This initiative has added significant value in-store in terms of stock presentation and the sales skills of the store teams
- The development of development of restaurant quality delicatessen meals to go via our Fresh Food Workshop. This capitalises on the current consumer trends by adding convenience and value for money meal offerings to our retail members' customers
- The launch of The Promenade Traditional Bakehouse In-store Bakery offering. This initiative completes and compliments our total bakery department offer for small, medium and large stores. Launched via the Fresh Food Workshops nationally, this offering has added significant benefits to stores including an increase in the quality and freshness of stock on shelf, increased sales and profitability
- Development of a Retail Ready Meat concept and Fresh Meals to Go for all stores nationally providing an extended range of quality products for our stores

### **Information, Pricing and Support Services**

Additional services provided during the financial year included:

- Product file hosting to retailers with compatible point of sale and back office systems to save participating retailers time and effort in managing promotional and other changes to product price files
- Space Management services including product and category range planograms to enable retailers to improve store flow and product category footage allocations
- Management of the handbill program including production and delivery of more than 16 million handbills. The handbill program allows participating retailers to continuously communicate the range, value and quality available in-store to local consumers

### **Business Development**

During the 2008/2009 financial year the FoodWorks Business Development team undertook a range of activities to deliver growth and capture potential opportunities for our company and our retailers. These activities included:

- Investigating and planning new business opportunities
- Developing and assisting retailers to implement new store layouts and fit-outs
- Providing business plans and business advice to retailers

The FoodWorks Business Development team has continued to evolve into a 'proactive' development partner for both members and commercial developers. This evolution assists us to keep on track in the current 'race for space' in the retail environment.

This year has also seen the expansion of our traditional design and fit-out supervision services to include competitor combat services, recruitment of new retailers to the industry and also the management of the first and last right of purchase process for stores wishing to sell.

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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

The overall network development activity has resulted in strong growth in both new store numbers and additional square metres. In particular the quantity of refurbishments and size of new stores increased significantly.

	COMPLETED FY 08/09		FY 07/08	FY 07/08
	No.	SQ M	No.	SQ M
<b>NEW STORES</b>	36	12,204	49	39,754
<b>Unbranded to Branded CONVERSIONS</b>	5	2,052	5	1,390
<b>EXTENSIONS</b>	12	5,403	7	9,868
<b>REFURBISHMENTS</b>	32	22,920	56	28,060
<b>TOTAL BRANDED STORES</b>	397	n/a	401	n/a

Looking into potential opportunities to capitalise on available opportunities is a vital part of the work of the business development team. During the last financial year 265 market assessments were undertaken on existing and potential sites. One third of these sites are strong potential locations.

423 of our network stores signed Unity Agreements which increases the long term strength and security of our company and the FoodWorks brand. The Business Development Team has also formed a strategic partnership with LJ Hooker and managed the first and last rights of the group for 73 branded stores. Over the 30 branded stores sold during the year FoodWorks retained 23.

### **People and Performance**

The People and Performance Team continued to provide people management support to retailers and ensure the structure of the support team is appropriate to serve the current and future needs of retailers.

This activity included the:

- Ongoing review, development and promotion of the FoodWorks employee induction program
- Provision of customer service training
- Development of standard employee files to ensure members meet new legal requirements
- Provision of tools and training to ensure accurate and effective wages and rostering at store level
- Ongoing advice and support in relation to employment law changes as part of the Fairwork Act including education about the impact of these changes on our retailers

The People and Performance team also continued to work with Industry Associations to provide retailers with high level, up-to-date legal and wages support and information.

The People and Performance team continue to focus on delivering best practice human resource policies, procedures and advice that are compliant with legislative requirements but also empower members to maximise the performance of their business by actively managing their people, increasing efficiency and providing a working environment which encourages success.

In conclusion, I would like to say how proud I am of the achievements of our support team, our board, our management team and most importantly our retailers and their teams during the financial year.

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**CHIEF EXECUTIVE OFFICERS REPORT (Cont'd)**

The continued dedication, passion, commitment and integrity of our group and its people are I believe, unique in our industry. I also believe our people are now and will continue to be the crucial factor in our success as both individual businesses and as a group.

I look forward to reporting in 12 months on the successful transition of the Coles stores into our group and the ongoing prosperity and growth of our business.

Looking forward to making the journey with you all.

Peter Noble, CEO.

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**DIRECTORS' REPORT**

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 2009 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 \$2,103,915.

**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:

The economic entity's core trading result for the year ended 30 June 2009, as follows:

	\$ 000's	\$ 000's
Trading profit before tax for the year ended 30 June 2009		<u>3,768</u>
<b>Less non-trading costs:</b>		
Income tax expense	(237)	
Future state initiative costs	(4,503)	
Coles store acquisition expenses	(587)	
New store rebranding costs	<u>(545)</u>	
<b>Consolidated Loss</b>		<u><b>2,104</b></u>

**Significant Changes in State of Affairs**

FoodWorks' has contracted to purchase 45 Coles stores, eight with adjoining liquor outlets, with combined annual sales of approximately \$450 million. This will bring FoodWorks' combined with its independent retailer networks' sales turnover, to approximately \$2.3 billion. Vendor finance has been negotiated to fund the deal.

FoodWorks has also signed a long term supply agreement with Metcash Trading Limited, to supply these new stores along with extending the arrangement for its existing 700 member stores. At the wholesale level FoodWorks will increase its purchases by an additional \$250 million per annum. The new arrangement includes an initial 10 year term and incorporates access to warehouse products including the new Metcash 'fresh' initiative.

No other significant changes in the state of affairs of the economic entity occurred during the financial year.

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**DIRECTORS' REPORT (cont'd)**

**After Balance Date Events**

FoodWorks' has contracted to purchase 45 Coles stores, eight with adjoining liquor outlets, with combined annual sales of approximately \$450 million. This will bring FoodWorks' combined with its independent retailer networks' sales turnover to approximately \$2.3 billion. Vendor finance has been negotiated to fund the deal.

Shareholder approval for the Coles transaction was received at an Extraordinary General Meeting held on 17<sup>th</sup> August 2009. ACCC approval for the transaction has also been received.

FoodWorks has also signed a long term supply agreement with Metcash Trading Limited, to supply these new stores along with extending the arrangement for its existing 700 member stores. At the wholesale level FoodWorks will increase its purchases by an additional \$250 million per annum. The new arrangement includes an initial 10 year term and incorporates access to warehouse products including the new Metcash 'fresh' initiative.

No other 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.

**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**

All directors of the economic entity have entered into a Deed of Indemnity, Insurance and Access.

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 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.



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**DIRECTORS' REPORT (Cont'd)**

**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.

<b>J Bridgfoot</b>	- 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 storeowner and operator from 9 January 1999 until March 2006.
Special Responsibilities	- Ex-officio member of Remuneration & Nomination, Supply Chain and Property Committees.
<b>J Scanlan</b>	- 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.
Special Responsibilities	- Chairman of the Property Committee & Member of the Remuneration & Nomination Committee.
<b>D Smith</b>	- Non Executive Director
Qualifications	- Dip. Ed. (Townsville) Master of Business Administration (University of New England) 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 storeowner and operator since 1996. Deborah is a Director of Master Grocers of Australia.
Special Responsibilities	- Chairman of the Remuneration & Nomination Committee & Member of the Property Committee.
<b>P Noble</b>	- 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 the Supply Chain and

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**DIRECTORS' REPORT (Cont'd)**

Property Committees.

**D Howell**

Qualifications

- Independent Non Executive Director
- 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**

Qualifications

- Non Executive Director
- Resigned 19 August 2009
- 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.

Special Responsibilities

- General Manager of FoodWorks Retail Pty Ltd from 19 August 2009

**W Pattison**

Qualifications

- Non Executive Director
- M.A.I.C.D.

Experience

- Wayne has been a Director since 4 October 2003 and he has 25 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 Supply Chain Committees.

**N Osborne**

Qualifications

- Independent Non Executive Director
- 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

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**DIRECTORS' REPORT (Cont'd)**

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

**J Kendall**

**Qualifications**

- Non Executive Director

**Experience**

- Bachelor of Business (Marketing)
- 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 the Company's Marketing Committee.

**J Ehrenfeld**

**Qualifications**

**Experience**

- Non Executive Director
- Resigned 27 July 2009
- Bachelor of Economics (University of Western Australia)
- 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.

**K Sleep**

**Qualifications**

**Experience**

- Company Secretary
- Bachelor of Economics (Monash) FCPA FCIS
- 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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**DIRECTORS' REPORT (Cont'd)**

**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	11	11			3	2	2	2	1	1
J Scanlan	11	11			3	3	2	2		
D Smith	11	11			3	3			1	1
P Noble	11	11			3	3			1	1
D Howell	11	10	8	8			2	2		
M Reddrop	11	11			3	3			1	1
W Pattison	11	11	8	7			2	2		
N Osborne	11	11			3	3			1	1
J Kendall	11	11							1	1
J Ehrenfeld	11	11	8	8					1	1

**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:

A Class Redeemable Preference Shares  
of AUR Ltd

<i>Jeff Ehrenfeld</i>	<i>384,001 A Class</i>
<i>Michael Reddrop</i>	<i>770,004 A Class</i>
<i>Jack Scanlan</i>	<i>240,000 A Class</i>
<i>Wayne Pattison</i>	<i>198,002 A Class</i>
<i>Deborah Smith</i>	<i>150,003 A Class</i>
<i>Peter Noble</i>	<i>120,000 A Class</i>

**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.

Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to by any entity that is part of the consolidated entity for:	2009 \$	2008 \$
Assurance Services	81,035	79,500
Taxation services	12,135	8,000

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**REMUNERATION REPORT (Cont'd)**

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;
- 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 senior executives excluding the CEO is annually assessed against relevant executive remuneration market data. In July 2009, in light of current business performance and external economic conditions, a decision was made to hold senior executive salaries at their current level. Each executive is 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.

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

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**REMUNERATION REPORT (Cont'd)**

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.

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 eight named executives who receive the highest remuneration for the financial year are:

<b>Executives</b>	<b>Position</b>
Graeme Longmuir	National Merchandising Manager
Simon Thompson	National Business Development Manager
Lloyd Burke (Resigned 24/07/2008)	Future State Program Manager
Wayne Vermeend	Chief Finance Officer
Penny Reed (Resigned 21/11/2008)	National People and Performance Manager
Helene Gordon (Appointed 19/02/2009)	National People and Performance Manager
Stephanie Holmes	Projects Manager – Business Implementation
Rick Wight	Chief Operating Officer

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**DIRECTORS' AND EXECUTIVES' COMPENSATION**

2009	Short-term			Post Employment		Equity	Other	Total	Performance Related Bonus %
	Salary & Fees	Cash Bonus	Non-monetary	Superannuation	Retirement benefits	Options	Benefits		
	\$	\$	\$	\$	\$	\$	\$	\$	
Directors									
J Bridgfoot	130,000	-	-	-	-	-	-	130,000	16
J Scanlan	-	-	-	93,000	-	-	-	93,000	
D Smith	63,000	-	-	-	-	-	-	63,000	
P Noble*	377,342	85,500	-	77,156	-	-	-	539,998	
D Howell	-	-	-	63,000	-	-	-	63,000	
M Reddrop	60,000	-	-	-	-	-	-	60,000	
W Pattison	4,587	-	-	55,413	-	-	-	60,000	
N Osborne	57,798	-	-	5,202	-	-	-	63,000	
J Kendall	55,046	-	-	4,954	-	-	-	60,000	
J Ehrenfeld	60,000	-	-	-	-	-	-	60,000	
Total	807,773	85,500	-	298,725	-	-	-	1,191,998	
Executives**									
G Longmuir	243,969	40,893	-	43,572	-	-	-	328,434	12
W Vermeend	175,288	28,700	20,086	15,776	-	-	-	239,850	12
S Holmes	140,933	18,010	-	14,305	-	-	-	173,248	10
S Thompson	221,558	32,266	-	22,844	-	-	-	276,668	12
L Burke***	28,682	35,078	-	4,371	-	-	-	68,131	51
P Reed***	103,627	25,032	-	7,625	-	-	-	136,284	18
H Gordon***	70,513	-	-	6,346	-	-	-	76,859	
R Wight	282,289	17,946	-	28,326	-	-	-	328,561	5
Total	1,286,858	197,925	20,086	143,165	-	-	-	1,628,034	

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

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

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

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**DIRECTORS' AND EXECUTIVES' COMPENSATION (Cont'd)**

2008	Short-term			Post Employment		Equity	Other	Total	Performance Related Bonus %
	Salary & Fees	Cash Bonus	Non-monetary	Superannuation	Retirement benefits	Options	Benefits		
	\$	\$	\$	\$	\$	\$	\$		
Directors									
J Bridgfoot	120,000	-	-	-	-	-	-	120,000	18
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	
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	10
P Reed	145,216	20,435	2,364	15,091	-	-	-	183,106	11
R Wight***	107,516	-	-	9,792	-	-	-	117,308	
Total	1,241,322	243,316	34,335	239,702	-	-	-	1,758,675	

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

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

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



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**DIRECTORS' REPORT (cont'd)**

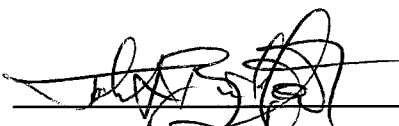
**Chief Executive Officer's and Chief Financial Officer's Declaration**

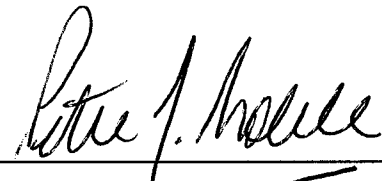
The Chief Executive Officer and Chief Financial Officer have given a declaration to the Board concerning the Group's financial statements for the year ended 30 June 2009 under section 295A (2) of the Corporations Act 2001 and recommendations 4.1 and 7.1 of the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (ASX Principles).

**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 practicable, the ASX Principles. 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 9<sup>th</sup> day of September 2009

## AUDITOR'S INDEPENDENCE DECLARATION

### To the Directors of Australian United Retailers Ltd

In relation to the independent audit for the year ended 30 June 2009, 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

Date 11 September 2009



PITCHER PARTNERS

Melbourne

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**CORPORATE GOVERNANCE STATEMENT**

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

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

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

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

**Recognising the interests of our stakeholders**

The Company is very aware of its important relationships with its many stakeholders – including Shareholders, employees, suppliers and service providers, customers of its Shareholders, and the wider community where it's 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. The fully paid C Class preference shares converted to A Class preference shares on 15 June 2009 and are now listed on the NSX under the code AFOA.

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 conference, which are attended by management, staff and Directors, provide good opportunities for Shareholders and other stakeholders to exchange views with Senior Management and Directors on a wide range of issues. The Annual General Meeting of Shareholders (AGM) is a further opportunity for Shareholders to ask questions of the Board, to express views and vote on the various matters of business on the agenda. The Annual Report is also available on our website to all Shareholders and is distributed in hard copy where requested.

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

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

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;
- Risk management policies and risk assessment and insurance policies.

*Refer to [www.foodworks.com.au](http://www.foodworks.com.au) for the full Statement of Matters Reserved for the Board.*

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.

## **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) retired at the 2008 AGM, stood for re-election and were re-elected 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 between 6 and 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 five of its non-executive Directors are independent.

There were no changes to the board during the 2008/2009 financial year, however Jeff Ehrenfeld resigned from the Board on 27 July 2009 and Michael Reddrop on 19 August 2009.

During the course of its annual program, which included eight scheduled meetings and three resolutions in the current year, the Board examines strategic issues. It reviews and approves the Strategic Plan and Financial Budget and systematically reviews all material areas of the Company's activities, including regularly receiving reports and presentations from Senior Management. This annual program provides for evaluation of its own 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 2009/10 financial year following an assessment of the collective skill set appropriate for the Board. 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 Remuneration & Nomination 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 abuse of the office of Director, independent judgment, confidentiality, and compliance with the letter and spirit of the law and this Code.

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

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

*Policy.*

### **Audit and Risk Committee**

The Audit and Risk Committee is responsible for reviewing the integrity of the Company's financial reporting, assessing risks arising from the operations and the adequacy of measures taken to moderate those risks, and overseeing the independence of the external auditors.

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

Members of the Committee throughout the year were Don Howell (Chair), Jeff Ehrenfeld and Wayne Pattison. The Committee met eight times in the year to 30 June 2009.

### **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.

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

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

Members of the Committee were Jack Scanlan (Chair) and Wayne Pattison to 31 March 2009, Deborah Smith (Chair) from 1 April 2009, and Don Howell with John Bridgfoot (ex officio). The Committee held two meetings in the year to 30 June 2009.

### **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), Jeff Ehrenfeld, John Bridgfoot (ex officio) and Peter Noble (ex officio). Michael Reddrop, Deborah Smith and Janette Kendall concluded their service on the Committee on 31 March 2009 at which time Wayne Pattison was appointed. The Committee met formally on one occasion during the year to 30 June 2009.

### **Property Committee**

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

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

During the year the Committee has comprised Deborah Smith (Chair to 31 March 2009), John Bridgfoot (ex officio), Peter Noble (ex officio), Neil Osborne (to 31 March 2009), Michael Reddrop (to 31 March 2009) and Jack Scanlan (Chair from 1 April 2009). The Committee met

on 3 occasions during the year to 30 June 2009.

## **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. Since listing in December 2007, the Company has also been required to comply with the Listing Rules of the NSX.

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

Preparation of the Company’s statutory financial reports is in compliance with all relevant corporate legislation and accounting standards. A pre-condition of consideration of these reports and their recommendation by the Audit and Risk Committee is the Committee’s review 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 monitor the Company’s risk profile and potential risk exposures every quarter 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. This assessment was further examined and reviewed as part of the due diligence undertaken in relation to the agreement for acquisition of 45 Coles stores during the 2008/9 year.

The quarterly review of risk and the recommendation of strategies for action undertaken by the Audit & Risk Committee will continue for the foreseeable future

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**CONSOLIDATED INCOME STATEMENT**  
**FOR THE YEAR ENDED 30TH JUNE 2009**

	Note	Economic Entity		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
Supplier income	5	53,577,174	50,702,237	53,577,174	50,702,237
Sales revenue	5	220,680	55,135	220,680	55,135
Other income	5	1,219,312	684,933	1,219,312	684,933
<b>Total Income</b>		<b>55,017,166</b>	<b>51,442,305</b>	<b>55,017,166</b>	<b>51,442,305</b>
Cost of sales		(292,256)	(47,987)	(292,256)	(47,987)
Distribution to members		(23,163,639)	(21,701,128)	(23,163,639)	(21,701,128)
Cost of members services		(6,877,548)	(7,158,979)	(6,877,548)	(7,158,979)
Merchandising expenses		(6,308,717)	(5,945,356)	(6,308,717)	(5,945,356)
Marketing expenses		(3,654,446)	(4,082,269)	(3,654,446)	(4,082,269)
Business development expenses		(1,839,713)	(1,860,798)	(1,839,713)	(1,860,798)
Administrative expenses		(5,961,112)	(4,752,091)	(5,961,112)	(4,752,091)
Information technology expenses		(850,494)	(806,217)	(850,494)	(806,217)
Retail operations expenses		(1,729,625)	(1,645,412)	(1,729,625)	(1,645,412)
Human resources expenses		(182,201)	(410,918)	(182,201)	(410,918)
Store rebranding expenses		(544,548)	(1,279,136)	(544,548)	(1,279,136)
Coles store acquisition costs		(587,273)	-	(587,273)	-
Future state initiatives		(4,503,027)	(4,196,737)	(4,503,027)	(4,196,737)
Depreciation		(353,869)	(327,484)	(353,869)	(327,484)
		<b>(56,848,468)</b>	<b>(54,214,512)</b>	<b>(56,848,468)</b>	<b>(54,214,512)</b>
Finance costs	6	(36,088)	(44,079)	(36,088)	(44,079)
<b>Loss before income tax</b>		<b>(1,867,390)</b>	<b>(2,816,286)</b>	<b>(1,867,390)</b>	<b>(2,816,286)</b>
Income tax benefit (income tax expense)	7	(236,525)	24,391	(236,525)	24,391
<b>Loss from continuing operations</b>		<b>(2,103,915)</b>	<b>(2,791,895)</b>	<b>(2,103,915)</b>	<b>(2,791,895)</b>
<b>Earnings per share for profit (cents per share)</b>	8				
- basic earnings from continuing operations		(18.20)	(24.15)		
- diluted earnings from continuing operations		(18.20)	(24.15)		
Dividends paid per share (cents per share)		-	-		
Proposed dividend per share (cents per share)		-	-		

The accompanying notes form part of these financial statements.



**AUSTRALIAN UNITED RETAILERS LTD**  
**ABN 93 077 879 782**  
**AND CONTROLLED ENTITIES**

**CONSOLIDATED BALANCE SHEET**  
**AS AT 30TH JUNE 2009**

	Note	Economic Entity		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>CURRENT ASSETS</b>					
Cash and cash equivalents	9	3,368,718	3,871,350	3,368,718	3,871,350
Trade and other receivables	10	14,576,534	14,420,203	14,575,427	14,419,096
Inventories	11	286,113	49,194	286,113	49,194
Other	12	60,114	112,558	60,114	112,558
<b>TOTAL CURRENT ASSETS</b>		<u>18,291,479</u>	<u>18,453,305</u>	<u>18,290,372</u>	<u>18,452,198</u>
<b>NON-CURRENT ASSETS</b>					
Property, plant and equipment	13	794,734	1,033,099	794,734	1,033,099
Deferred tax asset	7	901,725	1,138,251	901,725	1,138,251
<b>TOTAL NON-CURRENT ASSETS</b>		<u>1,696,459</u>	<u>2,171,350</u>	<u>1,696,459</u>	<u>2,171,350</u>
<b>TOTAL ASSETS</b>		<u>19,987,938</u>	<u>20,624,655</u>	<u>19,986,831</u>	<u>20,623,548</u>
<b>CURRENT LIABILITIES</b>					
Trade and other payables	14	14,571,171	14,985,958	15,221,021	15,635,808
Short term borrowings	15	127,683	118,732	127,683	118,732
Provisions	16	2,346,050	1,895,202	2,346,050	1,895,202
<b>TOTAL CURRENT LIABILITIES</b>		<u>17,044,904</u>	<u>16,999,892</u>	<u>17,694,754</u>	<u>17,649,742</u>
<b>NON-CURRENT LIABILITIES</b>					
Payables	14	256	296	256	296
Long term borrowings	15	297,764	425,446	297,764	425,446
Provisions	16	156,189	450,744	156,189	450,744
<b>TOTAL NON CURRENT LIABILITIES</b>		<u>454,209</u>	<u>876,486</u>	<u>454,209</u>	<u>876,486</u>
<b>TOTAL LIABILITIES</b>		<u>17,499,113</u>	<u>17,876,378</u>	<u>18,148,963</u>	<u>18,526,228</u>
<b>NET ASSETS</b>		<u>2,488,825</u>	<u>2,748,277</u>	<u>1,837,868</u>	<u>2,097,320</u>
<b>EQUITY</b>					
Share capital	17	9,282,341	7,437,878	9,282,341	7,437,878
Accumulated losses	18	(6,793,516)	(4,689,601)	(7,444,473)	(5,340,558)
<b>TOTAL EQUITY</b>		<u>2,488,825</u>	<u>2,748,277</u>	<u>1,837,868</u>	<u>2,097,320</u>

The accompanying notes form part of these financial statements.

AUSTRALIAN UNITED RETAILERS LTD  
ABN 93 077 879 782  
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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2009

	Economic Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Total equity at the beginning of the financial year	<u>2,748,277</u>	<u>4,171,171</u>	<u>2,097,320</u>	<u>3,520,214</u>
Loss for the year	<u>(2,103,915)</u>	<u>(2,791,895)</u>	<u>(2,103,915)</u>	<u>(2,791,895)</u>
Total recognised income and expense for the year	<u>(2,103,915)</u>	<u>(2,791,895)</u>	<u>(2,103,915)</u>	<u>(2,791,895)</u>
Transactions with equity holders in their capacity as equity holders:				
Contributions of equity net of transaction costs	1,844,575	1,369,107	1,844,575	1,369,107
Buy-back of shares	<u>(112)</u>	<u>(106)</u>	<u>(112)</u>	<u>(106)</u>
	<u>1,844,463</u>	<u>1,369,001</u>	<u>1,844,463</u>	<u>1,369,001</u>
 Total equity at the end of the financial year	 <u>2,488,825</u>	 <u>2,748,277</u>	 <u>1,837,868</u>	 <u>2,097,320</u>

The accompanying notes form part of these financial statements.

AUSTRALIAN UNITED RETAILERS LTD  
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CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30TH JUNE 2009

Note	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Cash receipts in the course of operations	60,476,264	56,286,579	60,476,264	56,286,579
Cash payments in the course of operations	(62,832,748)	(60,518,792)	(62,832,748)	(60,518,792)
Interest received	280,358	441,502	280,358	441,502
<b>Net cash used in operating activities</b>	<b>19(b)</b>	<b>(2,076,126)</b>	<b>(2,076,126)</b>	<b>(3,790,711)</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Payments for purchases of property, plant and equipment	(116,482)	(491,538)	(116,482)	(491,538)
<b>Net cash used in investing activities</b>		<b>(116,482)</b>	<b>(116,482)</b>	<b>(491,538)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Repayment of bank borrowings	-	(500,000)	-	(500,000)
Loan equipment payments	(154,487)	(154,488)	(154,487)	(154,488)
Proceeds from share issue	1,844,463	1,369,001	1,844,463	1,369,001
<b>Net cash provided by financing activities</b>		<b>1,689,976</b>	<b>1,689,976</b>	<b>714,513</b>
Net increase/(decrease) in cash held		(502,632)	(502,632)	(3,567,736)
Cash at beginning of financial year		3,871,350	3,871,350	7,439,086
<b>Cash at end of financial year</b>	<b>19(a)</b>	<b>3,368,718</b>	<b>3,368,718</b>	<b>3,871,350</b>

The accompanying notes form part of these financial statements.

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

**1. SUMMARY 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 entities as an economic entity. Australian United Retailers Ltd is a company limited by shares, incorporated and domiciled in Australia.

The financial report was authorised for issue by the directors as at the date of the directors' report.

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.

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.

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

1. STATEMENT OF 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 recognised upon the delivery of the service to the customer.

Other revenue is recognised when the right to receive the revenue has been established.

All revenue is stated net of the amount of goods and services tax (GST).

(h) Inventories

Inventories are measured at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for as follows:

Merchandising signage - purchase cost on a first-in-first-out basis

Consumables - 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 impairment 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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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

1. STATEMENT OF 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) Property, plant and equipment

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

*Property, plant and equipment*

Property, 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
Property, plant and equipment	12.5 - 33 %	Straight Line
Motor Vehicles	23%	Straight Line
Furniture, Fixtures and Fittings	7.5 - 20 %	Straight Line
Computer Equipment	33%	Straight Line

*- 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.

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.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

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.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

1. STATEMENT OF ACCOUNTING POLICIES (continued)

(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.

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.

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

A number of accounting standards and interpretations have been issued at the reporting date but are not yet effective. The directors have not yet assessed the impact of these standards or interpretations.



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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

**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 group provides marketing services to its members solely in Australia.

**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.

*Interest rate risk*

Cash deposits and interest bearing debt attract interest at the prevailing floating interest rate. See Note 26. 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	
	2009	2008	2009	2008
	\$	\$	\$	\$
+/- 10% rate variation	7,800	25,700	7,800	25,700
Impact on pre-tax profit	-	-	-	-
Tax effect	-	-	-	-
Impact on equity	<u>7,800</u>	<u>25,700</u>	<u>7,800</u>	<u>25,700</u>

*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.

**5. REVENUE FROM CONTINUING OPERATIONS**

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Operating activities				
- supplier income	53,577,174	50,702,237	53,577,174	50,702,237
- sale of goods	220,680	55,135	220,680	55,135
- interest	280,358	441,502	280,358	441,502
- rent	577,826	210,326	577,826	210,326
- other revenue	361,128	33,105	361,128	33,105
Total Revenue	<u>55,017,166</u>	<u>51,442,305</u>	<u>55,017,166</u>	<u>51,442,305</u>
5(a) Interest from:				
- other persons	214,741	441,502	214,741	441,502
- related parties	65,617	-	65,617	-
	<u>280,358</u>	<u>441,502</u>	<u>280,358</u>	<u>441,502</u>

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

6. LOSSES FROM CONTINUING ACTIVITIES

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
Loss from continuing operations before income tax has been determined after the following specific expenses:	\$	\$	\$	\$
Employee benefits expense				
Wages and salaries	10,294,765	9,625,613	10,294,765	9,625,613
Workers' compensation costs	31,808	33,794	31,808	33,794
Superannuation costs	859,812	807,892	859,812	807,892
Total employee benefits expense	<u>11,186,385</u>	<u>10,467,299</u>	<u>11,186,385</u>	<u>10,467,299</u>
Finance costs expensed				
Other parties	332	-	332	-
Equipment loan interest	35,756	44,079	35,756	44,079
Total finance costs expensed	<u>36,088</u>	<u>44,079</u>	<u>36,088</u>	<u>44,079</u>
Depreciation of non-current assets				
Leasehold improvements	170,000	159,482	170,000	159,482
Plant and equipment	31,285	9,098	31,285	9,098
Motor vehicles	2,138	398	2,138	398
Office Equipment	143,432	148,106	143,432	148,106
Furniture, fixtures and fittings	7,014	10,400	7,014	10,400
Total depreciation of non-current assets	<u>353,869</u>	<u>327,484</u>	<u>353,869</u>	<u>327,484</u>
Other expenses				
Inventory write back	(35,132)	(33,604)	(35,132)	(33,604)
Bad Debts	13,739	-	13,739	-
Provision for impairment	(3,054)	(132,000)	(3,054)	(132,000)
Net loss on disposal of plant and equipment	978	6,069	978	6,069
	<u>(23,469)</u>	<u>(159,535)</u>	<u>(23,469)</u>	<u>(159,535)</u>

7. INCOME TAX

Income tax expense/(benefit):				
Current tax	(5,299)	-	(5,299)	-
Deferred tax	236,525	(24,391)	236,525	(24,391)
Over provision from the prior year	5,299	-	5,299	-
	<u>236,525</u>	<u>(24,391)</u>	<u>236,525</u>	<u>(24,391)</u>
Deferred income tax revenue included in income tax expense/(benefit) comprises:				
(Increase) / Decrease in deferred tax assets	229,851	(28,742)	229,851	(28,742)
Increase in deferred tax liability	6,674	4,351	6,674	4,351
	<u>236,525</u>	<u>(24,391)</u>	<u>236,525</u>	<u>(24,391)</u>
The prima facie tax payable on loss before income tax is reconciled to the income tax expense as follows:				
Prima facie income tax payable on loss before income tax at 30% (2008 - 30%)	(560,217)	(845,136)	(560,217)	(845,136)
Add:				
Tax effect of:				
- other non-allowable items	213,939	6,777	213,939	6,777
- Tax losses not brought to account	577,504	813,968	577,504	813,968
- Over provision in the prior year	5,299	-	5,299	-
Income tax expense /(benefit) attributable to loss	<u>236,525</u>	<u>(24,391)</u>	<u>236,525</u>	<u>(24,391)</u>

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7. INCOME TAX (Continued)

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Deferred tax assets:				
The balance comprises:				
- Provision for impairment	32,084	33,000	32,084	33,000
- Provision for stock obsolescence	54,000	76,500	54,000	76,500
- Employee benefits	750,672	703,784	750,672	703,784
- Capital raising costs	39,656	59,485	39,656	59,485
- Non deductible accruals	36,338	269,833	36,338	269,833
	<u>912,750</u>	<u>1,142,602</u>	<u>912,750</u>	<u>1,142,602</u>
Deferred tax liability:				
The balance comprises:				
- Depreciation	(11,025)	(4,351)	(11,025)	(4,351)
Net deferred tax assets	<u>901,725</u>	<u>1,138,251</u>	<u>901,725</u>	<u>1,138,251</u>
Tax losses 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	<u>6,295,133</u>	<u>4,370,119</u>	<u>6,295,133</u>	<u>4,370,119</u>

**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.

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	
	2009	2008
	\$	\$
Net loss attributable to equity holders from continuing operations	<u>(2,103,915)</u>	<u>(2,791,895)</u>
Net loss for the year	<u>(2,103,915)</u>	<u>(2,791,895)</u>
Weighted average number of ordinary shares for basic earnings per share	11,560,498	11,560,508
Effect of dilution:		
Share options	-	-
Adjusted weighted average number of ordinary shares for diluted earnings per share	<u>11,560,498</u>	<u>11,560,508</u>
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.

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	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>9. CASH AND CASH EQUIVALENTS</b>				
Cash on hand	3,241	6,197	3,241	6,197
Cash at bank	3,365,477	3,865,153	3,365,477	3,865,153
	<u>3,368,718</u>	<u>3,871,350</u>	<u>3,368,718</u>	<u>3,871,350</u>
<b>10. TRADE AND OTHER RECEIVABLES</b>				
<b>Current</b>				
Trade receivables	12,438,460	12,767,930	12,438,460	12,767,930
Provision for impairment	(106,946)	(110,000)	(106,946)	(110,000)
	<u>12,331,514</u>	<u>12,657,930</u>	<u>12,331,514</u>	<u>12,657,930</u>
Sundry debtors and accrued income	2,245,020	1,762,273	2,243,913	1,761,166
	<u>14,576,534</u>	<u>14,420,203</u>	<u>14,575,427</u>	<u>14,419,096</u>

(a) Provision for impairment

Trade receivables are non interest bearing with 30 day terms. An impairment loss is recognised when there is objective evidence than an individual trade receivable is impaired. The impairment losses have been included within the administrative expenses in the Consolidated Income Statement. All trade receivables that are not impaired are expected to be received within trading terms.

Movements in the provision for impairment were:

Opening balance at 1 July 2008	110,000	242,000	110,000	242,000
Charge for the year	(3,054)	(132,000)	(3,054)	(132,000)
Closing balance at 30 June 2009	<u>106,946</u>	<u>110,000</u>	<u>106,946</u>	<u>110,000</u>

**Trade Debtors**

Trade receivables ageing analysis at 30 June 2009 is:

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
	\$	\$	\$	\$
Not past due	2,898,596	-	2,194,500	-
Past due 0-30 days	859,572	7,876	1,050,981	-
Past due 31-90 days	1,009,711	-	1,504,628	-
Past due more than 91 days	256,355	49,762	241,953	110,000
	<u>5,024,234</u>	<u>57,638</u>	<u>4,992,062</u>	<u>110,000</u>

**Member Debtors**

Trade receivables ageing analysis at 30 June 2009 is:

	Gross 2009	Impairment 2009	Gross 2008	Impairment 2008
	\$	\$	\$	\$
Not past due	7,339,978	-	7,769,035	-
Past due 0-30 days	24,940	-	6,833	-
Past due 31-90 days	-	-	-	-
Past due more than 91 days	49,308	49,308	-	-
	<u>7,414,226</u>	<u>49,308</u>	<u>7,775,868</u>	<u>-</u>

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11. INVENTORIES	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Merchandising signage	225,957	304,194	225,957	304,194
Stock of goods	240,156	-	240,156	-
Provision for obsolescence	(180,000)	(255,000)	(180,000)	(255,000)
	<u>286,113</u>	<u>49,194</u>	<u>286,113</u>	<u>49,194</u>
12. OTHER ASSETS				
Current				
Prepayments	60,114	112,558	60,114	112,558
	<u>60,114</u>	<u>112,558</u>	<u>60,114</u>	<u>112,558</u>
13. PROPERTY, PLANT & EQUIPMENT				
Leasehold Improvements				
At cost	957,057	937,947	957,057	937,947
Less accumulated depreciation	(517,892)	(347,892)	(517,892)	(347,892)
	<u>439,165</u>	<u>590,055</u>	<u>439,165</u>	<u>590,055</u>
Property, Plant and Equipment				
Property, Plant and equipment				
At cost	163,897	160,441	163,897	160,441
Less accumulated depreciation	(52,102)	(20,816)	(52,102)	(20,816)
	<u>111,795</u>	<u>139,625</u>	<u>111,795</u>	<u>139,625</u>
Motor vehicles				
At cost	10,609	10,609	10,609	10,609
Less accumulated depreciation	(2,785)	(398)	(2,785)	(398)
	<u>7,824</u>	<u>10,211</u>	<u>7,824</u>	<u>10,211</u>
Computer equipment				
At cost	906,878	820,677	906,878	820,677
Less accumulated depreciation	(692,550)	(550,407)	(692,550)	(550,407)
	<u>214,328</u>	<u>270,270</u>	<u>214,328</u>	<u>270,270</u>
Furniture, fixtures and fittings				
At cost	62,596	56,898	62,596	56,898
Less accumulated depreciation	(40,974)	(33,960)	(40,974)	(33,960)
	<u>21,622</u>	<u>22,938</u>	<u>21,622</u>	<u>22,938</u>
Total plant and equipment	<u>355,569</u>	<u>443,044</u>	<u>355,569</u>	<u>443,044</u>
Total property, plant and equipment	<u>794,734</u>	<u>1,033,099</u>	<u>794,734</u>	<u>1,033,099</u>

(a) Movement in Carrying Amounts

ECONOMIC ENTITY

	Leasehold Improvements	Property, Plant and Equipment	Computer equipment	Motor vehicles	Furniture, fixtures and fittings	Total
	\$	\$	\$	\$	\$	\$
Carrying amount as at 1 July 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 at 30 June 2008	590,055	139,625	270,270	10,211	22,938	1,033,099
Additions	19,110	3,455	88,219	-	5,698	116,482
Disposals	-	-	(729)	(249)	-	(978)
Depreciation charge for the year	(170,000)	(31,285)	(143,432)	(2,138)	(7,014)	(353,869)
Carrying amount at 30 June 2009	439,165	111,795	214,328	7,824	21,622	794,734

PARENT ENTITY

	Leasehold Improvements	Property, Plant and Equipment	Computer equipment	Motor vehicles	Furniture, fixtures and fittings	Total
	\$	\$	\$	\$	\$	\$
Carrying amount as at 1 July 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 at 30 June 2008	590,055	139,625	270,270	10,211	22,938	1,033,099
Additions	19,110	3,455	88,219	-	5,698	116,482
Disposals	-	-	(729)	(249)	-	(978)
Depreciation charge for the year	(170,000)	(31,285)	(143,432)	(2,138)	(7,014)	(353,869)
Carrying amount at 30 June 2009	439,165	111,795	214,328	7,824	21,622	794,734

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	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
<b>14. TRADE AND OTHER PAYABLES</b>				
<b>Current</b>				
Trade payables	10,946,551	11,031,116	10,946,551	11,031,116
Sundry payables and accrued expenses	3,624,620	3,954,842	3,624,620	3,954,842
Loans from associates	-	-	649,850	649,850
	<u>14,571,171</u>	<u>14,985,958</u>	<u>15,221,021</u>	<u>15,635,808</u>
<b>Non Current</b>				
Class B - redeemable preference shares	<u>256</u>	<u>296</u>	<u>256</u>	<u>296</u>
<b>15. BORROWINGS</b>				
<b>Current</b>				
<b>Secured liabilities</b>				
Equipment loan (Note 22)	<u>127,683</u>	<u>118,732</u>	<u>127,683</u>	<u>118,732</u>
	<u>127,683</u>	<u>118,732</u>	<u>127,683</u>	<u>118,732</u>
<b>Non-Current</b>				
<b>Secured liabilities</b>				
Equipment loan (Note 22)	<u>297,764</u>	<u>425,446</u>	<u>297,764</u>	<u>425,446</u>
	<u>297,764</u>	<u>425,446</u>	<u>297,764</u>	<u>425,446</u>

(a) Items held as security:

- First Registered Mortgage Debenture over the whole of the assets including goodwill and uncalled capital and called but unpaid capital of Australian United Retailers Limited, with relevant insurance assigned to the Bank.
- Guarantee & Indemnity for \$3,200,000 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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16. PROVISIONS

	Notes	Economic Entity		Parent Entity	
		2009 \$	2008 \$	2009 \$	2008 \$
CURRENT					
Employee benefits	(a)	<u>2,346,050</u>	<u>1,895,202</u>	<u>2,346,050</u>	<u>1,895,202</u>
		<u>2,346,050</u>	<u>1,895,202</u>	<u>2,346,050</u>	<u>1,895,202</u>
NON-CURRENT					
Employee benefits	(a)	<u>156,189</u>	<u>450,744</u>	<u>156,189</u>	<u>450,744</u>
		<u>156,189</u>	<u>450,744</u>	<u>156,189</u>	<u>450,744</u>
(a) Aggregate employee benefits liability		<u>2,502,239</u>	<u>2,345,946</u>	<u>2,502,239</u>	<u>2,345,946</u>

17. SHARE CAPITAL

Issued and paid up capital

1,285,790 : (2008 : 11,559,800) Class C* Redeemable preference shares	15(b)	577,837	7,437,170	577,837	7,437,170
10,274,698 : (2008 : 708) Class A* Redeemable preference shares	15(c)	8,704,504	708	8,704,504	708
		<u>9,282,341</u>	<u>7,437,878</u>	<u>9,282,341</u>	<u>7,437,878</u>

\* Fully paid C class Redeemable Preference Shares converted to A class on 15 June 2009 pursuant to the terms of the prospectus dated 2 April 2007.

(a) Future calls

At balance date there were 5,400,000 Class C Redeemable preference shares issued at \$1.12 each called and paid to \$1.12 (2008: \$0.74).

- 2,052,000 - 2,052,000

From the April 2008 capital call, \$0.37 remained unpaid on 940,315 shares as at 30 June 2009.

From the April 2009 capital call, \$0.38 remained unpaid on 1,285,790 shares as at 30 June 2009.

(b) Class C Redeemable Preference Shares

At the beginning of the reporting period	7,437,170	6,068,170	7,437,170	6,068,170
Instalments received during the year				
Second instalment received	281,084	1,369,000	281,084	1,369,000
Third instalment received	1,563,399	-	1,563,399	-
Shares transferred to A Class	(8,703,816)	-	(8,703,816)	-
At reporting date	<u>577,837</u>	<u>7,437,170</u>	<u>577,837</u>	<u>7,437,170</u>
	No.	No.	No.	No.
At the beginning of reporting period	11,559,800	11,559,800	11,559,800	11,559,800
Shares transferred to A Class	(10,274,010)	-	(10,274,010)	-
At reporting date	<u>1,285,790</u>	<u>11,559,800</u>	<u>1,285,790</u>	<u>11,559,800</u>

(c) Class A Redeemable preference shares

At the beginning of the reporting period	708	707	708	707
Shares transferred from C Class	8,703,816	-	8,703,816	-
Shares issued during the year	92	107	92	107
Shares bought back during the year	(112)	(106)	(112)	(106)
At reporting date	<u>8,704,504</u>	<u>708</u>	<u>8,704,504</u>	<u>708</u>
	No.	No.	No.	No.
At the beginning of reporting period	708	707	708	707
Shares transferred from C Class	10,274,010	-	10,274,010	-
Shares issued during the year	92	107	92	107
Shares bought back during the year	(112)	(106)	(112)	(106)
At reporting date	<u>10,274,698</u>	<u>708</u>	<u>10,274,698</u>	<u>708</u>

18. ACCUMULATED LOSSES

	Economic Entity		Parent Entity	
	2009 \$	2008 \$	2009 \$	2008 \$
Accumulated losses at the beginning of the financial year	(4,689,601)	(1,897,706)	(5,340,558)	(2,548,663)
Accumulated losses attributable to members of the entity	<u>(2,103,915)</u>	<u>(2,791,895)</u>	<u>(2,103,915)</u>	<u>(2,791,895)</u>
Accumulated losses at the end of the financial year	<u>(6,793,516)</u>	<u>(4,689,601)</u>	<u>(7,444,473)</u>	<u>(5,340,558)</u>

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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:

	Economic Entity		Parent Entity	
	2009	2008	2009	2008
	\$	\$	\$	\$
Cash on hand	3,241	6,197	3,241	6,197
Cash at bank	3,365,477	3,865,153	3,365,477	3,865,153
	<u>3,368,718</u>	<u>3,871,350</u>	<u>3,368,718</u>	<u>3,871,350</u>

(b) Reconciliation from the net loss after tax to the net cash flows from operations

Net loss from ordinary activities after tax	(2,103,915)	(2,791,895)	(2,103,915)	(2,791,895)
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Adjustments for:

Depreciation	353,869	327,485	353,869	327,485
Provision for impairment	(3,054)	(132,000)	(3,054)	(132,000)
Equipment loan interest	35,756	44,079	35,756	44,079
Net loss/(profit) on disposal of property, plant and equipment	978	6,069	978	6,069

Changes in assets and liabilities:

(Increase)/Decrease in trade and other receivables	(153,277)	237,173	(153,277)	237,173
(Increase)/Decrease in inventories	(236,919)	15,806	(236,919)	15,806
Increase)/Decrease in prepayments	52,444	(335,433)	52,444	(335,433)
(Increase)/Decrease in deferred tax assets	236,526	(24,391)	236,526	(24,391)
Increase/(Decrease) in trade and other payables	(414,827)	(1,453,583)	(414,827)	(1,453,583)
Increase/(Decrease) in provision for employee entitlements	156,293	315,979	156,293	315,979
Net cash from operating activities	<u>(2,076,126)</u>	<u>(3,790,711)</u>	<u>(2,076,126)</u>	<u>(3,790,711)</u>

(c) Credit: Standby Arrangements with banks

Credit Facility	6,975,574	13,094,289	6,975,574	13,094,289
Amount Utilised	<u>(747,469)</u>	<u>(863,883)</u>	<u>(747,469)</u>	<u>(863,883)</u>
Unused Credit Facility	<u>6,228,105</u>	<u>12,230,406</u>	<u>6,228,105</u>	<u>12,230,406</u>

The major facilities are summarised as follows:

Direct Payments Facility

\$6,000,000 : (2008: \$12,000,000) variable interest rate facility provided by the National Australia Bank

Business Card Facility

\$250,000 (2008: \$250,000) variable interest rate facility provided by the National Australia Bank

Bank Guarantee Facility

\$300,000 (2008: \$250,000) facility provided by the National Australia Bank

Equipment Loan Facility

\$425,574 : (2008: \$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:

- an audit or review of the financial report of the entity and any other entity in the consolidated group	81,035	79,500	81,035	79,500
- other services in relation to the entity and any other entity in the consolidated group				
- tax compliance	12,135	8,000	12,135	8,000
	<u>93,170</u>	<u>87,500</u>	<u>93,170</u>	<u>87,500</u>

21. CONTROLLED ENTITIES

(a) Controlled entities

	Country of Incorporation	Percentage Owned (%)	
		2009	2008
Parent Entity:			
Australian United Retailers Ltd	Australia		
Subsidiaries of Australian United Retailers Ltd:			
Australian United Grocers Pty Ltd	Australia	100	100
National Retailers Group Pty Ltd	Australia	100	100
Foodworks Retail Pty Ltd	Australia	100	-



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22. CAPITAL AND LEASING COMMITMENTS

		Economic Entity		Parent Entity	
		2009	2008	2009	2008
		\$	\$	\$	\$
<b>(a) Equipment Loan</b>					
Payable					
- not later than one year		154,488	154,488	154,488	154,488
- later than one year and not later than five years		321,849	476,337	321,849	476,337
- later than five years		-	-	-	-
Minimum equipment loan payments		476,337	630,825	476,337	630,825
Less future finance charges		(50,890)	(86,647)	(50,890)	(86,647)
Total equipment loan liability		425,447	544,178	425,447	544,178
Represented by:					
Current liability	15	127,683	118,732	127,683	118,732
Non-current liability	15	297,764	425,446	297,764	425,446
		425,447	544,178	425,447	544,178
<b>(b) Operating lease commitments</b>					
Non-cancellable operating leases contracted for but not capitalised in the financial statements:					
Payable					
- not later than one year		1,056,473	854,319	1,056,473	854,319
- later than one year and not later than five years		1,699,654	1,580,373	1,699,654	1,580,373
		2,756,127	2,434,692	2,756,127	2,434,692

The first Victorian property lease is a non-cancellable lease with a six year term commencing 31 March 2006, 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 commencing 31 March 2006, 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 commencing 15 September 1999, 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. The option to renew the lease at the end of the ten year term for an additional term of five years will not be taken up.

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.

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

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 2009 (2008: \$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  
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 \$154,147 (2008: \$139,007). The aggregate amount of rebates paid or payable and included in the result for the year is \$1,462,424 (2008: \$1,687,003).

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 J Ehrenfeld provides accounting and administration services through one of his companies to two FoodWorks supermarkets. During the year J Ehrenfeld was charged \$65,617 in interest at 12% per annum for outstanding share instalments.

(c) Directors' Shareholdings

Aggregate number of shares disposed during the year:

"A" Class redeemable non-cumulative preference shares:  
Jeff Ehrenfeld 1 Share

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

"A" Class redeemable non-cumulative preference shares:

Michael Reddrop	720,004 shares (2008: 4 shares)
Wayne Pattison	198,002 shares (2008: 2 shares)
Deborah Smith	150,003 shares (2008: 1 share)
Jeff Ehrenfeld	106,001 shares (2008: 2 shares)
Jack Scanlan	240,000 shares (2008: 0 shares)
Peter Noble	120,000 shares (2008: 0 shares)

"B" Class redeemable non-cumulative preference shares:

Michael Reddrop	4 shares (2008: 4 shares)
Wayne Pattison	2 shares (2008: 2 shares)
Deborah Smith	1 share (2008: 1 share)

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**24. RELATED PARTY TRANSACTIONS (Continued)**

"C" Class redeemable preference shares:

Michael Reddrop	Nil shares (2008: 720,000 shares)
Wayne Pattison	Nil shares (2008: 198,000 shares)
Deborah Smith	Nil shares (2008: 150,000 shares)
Jack Scanlan	Nil shares (2008: 240,000 shares)
Peter Noble	Nil shares (2008: 120,000 shares)
Jeff Ehrenfeld	530,000 shares (2008: 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 held 426,003 Class A shares at the year ended 30 June 2009.

**25. 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  
J Scanlan  
D Smith  
P Noble  
D Howell  
M Reddrop  
W Pattison  
N Osborne  
J Kendall  
J Ehrenfeld

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

G Longmuir  
W Vermeend  
S Thompson  
H Gordon - Commenced 19/02/09  
S Holmes  
R Wight  
L Burke - Resigned 24/07/08  
P Reed - Resigned 21/11/08

**(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 page 15 of the Directors' Report.

Grants of performance-related bonuses

Key management personnel have received performance-related bonuses during the period totalling \$283,425 (2008: \$344,014).

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

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

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

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009

**NOTE 26: 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:

2009						
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>(i) Financial assets</i>						
Cash	3,365,477	-	-	3,241	3,368,718	2.32
Trade and other receivables	-	-	-	14,576,534	14,576,534	
Total financial assets	3,365,477	-	-	14,579,775	17,945,252	
	\$	\$	\$	\$	\$	%
<i>(ii) Financial liabilities</i>						
Trade & other payable	-	-	-	14,571,171	14,571,171	
Equipment loan	-	127,683	297,764	-	425,447	7.29
Total financial liabilities	-	127,683	297,764	14,571,171	14,996,618	

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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: FINANCIAL INSTRUMENTS (continued)

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>(i) Financial assets</i>						
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
	\$	\$	\$	\$	\$	%
<i>(ii) Financial liabilities</i>						
Trade & other payable	-	-	-	14,985,958	14,985,958	
Equipment loan	-	118,732	425,446	-	544,178	7.29
Total financial liabilities	-	118,732	425,446	14,985,958	15,530,136	

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30 JUNE 2009

NOTE 26: FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Maturity analysis

The table below represents the undiscounted contractual settlement terms for financial instruments and managements expectation for settlement of undiscounted maturities.

Year ended 30 June 2009	Note	< 6 Months	6-12 Months	1-5 Years	Total
<b>Economic Entity</b>					
Cash and cash receivables	9	3,368,718			3,368,718
Receivables	10	14,576,534			14,576,534
Payables	14	(14,571,171)			(14,571,171)
Borrowings	15	(62,681)	(65,002)	(297,764)	(425,447)
Net inflow/(outflow)		3,311,400	(65,002)	(297,764)	2,948,634
<b>Parent Entity</b>					
Cash and cash receivables	9	3,368,718			3,368,718
Receivables	10	14,575,427			14,575,427
Payables	14	(15,221,021)			(15,221,021)
Borrowings	15	(62,681)	(65,002)	(297,764)	(425,447)
Net inflow/(outflow)		2,660,443	(65,002)	(297,764)	2,297,677
<b>Year ended 30 June 2008</b>					
	Note	< 6 Months	6-12 Months	1-5 Years	Total
<b>Economic Entity</b>					
Cash and cash receivables	9	3,871,350			3,871,350
Receivables	10	14,420,203			14,420,203
Payables	14	(14,985,958)			(14,985,958)
Borrowings	15	(58,287)	(60,445)	(425,446)	(544,178)
Net inflow/(outflow)		3,247,308	(60,445)	(425,446)	2,761,417
<b>Parent Entity</b>					
Cash and cash receivables	9	3,871,350			3,871,350
Receivables	10	14,419,096			14,419,096
Payables	14	(15,635,808)			(15,635,808)
Borrowings	15	(58,287)	(60,445)	(425,446)	(544,178)
Net inflow/(outflow)		2,596,351	(60,445)	(425,446)	2,110,460

AUSTRALIAN UNITED RETAILERS LTD  
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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS  
FOR THE YEAR ENDED 30TH JUNE 2009

**26. FINANCIAL INSTRUMENTS (continued)**

**(c) 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.

**(d) 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.

**27. ECONOMIC DEPENDENCE**

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

**28. CORPORATE INFORMATION**

The financial report of Australian United Retailers Limited for the year ended 30 June 2009 was authorised for issue in accordance with a resolution of the Directors on 9 September 2008.

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

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

**29. SUBSEQUENT EVENTS**

FoodWorks' has contracted to purchase 45 Coles stores, eight with adjoining liquor outlets, with a combined annual sales of approximately \$450 million. This will bring FoodWorks' and its combined independent retailers network sales turnover, to approximately \$2.3 billion. Vendor finance has been negotiated to fund the deal.

FoodWorks has also signed a long term supply agreement with Metcash Trading Ltd to supply these new stores along with extending the arrangement for its existing 700 members stores. At the wholesale level FoodWorks will increase its purchases by an additional \$250 million per annum. The new arrangements include an initial 10 year term and incorporates access to warehouse products including the new Metcash 'fresh' initiative.

The registered office of the company is:

Australian United Retailers Ltd

Level 1

1601 Malvern Road

Glen Iris Victoria 3146

**AUSTRALIAN UNITED RETAILERS LTD**  
**ABN 93 077 879 782**

**DIRECTORS' DECLARATION**

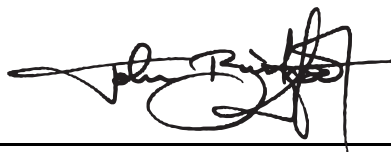
The directors declare that the financial statements and notes set out on pages 30 to 53 in accordance with the Corporations Act 2001:

- (a) Comply with Accounting Standards and the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2009 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

In the directors' opinion there are reasonable grounds to believe that Australian United Retailers Limited will be able to pay its debts as and when they become due and payable.

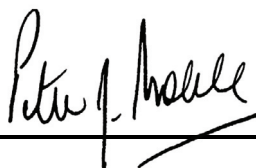
This declaration has been made after receiving the declarations required to be made by the Chief Executive Officer and Chief Financial Officer to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2009.

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



Director

J Bridgfoot



Director

P Noble

Dated this 9<sup>th</sup> day of September 2009



**AUSTRALIAN UNITED RETAILERS LTD  
ABN 93 077 879 782  
AND CONTROLLED ENTITIES**

**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 2009, 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.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (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, 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*.

**AUSTRALIAN UNITED RETAILERS LTD  
ABN 93 077 879 782  
AND CONTROLLED ENTITIES**

**INDEPENDENT AUDITOR'S REPORT  
TO THE MEMBERS OF  
AUSTRALIAN UNITED RETAILERS LTD**

*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 2009 and of their 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.

**Report on the Remuneration Report**

We have audited the Remuneration Report included in pages 19 to 22 of the directors' report for the year ended 30 June 2009. 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 2009, complies with section 300A of the *Corporations Act 2001*.



K L BYRNE

Partner

Date 11 September 2009



PITCHER PARTNERS

Melbourne

**AUSTRALIAN UNITED RETAILERS LTD**  
**ABN 93 077 879 782**  
**AND CONTROLLED ENTITIES**

## **FoodWorks Annual Report 2009**

### **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 each Eligible Member or its Related Party having one vote per share. On 15 June 2009, pursuant to the prospectus dated 2 April 2007, all fully paid Class C Redeemable Preference Shares converted to Class A Redeemable Preference Shares on a 1:1 basis. There were 10,274,698 Class A Redeemable Preference Shares issued at 30 June 2009.

**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 256 Class B Redeemable Preference Shares issued at 30 June 2009. 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 converted to Class A Redeemable Preference Shares on 15 June 2009. Until then, other than in certain prescribed circumstances, they had no voting rights at general meetings of the Company. Partly paid Class C Redeemable Preference Shares continue to have such limited voting rights at general meetings of the Company until they are fully paid. There were 1,285,790 partly paid Class C Redeemable Preference Shares issued as at 30 June 2009. There are no Substantial Shareholders of Class C Redeemable Preference Shares.

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

#### **Top 10 holders of fully paid Class A Redeemable Preference Shares as at 30 June 2009.**

	<b>No of shares</b>	<b>%</b>
DALEWING PTY LTD	1,080,000	10.51
DREYFUS PTY LTD	720,000	7.01
PKAT INVESTMENTS PTY LTD	600,000	5.84
MR ALEX NG	360,000	3.50
MELLWAY HOLDINGS PTY LTD	300,000	2.92
RUMMAGE MARKET PTY LTD	240,000	2.34
INVIA CUSTODIAN PTY LIMITED	222,000	2.16
GIANT FRESH PTY LTD	180,000	1.75
BACKFENCE PTY LTD	160,800	1.57
TWO FISH PTY LTD	132,000	1.28
		38.88