# AUSTRALIAN UNITED RETAILERS LIMITED
**ABN: 93 077 879 782**
**AND CONTROLLED ENTITIES**

# FINANCIAL REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

This half-year financial report is to be read in conjunction with the financial report for the year ended 30 June 2010.

**AUSTRALIAN UNITED RETAILERS LIMITED**
**FINANCIAL REPORT FOR THE HALF-YEAR ENDED**
**31 DECEMBER 2010**

## TABLE OF CONTENTS


| | Page |
|---|---|
| Directors' Report | **3** |
| Auditor's Independence Declaration | **6** |
| Financial Report for the half-year ended 31 December 2010 | |
| Condensed Consolidated Statement of Comprehensive Income | **7** |
| Condensed Consolidated Statement of Financial Position | **9** |
| Condensed Consolidated Statement of Changes in Equity | **10** |
| Condensed Consolidated Statement of Cash Flows | **11** |
| Notes to the Financial Statements | **12** |
| Directors' Declaration | **23** |
| Auditors Independent Review report | **24** |

# DIRECTORS' REPORT FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

The directors present their report together with the condensed financial report of the consolidated entity consisting of Australian United Retailers Limited and the entities it controlled, for the half-year ended 31 December 2010 and independent auditor's review report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

**Directors Names**

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

| Name | Period of directorship |
|---|---|
| John Bridgfoot | |
| Jack Scanlan | |
| Deborah Smith | |
| Wayne Pattison | |
| Neil Osborne | |
| Janette Kendall | |
| Fred Fairthorne | |
| Peter Noble | Resigned 04 August 2010 |
| Allan Burge | Appointed 17 November 2010 |
| Donald Howell | Resigned 17 November 2010 |
| Malcolm Ward | Appointed 17 November 2010 |
| David Williamson | Appointed 17 November 2010 |

The directors have been in office since the start of the financial period to the date of this report unless otherwise stated.

**Principal Activities**

The principal activity of the entity during the half-year was the provision of retail support services to the members and the operation of supermarkets in Australia (including the negotiation and settling of contracts for the divestment of those corporate stores).

**Significant changes in state of affairs**

During the half-year, 13 corporate owned stores were divested. Other than this there was no significant change in the nature of the activities of the entity during the half-year.

**Review of Operations**

The consolidated loss of the economic entity for the half-year, after providing for income tax is as follows:

| | |
|---|---|
| Trading profit of Member based business | **1,795** |
| Less: | |
| Income tax expense on continuing operations | - |
| Loss after tax from FoodWorks Retail (discontinued operations) | **(4,662)** |
| **Consolidated loss for the half-year to 31 December 2010** | **(2,867)** |

**Review of Operations (Continued)**

The consolidated loss of the group for the half-year after providing for income tax amounted to $2,867,000.

The traditional Member business produced a profit of $1,795,000 for the half-year, being a solid improvement from the $1,217,000 profit recorded in the same period last year.

The Retail Stores business, recorded a loss of $4,662,000 for the half-year.

**After Balance Date Events**

On 16 March 2011, the entity entered into a variation to its current credit agreement with CSA Retail (Finance) Pty Ltd and Coles Supermarkets Australia Pty Ltd such that all amounts outstanding under the:

(a) Deferred Credit Facility;
(b) Transitional Funding Facility; and
(c) Working Capital Facility,

will be reduced to zero upon meeting all obligations, terms and conditions under the variation agreement , including but not limited to, restrictions on the transfer of ownership, restrictions on capital fund raising and resolving the arrangements relating to certain leases and guarantee facilities.

The new debt repayment profile under the revised credit agreement is summarised as follows:

| Loan | < 12 Months $ | > 12 Months $ | Total Debt $ |
|---|---|---|---|
| Working Capital Facility | - | - | - |
| Transitional Funding Facility | - | - | - |
| Deferred Credit Facility | - | - | - |
| Estimated Accumulated Interest | - | - | - |
| Total: | - | - | - |

In addition the entity has sold one corporate store for a total consideration of $0.4m which fully recovered the carrying value of the assets of that store.

The economic entity has also advanced the divestment of the remaining six corporate stores still held, with agreements to sell a further two stores and negotiations underway on selling or converting all remaining stores to alternative uses by the end of June 2011.

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 economic entity, the results of those operations, or the state of affairs of the economic entity in future financial years.

**Auditor's Declaration**
A copy of the auditor's declaration as required under section 307C of the *Corporation Act 2001* in relation to the review for the half-year is provided with this report.

**Rounding of amounts to nearest thousand dollars**

The amounts contained in the report and in the financial report have been rounded to the nearest thousand dollars (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors:

Director……………………………………………………………………………………………

J BRIDGFOOT

Dated this 16th day of March 2011

**AUDITOR'S INDEPENDENCE DECLARATION**

**To the Directors of *AUSTRALIAN UNITED RETAILERS LIMITED* .**

In relation to the independent review for the half-year ended 31 December 2010, 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
16 March 2011

PITCHER PARTNERS
Melbourne

## CONDENSED CONSOLIDATED
## STATEMENT OF COMPREHENSIVE INCOME
## FOR THE HALF-YEAR ENDED 31 DECEMBER 2010

| | | Half-year | |
|---|---|---|---|
| | | **2010** | **2009** |
| | **Note** | **$'000** | **$'000** |
| **Revenue** | | | |
| Sales revenue | | 123 | 396 |
| Other income | | 29,941 | 27,585 |
| | | 30,064 | 27,981 |
| **Less: Expenses** | | | |
| Cost of sales | | (187) | (518) |
| Employee benefits | | (6,906) | (7,357) |
| Occupancy expenses | | (362) | (347) |
| Depreciation and amortisation | | (202) | (175) |
| Costs of member services | | (3,671) | (3,439) |
| Distribution to members | | (12,289) | (11,885) |
| Finance costs | | (10) | (15) |
| Administrative costs | | (4,642) | (2,896) |
| | | (28,269) | (26,632) |
| **Profit before income tax expense** | | 1,795 | 1,349 |
| Income tax expense | | - | (132) |
| **Profit from continuing operations** | | **1,795** | **1,217** |
| Loss from discontinued operations | 7 | (4,662) | (5,006) |
| **Loss for the half-year** | | **(2,867)** | **(3,789)** |

**CONDENSED CONSOLIDATED**
**STATEMENT OF COMPREHENSIVE INCOME (Continued)**
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

| | Half-year | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| **Loss for the half-year** | **(2,867)** | **(3,789)** |
| **Loss is attributable to:** | | |
| Members of the parent | **(2,867)** | **(3,789)** |
| **Total comprehensive loss attributable to:** | | |
| Members of the parent | **(2,867)** | **(3,789)** |
| **Earnings per share from continuing operations attributable to equity holders of the parent entity** | | |
| Basic earnings per share | 15.53 | 10.54 |
| Diluted earnings per share | 15.53 | 10.54 |
| **Loss per share from discontinued operations attributable to equity holders of the parent entity** | | |
| Basic loss per share | (40.33) | (43.31) |
| Diluted loss per share | (40.33) | (43.31) |
| **Earnings per share attributable to equity holders of the parent entity** | | |
| Basic loss per share | (24.80) | (32.77) |
| Diluted loss per share | (24.80) | (32.77) |

## CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
## AS AT 31 DECEMBER 2010

| | Note | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|---|
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | 4,294 | 5,932 |
| Receivables | | 16,702 | 12,522 |
| Inventories | | 2,805 | 9,721 |
| Other assets | | 248 | 137 |
| | | **24,049** | **28,312** |
| Non-current assets classified as held for sale | | 249 | 4,334 |
| **TOTAL CURRENT ASSETS** | | **24,298** | **32,646** |
| **NON-CURRENT ASSETS** | | | |
| Property, plant and equipment | | 866 | 1,029 |
| **TOTAL NON-CURRENT ASSETS** | | **866** | **1,029** |
| **TOTAL ASSETS** | | **25,164** | **33,675** |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | 23,512 | 25,283 |
| Borrowings | | 6,980 | 9,670 |
| Provisions | | 2,944 | 4,907 |
| **TOTAL CURRENT LIABILITIES** | | **33,436** | **39,860** |
| **NON-CURRENT LIABILITIES** | | | |
| Borrowings | | 17,098 | 16,324 |
| Provisions | | 186 | 180 |
| **TOTAL NON-CURRENT LIABILITIES** | | **17,284** | **16,504** |
| **TOTAL LIABILITIES** | | **50,720** | **56,364** |
| **NET ASSET DEFICIENCY** | | **(25,556)** | **(22,689)** |
| **EQUITY** | | | |
| Contributed capital | 6 | 10,119 | 10,119 |
| Accumulated losses | | (35,675) | (32,808) |
| **TOTAL EQUITY** | | **(25,556)** | **(22,689)** |

**CONDENSED CONSOLIDATED**
**STATEMENT OF CHANGES IN EQUITY**
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

| **Consolidated** | **Contributed Equity $'000** | **Accumulated Losses $'000** | **Total Equity $'000** |
|---|---|---|---|
| **Balance as at 1 July 2010** | **10,119** | **(32,808)** | **(22,689)** |
| **Total comprehensive loss for the half-year** | **-** | **(2,867)** | **(2,867)** |
| **Transactions with owners in their capacity as owners:** | | | |
| Contributions | - | - | - |
| **Balance as at 31 December 2010** | **10,119** | **(35,675)** | **(25,556)** |

| **Consolidated** | **Contributed equity $'000** | **Accumulated Losses $'000** | **Total Equity $'000** |
|---|---|---|---|
| **Balance as at 1 July 2009** | **9,282** | **(6,793)** | **2,489** |
| **Total comprehensive loss for the half-year** | **-** | **(3,789)** | **(3,789)** |
| **Transactions with owners in their capacity as owners:** | | | |
| Buy back | (60) | | (60) |
| Contributions | 897 | - | 897 |
| **Balance as at 31 December 2009** | **10,119** | **(10,582)** | **(463)** |

**CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS**
**FOR THE HALF-YEAR ENDED 31 DECEMBER 2010**

| | Half-year | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Receipts from customers | 68,055 | 55,745 |
| Payments to suppliers and employees | (81,069) | (50,933) |
| Interest received | 110 | 93 |
| **Net cash (used in)/provided by operating activities** | **(12,904)** | **4,905** |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Payment for property, plant and equipment | (64) | (2,136) |
| Proceeds from store divestments | 14,396 | - |
| Payment for business combination | - | (14,201) |
| Cash acquired in business combination | - | 444 |
| **Net cash provided by/(used in) investing activities** | **14,332** | **(15,893)** |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Proceeds from share issue | - | 837 |
| Proceeds from borrowings | - | 16,670 |
| Repayment of borrowings | (3,000) | - |
| Equipment loan payments | (66) | (77) |
| **Net cash (used in)/provided by financing activities** | **(3,066)** | **17,430** |
| **Net (decrease)/increase in cash and cash equivalents** | (1,638) | 6,441 |
| Cash and cash equivalents at beginning of half-year | 5,932 | 3,369 |
| **Cash and cash equivalents at end of the half-year** | **4,294** | **9,810** |

## NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT

This half-year financial report does not include all the notes of the type usually included in an annual financial report.

It is recommended that this half-year financial report be read in conjunction with the annual financial report for the year ended 30 June 2010 and any public announcements made by Australian United Retailers Limited during the half-year in accordance with any continuous disclosure obligations arising under the *Corporations Act 2001*.

The half-year financial report was authorised for issue by the directors on 16 March 2011.

### (a) Basis of preparation

This general purpose half-year financial report has been prepared in accordance with Australian Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

The half-year 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.

The accounting policies applied in this half-year financial report are consistent with those of the annual financial report for the year ended 30 June 2010 and the corresponding half-year.

### (b) Going Concern

The financial report has been prepared on a going concern basis, which contemplated the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The economic entity incurred a loss from ordinary activities of $2,867,000 during the half-year ended 31 December 2010 and as at the date the economic entity's total liabilities exceeded total assets by $25,556,000.

As at 31 December 2010, borrowings are summarised as follows:

| Loan | < 12 Months $ | > 12 Months $ | Total $ |
|---|---|---|---|
| Working Capital Facility | - | - | - |
| Transitional Funding Facility | 6,910 | - | 6,910 |
| Deferred Credit Facility | - | 16,936 | 16,936 |
| Total - CSA Retail (Finance) Pty Ltd: | 6,910 | 16,936 | 23,846 |
| Loans from third parties | 70 | 162 | 230 |
| | 6,980 | 17,098 | 24,076 |

## NOTE 1: BASIS OF PREPARATION OF THE HALF-YEAR FINANCIAL REPORT (Continued)

### (b) Going Concern (Continued)

The Directors consider the going concern basis appropriate based on the fact that on the 16th March 2011, the entity has entered into a variation to its current credit agreement with CSA Retail (Finance) Pty Ltd and Coles Supermarkets Australia Pty Ltd such that all amounts outstanding under the:

(a) Deferred Credit Facility;
(b) Transitional Funding Facility; and
(c) Working Capital Facility.

will be reduced to zero upon meeting all obligations, terms and conditions under the variation agreement , including but not limited to, restrictions on the transfer of ownership, restrictions on capital fund raising and resolving the arrangements relating to certain leases and guarantee facilities.

The new debt repayment profile under the revised credit agreement is summarised as follows:

| Loan | < 12 Months $ | > 12 Months $ | Total $ |
|---|---|---|---|
| Working Capital Facility | - | - | - |
| Transitional Funding Facility | - | - | - |
| Deferred Credit Facility | - | - | - |
| Estimated Accumulated Interest | - | - | - |
| Total - CSA Retail (Finance) Pty Ltd: | - | - | - |

The variation removes all repayment obligations on the Transitional Funding Facility and Deferred Credit Facility specifically including any accumulated interest and other charges on either facility.

Since 31 December 2010 the economic entity has sold one corporate store for a total consideration of $0.4m which fully recovered the carrying value of the assets of that store as part of its divestment program. The economic entity has also advanced the divestment of the remaining six corporate stores still held, with agreements to sell a further two stores and negotiations underway on selling or converting all remaining stores to alternative uses by the end of June 2011 which will complete the divestment program.

The Directors are confident that the combination of the restructured debt, the impending completion of the divestment program and the on-going improvements in the trading activities of the core business will result in an improvement in the operating cash flows of the business.

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

## NOTE 2: SIGNIFICANT ITEMS

| | Half-year | |
|---|---|---|
| | **2010** | **2009** |
| | **$'000** | **$'000** |
| Gain on disposal of thirteen retail stores are included within the results of the FoodWorks Retail business segment (reported as discontinued operations) | 6,209 | - |
| Divestment related costs associated with FoodWorks Retail (reported as discontinued operations) | (1,818) | - |
| Acquisition related costs associated with FoodWorks Retail (reported as discontinued operations) | - | (2,611) |

## NOTE 3: SEGMENT INFORMATION

### *(a) Description of segments*

The economic entity has two reportable segments as described below:

Segment 1: The provision of retail support services to its members solely in Australia are reported as continuing operations throughout this report.
Segment 2: The retail stores segment which operates supermarkets solely in Australia are reported as discontinued operations throughout this report. At 31 December 2010 seven stores continue to operate within this segment.

### *(b) Segment information*

| **31 December 2010** | **Segment 1** | **Segment 2** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| **Segment revenue** | | | |
| Total segment revenue | 29,997 | 40,580 | 70,577 |
| Inter-segment revenue | 1,179 | (1,549) | (370) |
| **Segment revenue from external source** | 31,176 | 39,031 | 70,207 |
| **Segment result** | | | |
| Total segment result | 1,795 | (4,662) | (2,867) |
| Intersegment eliminations | 680 | (680) | - |
| **Segment result from external source** | 2,475 | (5,342) | (2,867) |
| **Total Segment Assets** | 19,508 | 5,656 | 25,164 |

| **31 December 2009** | **Segment 1** | **Segment 2** | **Total** |
|---|---|---|---|
| | **$'000** | **$'000** | **$'000** |
| **Segment revenue** | | | |
| Total segment revenue | 27,902 | 23,394 | 51,296 |
| Inter-segment revenue | 1,017 | (1,186) | (169) |
| **Segment revenue from external source** | 28,919 | 22,208 | 51,127 |
| **Segment result** | | | |
| Total segment result | 1,217 | (5,006) | (3,789) |
| Intersegment eliminations | (183) | 183 | - |
| **Segment result from external source** | 1,034 | (4,823) | (3,789) |
| **Total Segment Assets** | 14,704 | 18,971 | 33,675 |

## NOTE 4: Property, plant and equipment

**Acquisitions and disposals**

During the six months ended 31 December 2010 the Group acquired assets with a cost of $64,000. No assets were acquired through business combinations during the half-year ended 31 December 2010. During the six months ended 31 December 2009 the Group acquired assets with a cost of $8,730,000. Of this amount $6,594,000 were acquired through business combinations during the half-year ended 31 December 2009 (see note 8).

Assets with a carrying amount of $3,748,000 were disposed of as part of the FoodWorks Retail business (reported as discontinued operations), resulting in a gain on disposal of $6,209,000 after income tax (six months ended 31 December 2009: Nil).

## NOTE 5: BORROWINGS

During the half-year ended 31 December 2010, where necessary the Group has obtained the written authorisation of the Financier to re-direct certain proceeds from the sale of stores to assist with working capital requirements during the half-year.

Due to delays on the completion of the Retail Store divestment program, the entity has re-negotiated its obligations under its current credit agreement with CSA Retail (Finance) Pty Ltd and Coles Supermarkets Australia Pty Ltd whereby all amounts outstanding under the:

(a) Deferred Credit Facility;
(b) Transitional Funding Facility; and
(c) Working Capital Facility,

will be reduced to zero upon meeting all obligations, terms and conditions under the variation agreement , including but not limited to, restrictions on the transfer of ownership, restrictions on capital fund raising and resolving the arrangements relating to certain leases and guarantee facilities.

The new debt repayment profile is summarised in the note 1(b).

## NOTE 6: SHARE CAPITAL

| | | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|---|
| Issued and paid up capital | | | |
| Nil : (June 2010 : Nil) Class C redeemable preference shares | (a) | - | - |
| 11,560,458: (June 2010 : 11,560,475) Class A redeemable preference shares | (b) | 10,119 | 10,119 |
| | | 10,119 | 10,119 |

| | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|
| (a) Class C redeemable preference shares | | |
| At the beginning of the reporting period | - | 578 |
| Instalments received during the period: | | |
| Second instalment received | - | 348 |
| Third instalment received | - | 489 |
| Shares transferred to Class A | - | (1,415) |
| At reporting date | - | - |

| | No. | No. |
|---|---|---|
| At the beginning of reporting period | - | 1,285,790 |
| Shares transferred to Class A | - | 1,285,790 |
| At reporting date | - | - |

| | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|
| (b) Class A redeemable preference shares | | |
| At the beginning of the reporting period | 10,119 | 8,704 |
| Shares transferred from Class C | - | 1,415 |
| At reporting date | 10,119 | 10,119 |

| | No. | No. |
|---|---|---|
| At the beginning of the reporting period | 11,560,475 | 10,274,698 |
| Shares transferred from Class C | - | 1,285,790 |
| Shares issued during the period | 38 | 82 |
| Shares bought back during the period | (55) | (95) |
| At reporting date | 11,560,458 | 11,560,475 |

Class A redeemable preference shares issued during the half-year ended 31 December 2010 were at an issue price of $1 per share.

**NOTE 7: DISCONTINUED OPERATION**

(a) The corporate owned retail stores acquired from Coles Supermarkets in the 2010 financial year are reported as discontinued operations throughout this report. There were eighteen Corporate owned stores at 31 December 2009. Four more stores were acquired after 31 December 2009. In the twelve months to 31 December 2010 fifteen of the stores were divested. In the period subsequent to balance date one further store has been sold.

(b) The results of the discontinued operation for the period until disposal are presented below:

| | 2010<br>$'000 | 2009<br>$'000 |
|---|---|---|
| **(i) Financial performance information** | | |
| Revenue | 40,580 | 23,394 |
| Expenses | (49,633) | (29,153) |
| Operating loss before income tax | (9,053) | (5,759) |
| Income tax benefit | - | 753 |
| Operating loss after income tax of discontinued operations | (9,053) | (5,006) |
| Gain on store divestments before income tax | 6,209 | - |
| Store divestment expenses before income tax | (1,818) | - |
| Income tax expense | - | - |
| Gain on store divestments after income tax | 4,391 | - |
| Loss from discontinued operations | (4,662) | (5,006) |
| **(ii) Cash flow information** | | |
| Net cash provided by / (used in) operating activities | (14,202) | 4,160 |
| Net cash provided by / (used in) investing activities | 14,368 | (16,247) |
| Net cash provided by / (used in) financing activities | (3,000) | 16,886 |
| Net cash flow | (2,834) | 4,799 |
| **(iii) Carrying amount of assets and liabilities** | | |
| Assets | | |
| Cash | 1,195 | 4,029 |
| Inventories | 2,737 | 9,561 |
| Receivables | 1,333 | 935 |
| Non-current assets classified as held for sale | 249 | 4,334 |
| Other assets | 142 | 112 |
| Assets directly associated with discontinued operations | 5,656 | 18,971 |
| Liabilities | | |
| Payables | (13,212) | (18,028) |
| Provisions | (1,106) | (3,093) |
| Interest bearing liabilities | (23,848) | (25,697) |
| Liabilities directly associated with discounted operations | (38,166) | (46,818) |
| Net liabilities attributable to discontinued operations | (32,510) | (27,847) |

## NOTE 8: BUSINESS COMBINATIONS

There were no acquisitions of businesses during the half-year ended 31 December 2010.

In the half-year ended 31 December 2009, FoodWorks Retail Pty Ltd acquired nine legal entities from Coles Supermarkets Australia Pty Ltd and Bi-Lo Pty Ltd: FW Viva 1 Pty Ltd, FW Viva 5 Pty Ltd, FW Viva 8 Pty Ltd, FW Viva 9 Pty Ltd, FW Viva 10 Pty Ltd, FW Viva 11 Pty Ltd, FW Viva 13 Pty Ltd, FW Viva 17 Pty Ltd and FW Retail Holdings Pty Ltd.

The entities were acquired to facilitate the purchase of eighteen formerly owned Coles Supermarkets, three with adjoining liquor outlets in the half-year ended 31 December 2009.

The acquisitions were staggered throughout the reporting period to 31 December 2009 and as such the Group was unable to quantify what the revenue and operating results of the combined entity would have been if all acquisitions were completed on 1 July 2009.

The aggregated detail of the acquisitions are provided below:

| | $'000 |
|---|---|
| Total Acquisition Cost | 14,202 |
| **Assets and liabilities acquired** | |
| Assets and liabilities acquired as a result of the business combinations were: | |
| Assets | |
| Cash Floats | 444 |
| Property, plant and equipment | 6,594 |
| Inventory | 8,470 |
| Deferred tax assets | 762 |
| Total assets acquired | 16,270 |
| Liabilities | |
| Provisions | (2,538) |
| Net assets acquired | 13,732 |
| Goodwill on acquisition | 546 |
| Bargain gain on acquisition | (76) |

The goodwill on acquisition arose as a result of the expectation of improved trading results from the supermarkets after the acquisition by the consolidated group.

In the periods following the acquisition the goodwill has been fully impaired.

### Transaction costs

No transaction costs were incurred in relation to business acquisitions during the half-year ended 31 December 2010. Transaction costs relating to the business acquisitions in the half-year ended 31 December 2009 were $587,000. These costs were included in the financial statements for the year ended 30 June 2009.

### Disposals

During the half-year ended 31 December 2010 the Group disposed of FW Viva 9 Pty Ltd. The transaction resulted in a profit on sale of $69,000. This profit is included within the results of the discontinued operation for the half-year ended 31 December 2010.

No entities were disposed in the half-year ended 31 December 2009.

## NOTE 9: RELATED PARTY DISCLOSURES

During the half-year ended 31 December 2010, Australian United Retailers Limited has agreed to act as guarantor for Sunbury Supermarket Nominess Pty Ltd.

Sunbury Supermarket Nominees Pty Ltd is a related entity of Mr David Williamson, a director of Australian United Retailers Limited.

The guarantee means that Australian United Retailers Limited may become responsible for the debts and monetary obligations of Sunbury Supermarket Nominees Pty Ltd to Metcash Trading Limited and IGA Distribution Pty Ltd. The guarantee is on-going.

Australian United Retailers Limited has received a Deed of Indemnity from Mr Wiliamson and Sunbury Supermarket Nominees Pty Ltd which indemnifies Australian United Retailers Limited for any claims by Metcash Limited or IGA Distribution Pty Ltd under the above Guarantee.

## NOTE 10: CONTINGENT LIABILITIES

### (a) Equipment Loan

The economic entity has certain equipment loan obligations which were disclosed at 30 June 2010. There have been no significant changes to those obligations since 30 June 2010.

### (b) Operating lease commitments

The economic entity has certain operating lease obligations which were disclosed at 30 June 2010. The divestment of thirteen retail stores has resulted in a significant reduction in the level of lease obligations as disclosed at 30 June 2010.

The level of non-cancellable operating leases contracted for but not capitalised in the financial statements:

| | **31 Dec 2010** | **30 June 2010** |
|---|---|---|
| Payable | **$'000** | **$'000** |
| - not later than one year | 3,958 | 8,132 |
| - later than one year and not later than five years | 9,588 | 24,552 |
| - later than five years | 10,570 | 26,228 |
| | 24,116 | 58,912 |

The economic entity and parent entity have non-cancellable property leases with terms ranging from one year to fifteen years, with rent payable a month in advance. Contingent rental provisions have been calculated based on annual rental increases of between 3.25% and 4.00% per annum.

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.

## NOTE 10: CONTINGENT LIABILITIES (continued)

### (c) Closure Costs

The economic entity has instigated a divestment program for all of its seven remaining stores at 31 December 2010 (30 June 2010: twenty remaining stores). This divestment program may involve either the sale or closure of certain stores. As a result the economic entity is likely to incur the following types of costs associated with the sale or closure process:

| | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|
| Store Closure Costs (including separation payments & make good costs) | 1,168 | 2,020 |
| Divestment related costs | 188 | 440 |
| | 1,356 | 2,460 |

### (d) Guarantees

During the half-year ended 31 December 2010, Australian United Retailers Limited agreed to act as guarantor for the lease obligations of one of the formerly owned stores.

This guarantee means that Australian United Retailers Limited may become responsible for the lease obligations of the new owner in the event of default. The guarantee relates to the period of the current lease which expires in 2024.

A guarantee has also been made as to the performance of the new owner by one of its directors.

The level of non-cancellable operating lease obligations guaranteed but not recognised in the financial statements are as follows:

| | 31 Dec 2010 $'000 | 30 June 2010 $'000 |
|---|---|---|
| Payable | | |
| - not later than one year | 311 | - |
| - later than one year and not later than five years | 1,347 | - |
| - later than five years | 3,702 | - |
| | 5,360 | - |

**NOTE 11: SUBSEQUENT EVENTS**

On 16 March 2011 the economic entity has entered into a variation to its current credit agreement with CSA Retail (Finance) Pty Ltd and Coles Supermarkets Australia Pty Ltd whereby all amounts outstanding under the:

(a) Deferred Credit Facility;
(b) Transitional Funding Facility; and
(c) Working Capital Facility,

will be reduced to zero upon meeting all obligations, terms and conditions under the variation agreement , including but not limited to, restrictions on the transfer of ownership, restrictions on capital fund raising and resolving the arrangements relating to certain leases and guarantee facilities.

The new debt repayment profile under the revised credit agreement is summarised as follows:

| Loan | < 12 Months $ | > 12 Months $ | Total Debt $ |
|---|---|---|---|
| Working Capital Facility | - | - | - |
| Transitional Funding Facility | - | - | - |
| Deferred Credit Facility | - | - | - |
| Estimated Accumulated Interest | - | - | - |
| Total: | - | - | - |

The variation removes all repayment obligations on the Transitional Funding Facility and Deferred Credit Facility including any accumulated interest and other charges on either facility.

As a result of the restructuring of the debt, there will be no interest payable in relation to any of the above facilities.

In the period subsequent to balance date, the economic entity has completed the sale of one store

The impact of this sale is an increase in cash of $395,000. The sale resulted in a reduction of $140,000 in non-current assets held for sale and $281,000 in inventory. The net result of this sale was a profit on sale of $60,000. The sale also resulted in a reduction in employee provisions worth $104,000.

The sale of the store also resulted in a reduction in future lease commitments as disclosed in Note 10 Contingent Liabilities of $32,000 over the next twelve months.

The entity has also advanced the divestment of the remaining six stores still held, with agreements to sell two stores now executed and negotiations underway on the sale or closure by the end of June 2011 of all remaining stores.

## DIRECTORS' DECLARATION

The directors declare that the financial statements and notes set out on pages 7 to 22 in accordance with the *Corporations Act 2001*:

(a) Comply with Australian Accounting Standard AASB 134 *Interim Financial Reporting* 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 consolidated entity as at 31 December 2010 and of its performance for the half-year ended on that date.

In the directors' opinion, having regard to those matters discussed in note 1(b) in relation to the going concern basis on which the accounts are prepared, 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 is made in accordance with a resolution of the directors.

………………………………………………

**J BRIDGFOOT**
Director
Melbourne
Date 16 March 2011

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

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

## Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Australian United Retailers Limited and controlled entities, which comprises the condensed consolidated statement of financial position as at 31 December 2010, the condensed consolidated statement of comprehensive income, condensed consolidated statement of changes in equity and condensed consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period's end or from time to time during the half year.

*Directors' Responsibility for the Half-Year Financial Report*

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

*Auditor's Responsibility*

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half- year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Australian United Retailers Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

*Independence*

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

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

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

*Conclusion*

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Australian United Retailers Limited is not in accordance with the *Corporations Act 2001* including:

(a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of their performance for the half-year ended on that date; and

(b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and *Corporations Regulations 2001*.

*Emphasis of Matter*

Without qualifying our conclusion, we draw attention to Note 1(b) Going Concern in the half-year financial report, which indicates that the consolidated entity incurred a net loss of $2,867,000 (31 December 2009: net loss $3,789,000) and incurred net cash outflows of $1,638,000 (31 December 2009: net cash inflow $6,441,000) during the half-year ended 31 December 2010. As at that date, the consolidated entity’s current liabilities exceeded its current assets by $9,138,000 (30 June 2010: current liabilities exceeded current assets by $7,214,000) and total liabilities exceeded total assets by $25,556,000 (30 June 2010: total liabilities exceeded total assets by $22,689,000). These conditions, along with other matters set forth in Note 1(b) Going Concern, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity’s ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

K L BYRNE
Partner
16 March 2011

PITCHER PARTNERS
Melbourne