



## **Offer information statement**

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

AURL lodged this Offer Information Statement with ASIC on 16 December 2015.

A handwritten signature in blue ink, consisting of stylized, overlapping loops and a long horizontal stroke extending to the right.

.....  
Tony Pacella  
Secretary

## **IMPORTANT INFORMATION**

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

**Australian United Retailers Limited**  
**ACN 077 879 782**

**CORPORATE DIRECTORY**

Company

Australian United Retailers Limited  
Trading as FoodWorks  
ACN 077 879 782  
Level 1, 1601 Malvern Road  
Glen Iris, Victoria, 3146  
Ph 03 9809 8600  
Fax 03 9809 8699  
[www.foodworks.com.au](http://www.foodworks.com.au)

Directors

Neil Osborne – Chairman and Non Executive Director  
David Williamson - Deputy Chairman and Non Executive Director  
Allan Burge – Non Executive Director  
Fred Fairthorne – Non Executive Director  
Malcolm Ward – Non Executive Director  
Sien Van Nguyen - Non Executive Director  
Paul Job – Non Executive Director  
Rick Wight – Executive Director

Company Secretary

Tony Pacella

Lawyers to the Company

SBA Law  
Level 13  
607 Bourke Street  
Melbourne, Victoria, 3000

Auditor

Pitcher Partners  
Level 19, 15 William Street  
Melbourne, Victoria, 3000

**Australian United Retailers Limited**  
**ACN 077 879 782**

**IMPORTANT NOTICE**

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

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

Eligible Applicants should read this OIS in its entirety before deciding to invest in the Company. In particular, Eligible Applicants should refer to section 9 for details of the risk factors that could affect the performance of the Company and for financial information relating to the Company. The Offer does not take into account the investment objectives, personal circumstances (including financial and taxation issues) and particular needs of Eligible Applicants. Eligible Applicants should consider the prospects of the Company in the light of their individual objectives, circumstances and needs. Eligible Applicants should seek professional advice from a solicitor, accountant or other independent financial advisor before deciding to apply for a Class A Redeemable Preference Share(s) in the Company. Neither the Company nor any other person guarantees the success of the Company, the repayment of capital or the payment of dividends.

This OIS is dated 16 December 2015 (**OIS Date**). A copy of this OIS was lodged with the Australian Securities and Investments Commission (**ASIC**) on 16 December 2015. ASIC does not take any responsibility for the contents of this OIS or the merits of the Offer contained in it.

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

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

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

**Offer for Australian Residents**

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

**Definitions and Abbreviations**

Please refer to the Glossary in section 2 for explanations of defined terms and abbreviations used in this OIS.

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**Australian United Retailers Limited**  
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## **1 Investment Overview**

### **1.1 The Offer**

Australian United Retailers Limited invites Eligible Applicants to apply for Class A Redeemable Preference Shares in Australian United Retailers Limited (AURL) at an offer price of \$1.00 per share. Under the Constitution, each Eligible Applicant is entitled to be issued and allotted one Class A Redeemable Preference Share in respect of each Approved Store they operate and control. As such, an Eligible Applicant's total investment under this OIS is expected to be only \$1.00, unless the Eligible Applicant operates and controls more than one Approved Store.

### **1.2 Do you have to pay anything to have a Class A Redeemable Preference Share issued to you?**

Yes, you have to pay \$1.00.

### **1.3 Who is an Eligible Applicant?**

Under the Company's Constitution a person is an Eligible Applicant if the person:

- is an owner or joint owner of an Approved Store or if the Directors determine that the person intends to become an Approved Storeowner; and
- has signed (or proposes to sign) a Unity Agreement.

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

### **1.4 Key Dates**

<b>Event</b>	<b>Date</b>
OIS Lodgement Date at ASIC	16 December 2015
Offer Opens	16 December 2015
Offer Closes	This Offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 16 January 2017)
Shares Issued	Normally after scheduled Board meetings (see section 7.3)

### **1.5 Application Criteria**

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

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

### **1.6 Purpose of Class A Redeemable Preference Shares**

The purpose of the Offer and issuing Class A Redeemable Preference Shares is not to raise funds for the Company but to secure the status of each Eligible Applicant as an Approved Storeowner. The Unity Agreement which each Eligible Applicant has signed (or proposes to sign) provides that your status as an Approved Storeowner only takes effect once a Class A Redeemable Preference Share is issued to you.

Your Class A Redeemable Preference Share(s) will be your link to membership of the Company. As a shareholder you have the right to receive certain information about the Company. There are also voting rights attached to Class A Redeemable Preference Shares. For example, holders of Class A Redeemable Preference Shares can participate in resolutions electing board members. Section 10 contains detailed information about the rights attaching to each class of Shares under the Company's Constitution. Please read this information carefully and seek professional advice if you have any questions.

### **1.7 Key Risks**

Applicants should carefully consider the risks set out in Section 9 (as well as the other information in this OIS) before deciding to subscribe for a Share(s) in the Company.

## **2 Glossary**

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

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

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

"ASIC" means the Australian Securities and Investments Commission.

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

"AUR" means Australian United Grocers Pty Ltd (ACN 009 786 485) – formerly Australian United Retailers Ltd.

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

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

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

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

"Board" means the board of Directors of FoodWorks.

"Brand" means the business names, trademarks or other intellectual property by which the Company promotes FoodWorks Branded Stores and the Company's Private Label program.

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

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

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

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

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

"Closing Date" means the date on which the Offer closes, being 5:00pm AEST on 16 January 2017.

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

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

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

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

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

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

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

"Eligible Warehouse Withdrawals" or "EWW" means the cost price of goods purchased by an Approved Store or Branded Store from Metcash, excluding certain agreed products.

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

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

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

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

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

"NSX" means National Stock Exchange of Australia Limited.

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

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

"Private Label" means the branded products which are proprietary to the Company, including the FoodWorks Best Buy branded products.

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

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

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



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"Services" means the services provided by the Company including:

- (i) providing marketing, merchandising and promotional advice and services to the stores of Members who own Approved Stores;
- (ii) negotiating supply agreements; and
- (iii) receiving Supplier rebates and allowances (and paying portions of those rebates and allowances to Members who own Approved Stores).

"Share" means a share in the Company.

"Storeowner" means the owner or joint owners of an Approved Store.

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

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

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

"Unbranded Store" means an Approved Store which is not a Branded Store.

"Unity Agreement" means an agreement between FoodWorks and:

- (i) in all cases, an Approved Storeowner, setting out the role of the Company in providing the Services and which governs the rights and obligations between the Company and the Approved Storeowner; and
- (ii) in some cases, a Branded Storeowner, and which governs the rights and obligations between the Company and the Branded Storeowner.

### **3 Key Questions and Answers**

#### **3.1 What is this document?**

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

This OIS sets out all information that, in the opinion of the Directors, is likely to be material to the decision of an Eligible Applicant whether or not to acquire Class A Redeemable Preference Share(s). The terms of the Offer are set out in section 7 of this OIS.

#### **3.2 Why has this document been provided to you?**

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

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

#### **3.3 Why do you need a Share?**

As noted in section 3.2 above, Eligible Applicants are entitled under the Constitution to be issued and allotted one Class A Redeemable Preference Share in respect of each Approved Store they operate and control. Further, the Unity Agreement provides that your status as an Approved Storeowner only takes effect once a Class A Redeemable Preference Share is issued to you.

Your Class A Redeemable Preference Share(s) will be your link to membership of the Company. As a shareholder you have the right to receive certain information about the Company. There are also voting rights attached to Class A Redeemable Preference Shares. For example, holders of Class A Redeemable Preference Shares can participate in resolutions electing board members. Section 10 contains detailed information about the rights attaching to each class of Shares under the Company's Constitution. Please read this information carefully and seek professional advice if you have any questions.

#### **3.4 What are the different classes of Shares on issue?**

There are currently both Class A Redeemable Preference shares and Class B Redeemable Preference Shares on issue. One Class A Redeemable Preference Share is issued to each Member who signs a Unity Agreement or an Approved Store Agreement. In the past, one Class B Redeemable Preference Share was issued to each Member who also signed the Banner Agreement. Further, shares in the Company were issued pursuant to the Company's capital raising in 2007.

As at the date of this OIS, the Company has 11,560,373 Class A Redeemable Preference Shares and 132 Class B Redeemable Preference Shares on issue.

### **3.5 Once you own a Share, can you sell it or transfer it to someone else?**

Yes. However, the Constitution contains certain restrictions on the transfer of Shares. These restrictions are explained in sections 11.3.3 and 11.3.12.

### **3.6 What is a 'redeemable preference share'?**

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

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

Further details on the rights and restrictions attaching to each class of Share are set out in section 10.

### **3.7 Will you get any dividends?**

Any dividend payment will be subject to the Company's ability to meet any of its then cash funding requirements for the growth of the business and taking into account the capital and trading requirements of the Company and its subsidiaries at the time as well as compliance with Corporations Act and other legal requirements prevailing at the time that a dividend is considered.

The Company is committed to paying a dividend as soon as possible.

### **3.8 Should you subscribe for Shares?**

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

### **3.9 Who can apply for shares under this OIS?**

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

### **3.10 What should you do if you require further information?**

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

### **3.11 Where else can I obtain a copy of this OIS?**

Copies can be obtained from the Members section of the Company's extranet: [extranet.foodworks.com.au](http://extranet.foodworks.com.au) or by contacting the Company.

## **4 Information about the Company, its business and plans**

### **4.1 Background information**

AURL is an independent retail supermarket group trading primarily under the “FoodWorks” Brand. It was created from the merger of the FoodWorks Supermarket Group Ltd (ACN 077 879 782) and Australian United Grocers Pty Ltd (ACN 009 786 485) – formerly known as Australian United Retailers Ltd. The merger occurred in November 2004.

The group’s foundation members include AUR, Foodstore, FoodWorks, Buy Rite, Cut Price, 727, Rite-Way, Tuckerbag, Food-Rite, Foodwise, Food-Way and Night Owl proprietors.

The business has a network of 555 stores with annual sales turnover in excess of \$2 billion.

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

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

The Company has been delivering on the Company’s mission to increase retailer prosperity through a significant increase in store sales, total income to the Company and distributions to Members who own Approved Stores.

The Board operates to a high level of governance and professionalism.

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

### **4.2 The FoodWorks National Network**

FoodWorks is represented in all states and territories across Australia, excluding the Northern Territory.

### **4.3 Member Distributions**

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

#### **4.4 What does FoodWorks do?**

##### **The Company's Activities - Overview**

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

- Negotiating supply arrangements, including pricing, trading terms, logistics, and promotions;
- Building and marketing a range of Private Label (controlled brand) product lines, to improve store sales and margins and generate customer loyalty;
- Conducting marketing and advertising on behalf of Branded Storeowners to grow sales and enhance customer awareness of the FoodWorks Brand;
- Providing a range of support services and tools to assist Members who own Approved Stores to:
  - run** their businesses - such as market assessments / demographic profiles, pricing options, product sales benchmarking information, space planning, operational support from our Retail Development Partners (RDPs) and Fresh Specialists, secure broadband and e-commerce solutions
  - manage** their businesses - such as training, price file hosting and maintenance and accounts payable services (i.e. Chargeback); and
  - reduce** the cost of doing business – such as local area marketing, media buying, production and distribution of catalogues, and group deals for store expense items, telecommunications, electricity, EFTPOS and automatic teller machines (ATM's);
- Assisting Members with store refurbishment and redevelopment opportunities and the management of their development projects, including store design and layouts services, and signage;
- Assisting Members in their choice of Point of Sale and Back Office Systems, and associated support arrangements; and
- Representing the interests of independent retailers generally with governments, industry groups and associations as well as providing specialist support services on industrial relations matters.

Unbranded Stores are able to take advantage of a number of the FoodWorks' services – including all Supplier arrangements, the controlled brand ranges including Metcash's Black and Gold products, and FoodWorks' Private Label ranges, price file hosting and maintenance, Point of Sale Systems support, group negotiated expense items, electricity contracts, EFTPOS rates, telecommunication deals, the Company's store refurbishment and redevelopment expertise and a competitive structure of distribution to Members who own Approved Stores.

#### **4.5 Key FoodWorks Services**

To effectively deliver its diverse range of support services to Members who own Approved Stores, FoodWorks is organised into the following primary functions – Merchandising, Retail Operations, Business and Store Development, Marketing, Information Technology and Pricing, Finance and Human Resource Management. The activities of each of these functions are outlined below.

## **4.6 Merchandising**

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

- Supplier agreements;
- Private Label ranges;
- Category specific initiatives – i.e. LiquorLink and TobaccoLink;
- Promotional negotiations and support; and
- Space Management.

### **4.6.1 Supplier Agreements**

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

In particular, FoodWorks and its Member retailers have access to a comprehensive long-term supply agreement with Metcash. The agreement is based on national access to an extensive product range of grocery, perishable, general merchandise, tobacco and packaged liquor items. Further details with respect to this agreement are set out in section 11.7.

FoodWorks also manages the supply arrangements for all direct to store suppliers primarily for Fresh Produce, Meat, Deli and Bread categories.

In addition to the merchandising and promotional agreements, Member retailers can also take advantage of Supplier agreements for business consumables such as shopping bags and wraps, as well as Chargeback - a centralised, streamlined Supplier payment system.

### **4.6.2 Private Label Ranges**

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

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

### **4.6.3 Category Specific Initiatives - LiquorLink and TobaccoLink**

LiquorLink and TobaccoLink are FoodWorks' merchandising and promotional programs which provide regular competitive pricing and promotions support from liquor and tobacco Suppliers with retailer commitments to meet merchandising expectations of Suppliers' products.

Both services are optional to Member retailers, and require additional contractual commitments in the form of LiquorLink or TobaccoLink Agreements which are monitored from time to time by the respective Suppliers.

### **4.6.4 Promotional Negotiations and Support**

FoodWorks provides its members with an ongoing promotional program which seeks to drive customers into the stores and to increase sales. There are up to 51 catalogues produced each year which can be distributed around the stores' catchment areas. These catalogues are tailored to the stores' size and are available in a 16 page, 12 page, 8 page, 6 page and 4 page version. Promotional activities are typically one week specials, or 4 week price reductions. Supplier support is negotiated on behalf of the network by the Merchandise Team to meet price points that are market competitive and drive increased customer count.

#### **4.6.5 Space Management**

FoodWorks provides Branded Storeowners with product and category range planograms and consumer-focused floor plans to improve store flow and product category footage allocations.

#### **4.7 Retail Operations**

The FoodWorks Operations Team and Retail Development Partners (RDPs) provide in-store support to bannered stores. The RDPs work with retailers to understand their needs and assist them to achieve their store specific goals.

RDPs assist stores to understand the needs of their customers to capitalise on all available opportunities in order to maximise store efficiency, sales and profitability. They provide coaching to assist retailers to develop and enhance their skills in running a successful business.

The RDPs are the primary contact between the FoodWorks Support Centre and stores, ensuring we provide efficient and appropriate resources where needed.

They also constantly monitor the standards of presentation in all stores to ensure compliance with the FoodWorks standard and protect the integrity of the FoodWorks brand.

RDPs also facilitate regular Member meetings to encourage networking amongst retailers to enable them to discuss industry issues and seek feedback on Support Office services.

#### **4.8 Business & Store Development**

FoodWorks' business & store development function encompasses a range of specialist services, from investigating and identifying new business opportunities through to computer aided retail design.

The team has been built around the establishment of the expertise and resources necessary to overcome the traditional barriers preventing Member retailers from undertaking refurbishments, expansions, relocations or new stores necessary to meet their customers' needs and grow their businesses.

These barriers include:

- Lack of data necessary to make a confident decision on a store's possible development options;
- Limited specialist expertise – i.e. limited ability to assess and quantify the opportunities, costs and potential return on investment or the high cost of accessing such expertise;
- High cost of development – ad hoc use of contractor and professional services and equipment, without formalised trading terms or standard specifications.

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

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

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- Internal retail design - offering Member retailers an effective way to create a new and innovative shopping experience for their customers by focusing on interior fit-outs.
- Sourcing competitive pricing for equipment, expense items and services to enable our members to operate more cost effectively.
- Provision of signage and branding for new stores to FoodWorks standards at no charge to the retailer.
- Assistance to fight competitor proposals, including town planning objections.

#### **4.9 Marketing**

The FoodWorks Marketing Teams focus is to drive awareness of the FoodWorks brand, points of difference and competitive advantage in the marketplace. The team continues to support individual store level activity to maximise local presence and drive sales.

The FoodWorks Marketing function put in place programs to drives awareness of the FoodWorks brand and Customer Value Proposition (being the collective offer presented to the customer including product, pricing and presentation) among consumers and other stakeholders. Awareness of the quality and value available from FoodWorks stores assists in driving consumer traffic.

The marketing team provides a number of support services to stores and to the Company as a whole including:

- Brand management - protecting the integrity of the FoodWorks brand by ensuring consistent execution of the brand and brand positioning in above and below the line activity
- Development and creation of advertising creative
- Creation and execution of consumer promotions
- Provision of graphic design services
- Promotion of FoodWorks in consumer, trade and local media through media relations activity
- Provision of local area marketing support to individual member stores
- Delivery of consumer research
- Store event support and delivery
- Provision of advice and support for community engagement and charity activities
- Provision of advice and support for the purchase of media
- Provision of all Member retailers' communications, corporate communications and media support and services. Through ensuring the right mix of technology and traditional methods, the team seeks to ensure all Member retailers are aware of company activities and actively share news and ideas to grow the business.



#### **4.10 Information Technology**

FoodWorks provides advice and direction on retail technologies and aligns with accredited back office software vendors. The Company has relationships and agreements in place to enable Member retailers to take advantage of group pricing for EFTPOS merchant fees, telecommunications and broadband services.

Other services include:

- ScanWorks, which is exclusive to FoodWorks and is a data analysis management tool collecting scanned product sales data from FoodWorks stores on a daily basis.
- The retrieved data underpins many of FoodWorks' support services – such as special promotional activities (scan deal rebates), category management, analysis of store development potential for new and existing stores, and the creation of meaningful, tailored business plans.
- ScanWorks is also a powerful tool for Member retailers to assist them to benchmark their performance and to make effective merchandising decisions.
- E-commerce. FoodWorks provides member stores with an e-commerce solution allowing customers to place orders on-line with participating stores. Foodworks provides stores with a comprehensive image library, detailed products descriptions including meta data and customer friendly department hierarchy.

#### **4.11 Pricing and Hosting Support Services**

Member retailers with FoodWorks approved Point of Sale and Back Office Systems can elect to have FoodWorks host their product price files in order to save time and effort during promotional periods and to manage price changes. The flexible “host management system” allows retailers to mix and match pricing zones at a subcategory level to improve profitability.

#### **4.12 Finance**

The Company's objective is to ensure that its legal and fiduciary corporate obligations are discharged fully in a cost effective manner.

Business controls and systems are in place to maximise income generation, control spending, and mitigate risk areas which are designed to improve the services and financial return to Member retailers. The management of the Company's working capital is important so as not to hinder the pursuit of growth opportunities.

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

#### **4.13 Human Resources**

FoodWorks has a focus on developing the capability of FoodWorks support office employees and providing varied human resources related services to Member retailers.

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

This team is responsible for the attraction, recruitment, induction, development and retention activities for FoodWorks support staff. It is also responsible for determining which of these activities could be provided or co-ordinated effectively on behalf of Member retailers, and for establishing relationships with appropriate external providers.

### **5 FoodWorks' Vision**

FoodWorks' stated vision is "to be an outstanding independent Retail Support Organisation".

Stores are our customers – our key focus is on our stores; driving their sales and increasing their profitability.

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

One of FoodWorks' strengths is the relationship between the Company and its Members, which comes from the retailer co-operative buying group heritage.

### **6 Industry overview**

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

### **7 Details of the Offer**

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

#### **7.1 Key dates**

<b>Event</b>	<b>Date</b>
OIS Lodgement Date at ASIC	16 December 2015
Offer Opens	16 December 2015
Offer Closes	This offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 16 January 2017)
Shares Issued	Normally after a scheduled Board meeting (see section 7.3)

## **7.2 Offer terms**

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

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

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

## **7.3 Offer structure**

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

By lodging a completed Application Form with AURL in respect of each Class A Redeemable Preference Share applied for, the Applicant is deemed to acknowledge that the Offer set out in this OIS is only capable of acceptance by AURL where the conditions set out in section 7.2 above are met.

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

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

Applicants should note that the Company has reached agreement with NSX that applications for quotation on NSX of Shares issued under this Offer will be made in batch lots on 30 June and 31 December each year (with earlier application to be made in the event that 100 Shares are issued). Accordingly while an application will be made to quote any Share(s) issued to an Eligible Applicant under the Offer, there may be a delay of up to 6 months between the issue and quotation of Shares on NSX.

## **7.4 Minimal cash will be raised pursuant to the Offer**

The purpose of this OIS is not to raise funds for the Company but to comply with the disclosure requirements of the Corporations Act relating to the issue of securities. As noted in the Investment Overview and section 7.2 above, the consideration for each Class A Redeemable Preference Share issued under this OIS will be \$1.00. Accordingly, funds raised under the Offer will be minimal, and will be incorporated into the Company's general revenue.

As set out in section 10 of the OIS, Class A Redeemable Preference Shares and / or Class B Redeemable Preference Shares may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event. In addition, section 254K of the Corporations Act provides that a company may only redeem redeemable preference shares out of profits or the proceeds of a new issue of shares made for the purpose of the redemption.

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In order to ensure compliance with section 254K of the Corporations Act, the Directors have resolved that funds raised under the Offer (**Offer Proceeds**) may be applied to fund the Redemption Amount payable by the Company on redemption of any Class A Redeemable Preference Shares and / or Class B Redeemable Preference Shares. In other words, the amount payable by the Company (per share redeemed) where the Board elects to redeem Class A Redeemable Preference Shares and / or Class B Redeemable Preference Shares will be funded by the proceeds of the Offer.

Where the Directors determine that funds are not required for the purposes of making payments where Shares are redeemed, the funds raised under the Offer will be re-allocated into the Company's general revenue.

#### **7.5 How to apply for Shares**

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

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

#### **7.6 Closing Date**

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

#### **7.7 What to do if you have queries or want extra copies of this OIS**

Applicants who require additional copies of the OIS can contact:

Company Secretary

Australian United Retailers Limited

Ph: 03 9809 8600

Email: [companysecretary@foodworks.com.au](mailto:companysecretary@foodworks.com.au)

The OIS may be downloaded from <http://extranet.foodworks.com.au> under the My Shares section of the website.

#### **7.8 Company's discretion**

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

## **8 Directors and Senior Management**

### **8.1 Who are AURL's directors and officers?**

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

The Board also includes an independent director who has been appointed to the Board based on their experience and diverse skills outside of supermarket retailing. These skills include financial, accounting, legal, corporate governance, commercial and management, which enable the Board to:

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

None of the Directors is a nominee appointed to represent a substantial shareholder of the Company. Further, in respect of each Director, the Board does not consider that any business or other relationships or interests of that Director will interfere with the independent exercise of the Director's judgment in performing their duties as a Director of the Company.

The Board comprises the following Directors:

#### **8.1.1 Neil Osborne – Chairman and Non Executive Director**

With over 20 years' experience in the retail industry, Neil was appointed to AURL as a director in November 2006 and appointed as Chairman in November 2014.

Neil has been a Director of the Vita Group since June 2007, Beacon Lighting Group since 2013 and Lovisa Holdings since April 2015.

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 the world's largest consulting and technology services firm, Accenture.

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

#### **8.1.2 David Williamson – Deputy Chairman and Non Executive Director**

David was appointed as a Director of the Company in November 2010 and Deputy Chairman in November 2014. He is a member of the Remuneration & Nomination Committee and Chairman of the Supply Chain Management Committee of the Board.

David has been part of a family who has been serving its local community as owners of an Independent Retail Business for over 30 years. He has grown up in this industry, helping his family run their Tuckerbag Supermarket from a young age. At the age of 17, he became Store Manager of his family's second store, Riddell's Creek Riteway. From there he moved on to manage their third store which became a Payless Super Barn and then graduated to their biggest store, Tuckerbag. He continued as the store manager until 15 years ago when he was made Company Director when the family's Gisborne and Riddells Creek stores joined the FoodWorks Supermarket Group.

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In 2002 David was voted onto the FoodWorks Supermarket Group board as a Retail board member and served for two years before choosing to resign in 2004 to help reduce the number of board members when the two groups merged to become AURL. In 2006, with his wife, David purchased the Gisborne store, excited by the prospect of carrying on his family's legacy. Since this time he has also purchased Sunbury FoodWorks.

#### **8.1.3 Allan Burge – Non Executive Director**

Allan has been a retailer since 1968 and currently operates two FoodWorks Supermarkets at Loganholme and Woodridge in Queensland. He was appointed as a Director of the Company in November 2010 and is Chairman of the Remuneration & Nomination Committee of the Board.

At the direction of a General Meeting of SPAR Retailers during the 1990's, a group of retailers prepared a business plan for the purchase and distribution of fresh fruit and vegetables for QLD and N.S.W. SPAR Fresh Pty Ltd was registered and commenced operations in 1999 trading as Independent Produce Professionals. It is still progressing today. Allan was elected a Director and founding Chairman and he has retained these positions to date.

In the past Allan was a member of The Institute of Company Directors of Australia and is a foundation fellow of The Australian Institute of Company Directors. Allan successfully completed the course and assessment for Company Directors through The University of New England, and The Institute of Company Directors. He was awarded a Diploma of Company Director in November 1990.

#### **8.1.4 Frederick Fairthorne - Non Executive Director**

Fred was appointed as a Director of the Company in September 2009. He is a member of the Supply Chain Management Committee of the Board.

Fred has been closely involved in the operation and management of supermarkets for many years. His family has been involved in supermarket operations since 1961; consequently Fred has been personally involved from an early age. He was a co-founding shareholder of Action Supermarkets in WA in 1977. Subsequently he co-founded Newmart Supermarkets in 1988, and is a director of Supermarkets West Pty Ltd, the marketing and promotion company for FoodWorks and Farmer Jacks stores in WA.

Fred has a strong presence in supermarket retailing, and is currently involved in the ownership and operation of several facilities in the Perth area, as well as operating a Supermarket in Sydney with a strong focus on merchandising, marketing product offerings and store layout development. Fred therefore brings to the Board a depth of relevant and diverse retailing experience at both operational and management levels.

#### **8.1.5 Malcolm Ward – Non Executive Director**

Malcolm was appointed as a Director of the Company in November 2010 and has been Chairman of the Audit & Risk Committee of the Board since November 2014.

Malcolm and his wife Liz have been owner/operators of supermarkets since joining the industry in 1994. Malcolm is the Managing Director of their family companies operating three FoodWorks stores in Western Australia. He is a director of Supermarkets West Pty Ltd, the marketing and promotion company for FoodWorks and Farmer Jacks stores in WA.

Malcolm is a director and audit committee member of several production and marketing companies in the Australian egg industry including Farm Pride Foods Ltd and has a broad range of commercial experience having been involved in a number of industries including retailing, business management, agricultural production and marketing, project and property management, and banking.

#### **8.1.6 Sien (John) Van Nguyen - Non Executive Director**

John was appointed as a Director of the Company in November 2011 and is a member of the Audit & Risk Committee and Supply Chain Management Committee.

John joined the supermarket industry in 1994 when he purchased his first store in Inala, south of Brisbane. John currently owns three FoodWorks supermarkets in Queensland. He is the Managing Director of a family group of companies operating the stores and other enterprises.

John's successes in retail and strategic management have enabled him to branch out into various other industries, some of which include Gordon House Pty Ltd, a company which is in the process of building an accommodation village for the Liquefied Natural Gas and mining industry in the Surat Basin and Sing Sing Investments, an investment company focusing on retail shopping centre acquisition, development and management. In addition, John is also a partner of Hydco International, a manufacturer of drilling rigs operating in India.

John brings a broad range of relevant commercial and practical experience to the board and is highly committed to the future and success of the FoodWorks group through service to its customers.

#### **8.1.7 Paul Job – Non Executive Director**

Paul was appointed as a Director of the Company in November 2012 and is a member of the Remuneration & Nomination Committee and Supply Chain Management Committee of the Board.

Paul currently owns two FoodWorks supermarkets, one in Pearce in the ACT and the other in Bradbury in NSW. He is also the Managing Director of a group of companies operating these and other businesses.

Paul has more than 30 years' experience in the retail industry. He started with a single service station and has since expanded this to over 13 retail stores. These stores operate over three States, with in excess of 220 staff and an annual turnover of more than \$100 million.

#### **8.1.8 Rick Wight – Executive Director**

Rick was appointed as a Director of the Company in May 2014. Rick joined FoodWorks in the role of Chief Operating Officer in 2008, and was appointed Chief Executive Officer in October 2010.

Rick brings to FoodWorks his strong background in finance, franchising and strategy management.

During his time with the Company, Rick has overseen the creation of a new retail operations function which aligns support services to the needs of our stores and customers. He was also responsible for communicating FoodWorks' brand and point of difference in the marketplace.

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

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

Rick holds a Bachelor of Business in Accounting & Economics and has Fellow Chartered Accountant status.

**8.1.9 Antonio Pacella - Company Secretary**

Tony brings to FoodWorks a strong background in finance and strategy, particularly in retail businesses.

He joined FoodWorks in the role of Chief Financial Officer in April 2010 and assumed the responsibilities of Company Secretary effective 30 June 2012, in addition to his executive role with the business.

Tony has previously held senior finance positions with Stockland and Coles.

Tony holds a Bachelor of Business with an Accounting Major and has Associate Chartered Accountant status and is a Graduate of Australia Institute of Company Directors (G.A.I.C.D.).



## **8.2 The Senior Management team**

FoodWorks' senior management comprises a group of experienced professionals with widespread expertise in their areas of business management, retail operations and services, people management, marketing, merchandise and finance.

The Company's Management Team comprises:

### **8.2.1 Rick Wight - Chief Executive Officer**

Refer to paragraph 8.1.8.

### **8.2.2 Antonio Pacella - Chief Financial Officer**

Refer to paragraph 8.1.9.

### **8.2.3 Midhat Massoud - General Manager, Merchandise & Marketing**

Midhat joined FoodWorks in 2009 from the wholesale retail sector.

He has extensive experience with the Coles Myer Group in national category management and supply chain management and has also worked on the supplier side of retailing with a major national brand.

Midhat has undertaken extensive professional development in areas such as strategic planning and management in retailing, from institutions such as Deakin and Monash University.

He is responsible for overseeing the national category management (excluding Fresh), marketing and promotions team.

Midhat is committed to developing relationships with our suppliers that provide our members with competitive pricing on in-demand products, a promotional program that drives consumer foot traffic and sales while maintaining store profitability and product range and pricing that meets the diverse needs of our member network.

### **8.2.4 Kym Coventry – Chief Operating Officer**

Kym joined FoodWorks in October 2015 as the Chief Operating Officer.

Kym has over 35 years of retail and wholesaling experience with BILO, Metcash and various small businesses.

He has a wealth of experience in the independent supermarket industry in a wide variety of operational and business development roles. He started his career as a butcher in Weeks' BILO Supermarket.

Kym worked in a variety of roles in his 15 years with BILO including managing departments, supermarkets and then fresh foods in the States of South Australia and Victoria. He then joined David's/Metcash where he held a variety of roles including Fresh Food Manager SA/NT, as well as several State, General and National Manager roles over a period of 21 Years.

During this period he has developed close working relationships with many independent store owners across the FoodWorks and IGA store networks as well as strong knowledge in supply chain and warehouse management.

Kym is now responsible for overseeing the Retail Operations, Fresh Category Managers, and Business & Store Development teams within FoodWorks. He has undertaken extensive professional development in areas such as Business Management, Retail Accounting, Staff Development, Property and Business Valuation as well as Succession Planning, at institutions including Monash and Macquarie Universities.

## **9 Risk factors**

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

### **9.1 Specific Key Risks**

There are a range of specific key risks associated with the Company's operations. Potential investors in the Company should note the following risks prior to subscribing for a share under this Offer. The Directors have sought to list these key risks in the order of materiality, with what they consider to be the most material risks. The Directors consider the Supply Chain Risk to be the most material.

#### **9.1.1 Supply Chain Risk**

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

Further details of the Company's contractual arrangements with Suppliers are set out in section 11.

### **9.2 Specific Other Risks**

While it is difficult to evaluate the effect that a risk may have on the Company, the Board is of the view that the risks set out below may have a lesser impact on the performance of the Company than the Supply Chain Risk discussed above. Again, these risks are intended to be listed in the order of materiality, with the most material risk (in the directors' opinion) listed first.

#### **9.2.1 Litigation and Dispute Risk**

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

### **9.2.2 Retention of Members**

Notwithstanding the introduction of the Unity Agreement (see section 11.4), some Member retailers operate under the Approved Store Agreement and / or Banner Agreement (see sections 11.5 and 11.6). There is a risk that these Members may terminate such agreements, which may occur without fault on FoodWorks' behalf following either 30 or 90 days' written notice. There is also a risk that the Company may not be able to retain Members that do sign the Unity Agreement, either because of a breach of the Unity Agreement or the Member invalidly terminates the Agreement. Likewise, it may be that Members do not renew their Unity Agreements at the date of expiration of the relevant term.

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

### **9.2.3 Competitive retail environment**

The retail grocery environment in Australia is highly competitive. The major chains are pursuing an active strategy of acquisition, alliance and growth, and will continue to pose a significant challenge to independent grocery retailers. The Company will continue to compete with both the major chains and other independent grocery retailers for target customers. The entry of new retailers, or the actions of current retailers, including a change of strategic direction, along with changes in consumer preference, may have a material adverse effect on the Company's performance.

### **9.2.4 Risks associated with losing key personnel**

The Company's ongoing performance will depend to some extent on its key personnel, in particular the Management Team discussed in section 8.2. Despite efforts to retain the services of key employees, the loss of key personnel could have a material adverse effect on the Company's growth prospects. The Company may not be able to recruit suitable replacements within a short timeframe.

### **9.2.5 Information Technology**

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

### **9.2.6 Australian Competition and Consumer Act Risks**

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

### **9.2.7 Government Legislation**

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

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

### **9.2.8 Liability and Insurance Risk**

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

### **9.3 General Risks**

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

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

## **10 Rights attaching to Shares**

### **10.1 What rights and restrictions attach to the Class A Shares?**

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

- 10.1.1 may only be held by an Eligible Member;
- 10.1.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 11.3.4);
- 10.1.3 carry the sole right to vote (on the basis of one vote for each share held) at general meetings, and the voting restrictions attached to shares in the Company generally (see section 11.3.6);
- 10.1.4 carry the right to participate in any dividend declared and paid by the Company to holders of shares in the class;
- 10.1.5 carry the right, on a winding up of the Company, to participate in any distribution of assets; and
- 10.1.6 carry a restriction on transfer (see section 11.3.12).

### **10.2 What rights and restrictions attach to the Class B Shares?**

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

- 10.2.1 may only be held by an Eligible Member;
- 10.2.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 11.3.4);
- 10.2.3 carry the right to participate in any dividend declared and paid by the Company to holders of shares in the class, but not as of right an entitlement to the same dividend as each other share in the class;
- 10.2.4 do not carry any right to vote at general meetings, but a right to vote at a meeting of the Class B Redeemable Preference Shareholders;
- 10.2.5 do not carry a right to participate on a winding up of the Company or reduction of capital; and
- 10.2.6 carry a restriction on transfer (see section 11.3.12).

### **10.3 In what circumstances can Shares be redeemed?**

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

- 10.3.1 the Member ceasing (for whatever reason) to be an Approved Storeowner of the Approved Store in respect of which the share was allotted, or otherwise ceasing to be an Eligible Member;
- 10.3.2 the holder becoming bankrupt or insolvent;
- 10.3.3 where the Member is an Approved Storeowner, a Default Event occurs (see section 10.4); or
- 10.3.4 the holder requests in writing that the Company redeems some or all of the Redeemable Preference Shares held by that holder; and

- 10.3.5 the holder fails to give notice within one month that they hold the shares as trustee and the Board reasonably believes that the reason a notice was not given was to avoid disclosing full particulars of the beneficial ownership of the Shares so held.

Shares may only be redeemed in accordance with the Corporations Act. Further details in respect of redemption are contained in section 11.3.4.

#### **10.4 What are 'Default Events'?**

Relevant Default Events in respect of an Approved Storeowner include:

- 10.4.1 default or breach of any contractual obligation or commitment owed by the Approved Storeowner to the Company;
- 10.4.2 failure to pay, when due and payable, for goods ordered by or on behalf of the Approved Storeowner from a Supplier;
- 10.4.3 failure to pay, when due and payable, monies owed to the Company;
- 10.4.4 vacation or ceasing to own, lease, operate or control an Approved Store without the prior written consent of the Directors;
- 10.4.5 the acquisition by a person of a controlling interest in the Member and that person did not have a controlling interest in the holder at the time the share was allotted, transferred or transmitted to the holder, without the prior written consent of the Directors; or
- 10.4.6 the acquisition, without the consent of the Directors, by a person of the Relevant Interest in a share held by the Approved Storeowner where the person did not have a Relevant Interest at the time the share was allotted, transferred or transmitted to the Approved Storeowner.

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

#### **10.5 What is the 'Redemption Procedure'?**

- 10.5.1 Where a Redemption Event occurs, the Directors have a right at their option exercisable at any time to:
  - (a) Suspend the voting rights attached to the relevant Shares with immediate effect.
  - (b) Give written notice that a Redemption Event has occurred and the Member has 90 days from receipt of the Notice to either transfer those shares to an Eligible Member, or satisfy the Directors that the Redemption Event has been remedied.
  - (c) Upon expiration of that 90 day period, if the Member has failed to either transfer the shares or satisfy the Directors that the Redemption Event has been remedied, the Directors may in their absolute discretion redeem the Redeemable Preference Shares in accordance with the Redemption Procedure and the Corporations Act.
- 10.5.2 Applicants should note that under the Corporations Act, a redemption can only occur from profits or the proceeds of a further share issue.

#### **10.6 What is the 'Redemption Amount'?**

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

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

#### **10.7 Voting Restrictions**

The general position is that the maximum voting entitlement of a Member and their associates with respect to all shares in which they hold a Relevant Interest is limited to 7.5% of the total voting rights attached to the Class A Redeemable Preference Shares. Where a Redemption Event has occurred but the Board has not exercised its discretion to redeem the relevant Share(s), the holder shall not have the right to vote at any general meeting of the Company (whether or not the Member initially enjoyed such rights) nor the right to vote at a meeting of the holders of the class of shares that the Member holds until such time as the Directors consider that:

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

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

#### **10.8 Future Entitlement to Issue Additional Shares**

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

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

#### **10.9 Risks**

Given the limited volume and value of Class A Redeemable Preference Shares issued under this OIS, an investment under the Offer does not involve a significant degree of risk.

Regardless, Applicants are advised to carefully consider the Risks Section of this OIS set out in section 9.

## **11 Additional information**

### **11.1 Incorporation**

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

### **11.2 Rights and Liabilities Attaching to Shares**

The rights attaching to Shares in the Company are:

- set out in the Constitution of the Company, and summarised in section 10 above and 11.3 below; and
- in certain circumstances, regulated by the Corporations Act and the general law.

### **11.3 Constitution**

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

#### **11.3.1 General**

The rights and liabilities attaching to the Shares are set out in the Company's Constitution, and are regulated by the Corporations Act and the general law. The Constitution is subject to the Listing Rules. Set out below is a summary of the key terms of the Constitution, including the difference between share classes, and the principal rights and liabilities attaching to the Shares. This summary is not exhaustive and is not a definitive statement of the rights and liabilities of the shareholders of the Company. In particular, the summary should be read in conjunction with the summaries of the Unity Agreements, Approved Store Agreements and Banner Store Agreements contained in sections 11.4, 11.5 and 11.6 of this OIS.

#### **11.3.2 Application of Listing Rules**

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

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



### **11.3.3 Right to hold Shares**

The Company has two classes of shares on issue: Class A Redeemable Preference Shares and Class B Redeemable Preference Shares. There are restrictions on who can hold Shares. In particular, Shares may only be issued, transferred or allotted or otherwise disposed of to an Eligible Member. The onus is on the applicant for such issue, transfer, allotment or disposal to demonstrate to the Directors that they are qualified to be an Eligible Member. An Eligible Member is defined to be any of an Approved Storeowner, a Branded Storeowner, the Related Parties of an Approved Storeowner or an employee of the Company (provided that the Board has passed a formal resolution confirming such employee(s) of the Company as constituting Eligible Members for the purpose of holding Shares in the Company and, subject to the passing of a formal resolution, a Related Party of an employee of the Company). Public companies (other than a co-operative), an entity controlled by a public company, or (unless otherwise agreed by the Board) a person who is in the employ of, or controls or is controlled by a Supplier of goods or services to the retail industry and a Member in respect of whom a Redemption Event has occurred (but where the Board has not exercised its discretion to redeem the Share(s) of that Member) are expressly excluded from the class of Eligible Members.

### **11.3.4 Redemption & Forfeiture**

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

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

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

### **11.3.5 Partly paid Shares**

The Company has a first and paramount lien on every Share which is not fully paid and on all dividends payable in respect of that Share. Such partly paid Shares may not be transferred unless the sum in respect of which the lien exists is paid. Failure to pay a call made in respect of an unpaid portion of a partly paid Share, or where the terms of allotment specify a date for payment of an instalment in respect of a partly paid Share to pay that instalment, may result in forfeiture of the Share in accordance with the procedure set out in the Constitution.

### **11.3.6 Voting Rights & Restrictions**

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

- Class A Redeemable Preference Shares carry one vote for each Share held, to a maximum of 7.5% of the total voting rights attached to the Class A Redeemable Preference Shares. A Member holding Class A Redeemable Preference Shares must comply with the requirements to give information set out in section 671B of the Corporations Act, namely information about Substantial Holdings in the Company.
- Class B Redeemable Preference Shares carry no voting right, other than at a meeting of the Members of the class.

### **11.3.7 General Meeting and Notices**

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

### **11.3.8 Dividends**

Each Share carries the right to participate in any dividend declared and paid to the holders of shares in that class. Class B Redeemable Preference Shares do not as of right have an entitlement to the same dividend as Class A Redeemable Preference Shares.

### **11.3.9 Variation of Class Rights**

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

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

### **11.3.10 Further Issues of Shares**

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

#### **11.3.11 Winding Up**

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

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

#### **11.3.12 Transfer of Shares**

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

#### **11.3.13 Directors**

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

#### **11.3.14 Indemnities and Insurance**

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

#### **11.3.15 Amendment of the Constitution**

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

#### **11.4 Unity Agreements**

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

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

The Unity Agreements set out the rights and obligations of Members who have entered into such an agreement with FoodWorks (**Unity Storeowners**). The Unity Storeowners are currently being transitioned to a new form of the Unity Agreement that has been introduced (**New Unity Agreement**). The majority of Unity Storeowners have entered into the New Unity Agreement as at the date of this OIS.

There are still a number of Unity Storeowners who have not yet entered into the New Unity Agreement and remain bound by the former Unity Agreement. The former Unity Agreement generally continued for a term of six years from the date of commencement, subject to termination provisions and the right of both parties to consent to the renewal of the agreement.

The New Unity Agreements have no specific term or expiry date and remain in place until either party provides written notice to the other party indicating that they wish to terminate the agreement. Written notice to terminate the agreement may be given at any time after the anniversary of the 1<sup>st</sup> year of the agreement, however the agreement will remain in effect for 2 years from the date that the notice is received. This effectively means that each agreement has a minimum term of 3 years. Also a Storeowner's entitlement to the loyalty rebate is immediately withdrawn from the date they give written notice that they are terminating the agreement.

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

Under the Unity Agreements, and largely consistent with Approved Store Agreements (see section 11.5) Unity Storeowners must comply with all relevant FoodWorks policies, as well as a range of specific obligations, including the maintenance of adequate stock and staffing levels, stocking recommended levels of allocated brands and compliance with specified store upkeep requirements. Branded Storeowners who have signed Unity Agreements, referred to throughout as Unity Branded Storeowners, are also subject to additional obligations, including ongoing compliance with specified branding criteria, the provision of information relating to store performance, compliance with FoodWorks' promotional programs, the maintenance of accurate sales data and ensuring that staff training and uniform requirements are met.

FoodWorks is required to provide a range of services to Unity Storeowners, primary of which is providing access to negotiated supply arrangements with Suppliers. FoodWorks negotiates and receives Supplier rebates and allowances, and pays portions of those rebates and allowances to Unity Storeowners.

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

Under the terms of most Unity Agreements, the relevant Unity Storeowners who wish to sell the business of their stores must provide FoodWorks with a right of first and last refusal in relation

to the purchase of the business, but only if the sale is to occur during the term of the relevant Unity Agreement, or whilst there is an outstanding financial accommodation provided by FoodWorks to the Unity Storeowner or whilst FoodWorks is the lessor of the relevant store's premises.

### **11.5 Approved Store Agreements**

Those Members who own Approved Stores but have not executed a Unity Agreement are subject to an Approved Store Agreement (and, in some cases, a Banner Agreement). The Approved Store Agreements provide for Members who own Approved Stores to benefit from the wholesale supply arrangements between FoodWorks and the Suppliers (see sections 11.7 and 11.8 of this OIS), as well as outlining primary obligations and benefits to such Members. As mentioned above, a number of Members who own Approved Stores have since entered into Unity Agreements which supersede the old form Approved Store Agreements (see section 11.4 of this OIS).

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

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

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

### **11.6 Banner Agreements**

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

Members who entered into Banner Agreements with FoodWorks, referred to as 'Branded Storeowners' and formerly referred to as 'Banner Storeowners', were also issued with a Class B Redeemable Preference Share (refer to section 11.2 of this OIS) per Branded Store.

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

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

### **11.7 Metcash Supply Agreement**

In September 2009, FoodWorks entered into a Member Store Supply Agreement, under which Metcash agrees that it will use its reasonable endeavours to supply or procure the supply to FoodWorks member stores with products ordered by such members and that are available through Metcash. The agreement continues for an initial term of 10 years, and can be terminated without cause with 1 year's notice following that initial term. However, the agreement can be terminated earlier in certain circumstances, including if a party materially breaches its obligations under the agreement. The agreement provides for the provision of rebates by Metcash, based in part on the volume of goods supplied under the agreement.

### **11.8 Supply Agreements**

In addition to the Metcash supply agreement, as referred to in section 11.7, FoodWorks has entered into numerous supply agreements with various other Suppliers relating to a range of retailer products. These agreements set out the principal terms under which the Suppliers agree to provide various products to FoodWorks Members who own Approved Stores, including the specification of rebate levels.

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

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

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

### **11.9 Deeds of indemnity, insurance and access**

The Company has entered into Deeds of Indemnity, Insurance and Access with all FoodWorks Directors who were in office at December 2006 or have been appointed since. The Deeds provide that the Company will indemnify its Directors against liabilities, costs and expenses as permitted under the Corporations Act, related to each Director's period of office.

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

### **11.10 CEO employment agreement**

In March 2013, the Company extended its employment agreement with Rick Wight, the Company's Chief Executive Officer through to 25 October 2016. The employment agreement incorporates a base salary and an annual bonus which is dependent on attainment of annual performance targets.

### **11.11 Tax Considerations**

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

## **12 Director's statement and Consents**

### **12.1 Directors**

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

### **12.2 Pitcher Partners**

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

- inclusion of its report for the Company in respect of the year ended 30 June 2015 in this OIS; and
- being named in the OIS as the auditor to Australian United Retailers Limited in the form and context in which it appears in the OIS.

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

### **12.3 SBA Law**

SBA Law has given and, at the date of lodgement of this OIS with the ASIC, has not withdrawn, its consent to be named in this OIS as lawyers to the Company in the form and context in which it is named. SBA Law has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of this OIS.

Dated 16 December 2015

Signed for, and on behalf of, FoodWorks



Neil Osborne

Chairman and Non Executive Director



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

# 2015

## Annual Report

**FOODWORKS**  
*Supermarket*



**AUSTRALIAN UNITED RETAILERS  
LTD**

**ABN: 93 077 879 782  
AND CONTROLLED ENTITIES**

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2015**

**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES  
FINANCIAL REPORT FOR THE YEAR ENDED  
30 JUNE 2015**

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## **DIRECTORS' REPORT**

The directors present their report together with the financial report of the consolidated entity consisting of Australian United Retailers Ltd ("AURL") and the entities it controlled, for the financial year ended 30 June 2015 (together referred to as the "Consolidated Entity") and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

### **Directors**

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

#### **Name**

#### **Period of directorship**

John Bridgfoot

Retired as Director 19 November 2014

Neil Osborne

Allan Burge

Fred Fairthorne

Paul Job

Deborah Smith

Sien Van Nguyen

Malcolm Ward

David Williamson

Rick Wight

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

### **Principal activities**

The principal activity of the parent entity during the financial year was the provision of retail support services to its members.

There has been no significant change in the nature of these activities during the financial year.

The principal activity of the controlled entities during the financial year was the completion of the divestment of the two remaining non-trading former corporate owned store sites.

### **Results**

The profit of the consolidated entity for the financial year, after income tax, amounted to \$1,890,000 (2014: Profit of \$2,306,000).

### **Review of operations**

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

The Member based business contributed a profit of \$1.9 million in the current year which is down from \$3.8 million in the prior year. The current year result includes \$0.7m of tax expense, whereas in the prior year a tax benefit of \$0.8m was recognised associated with previously unrecognised tax assets, as well as reflecting an environment where retail outlets are increasingly securing supply from alternative sources which resulted in a reduction in revenues of \$2.9m when compared to the

prior year. The costs of operating the support office were reduced by \$2.6m during the year which exceeded the revenue reduction.

The Member based business continues to be focused on the delivery of a robust support function whilst maintaining a level of profitability which will allow the business to grow and achieve its longer term corporate objectives. The longer term objectives include driving the sales and profitability of its **Member's** stores and the payment of dividends to shareholders.

The Consolidated Entity has a modest level of borrowings, which relate to lease obligations for motor vehicles and equipment used in the operation of the business as outlined in Note 14. The Company has access to additional facilities as outlined in Note 18 to enable the business to pursue short term objectives to evolve its service offer to Members in the coming financial year. The completion of the divestment program during the current financial year enabled the Consolidated Entity to fully focus on the Member store related objectives.

The Directors are pleased that the finalisation of the divestment of the remaining corporate stores was completed within the previously expected level of closure cost provision.

As disclosed in Note 20, the Consolidated Entity remains subject to the Second Amendment and Restatement Deed which includes restrictions which if triggered will result in re-instatement of the Transitional Funding Facility Reinstatement Amount previously held with CSA Retail (Finance) Pty Ltd. This re-instatement would equate to \$7.1 Million plus interest accruing on the facility up to the date that the triggering event occurs.

The trigger events are:

- (i) If before the end of June 2021, a change in control of the parent entity occurs, or
- (ii) If before the end of June 2016, a capital raise which exceeds \$6.4 million occurs.

The Directors are of the view that the restrictions are not a significant barrier to the normal operating activities of the Consolidated Entity and will not prevent the on-going normal business activities of the Consolidated Entity.

### **Significant changes in the state of affairs**

There have been no significant changes in the consolidated entity's state of affairs during the financial year.

### **After balance date events**

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

### **Likely developments**

The Company will continue to pursue its strategy to deliver quality retail support services to its Members.

### **Environmental regulation**

The consolidated entity's operations are not subject to any significant environmental Commonwealth or State regulations or laws.

### **Dividend paid, recommended and declared**

No dividends were paid, declared or recommended since the start of the financial year.

### **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.

### **Information on directors and company secretary**

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 1 July 2014 is provided below, together with details of the company secretary as at the year end.

#### **John Bridgfoot**

##### Qualifications

- Independent Non Executive Chairman
- Exec, M.B.A. (Washington State)  
Bachelor of Arts (La Trobe University)  
Member Australian Institute of Company Directors (MAICD)

##### Experience

- John retired as a Director on 19 November 2014.
- He was appointed as a Director on 22 September 2001 of Australian United Grocers Pty Ltd. In July 2004 John was appointed Chairman of 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

- **Was a** Member of Remuneration & Nomination Committee and Audit & Risk Committee and Supply Chain Management Committee.

#### **Neil Osborne**

##### Qualifications

- Independent Non Executive Chairman  
(Appointed 19 November 2014)
- Fellow Australian Institute of Company Directors (FAICD)  
Bachelor of Commerce  
Certified Practising Accountant

##### Experience

- With over 20 years experience in the retail industry, Neil was appointed as a Director in November 2006, and as Chairman on 19 November 2014. He has also been a Director of Vita Group since June 2007, Beacon Lighting Group since 2013 and Lovisa Holdings since April 2015. 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

- Was Chairman of the Audit & Risk Committee and Supply Chain Management Committee, up until his appointment as Chairman of the Board on 19 November 2014.

#### **Allan Burge**

##### Qualifications

- Non Executive Director
- Fellow Australian Institute of Company Directors (FAICD)

##### Experience

- Appointed as a director of the Company on 17 November 2010.

Allan has been a retailer since 1968 and currently operates two FoodWorks Supermarkets at Loganholme and Woodridge in Queensland.

At the direction of a General Meeting of SPAR Retailers during 1999, a group of retailers prepared a business plan for the purchase and distribution of fresh fruit and vegetables for Queensland and New South Wales, SPAR Fresh Pty Ltd was registered and commenced operations in 1999 trading as Independent Produce Professionals. It is still progressing today. Allan was elected a Director and founding Chairman and he has retained these positions to date.

##### Special Responsibilities

- Chairman of the Remuneration & Nomination Committee.

**David Williamson**

Experience

- Non Executive Director
- Appointed as a director of the Company on 17 November 2010.

David has been part of a family who has been serving its local community as owners of an Independent Retail Business for over 30 years. He has grown up in this industry, helping his family run their Tuckerbag Supermarket from a young age. At the age of 17, he became Store Manager of his family's second store, Riddell's Creek Riteway. From there he moved on to manage their third store which became a Payless Super barn and then graduated to their biggest store, Tuckerbag. He continued as the Store manager until 15 years ago when he was made a Company Director when the family's Gisborne and Riddells Creek stores joined the FoodWorks Supermarket Group.

In 2002 David was voted onto the FoodWorks Board as a Retail Board member and served for two years before choosing to resign in 2004 to help reduce the number of Board members when the two groups merged to become AURL. In 2006, with his wife, David purchased the Gisborne store, excited by the prospect of carrying on his family's legacy. Since this time he has also purchased FoodWorks Sunbury.

Special Responsibilities

- Member of the Remuneration & Nomination Committee and Chairman of the Supply Chain Committee (Appointed 19 November 2014).

**Deborah Smith**

Qualifications

- Non Executive Director
- Diploma of Education (Townsville)  
Master of Business Administration (University of New England)  
Graduate Certificate of Management (University of New England)  
Diploma of Management (University of New England)  
Member Australian Institute of Company Directors (MAICD)

Experience

- Appointed as a Director on 10 April 2003,
- Deborah has been an independent storeowner and operator since 1996. Deborah is a Director of Master Grocers of Australia.

Special Responsibilities

- Member of the Audit & Risk Committee and was a member of the Remuneration & nomination Committee.

**Fred Fairthorne**

Experience

- Non Executive Director
- Appointed as a Director of the Company on 9 September 2009.

Fred has been closely involved in the operation and management of supermarkets for many years. His family has been involved in supermarket operations since 1961; consequently Fred has been personally involved from an early age. He was a co-founding shareholder of Action Supermarkets in WA in 1977. Subsequently he co-founded Newmart Supermarkets in 1988 and is a director of Supermarkets West Pty Ltd, the marketing and promotion company for Foodworks and Farmer Jack stores in WA.

Fred has a strong presence in supermarket retailing, and is currently involved in the ownership and operation of several facilities in the Perth area as well as operating a Supermarket

in Sydney with a strong focus on merchandising, marketing product offerings and store layout development.

Special Responsibilities - Member of the Supply Chain Management Committee.

**Malcolm Ward**

Experience - Appointed as a director of the Company on 17 November 2010.

Malcolm and his wife Liz have been owner/operators of supermarkets since 1994. Malcolm is the Managing Director of their family companies operating four FoodWorks stores in Western Australia, and is a director of Supermarkets West Pty Ltd, the marketing and promotion company for FoodWorks and Farmer Jacks stores in WA.

Malcolm is a director and audit committee member of several production and marketing companies in the Australian egg industry, including Farm Pride Foods Ltd since May 2008. Malcolm has a broad range of commercial experience having been involved in a number of industries including retailing, business management, agricultural production, marketing, project and property management and banking.

Special Responsibilities - Chairman of the Audit & Risk Committee (Appointed 19 November 2014).

**Sien Van Nguyen**

Experience - Appointed as a Director of the Company on 22 November 2011.

Sien joined the supermarket industry in 1994 when he purchased his first store in Inala, south of Brisbane. Sien currently owns three FoodWorks supermarkets in Brisbane. He is the managing director of a family group of companies operating the supermarkets and other enterprises. In this role, Sien is actively involved in the strategic management of all three supermarkets.

**Sien's successes in retail and strategic management have** enabled him to branch out into various other industries, some of which include Gordon House Pty Ltd, a company which is in the process of building an accommodation village for the Liquefied Natural Gas and mining industry in the Surat Basin and Sing Sing Investments, an investment company focusing on retail shopping centre acquisition, development and management. In addition, Sien is also a partner of Hydco International, a manufacturer of drilling rigs operating in India.

Special Responsibilities - Member of the Audit & Risk Committee and the Supply Chain Committee.

**Paul Job**

- Non Executive Director

Experience

- Appointed as a Director of the Company on 27 November 2012.

Paul currently owns two FoodWorks Supermarkets. One in the ACT and the other in Sydney NSW. He is the Managing Director of a group of Companies that operates these stores and other businesses.

Paul brings to the Board over 30 years experience in retail. Starting with one Service Station and expanding to over thirteen sites, operating across three states at different points in time.

Paul has a background in the finance industry with a focus on Development and Leasing finance.

Paul and his wife Margaret are well known for their charity work raising funds for seriously ill children.

Special Responsibilities

- Member of the Remuneration & Nomination Committee and the Supply Chain Management Committee.

**Rick Wight**

- Executive Director

Qualifications

- Rick holds a Bachelor of Business Studies and is a Fellow of the Institute of Chartered Accountants Australia.

Experience

- Appointed as a Director of the Company on 30 May 2014.

Rick has a strong background in finance, franchising and strategy management.

Prior to joining FoodWorks, Rick spent 15 years at Blockbuster International where he worked in various senior roles including Area Senior Vice President and finally Chief Executive Officer.

Rick joined FoodWorks in the role of Chief Operating Officer in 2008 and was appointed as Chief Executive Officer in 2011.

Special Responsibilities

- Rick is the Chief Executive Officer of the Consolidated Entity and a member of the Supply Chain management Committee.

**Tony Pacella**

- Company Secretary

Qualifications

- Bachelor of Business (Accountancy)  
Associate of the Australian Institute of Chartered Accountants in Australia  
Graduate of Australia Institute of Company Directors (G.A.I.C.D.)

Experience

- Tony joined AURL in April 2010 as Chief Financial Officer and assumed the responsibilities of Company Secretary effective 30 June 2012 in addition to his executive role with the business.



**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES**

**ABN: 93 077 879 782**

**Directors' meetings**

The number of meetings of the board of directors and of each board committee held during the financial year and the numbers of meetings attended by each director were:

DIRECTORS	BOARD MEETINGS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATION COMMITTEE		SUPPLY CHAIN MANAGEMENT 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
A Burge	10	10	-	-	3	2	-	-
J Bridgfoot (Resigned 19 Nov 2014)	4	4	1	1	-	-	2	2
F Fairthorne	10	9	-	-	-	-	4	1
P Job	10	10	-	-	3	3	4	4
N Osborne	10	10	2	2	-	-	3	3
D Smith	10	10	2	2	1	1	-	-
S Van Nguyen	10	10	4	3	-	-	4	4
M Ward	10	10	4	4	-	-	-	-
D Williamson	10	10	-	-	3	2	4	2
R Wight	10	10	-	-	-	-	4	4

**Directors' interests in shares or options**

Refer to Remuneration report.

**Transactions with directors and director related entities**

Refer to Remuneration report.

**Indemnification and insurance of directors, officers and auditors**

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for any directors, officers or auditors of the consolidated entity.

**Proceedings on behalf of the consolidated entity**

No person has applied for leave of Court to bring proceedings on behalf of the consolidated entity.

**Auditor's independence declaration**

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* 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 and Risk Committee and approval is provided in writing to the board of directors. Non-audit services were provided by the auditors of entities in the consolidated group during the year, namely Pitcher Partners (Melbourne), 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*.

	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Amounts paid and payable to Pitcher Partners (Melbourne) for non-audit services:</b>		
Other assurance services	2,580	1,950
Taxation services	10,000	11,190
<b>Total auditors' remuneration for non-audit services</b>	<b>12,580</b>	<b>13,140</b>

## **Remuneration report (Audited)**

The directors present the consolidated entity's 2015 remuneration report which details the remuneration information for Australian United Retailers Ltd's **executive directors**, directors and other key management personnel.

### **A. Details of Key Management Personnel**

<b>(i) Directors</b>	<b>Period of Responsibility</b>	<b>Position</b>
<i>John Bridgfoot</i>	<i>Retired 19 November 2014</i>	<i>Chairman – Non-Executive</i>
<i>Allan Burge</i>		<i>Director – Non-Executive</i>
<i>Fred Fairthorne</i>		<i>Director – Non-Executive</i>
<i>Paul Job</i>		<i>Director – Non-Executive</i>
<i>Neil Osborne</i>	<i>Appointed 19 November 2014</i>	<i>Chairman – Non-Executive</i>
<i>Deborah Smith</i>		<i>Director – Non-Executive</i>
<i>Sien Van Nguyen</i>		<i>Director – Non-Executive</i>
<i>Malcolm Ward</i>		<i>Director – Non-Executive</i>
<i>David Williamson</i>		<i>Director – Non-Executive</i>
<i>Rick Wight</i>		<i>Director and Chief Executive Officer</i>
<b>(ii) Executives</b>		
<i>Tony Pacella</i>		<i>Chief Financial Officer &amp; Company Secretary</i>
<i>Midhat Massoud</i>		<i>General Manager – Merchandise &amp; Marketing</i>
<i>Theo Stratopoulos</i>		<i>General Manager - Operations</i>

The directors and Key Management Personnel have been in office since the start of the financial year to the date of this report unless otherwise stated.

### **B. Remuneration policies**

The Board has 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 employee salaries are adopted by the Company. The responsibilities of the Committee include:

- Reviewing the terms and conditions of employment for the CEO;
- **Reviewing and approving policies for senior executives' remuneration;**
- Reviewing and making recommendations to the Board on the Company incentive schemes, remuneration policies and superannuation arrangements;
- Reviewing the budget for salaries and monitoring expenditure against budget;
- Reviewing the remuneration of Directors; and
- **Undertaking the annual review of the CEO's performance including setting CEO goals for the coming year and reviewing progress.**

The Company's remuneration practices have regard to the following principles:

- Provision of competitive remuneration to attract and retain high calibre executives 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 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 Executive-Key Management Personnel 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 Australian United Retailers Ltd culture of rewarding excellent performance and attitude. The variable component of remuneration relates to the achievement of specific Company objectives.

The remuneration package of Executive-Key Management Personnel excluding the CEO is annually assessed against relevant executive remuneration market data sourced from a major remuneration consultancy firm. In the 2015 financial year the Company did not engage a remuneration consultant to provide recommendations in respect of Executive-Key Management Personnel remuneration. However the Company did acquire market data to assess the remuneration packages to ensure that they remain market appropriate. In June 2015, Executive-Key Management **Personnel went through the Company's** Annual Performance Review and an increase in line with performance was applied. In the 2015 financial year each member of the Executive-Key Management Personnel team was eligible for a maximum incentive of 20% expressed as a percentage of total remuneration packages. **100% of the incentive component is applied for the achievement of criteria set out in the Company's 2015 incentive policy. The criteria for the Company's 2015 incentive policy are based on performance targets for the** continuing operations. The criteria for the current year comprises achievement of targets related to earnings before interest and tax, like for like sales performance and enhancing business processes and compliance related initiatives.

Rick Wight extended his contract as CEO on 14 March 2013 for a three year period. The contract includes a three month notice period. The employment conditions of the Chief Executive Officer (CEO) comprise a fixed salary package and an annual incentive. For the 2015 year the target was the **Company's 2015 incentive policy.**

**C. Details of key management personnel remuneration**

**(a) Directors' and Executives' remuneration:**

2015	Short-term			Post Employment		Equity	Other	Total	Performance Related Bonus ****
	Salary & Fees ***	Cash Bonus ****	Non-monetary	Superannuation	Retirement benefits	Options	Termination Benefits		
	\$	\$	\$	\$	\$	\$	\$		
Directors									
J Bridgfoot (Retired 19/11/14)	65,000	-	-	-	-	-	-	65,000	-
N Osborne (Appointed Chairman 19/11/14)	123,288	-	-	11,712	-	-	-	135,000	-
A Burge	50,228	-	-	4,772	-	-	-	55,000	-
F Fairthorne	50,000	-	-	-	-	-	-	50,000	-
P Job	50,000	-	-	-	-	-	-	50,000	-
D Smith	50,000	-	-	-	-	-	-	50,000	-
M Ward	55,833	-	-	-	-	-	-	55,833	-
D Williamson (Deputy Chairman)	67,500	-	-	-	-	-	-	67,500	-
S Van Nguyen	45,662	-	-	4,338	-	-	-	50,000	-
R. Wight* (Executive Director - CEO)	432,640	50,705	-	54,635	-	-	-	537,979	9
Total	990,151	50,705	-	75,457	-	-	-	1,116,312	9
Executives**									
M. Massoud	260,357	27,333	-	33,114	-	-	-	320,804	9
T. Pacella	268,756	28,215	-	34,180	-	-	-	331,151	9
T. Stratopoulos	216,265	25,251	26,000	27,940	-	-	-	295,456	9
Total	745,378	80,799	26,000	95,233	-	-	-	947,411	9
Grand Total	1,735,529	131,504	26,000	170,690	-	-	-	2,063,723	

\* R.Wight has a potential to earn a bonus of 20% of his salary.

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

\*\*\* These amounts include fees accrued during the financial year ended 30 June 2015

\*\*\*\* Cash bonus amounts were paid in financial year ended 30 June 2015 in respect to performance based entitlements arising from the financial year ended 30 June 2014

**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES**

**ABN: 93 077 879 782**

**(a) Directors' and Executives' remuneration (cont'd):**

2014	Short-term			Post Employment		Equity	Other	Total	Performance Related Bonus ****
	Salary & Fees ****	Cash Bonus *****	Non-monetary	Superannuation	Retirement benefits	Options	Termination Benefits		
	\$	\$	\$	\$	\$	\$	\$		%
Directors									
J Bridgfoot (Chairman)	156,000	-	-	-	-	-	-	156,000	-
N Osborne (Deputy Chairman)	104,391	-	-	9,609	-	-	-	114,000	-
A Burge	50,364	-	-	4,636	-	-	-	55,000	-
F Fairthorne	50,000	-	-	-	-	-	-	50,000	-
J Florey *(Resigned 30/08/13)	4,167	-	-	-	-	-	-	4,167	-
P Job	50,000	-	-	-	-	-	-	50,000	-
D Smith	50,000	-	-	-	-	-	-	50,000	-
M Ward	50,000	-	-	-	-	-	-	50,000	-
D Williamson	50,000	-	-	-	-	-	-	50,000	-
S Van Nguyen	45,786	-	-	4,214	-	-	-	50,000	-
R. Wight (Appointed a director 30/5/14)***	429,652	70,392	-	42,110	-	-	-	542,154	13
Total	1,040,360	70,392	-	60,569	-	-	-	1,171,321	13
Executives**									
M. Massoud	255,377	41,915	-	26,578	-	-	-	323,870	13
T. Pacella	263,615	43,234	-	27,344	-	-	-	334,193	13
T. Stratopoulos	212,128	38,965	26,000	22,378	-	-	-	299,471	13
Total	731,120	124,114	26,000	76,300	-	-	-	957,534	13
Grand Total	1,771,480	194,506	26,000	136,869	-	-	-	2,128,855	

\* Amounts refer to only part of the financial year. Mr Florey resigned as a Director on 30 August 2013

\*\* Key Management Personnel have the potential to earn a bonus of 20% of their salary

\*\*\* R.Wight has a potential to earn a bonus of 20% of his salary.

\*\*\*\* These amounts include fees accrued during the financial year ended 30 June 2014

\*\*\*\*\* Cash bonus amounts were paid in financial year ended 30 June 2014 in respect to performance based entitlements arising from the financial year ended 30 June 2013

**D. Relationship between remuneration and company performance**

**(a) Remuneration not dependent on satisfaction of performance condition**

The non-executive Directors remuneration policy is not directly related to company performance. The board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the company for shareholders.

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 when needed. During the current year no remuneration consultants were engaged.

The maximum aggregate amount of fees payable to non-executive Directors for their service as Directors is subject to approval by Shareholders. No part of non-executive Director fees are linked to Company performance.

**(b) Remuneration dependent on satisfaction of performance condition**

A portion of the Executive Remuneration is based on attainment of performance conditions. Performance-based remuneration includes short-term cash bonus.

For Executive-Key Management Personnel the Company provides total remuneration packages and short term incentives packages. The contracts for service between the Company and Executive-Key Management Personnel (excluding the CEO) are on a continuing basis, the terms of which are not expected to change in the immediate future. With the exception of incentive related payments outlined above, the remuneration policy is not directly related to Company performance. The Board considers a remuneration policy based on short-term returns may not be beneficial to the long-term creation of wealth by the Company for shareholders.

The target criteria for the incentive components of remuneration of the CEO and other Executive-Key Management Personnel 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 review with the Executive-Key Management Personnel 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.

The following table summarises the performance conditions for performance-linked bonus:

	<b>2015*</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Profit – continuing operations	1,890	3,770	6,160	3,673	3,980
Profit/(loss) – discontinued operations	-	(1,464)	(3,675)	(4,521)	12,697
<b>Profit/(loss) for the year</b>	<b>1,890</b>	<b>2,306</b>	<b>2,485</b>	<b>(848)</b>	<b>16,677</b>
Annual incentive to KMP	132	195	138	194	-
Dividends Paid	-	-	-	-	-
End of year share price – Cents	65	72	100	100	55
Change in share price – Cents	(7)	(28)	-	45	(40)
<b>Incentive Performance Metric</b>					
Earnings before interest and tax	Partial	Partial	Partial	Yes	Yes
Like for Like Sales performance	Yes	No	Yes	No	No
Improving business processes in store offer, retention & compliance	Yes	Yes	Partial	Partial	Partial

\* The 2015 short-term incentive is not payable to Executive-Key Management Personnel until the 2016 financial year

**(c) Consequences of Company's performance on shareholder wealth**

The following table summarises company performance and key performance indicators:

	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>	<b>2011</b>
<b>Revenue (\$'000)</b>	50,456	53,377	56,637	57,100	59,558
% increase/decrease in revenue	-5%	-6%	-1%	-4%	5%
<b>Profit before tax (\$'000)</b>	2,601	2,925	3,223	3,673	3,980
% increase/decrease in profit before tax	-11%	-9%	-12%	-8%	46%
Change in share price (%)	-10%	-28%	-	82%	-42%
<b>Dividend paid to shareholders (\$'000)</b>	-	-	-	-	-
<b>Return of capital (\$'000)</b>	-	-	-	-	-
Total remuneration of KMP	1,932	1,934	1,920	2,738	2,969
Total performance based remuneration	132	195	138	194	-
Total remuneration of KMP	2,064	2,129	2,058	2,932	2,969



**E. Key management personnel's equity holdings**

**(a) Number of shares held by key management personnel (consolidated)**

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

Directors' relevant interests in:	A Class Redeemable Preference Shares of AUR Ltd
Allan Burge	274,002
Fred Fairthorne	1,108,002
Deborah Smith	155,792
Sien Van Nguyen	399,603
Malcolm Ward	1,712,464
David Williamson	144,003
Paul Job	18,002

**F. Loans to key management personnel**

**(a) Aggregate of loans made**

During the year, there were no loans made, guaranteed or secured, directly or indirectly, by the group and any of its subsidiaries to key management personnel, their close family members and entities related to them.

**(b) Aggregate of loans made is greater than \$100,000**

During the year, there were no loans made, guaranteed or secured, directly or indirectly, by the group and any of its subsidiaries to key management personnel, their close family members and entities related to them greater than \$100,000.

**G. Other transactions with key management personnel**

Directors or director related entities that hold Australian United Retailers Limited shares as store members entered into transactions with the Company and may have outstanding balances at year end. The Directors involved are:

Alan Burge	Paul Job	Sien Van Nguyen
Fred Fairthorne	Deborah Smith	Malcolm Ward
		David Williamson

These transactions are on the same commercial terms and conditions as transactions with other members. The aggregate amounts of store membership fees received or receivable and included in the result for the year are \$39,542 (2014: \$35,750). The aggregate amount of rebates paid or payable and included in the result for the year is \$2,649,356 (2014: \$2,420,797).

Rebates for Malcolm Ward and Fred Fairthorne are paid via Supermarkets West Pty Ltd. During the financial year \$3,053,317 (2014: \$3,208,309) were paid or payable to Supermarkets West Pty Ltd. Of this a portion was paid to these directors in line with the same commercial terms and conditions as transactions with other members.

**I. Voting and comments made at the company's 2015 Annual General Meeting (AGM)**

At the company's most recent AGM, a resolution to adopt the prior year remuneration report was put to the vote and at least 75% of 'yes' votes were cast for adoption of that report. No comments were made on the remuneration report that was considered at the AGM.

-----end of the remuneration report (Audited)-----

***Rounding of amounts***

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (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.

**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 Consolidated Entity's financial statements for the year ended 30 June 2015 under section 295A(2) of the *Corporations Act 2001*.

**Corporate Governance**

In recognising the need for the highest standards of corporate behaviour and accountability, the Directors of Australian United Retailers Ltd support and adhere to, where practicable, the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council. The Company's Corporate Governance statement is contained within this Annual Report.

Signed in accordance with a resolution of the directors.



.....  
Director N. Osborne

***Melbourne***

Dated this 7<sup>th</sup> Day of September 2015

**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES**  
**AUDITOR'S INDEPENDENCE DECLARATION**  
**TO THE DIRECTORS OF AUSTRALIAN UNITED RETAILERS LTD**

In relation to the independent audit for the year ended 30 June 2015, to the best of my knowledge and belief there have been:

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

This declaration is in respect of Australian United Retailers Ltd and the entities it controlled during the period.



K L BYRNE  
Partner

7 September 2015



PITCHER PARTNERS  
Melbourne

## CORPORATE GOVERNANCE STATEMENT

The Board is committed to achieving and demonstrating the highest levels of Corporate Governance.

The Company's Corporate Governance practices have continued to be refined in the latest reporting period, reflecting developments within the Company and the application of both the Guidance provided by the National Stock Exchange (NSX) in practice note 14 – 'Corporate governance disclosures in annual reports' as well as Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ("ASX Principles").

The ASX Principles are intended to provide guidance for ASX listed companies.

The Board therefore follows the ASX Principles wherever practicable for a smaller NSX listed Company.

This Governance Report has been structured in accordance with the ASX principles, recognising that the principles are non-mandatory but are designed to produce an outcome that is effective and of high quality.

The main corporate governance policies and practices of the Company are set out in the statement below in a format that follows the ASX Principles.

All these practices, unless otherwise stated, were in place for the entire year.

**Links to the Company's website indicated in this statement will be found in the My Shares section at <http://extranet.foodworks.com.au>**

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 1: LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The Board of Directors is responsible for setting the strategic direction of the Company and for overseeing and monitoring its businesses and affairs. The Board reviews and approves the Company's strategic and business plans and guiding policies. Day-to-day management of the Company's affairs and implementation of the strategy and policy initiatives are delegated to the Chief Executive Officer and other Key Management Personnel, who operate in accordance with Board-approved policies and delegated limits of authority. The Board has an unrestricted capability to request and access any information or reports that are required to discharge its duties and obligations.

#### Board and Management Roles

The Board operates under a written Code of Conduct and a 'Statement of Matters Reserved for the Board'. The principal matters reserved for the Board include:

- Appointment of the CEO and Company Secretary, approval of the appointment of Senior Executive Personnel 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 the Board and succession planning for the CEO and Board members;
- Approval of remuneration and incentive policies and individual executive employment contracts;
- Approval of annual financial reports, accounting & dividend policies, new borrowings or financial arrangements, strategic objectives and plans, major expansions or changes to the Company's structure;
- Approval of the capital expenditure budget and major individual expense items and contracts; and
- Risk management policies and risk assessment and insurance policies.

*Refer to the My Shares section of the Extranet for a copy of the Boards Code of Conduct and for the full Statement of Matters Reserved for the Board.*

The CEO, and by delegation to Key Management Personnel, 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.

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 and certain Insurance policies which are designed to provide Directors & Officers insurance cover for each Director and Key Management Personnel.

#### Evaluating the performance of Key Management Personnel

The performance of the Chief Executive Officer is reviewed by the Board annually. The Board looks at qualitative and quantitative criteria and includes profit and other financial measures and achievement of strategic objectives. The Chief Executive Officers performance was reviewed at the time of his contract renewal using the above principles.

The performance of Key Management Personnel is evaluated on an ongoing participative process with the CEO which involves:

- Clarifying and agreeing on the outcomes/objectives of individual roles;
- Monitoring the progress 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 Key Management Personnel undertaken during the year followed these principles.

Key Management Personnel have access to continuing education to enhance their skills and knowledge. Information on the remuneration of the CEO and Key Management Personnel, including principles used to determine remuneration, is set out in the Directors' report under the heading 'Remuneration Policy'.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### PRINCIPLE 2: STRUCTURE THE BOARD TO ADD VALUE

#### Appointment to the Board

The selection, appointment and re-appointment of Directors is to ensure that the Board possesses an appropriate range of skills, experience and expertise to enable the Board to most effectively carry out its responsibilities. As part of this appointment process, the Directors consider Board renewal and succession plans and whether the Board is of a size and composition that is conducive to making appropriate decisions.

When a new Director is to be appointed, the Remuneration and Nomination Committee reviews a Board skills matrix to review the range of skills, experience and expertise on the Board, and to identify its needs. **From this the process involves a validation of the candidate's background and capabilities,** cultural fit and legal capacity to act as a Director. The Committee then produces a short list of candidates with appropriate skills and experience.

The full Board then appoints the most suitable candidate who must stand for election at the next Annual General Meeting. **The Committee's support of existing Directors for re-election** is not automatic and is contingent on their past performance, contribution to the Company and the current and future needs of the Board and Company.

The Directors are not appointed for a fixed term but at each AGM the longest serving one-third of the Directors shall retire from office, but are eligible for re-election.

#### Board Composition

Maintaining a balance of experience and skills is an important factor in Board composition. For details of the skills, experience and expertise of the individual Directors, and the period of office held by each individual Director, please refer to the 'Directors' Report'.

#### Independent Non-executive Directors

The Board includes one independent Director who is also the Chairman of the Board. He provides an external perspective designed to maximise the interests of the shareholders.

The Board's independent non-executive Director (at the date of this report) is Neil Osborne.

The Board has adopted specific principles in relation to Directors independence. These state that when determining independence, a Director must be non-executive and the Board should consider whether the Director:

- Is a substantial shareholder of the Company or an officer of, or otherwise associated with, a substantial shareholder of the Company;
- Is or has been employed in an executive capacity by the Company within three years of commencing to serve on the Board;
- Within the last three years has been a principal of a material professional adviser or a material consultant to the Company, or an employee materially associated with the service provided;
- Is a material supplier or customer of the Company, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- Has a material contractual relationship with the Company other than as a Director;
- Is free from any business or other relationship which could, or reasonably be perceived to, materially interfere with the Directors independent exercise of their judgement.

The Board assesses independence each year. To enable this process, the Directors must provide all information that may be relevant to the assessment.

**The majority of the Board is made up of non independent Directors. The Company's constitution** requires that at least four directors shall be Retail Directors. A Retail Director means a director who is an Approved Storeowner or a natural person related entity of an Approved Storeowner. **A Retail Director is not considered independent. The Board's current composition includes seven Retail** Directors reflecting the outcomes of shareholder voting at the last Annual General Meeting. All Directors, whether independent or not, bring an independent judgement to bear on Board decisions.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Independent professional advice

Directors have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Company's expense.

### Company Secretary

All Directors have access to the Company Secretary who is accountable to the Board, through the Chairman, on all governance matters.

### Chairman and Chief Executive Officer (CEO)

The Chairman, Mr Neil Osborne, is considered by the Board to be an independent Director. The roles of CEO and Chairman are not exercised by the same individual, but work together in a supportive manner to provide a controlled approach to both achieving performance and compliance.

### Board Committees

To assist in the execution of its responsibilities, the Board currently has three Board committees – the Audit and Risk Committee, the Remuneration and Nomination Committee and the Supply Chain Management Committee. These committees have written terms of reference, which are subject to ongoing review. Matters addressed by Board committees are reported to the Board following each committee meeting. Committees have no executive powers regarding their findings and recommendations. The Chair of all three Board committees are Retail Directors (non independent). Details of Committee members and their attendance at committee meetings during the year are set out in the Directors' Report.

All members of the Committees have appropriate business expertise and are financially literate. At least one member has relevant financial qualifications and experience, as determined by the Board.

### Audit and Risk Committee

Refer to Principal 4: Safeguard Integrity in Financial Reporting

### Remuneration and Nomination Committee

Responsibilities of this Committee include:

- Recommending size and composition of the Board;
- Identifying and developing procedures for the appointment of new Directors;
- Establishing and reviewing Board succession plans;
- Developing and implementing a plan for identifying, assessing and enhancing Director competencies;
- 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 in the My Shares section of the Extranet.*

Members of the Committee throughout the year were Allan Burge (Chairman), John Bridgfoot, David Williamson, Deborah Smith and Paul Job. John Bridgfoot was a member until 19 November 2014 when he retired. The Committee held three meetings during the year to 30 June 2015. Attendance at Committee meetings throughout the year are set out in the Directors' report.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

### Supply Chain Management Committee

Responsibilities of the committee include:

- Developing alternative solutions to supply chain issues faced by FoodWorks;
- Developing the potential for improved outcomes on promotional purchases and better usage of generic products within the FoodWorks Supply Chain;
- Developing solutions for a multi-site business operating across all Australian states.

Members of the Committee throughout the financial year were David Williamson (Chairman), Neil Osborne, Fred Fairthorne, Sien Van Nguyen, Paul Job, Rick Wight. John Bridgfoot was a member until 19 November 2014 when he retired. Midhat Massoud and Tony Pacella are Key Management Personnel who also participate in this Committee. The Committee held four meetings during the year. **Attendance at Committee meetings through the year is set out in the Directors' report.**

All Directors, whether independent or not, bring an independent judgement to bear on Committees decisions.

## PRINCIPLE 3: PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

### Code of Conduct

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, conflicts of interest (including an over-riding requirement that commercial arrangements with Director Related parties are on commercial terms negotiated on an arm's length basis), independent judgment, confidentiality, proper use of Company assets, privacy, and compliance with the letter and spirit of the law and the Code.

The Company requires that all Directors declare any conflicts of interests at each Board Meeting. Annual questionnaires are used by the Company to capture any potential new interests that may have arisen. Senior Executives (Key Management Personnel) and staff are required to declare any conflicts of interest as part of the Company's annual Code of Conduct renewal process.

The Company has a Securities Trading Policy for Directors and staff designed to ensure that trading in the Company's securities by Directors and staff are fair and equitable and specifically precludes any 'insider trading' or other activities not permitted by the Corporations Law. The Policy also provides guidance on the procedures required when Directors, Senior Executives (Key Management Personnel) and staff can trade in the Company's securities and provides guidance on 'black out periods' when trading is not permitted.

The Directors are satisfied that the Company has complied with its policies on conduct and the Trading Policy.

*Refer to the My Shares section of the Extranet for the full Code of Conduct and the Securities Trading Policy.*

The Company has a Code of Conduct that applies to all employees. Subjects covered by the Code include:

- Equal employment opportunity, discrimination and harassment;
- Security of Company records and assets and confidentiality guidelines;
- Conflict of interest, acceptance of gifts, entertainment and services;
- Fraud, corruption and irregular transactions and legal compliance;
- Honest ethical behaviour; and
- Safe working environment.

Compliance with the Code is checked through the Company's internal control system and related processes and through an annual renewal process. New staff members are required to attend an induction program that includes familiarising staff with the guidelines. The Company's staff appraisal process includes employees' performance against 'Key Behavioural requirements' as well as 'Key Performance Indicators'. The Company seeks to encourage all staff and non employees to report any person suspected of poor business conduct and ethical practices including fraud and corrupt conduct.



## CORPORATE GOVERNANCE STATEMENT (CONT'D)

The Company has no formal policy concerning diversity which outlines any measurable objectives for achieving gender diversity for the Board or its employees. The Company is not of a size as would justify having such a policy but is committed to providing opportunities to people of all age, gender, ethnicity and cultural backgrounds.

As at 30 June 2015, the proportion of women employees in the whole organisation is 59%. There is currently one female Board member.

### Process for evaluating the performance of the Board, its committees and individual Directors

Annual reviews of the Board, its Committees and Directors are performed using self-evaluation procedures and through discussions with the Chairman. No independent review is conducted.

The Directors consider the evaluation process has been effective and that the individual discussions with the Chairman had been frank and open. The overall conclusion is that the Board and its Committees are effective and are operating at a satisfactory level.

## PRINCIPLE 4: SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

### Audit and Risk Committee

The main responsibilities of the Audit and Risk Committee are to:

- Review, assess and recommend to the Board to approve the annual and half-yearly financial report;
- Assist the Board in reviewing the effectiveness of the organisation's internal control environment covering; effectiveness and efficiency of operations; reliability of financial reporting and compliance with applicable laws and regulations;
- Recommend to the Board the appointment, removal and remuneration of external auditors, and review the terms of engagement, the scope and quality of audit and assess performance;
- Consider the independence and competence of the external auditor on an ongoing basis;
- Review and recommend to the Board to approve the level of non-audit services provided by external auditors and ensure it does not adversely impact on auditor independence;
- Review and monitor related party transactions and assess their propriety;
- Monitor and review policies on risk oversight and management (see further at Principle 7 below);
- Report to the Board on matters relevant to the committee's roles and responsibilities.

*The terms of reference of the Audit and Risk Committee can be found in the My Shares section of the Extranet.*

In fulfilling its responsibilities, the Audit and Risk Committee:

- Receive regular reports from management and the external auditors;
- Meet with the external auditors at least once a year, and more frequently if necessary;
- Review the processes the CEO and CFO have in place to support their certifications to the Board;
- Review any significant disagreements between the auditors and management, irrespective of whether they have been resolved;
- Review a statement in writing to the Board signed by the Chief Executive Officer and Chief Financial Officer certifying:
  - i. **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;
  - ii. **That the above statement is founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board and that the Company's risk management and internal compliance and control is operating efficiently and effectively in all material respects in relation to financial reporting risks.**

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

Members of the Committee throughout the year were Malcolm Ward (Chairman), Neil Osborne (until his appointment as Chairman of the Board), Deborah Smith, Sien Van Nguyen and John Bridgfoot (until his retirement).

The Committee met four times in the year to 30 June 2015. The qualifications of Committee members **and attendance details at Committee meetings throughout the year are set out in the Directors' report.**

All Directors are financially literate, with members of the Audit and Risk Committee having a particular focus on financial and risk management areas in the industry in which the Company operates.

The Audit and Risk Committee has authority, within scope of its responsibilities, to seek any information it requires from any employee or external party.

### External Auditors

The Company's policy is to appoint an external auditor who clearly demonstrates both technical capability and independence. The performance of the external auditor is reviewed annually.

An analysis of the fees paid to external auditors, including a break-down of fees for non-audit services, is provided in the Directors' Report and in Note 24 to the financial statements. It is the policy of the external auditors to provide an annual declaration of their independence to the Audit and Risk Committee. The external auditor will attend the annual general meeting and be available to answer shareholder questions about the conduct of the audit and preparation of the content of the financial report.

## PRINCIPLE 5: MAKE TIMELY AND BALANCED DISCLOSURE

The Company has a Disclosure Policy designed to ensure that there is full and timely disclosure of the **Company's activities to shareholders and the broader market, in accordance with the Company's legal and regulatory obligations** and that all stakeholders have an equal opportunity to receive and obtain externally available information issued by the Company.

The policy is reviewed regularly to ensure that it reflects any legislative or regulatory requirements or 'best practice' developments.

The Company is subject to the Listing Rules of the NSX and the "continuous disclosure" obligations (whereby share-price-sensitive information is required to be disseminated to the market immediately) prescribed in the *Corporations Act 2001*.

The Company is also subject to and has complied with the half yearly reporting obligations applicable to listed public companies.

### Disclosure responsibilities and procedures

The Chairman, Chief Executive Office and Company Secretary are responsible for communication with the NSX and have responsibility for reviewing proposed disclosures and making decisions in relation to what information can or should be disclosed to the market. All staff are required to inform those **officers of any potential 'price sensitive' information** concerning the Company as soon as they become aware of it.

*The full Continuous Disclosure policy can be found in the My Shares section of the Extranet.*

## PRINCIPLE 6: RESPECT THE RIGHT OF SHAREHOLDERS

The Company is committed to ensuring that its Shareholders, employees, suppliers and service providers, customers of its Shareholders, and the wider community have timely and equal access to important Company information.

The Company's principal shares are listed on the National Stock Exchange of Australia (NSX). Listing enhances transparency and potential liquidity for share owners as well as enabling timely communication of all "continuous disclosure" items to the broader market.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

In addition to meeting its continuous disclosure obligations, the FoodWorks Extranet online site is available to all bannered stores. The site is designed to keep members up to date with Company developments, provide practical assistance and information to members on how to operate and develop their businesses as well as obtaining feedback on items under consideration. It is considered **an effective interface with the Company's Members.**

In addition, various meetings, which are attended by management, staff and Directors, provide opportunities for the distribution of information and exchange of views with members on a wide range of issues. The Annual General Meeting of Shareholders (AGM) allows Shareholders to ask questions of the Board, to express views and vote on the various items on the agenda. The Annual Report is available via the extranet for Shareholders and is available in hard copy on request.

### PRINCIPLE 7: RECOGNISE AND MANAGE RISK

The Board is **responsible for designing and reviewing the Company's Risk Management Policy and for determining the Company's appetite for risk, taking into account the Company's strategic objectives** and other factors including stakeholder expectations. The level of tolerance for risk varies according to the risk area.

The Company is not of a size which requires a separate Internal Audit Department or dedicated Risk Management Function. 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.** The Audit and Risk Committee has implemented a process of communication with internal **stakeholders and conducted an examination of the Company's environment, so as to** establish the parameters within which risks must be managed and reported.

### Risk Management

The Audit and Risk Committee ensures there are adequate policies in relation to risk management, **compliance and internal control systems. They monitor the Company's risk management by overseeing managements' actions in the evaluation, management, monitoring and reporting of** material operational, financial, compliance and strategic risks.

In providing this oversight, the Committee:

- Reviews the framework and methodology for risk identification, the degree of risk the Company is willing to accept, the management of risk and the processes for evaluating the **Company's risk management system;**
- Reviews group wide objectives in the context of the above mentioned categories of corporate risk;
- Reviews and, where necessary, approves guidelines and policies governing the identification, **assessment and management of the Company's exposure to risk;**
- Reviews compliance with agreed policies;
- Reviews the statement to the Board signed by the Chief Executive Officer and Chief Financial Officer in relation to S295A of the *Corporations Act 2001* **confirming that the Company's** financial reports are founded on a sound system of risk management and internal compliance and control and that the system is operating effectively in all material respects in relation to financial reporting risks.

The Committee recommends any actions it deems appropriate to the Board for its consideration.

Management is responsible for designing, implementing and reporting on the adequacy of the **Company's risk management and internal control system and** has to report to the Audit and Risk Committee on the effectiveness of the risk management and internal control system during the year, **and on the Company's management of its material business risks.**

The Risk Management Framework used by the Company covers all the functions within the business and is designed to identify, analyse, evaluate, manage and monitor risks across all functions.

## CORPORATE GOVERNANCE STATEMENT (CONT'D)

A risk profile and risk register are in place. These have been prepared and agreed with senior management and are periodically reviewed and updated. Ongoing risk management activities involve periodic reviews of the known risk items as well as the identification of new risks as they may arise.

The known risks and established risk controls are documented in a risk register which holds the details of all known business risks and established mitigation strategies. Management has reported to the Board as to the status of major business risks.

The Chief Executive Officer and the Chief Financial Officer have provided a declaration to the Board in accordance with section 295A of the *Corporations Act 2001*.

*The full Risk Policy overview can be found in the My Shares section of the FoodWorks Extranet.*

## PRINCIPLE 8: REMUNERATE FAIRLY AND RESPONSIBLY

### Remuneration Committee:

The Board has established a Remuneration and Nomination Committee. For details of the Committee's membership, their attendance at Committee meetings and a summary of the Committee's Charter, please refer to **Principle 2 — 'Remuneration and Nomination Committee'**.

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

### Remuneration Policy

A summary of the remuneration policy may be found in the Directors' Report under the heading 'Remuneration Report'.

Details of the compensation of senior executives (Key Management Personnel) and of Non-executive Directors' compensation and retirement benefits are contained in the Directors' Report.

The Company does not have any equity based remuneration policies and therefore does not require a policy on prohibiting entering into transactions in associated products which limit the economic risk of participating in unvested entitlements under any equity-based remuneration schemes.

*The terms of reference of the Remuneration and Nomination Committee can be found in the My Shares section of the Extranet.*

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$'000	2014 \$'000
<b>Continuing operations</b>			
<b>Revenue &amp; Other Income</b>			
Supplier & member income	<b>5</b>	50,040	52,812
Interest income	<b>5</b>	29	32
Other income	<b>5</b>	387	533
		<u>50,456</u>	<u>53,377</u>
<b>Less: expenses</b>			
Distribution to members		(18,801)	(20,307)
Cost of members services		(7,344)	(7,540)
Merchandising expenses		(4,348)	(4,469)
Marketing expenses		(2,020)	(2,179)
Business development expenses		(527)	(745)
Administrative expenses		(14,585)	(14,854)
Depreciation and amortisation	<b>6</b>	(227)	(341)
		<u>(47,852)</u>	<u>(50,435)</u>
Finance costs	<b>6</b>	(3)	(17)
<b>Profit before income tax</b>		<u>2,601</u>	<u>2,925</u>
Income tax (expense) / benefit	<b>7</b>	(711)	845
<b>Profit from continuing operations</b>		<u>1,890</u>	<u>3,770</u>
Net loss from discontinued operations	<b>8</b>	-	(1,464)
<b>Profit for the year</b>		<u><u>1,890</u></u>	<u><u>2,306</u></u>

The above statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)**  
**FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$'000	2014 \$'000
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>1,890</u>	<u>2,306</u>
<b>Profit is attributable to:</b>			
Members of the parent		<u>1,890</u>	<u>2,306</u>
<b>Total comprehensive income attributable to:</b>			
Members of the parent		<u>1,890</u>	<u>2,306</u>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share attributable to equity holders of the parent entity</b>	<b>21</b>		
- basic earnings per share		16.35	19.95
- diluted earnings per share		16.35	19.95
<b>Earnings per share from continuing operations attributable to equity holders of the parent entity</b>	<b>21</b>		
- basic earnings per share		16.35	32.61
- diluted earnings per share		16.35	32.61
<b>Loss per share from discontinued operations attributable to equity holders of the parent entity</b>	<b>21</b>		
- basic loss per share		-	(12.66)
- diluted loss per share		-	(12.66)

The above statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

**AS AT 30 JUNE 2015**

	<b>Note</b>	<b>2015 \$'000</b>	<b>2014 \$'000</b>
<b>Current assets</b>			
Cash and cash equivalents	<b>9</b>	1,996	342
Trade and other receivables	<b>10</b>	10,851	11,240
Other	<b>11</b>	24	25
<b>Total current assets</b>		12,872	11,607
<b>Non-current assets</b>			
Property, plant and equipment	<b>12</b>	282	346
Deferred tax asset	<b>7</b>	3,071	3,782
<b>Total non-current assets</b>		3,353	4,128
<b>Total assets</b>		16,225	15,735
<b>Current liabilities</b>			
Trade and other payables	<b>13</b>	13,594	15,321
Short term borrowings	<b>14</b>	-	111
Provisions	<b>15</b>	2,597	2,162
<b>Total current liabilities</b>		16,191	17,594
<b>Non-current liabilities</b>			
Provisions	<b>15</b>	212	210
<b>Total non-current liabilities</b>		212	210
<b>Total liabilities</b>		16,403	17,804
<b>Net deficiency</b>		(178)	(2,069)
<b>Equity</b>			
Share capital	<b>16</b>	10,119	10,119
Accumulated losses	<b>17a</b>	(12,188)	(12,188)
Accumulated profits reserve	<b>17b</b>	1,890	-
<b>Total equity</b>		(178)	(2,069)

The above statement should be read in conjunction with the accompanying notes.

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2015**

<b>Consolidated Entity</b>	<b>Contributed equity \$'000</b>	<b>Retained earnings \$'000</b>	<b>Total Equity \$'000</b>
<b>Balance as at 1 July 2013</b>	10,119	(14,494)	(4,375)
Profit for the year	-	2,306	2,306
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>2,306</b>	<b>2,306</b>
<b>Balance as at 30 June 2014</b>	<b>10,119</b>	<b>(12,188)</b>	<b>(2,069)</b>
<b>Balance as at 1 July 2014</b>	10,119	(12,188)	(2,069)
Profit for the year	-	1,890	1,890
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,890</b>	<b>1,890</b>
<b>Balance as at 30 June 2015</b>	<b>10,119</b>	<b>(10,297)</b>	<b>(178)</b>

The above statement should be read in conjunction with the accompanying notes.



**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2015**

	Note	2015 \$'000	2014 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		52,293	56,438
Cash payments in the course of operations		(50,391)	(56,530)
Interest received		29	32
Finance costs		(3)	(17)
<b>Net cash received (used) in operating activities</b>	<b>18(b)</b>	1,928	(77)
<b>Cash flows from investment activities</b>			
Payments for purchases of property, plant and equipment		(163)	(25)
<b>Net cash used in investing activities</b>		(163)	(25)
<b>Cash flows from financing activities</b>			
Loan equipment payments		(111)	(210)
<b>Net cash used in financing activities</b>		(111)	(210)
Net increase / (decrease) in cash held		1,654	(312)
Cash and cash equivalents at beginning of financial year		342	654
<b>Cash and cash equivalents at end of financial year</b>	<b>18(a)</b>	1,996	342

The above statement should be read in conjunction with the accompanying notes.

## **NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30 JUNE 2015**

### **NOTE 1: STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES**

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

#### **(a) Reporting Entity**

Australia United Retailers Ltd (the "Company") is a company limited by shares, incorporated and domiciled in Australia. The address of the Company's registered office is Level 1, 1601 Malvern Road, Glen Iris VIC 3146. The consolidated financial statements of the Company as at and for the year ended 30 June 2015 comprise the Company and its subsidiaries (together referred to as the "Consolidated Entity").

#### **(b) Basis of preparation of the financial report**

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

The financial report covers Australian United Retailers Ltd and controlled entities as a consolidated entity. Australian United Retailers Ltd is a company limited by shares, incorporated and domiciled in Australia. Australian United Retailers Ltd is a for-profit entity for the purpose of preparing the financial statements.

The financial report was authorised for issue by the directors on 7 September 2015.

#### *Compliance with IFRS*

The consolidated financial statements of Australian United Retailers Ltd also comply with the International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB).

#### *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.

#### *Significant accounting estimates*

The preparation of the financial report requires the use of certain estimates and judgements in applying the entity's accounting policies. Those estimates and judgements significant to the financial report are disclosed in Note 2.

#### **(c) Going concern**

The financial report has been prepared on a going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Consolidated Entity reported a profit for the year after income tax of \$1,890,000 (2014: \$2,306,000), a net deficiency of assets totalling \$178,000 (2014: \$2,069,000) and a current working capital deficit of \$3,319,000 (2014: current working capital deficit of \$5,987,000).

The Directors believe that with the divestment program having been completed and maintenance of normal trading volumes the on-going trading activities of the core business are expected to enable the consolidated entity to meet its obligations as and when they fall due.

**(c) Going concern (Cont'd)**

As at 30 June 2015, the Consolidated Entity has a bank loan facility of \$300,000 with its Bankers. The bank loan facility can be cancelled by the relevant Bank at short notice as per normal banking terms and conditions. The Directors believe that the Bank will continue to make the loan facility available for the duration of the loan period which will enable the business to continue to operate normally.

**(d) Accumulated profits reserve**

At the conclusion of each financial year, the Company records profits earned during the year to accumulated profits reserve and losses incurred during the year to accumulated losses.

**(e) 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 the parent entity controls. The group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

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 consolidated from the date on which control is established and are de-recognised from the date that control ceases.

**(f) Revenue**

Supplier and member income is recognised when the right to receive the revenue has been established.

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

Rent revenue from operating leases is recognised on a straight-line basis over the term of the lease.

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).

**(g) Cash and cash equivalents**

Cash and cash equivalents include cash on hand and at banks, 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 borrowings in current liabilities on the statement of financial position.

**(h) Property, plant and equipment**

*Cost and valuation*

Each class of property, plant and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses.

*Depreciation*

The depreciable amount of all fixed assets are depreciated over their estimated useful lives 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:

<b>Class of fixed asset</b>	<b>Depreciation rates</b>	<b>Depreciation basis</b>
Leasehold improvements	5 – 33 %	Straight Line
Leased assets	33%	Straight Line
Plant and equipment	12.5 – 33 %	Straight Line
Furniture, fixtures and fittings	5 – 20 %	Straight Line
Computer equipment	25 – 33 %	Straight Line

**(i) 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.

*Finance leases*

Leases of fixed assets, where substantially all of the risks and benefits incidental to ownership of the asset, but not the legal ownership, are transferred to the consolidated entity are classified as finance leases. Finance leases are capitalised, recording an asset and liability equal to the fair value or, if lower, the present value of the minimum lease payments, including any guaranteed residual values. The interest expense is calculated using the interest rate implicit in the lease and is included in finance costs in the statement of comprehensive income. Leased assets are depreciated on a straight line basis over their estimated useful lives where it is likely the consolidated entity will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the reduction of the lease liability and the lease interest expense for the period.

*Operating leases*

Lease payments for operating leases are recognised as an expense on a straight-line basis over the term of the lease.

Lease incentives received under operating leases are recognised as a liability and amortised on a straight-line basis over the life of the lease term.

**(j) Impairment of non-financial assets**

Goodwill, intangible assets not yet ready for use and intangible assets that have an indefinite useful life are not subject to amortisation and are therefore tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might 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.

**(k) 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.

***Deferred tax balances***

Deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are expected to be recovered or liabilities are settled. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor 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.

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

***Tax consolidation***

Australian United Retailers Ltd (parent entity) and its controlled entities have implemented the tax consolidation legislation and have formed a tax-consolidated group under the tax consolidation legislation.

The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each Company in the Consolidated Entity contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

**(l) Provisions**

Provisions are recognised when the consolidated entity has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(m) Employee benefits**

*(i) Short-term employee benefit obligations*

Liabilities arising in respect of wages and salaries, annual leave, accumulated sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at the amounts based on remuneration rates which are expected to be paid when the liability is settled. The expected cost of short-term employee benefits in the form of compensated absences such as annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables.

*(ii) Long-term employee benefit obligations*

The provision for employee benefits in respect of long service leave and annual leave which, are not expected to be settled within twelve months of the reporting date, 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.

Employee benefit obligations are presented as current liabilities in the balance sheet if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

*(iii) Superannuation obligations*

The Consolidated entity makes contributions to defined superannuation plans in respect of employee services rendered during the year. These superannuation contributions are recognised as an expense in the same period when the employee services are received.

*(iv) Bonus plan*

The consolidated entity recognises a provision when a bonus is payable in accordance with the employee's contract of employment, and the amount can be reliably measured.

*(v) Termination benefits*

Termination benefits are payable when employment of an employee or group of employees is terminated before the normal retirement date, or when the entity provides termination benefits as a result of an offer made and accepted in order to encourage voluntary redundancy.

The consolidated entity recognises a provision for termination benefits when the entity can no longer withdraw the offer of those benefits, or if earlier, when the termination benefits are included in a formal restructuring plan that has been announced to those affected by it.

**(n) Borrowing costs**

Borrowing costs can include interest expense calculated using the effective interest method, finance charges in respect of finance leases, and exchange differences arising from foreign currency borrowings to the extent that they are regarded as an adjustment to interest costs.

Borrowing costs are expensed as incurred, except for borrowing costs incurred as part of the cost of the construction of a qualifying asset which are capitalised until the asset is ready for its intended use or sale.

**(o) Financial instruments**

*Classification*

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

Non-derivative financial instruments are initially recognised at fair value, plus directly attributable transaction costs (if any), except for instruments recorded at fair value through profit or loss.

*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, loans from third parties and loans 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.

Financial liabilities are classified as current liabilities unless the consolidated entity has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

**(p) Impairment of financial assets**

*Impairment of financial assets*

Financial assets are tested for impairment at each financial year end to establish whether there is any objective evidence for impairment.

For loans and receivables carried at amortised cost, impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The amount of the loss reduces the carrying amount of the asset and is recognised in profit or loss. The impairment loss is reversed through profit or loss if the amount of the impairment loss decreases in a subsequent period and the decrease can be related objectively to an event occurring after the impairment was recognised.

**(q) Foreign currency translations and balances**

*Functional and presentation currency*

The financial statements of each entity within the consolidated entity are measured using the currency of the primary economic environment in which that entity operates (the functional currency). The consolidated financial statements are presented in Australian dollars which is the consolidated entity's functional and presentation currency.

*Transactions and balances*

Transactions in foreign currencies of entities within the consolidated group are translated into functional currency at the rate of exchange ruling at the date of the transaction.

Foreign currency monetary items that are outstanding at the reporting date (other than monetary items arising under foreign currency contracts where the exchange rate for that monetary item is fixed in the contract) are translated using the spot rate at the end of the financial year.

Except for certain foreign currency hedges, all resulting exchange differences arising on settlement or re-statement are recognised as revenues and expenses for the financial year.

**(r) Goods and services tax (GST)**

Revenues, expenses and purchased assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Tax Office. In these circumstances the GST is recognised as part of the cost of acquisition of the asset or as part of an item of the expense. Receivables and payables in the statement of financial position are shown inclusive of GST.

Cash flows are presented in the statement of cash flows on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

**(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) Earnings/(loss) per share (EPS)**

Basic EPS is calculated as net profit attributable to members, divided by the weighted average number of preference shares.

The Consolidated Entity does not have Diluted EPS, as there are no share options on issue.

**(u) Comparatives**

Where necessary, comparative information has been reclassified and repositioned for consistency with current year disclosures.

**(v) Rounding of amounts**

The parent entity and the consolidated entity have applied the relief available under ASIC Class Order CO 98/0100 and accordingly, amounts in the consolidated financial statements and directors' report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.



**(w) Accounting standards issued but not yet effective at 30 June 2015**

***AASB 15 Revenue from contracts with customers***

AASB 15 introduces a five step process for revenue recognition with the core principle being for entities to recognise revenue to depict the transfer of goods or services to customers in amounts that reflect the consideration (that is, payment) to which the entity expects to be entitled in exchange for those goods or services. The five step approach is as follows:

- Step 1: Identify the contracts with the customer;
- Step 2: Identify the separate performance obligations;
- Step 3: Determine the transaction price;
- Step 4: Allocate the transaction price; and
- Step 5: Recognise revenue when a performance obligation is satisfied.

AASB 15 will also result in enhanced disclosures about revenue, provide guidance for transactions that were not previously addressed comprehensively (for example, service revenue and contract modifications) and improve guidance for multiple-element arrangements.

The effective date is annual reporting periods beginning on or after 1 January 2017.

The changes in revenue recognition requirements in AASB 15 is not expected to cause changes to the timing and amount of revenue recorded in the financial statements as well as additional disclosures. The impact of AASB 15 has not yet been quantified.

***AASB 9 Financial Instruments***

AASB 9 requires significant revisions to the classification and measurement of financial assets, reducing the number of categories and simplifying the measurement choices, including the removal of impairment testing of assets measured at fair value. The amortised cost model is available for debt assets meeting both business model and cash flow characteristics tests. All investments in equity instruments using AASB 9 are to be measured at fair value.

AASB 9 amends measurement rules for financial liabilities that the entity elects to measure at fair value **through profit and loss. Changes in fair value attributable to changes in the entity's own credit risk are** presented in other comprehensive income.

The effective date is annual reporting periods beginning on or after 1 January 2018.

The impacts on the reported financial position and performance have not yet been determined.

**NOTE 2:      SIGNIFICANT ACCOUNTING ESTIMATES AND JUDGEMENTS**

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

Certain accounting estimates include assumptions concerning the future, which, by definition, will seldom represent actual results. Estimates and assumptions based on future events have a significant inherent risk, and where future events are not as anticipated there could be a material impact on the carrying amounts of the assets and liabilities discussed below:

***(a) 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.

***(b) Income tax***

Deferred tax assets and liabilities 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.

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

**NOTE 3: SEGMENT INFORMATION**

*(a) Description of segments*

The Consolidated Entity has two reportable segments as described below:

Segment 1: The provision of retail support services to its members solely in Australia are reported in the continuing operations throughout this report.

Segment 2: The retail stores operated solely in Australia and are reported as discontinued operations throughout this report.

*(b) Segment information*

<b>2015</b>	<b>Retail Support Services \$'000</b>	<b>Retail Stores \$'000</b>	<b>Total \$'000</b>
<b>Segment revenue</b>			
Total segment revenue	50,456	-	50,456
<b>Total segment revenue from external source</b>	50,456	-	50,456
<b>Segment result</b>			
Total segment result	659	-	659
Inter-segment impairment elimination	1,231	-	1,231
<b>Segment result from external source</b>	1,890	-	1,890
Items included within the segment result:			
Interest revenue	29	-	29
Interest expense	(3)	-	(3)
Depreciation and amortisation	(227)	-	(227)
Income tax expense	(711)	-	(711)
<b>Total Segment Assets</b>	16,225	-	16,225
<b>Total Segment Liabilities</b>	16,393	10	16,403

**NOTE 3: SEGMENT INFORMATION (Cont'd)**

<b>2014</b>	<b>Retail Support Services \$'000</b>	<b>Retail Stores \$'000</b>	<b>Total \$'000</b>
<b>Segment revenue</b>			
Total segment revenue	53,377		53,377
<b>Total segment revenue from external source</b>	53,377	-	57,377
<b>Segment result</b>			
Total segment result	68	(1,464)	(1,396)
Inter-segment impairment elimination	3,702	-	3,702
<b>Segment result from external source</b>	3,770	(1,464)	2,306
Items included within the segment result:			
Interest revenue	32	-	32
Interest expense	(17)	-	(17)
Depreciation and amortisation	(341)	-	(341)
Income tax benefit	845	-	845
<b>Total Segment Assets</b>	15,735	-	15,735
<b>Total Segment Liabilities</b>	16,563	1,241	17,804

**NOTE 4: FINANCIAL RISK MANAGEMENT**

The consolidated entity is exposed to a variety of financial risks comprising:

- Interest rate risk
- Credit risk
- Liquidity risk

The board of directors has overall responsibility for identifying and managing operational and financial risks.

The consolidated entity holds the following financial instruments:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	1,996	342
Receivables	10,851	11,240
	<hr/> 12,847	<hr/> 11,582
<b>Financial liabilities</b>		
Payables	13,594	15,321
Borrowings	-	111
	<hr/> 13,594	<hr/> 15,432

**NOTE 4: FINANCIAL RISK MANAGEMENT (Cont'd)**

**(a) Interest rate risk**

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate as a result of changes in market interest rates.

The Consolidated entities exposure to interest rate risks in relation to future cash flows and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

<b>Financial instruments</b>	<b>Interest bearing</b>	<b>Non-interest bearing</b>	<b>Total carrying amount</b>	<b>Weighted average effective interest rate</b>	<b>Fixed / variable rate</b>
<b>2015</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>	
<i>(i) Financial assets</i>					
Cash	1,995	1	1,996	1.5	Variable
Trade and other receivables	-	10,851	10,851	-	
Total financial assets	1,995	10,852	12,847	-	
<i>(ii) Financial liabilities</i>					
Trade and other creditors	-	13,594	13,594	-	
Total financial liabilities	-	13,594	13,594	-	
<b>2014</b>					
<i>(i) Financial assets</i>					
Cash	341	1	342	1.75	Variable
Trade and other receivables	-	11,240	11,240	-	
Total financial assets	341	11,241	11,582	-	
<i>(ii) Financial liabilities</i>					
Trade and other creditors	-	15,321	15,321	-	
Finance lease liability	111	-	111	7.00	Fixed
Total financial liabilities	111	15,321	15,432	-	

No other financial assets or financial liabilities are expected to be exposed to interest rate risk.

**Sensitivity**

If interest rates were to increase/decrease by 100 basis points from rates used to determine fair values as at the reporting date, assuming all other variables that might impact on fair value remain constant, then no significant impact on profit for the year and equity is expected.

**NOTE 4: FINANCIAL RISK MANAGEMENT (Cont'd)**

**(b) Credit risk**

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

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

i) Cash deposits

Credit risk for cash deposits is managed by holding all cash deposits with major Australian banks.

ii) Trade & Member receivables and Sundry Debtors

The management of the receivables balance is key in the minimisation of the potential bad debt exposure to the Company. Receivables balances are monitored on an ongoing basis and a formal review of all balances occurs every 6 months and where necessary appropriate provisions are established.

The consolidated entity does not have any material credit risk exposure for other receivables or other financial instruments.

**(c) Liquidity risk**

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

***Maturity analysis***

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

	<b>&lt; 6 Months \$'000</b>	<b>6-12 Months \$'000</b>	<b>1-5 years \$'000</b>	<b>Total contractual cash flows \$'000</b>	<b>Carrying amount \$'000</b>
<b>Year ended 30 June 2015</b>					
Cash and cash equivalents	1,996	-	-	1,996	1,996
Receivables	10,851	-	-	10,851	10,851
Payables	(13,496)	(98)	-	(13,594)	(13,594)
Borrowings	-	-	-	-	-
Net maturities	(649)	(98)	-	(747)	(747)
<b>Year ended 30 June 2014</b>					
Cash and cash equivalents	342	-	-	342	342
Receivables	11,240	-	-	11,240	11,240
Payables	(15,183)	(138)	-	(15,321)	(15,321)
Borrowings	(111)	-	-	(111)	(111)
Net maturities	(3,712)	(138)	-	(3,850)	(3,850)

**(d) Fair value compared with carrying amounts**

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

**NOTE 5: REVENUE AND OTHER INCOME**

**Revenue and other income from continuing operations**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Operating activities</i>		
Supplier & member income	48,785	51,570
Rent from member stores	1,255	1,242
Other revenue	387	533
	<u>50,427</u>	<u>53,345</u>
<i>Other income</i>		
Interest	29	32
Total revenue & Other Income	<u>50,456</u>	<u>53,377</u>

**NOTE 6: PROFIT FROM CONTINUING OPERATIONS**

Profit from continuing operations before income tax has been determined after the following specific expenses:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Employee benefits expense</i>		
Wages and salaries	9,870	9,509
Workers' compensation costs	36	41
Superannuation costs	781	746
	<u>10,687</u>	<u>10,296</u>
<i>Depreciation and amortisation of non-current assets</i>		
Leasehold improvements	38	19
Plant and equipment	13	5
Leased assets	102	203
Computer equipment	51	108
Furniture, fixtures and fittings	23	6
	<u>227</u>	<u>341</u>
<i>Finance costs expensed</i>		
Equipment loan interest	3	17
	<u>3</u>	<u>17</u>
<i>Other expenses</i>		
Inventory (writeoff)/back	(109)	107
Bad debts	19	115
Doubtful debts write back	(98)	(10)
	<u>(188)</u>	<u>212</u>



**NOTE 7: INCOME TAX**

**(a) Components of tax expense:**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Current tax	-	-
Deferred tax	711	(845)
	<u>711</u>	<u>(845)</u>

**(b) Prima facie tax payable**

The prima facie tax payable on profit before income tax is reconciled to the income tax expense as follows:

Profit before tax from continuing operations	2,601	2,925
Loss before tax from discontinued operations	-	(1,464)
Total profit before income tax	<u>2,601</u>	<u>1,461</u>

Prima facie income tax payable on profit before income tax at 30% (2014: 30%)

780                      438

Add tax effect of:

- other non-allowable items

1                      2

781                      440

Less tax effect of:

- other allowable items

(5)                      (24)

- recognition of deferred tax assets not previously brought to account

(65)                      (1,261)

(70)                      (1,285)

Income tax expense (benefit) attributable to profit

711                      (845)

**(c) Deferred tax**

Deferred tax relates to the following:

***Deferred tax assets***

The balance comprises:

Provision for doubtful debts	161	191
Provision for obsolescence	29	33
Plant and equipment under lease	-	3
Accruals	107	254
Employee benefits – annual and long service leave	843	712
Provisions – other	-	369
Tax losses carried forward	<u>1,931</u>	<u>2,220</u>

***Net deferred tax assets***

3,071                      3,782

**NOTE 7: INCOME TAX (Cont'd)**

**(d) Deferred income tax revenue/(expense) included in income tax expense comprises**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Decrease / (increase) in deferred tax assets	711	(845)

**(e) Deferred tax assets not brought to account**

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

-	65
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**(i) Deferred tax assets recognised**

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

**NOTE 8: DISCONTINUED OPERATION**

Two corporate owned store sites remained at 30 June 2014. The leases on the two sites were surrendered during the year end 30 June 2015.

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(i) Financial performance information</b>		
Revenue	-	-
Expenses	-	-
Profit/(loss) before income tax	-	-
Income tax benefit	-	-
Profit/(loss) after income tax of discontinued operation	-	-
Gain on store divestments before income tax		
Store divestment expenses before income tax	-	(1,464)
Income tax expense	-	-
Loss on store divestments after income tax	-	-
Loss) from discontinued operation	-	(1,464)

**(ii) Cash flow information**

Net cash used in operating activities	(1,231)	(3,711)
Net cash used in investing activities	-	-
Net cash provided by financing activities	1,231	3,702
Net cash flow	-	(9)

Net cash provided by financing activities in the current financial year \$1,231,000 (2014: \$3,702,000) relates to cash received from the parent entity to fund the divestment program.

**(iii) Carrying amount of assets and liabilities**

**Assets**

Assets directly associated with discontinued operations	-	-
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**Liabilities**

Payables and accruals – external	(10)	(1,241)
Payables – parent entity	(24,799)	(23,568)
Liabilities directly associated with discontinued operations	(24,809)	(24,809)
Net liabilities attributable to discontinued operations	(24,809)	(24,809)

**NOTE 9: CASH AND CASH EQUIVALENTS**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and on hand	1	1
Deposits at call	1,995	341
	<u>1,996</u>	<u>342</u>

**NOTE 10: TRADE AND OTHER RECEIVABLES**

CURRENT

Trade and member receivables	9,409	9,730
Provision for impairment	(138)	(236)
	<u>9,271</u>	<u>9,494</u>
 Sundry debtors and accrued income	 1,980	 2,146
Provision for impairment	(400)	(400)
	<u>1,580</u>	<u>1,746</u>
	<u>10,851</u>	<u>11,240</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 that an individual trade receivable is impaired. The impairment losses have been included within the administrative expenses in the Consolidated Income Statement. Amounts outstanding beyond the normal 30 day trading terms which have not been provided for at 30 June 2015 or 2014 are not considered impaired by management based on the trading history with the debtor. All trade receivables that are not impaired are expected to be received within trading terms.

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Movements in the provision for impairment were:		
Opening balance at 1 July	636	646
Charge for the year	(98)	(10)
Closing balance at 30 June	<u>538</u>	<u>636</u>

**NOTE 10: TRADE AND OTHER RECEIVABLES (Cont'd)**

**(b) Trade receivables**

Trade and other receivables ageing analysis at 30 June is:

	<b>Gross 2015 \$'000</b>	<b>Impairment 2015 \$'000</b>	<b>Gross 2014 \$'000</b>	<b>Impairment 2014 \$'000</b>
Not past due	4,947	-	4,645	-
Past due 31-60 days	1,115	-	1,138	-
Past due 61-90 days	179	-	405	-
Past due more than 91 days	(81)	16	55	164
	<u>6,160</u>	<u>16</u>	<u>6,243</u>	<u>164</u>

**(c) Member receivables**

Member receivables ageing analysis at 30 June is:

	<b>Gross 2015 \$'000</b>	<b>Impairment 2015 \$'000</b>	<b>Gross 2014 \$'000</b>	<b>Impairment 2014 \$'000</b>
Not past due	1,012	122	1,216	72
Past due 31-60 days	1,160	-	1,123	-
Past due 61-90 days	1,186	-	1,258	-
Past due more than 91 days	(109)	-	(110)	-
	<u>3,249</u>	<u>122</u>	<u>3,487</u>	<u>72</u>
<b>Trade and member receivables</b>	<b><u>9,409</u></b>	<b><u>138</u></b>	<b><u>9,730</u></b>	<b><u>236</u></b>

**NOTE 11: OTHER CURRENT ASSETS**

	<b>2015 \$'000</b>	<b>2014 \$'000</b>
Prepayments	23	24
Security deposit	1	1
	<u>24</u>	<u>25</u>

**NOTE 12: PROPERTY PLANT AND EQUIPMENT**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Leasehold improvements</i>		
At cost	1,137	1,073
Accumulated depreciation	(972)	(973)
	<u>165</u>	<u>100</u>
<i>Plant and equipment Leased assets</i>		
At cost	611	611
Accumulated amortisation	(611)	(509)
	<u>-</u>	<u>102</u>
<i>Plant and equipment</i>		
At cost	199	188
Accumulated depreciation	(179)	(171)
	<u>20</u>	<u>17</u>
<i>Computer equipment</i>		
At cost	873	831
Accumulated depreciation	(804)	(754)
	<u>69</u>	<u>77</u>
<i>Furniture, fixtures and fittings</i>		
At cost	85	113
Accumulated depreciation	(56)	(63)
	<u>29</u>	<u>50</u>
<i>Total property, plant and equipment</i>		
Cost	2,905	2,816
Accumulated depreciation and amortisation	(2,622)	(2,470)
<b>Total property, plant and equipment</b>	<b><u>282</u></b>	<b><u>346</u></b>

**NOTE 12: PROPERTY PLANT AND EQUIPMENT (cont'd)**

**(a) Movement in carrying amounts**

	<b>Leasehold Improve- ments</b>	<b>Plant and Equipment</b>	<b>Computer equipment</b>	<b>Leased assets</b>	<b>Furniture fixtures and fittings</b>	<b>Total</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Carrying amount as at 1 July 2013	119	22	161	305	55	662
Additions	-	-	24	-	1	25
Disposal	-	-	-	-	-	-
Depreciation charge for the year	(19)	(5)	(108)	(203)	(6)	(341)
Carrying amount as at 30 June 2014	100	17	77	102	50	346
Additions	103	16	42	-	2	163
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(38)	(13)	(51)	(102)	(23)	(227)
Carrying amount at 30 June 2015	165	20	68	-	29	282

**NOTE 13: TRADE & OTHER PAYABLES**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
CURRENT		
Trade payables	7,558	9,000
Divestment closure costs payable	-	1,231
Sundry payables and accrued expenses	6,036	5,090
	<u>13,594</u>	<u>15,321</u>

**NOTE 14: BORROWINGS**

CURRENT

*Secured*

Finance Lease liability	-	<u>111</u>
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**Items pledged as security:**

The National Australia Bank has provided a guarantee & indemnified certain of AURL's lease agreement obligations up to a value of \$329,000 (2014: \$373,000). Operating lease commitments are disclosed in Note 19(a).

**NOTE 15: PROVISIONS**

CURRENT

Employee benefits	<u>2,597</u>	<u>2,162</u>
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NON-CURRENT

Employee benefits	<u>212</u>	<u>210</u>
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Aggregate employee benefits liability	<u>2,809</u>	<u>2,372</u>
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**NOTE 16: CONTRIBUTED CAPITAL**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Issued and paid up capital</b>		
11,560,388 Class A redeemable preference shares (2014: 11,560,399)	10,119	10,119
<b>(b) Movements in shares on issue</b>		
	<b>Parent Equity</b>	<b>Parent Equity</b>
	<b>2015</b>	<b>2014</b>
	<b>No of Shares</b>	<b>No of Shares</b>
	<b>\$'000</b>	<b>\$'000</b>
Beginning of the financial year	11,560,399	11,560,412
– Shares issued during the year	89	86
– Share buybacks	(100)	(99)
End of the financial year	11,560,388	11,560,399

**(c) Rights of each type of share**

Only Class 'A' redeemable preference shares carry the right to vote at meetings of shareholders. The holder shall have one vote for each share held when a poll is called.

On a winding up of the Company, the holder shall be entitled to participate in any distribution of the assets of the Company and each share carries the right to participate in any dividend declared and paid by the Company to the holders of Class 'A' redeemable preference shares.

27 February 2007 was the last date on which the Company issued Class 'B' redeemable preference shares to 'bannered' members. As at 30 June 2015 135 Class 'B' preference shares are on issue (2014: 153). Holders of Class 'B' redeemable preference shares do not have the right to vote at meetings of shareholders but shall have the right to vote at a meeting of the holders of Class 'B' redeemable preference shares. Holders of Class 'B' preference shares do not have the right to participate in any surplus assets of the Company on winding up or upon a reduction of capital. Each Class 'B' redeemable preference share carries the right to participate in any dividend declared and paid by the Company to holders of Class 'B' redeemable preference shares but does not as of right have an entitlement to the same dividend as other share in this class.

**(e) Capital Management**

Management monitors the capital of the Consolidated Entity to ensure that the Consolidated Entity can fund its operations and continue as a going concern. Under the Second Amendment and Restatement Deed with CSA Retail (Finance) Pty Ltd if the Consolidated Entity was to engage in a capital raise before the end of June 2016 which exceeds \$6.4 million then the Transitional Funding Facility plus accrued interest would be reinstated to the Balance Sheet. Refer to Note 20(a) for further details regarding the potential for the Transitional Funding Facility to be reinstated.

**NOTE 17: ACCUMULATED LOSSES AND ACCUMULATED PROFITS RESERVE**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Accumulated losses</b>		
Accumulated losses at the beginning of the financial year	(12,188)	(14,494)
Profit attributable to members of the entity	-	2,306
Accumulated losses at the end of the financial year	(12,188)	(12,188)
<b>(b) Accumulated profits reserve</b>		
Accumulated profits reserve at the beginning of the financial year	-	-
Profit attributable to members of the entity	1,890	-
Accumulated profits reserve at the end of the financial year	1,890	-

**NOTE 18: CASH FLOW INFORMATION**

**(a) Reconciliation of cash**

For the purposes of the statement of cash flows, cash includes cash on hand and at call deposits with banks or financial institutions, investments in money market instruments maturing within less than three 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:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash Items</b>		
– Cash on hand	1	1
– Cash at bank	1,995	341
Closing cash balance	<u>1,996</u>	<u>342</u>

**(b) Reconciliation of cash flow from operations with profit after tax**

Profit from ordinary activities after tax	1,890	2,306
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**Non - Cash Items**

– Depreciation and amortisation	227	341
– Net profit on disposal of stores	-	-

**Changes in assets and liabilities**

– Decrease in debtors	389	2,020
– Decrease/(increase) in deferred tax asset	711	(845)
– Decrease/(increase) in other assets	1	(1)
– Decrease in trade and other payables	(1,727)	(3,420)
– Increase/(decrease) in provisions	437	(478)

<b>Net cash flow from operating activities</b>	<b><u>1,928</u></b>	<b><u>(77)</u></b>
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**(c) Credit stand by arrangements with banks (National Australia Bank)**

Credit facility	4,825	5,748
Amount utilised	(329)	(400)
Unused credit facility	<u>4,496</u>	<u>5,348</u>

**(d) Loan facilities**

Bank guarantee facility	400,000	373,000
Business card facility – variable interest rate	125,000	125,000
Direct Payments facility –variable interest rate	4,000,000	4,000,000
Unused bank loan facility	300,000	1,250,000

**NOTE 19: COMMITMENTS**

**2015**      **2014**  
**\$'000**      **\$'000**

**Lease expenditure commitments**

**(a) Operating leases (non-cancellable):**

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.

Included in divestment closure costs payable (Note 13) at 30 June 2015 is NIL of non-cancellable operating leases (2014: \$1,034,000).

The future minimum lease payments under non-cancellable operating leases are payable:

– Not later than one year	1,263	2,184
– Later than one year and not later than five years	4,449	7,002
– Later than five years	2,205	3,330
Aggregate lease expenditure contracted for at reporting date	7,918	12,516

**(b) Finance leases:**

***Payable***

– Not later than one year	-	113
– Later than one year and not later than five years	-	-
– Later than five years	-	-
Minimum payments	-	113
Less future charges	-	(2)
Total liability	-	111
Represented by:		
Current liability	-	111
Non-current liability	-	-
	-	111

**NOTE 20: CONTINGENCIES**

**(a) Reinstatement of Transitional Funding Facility**

The Second Amendment and Restatement Deed with CSA Retail (Finance) Pty Ltd includes the following conditions which if triggered will result in the re-instatement of the Transitional Funding Facility Reinstatement Amount which equates to \$7.1million plus interest accruing on the facility up to the date that the triggering event occurs.

The trigger events are:

- (i) If before the end of June 2021, a change in control of the Parent Entity occurs, or
- (ii) If before the end of June 2016, a capital raise which exceeds \$6.4 million occurs.

**(b) Guarantees**

Australian United Retailers Limited agreed to act as guarantor for the lease obligations of one of the former corporate 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. The maximum amount payable under any such guarantee is \$3.3 million.

Australian United Retailers Limited has a guarantee from one of the Directors of the new owner as to the performance of the new owner.

**NOTE 21: EARNINGS PER SHARE**

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

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of earnings used in calculating earnings per share:		
Profit from continuing operations	1,890	3,770
Loss from discontinued operations	-	(1,464)
Profit used in calculating basic earnings per share	1,890	2,306
	<b>2015</b>	<b>2014</b>
	<b>No of Shares</b>	<b>No of Shares</b>
Weighted average number of preference shares used in calculating basic earnings per share	11,560,394	11,560,406
Effect of dilutive securities:		
Share options	-	-
Adjusted weighted average number of preference shares used in calculating diluted earnings per share	11,560,394	11,560,406

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

**NOTE 22: DIRECTORS' AND EXECUTIVES' COMPENSATIONS**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b><i>Compensation by category</i></b>		
Short-term employment benefits	1,893	1,992
Post-employment benefits	171	136
	2,064	2,128

Refer to the directors' report for disclosure on the remuneration policies and remuneration for Directors and Executives.

**NOTE 23: RELATED PARTY DISCLOSURES**

**(a)** The consolidated financial statements include the financial statements of Australian United Retailers Ltd and its controlled entities listed below:

	<b>Country of incorporation</b>	<b>Percentage owned</b>	
		<b>2015</b>	<b>2014</b>
<b><i>Parent Entity:</i></b>			
Australian United Retailers Ltd	Australia		
<b><i>Subsidiaries of Australian United Retailers Ltd</i></b>			
Australian United Grocers Pty Ltd	Australia	100%	100%
National Retailers Group Pty Ltd	Australia	100%	100%
Foodworks Retail Pty Ltd	Australia	100%	100%
FW Retail Holdings Pty Ltd	Australia	100%	100%
FW Viva 1 Pty Ltd	Australia	100%	100%
FW Viva 5 Pty Ltd	Australia	100%	100%
FW Viva 8 Pty Ltd	Australia	100%	100%
FW Viva 10 Pty Ltd	Australia	100%	100%
FW Viva 11 Pty Ltd	Australia	100%	100%
FW Viva 13 Pty Ltd	Australia	100%	100%
FW Viva 15 Pty Ltd	Australia	100%	100%
FW Viva 18 Pty Ltd	Australia	100%	100%

**(b) Loans to and from directors and director related entities**

There were no loans to and from directors and director related entities at 30 June 2015 (2014: \$nil).

**(c) Other transactions with directors and director related entities**

Directors or director related entities that 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:

Deborah Smith	Malcolm Ward
Fred Fairthorne	Alan Burge
Sien Van Nguyen	David Williamson
Paul Job	

**(c) Other transactions with directors and director related entities (Cont'd)**

These transactions are on the same commercial terms and conditions as transactions with other members. The aggregate amounts of store membership fees received or receivable and included in the result for the year are \$39,542 (2014: \$35,750). The aggregate amount of rebates paid or payable and included in the result for the year is \$2,649,356 (2014: \$2,420,797).

Rebates for Malcolm Ward and Fred Fairthorne are paid via Supermarkets West Pty Ltd. During the financial year \$3,053,317 (2014: \$3,208,309) were paid or payable to Supermarkets West Pty Ltd. Of this a portion was paid to these directors in line with the same commercial terms and conditions as transactions with other members.

**(d) Director Shareholdings**

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

*"A" Class redeemable non-cumulative preference shares:*

	<b>2015</b>	<b>2014</b>
	<b>No of Shares</b>	<b>No of Shares</b>
Alan Burge	274,002	274,002
Fred Fairthorne	1,108,002	1,072,002
Deborah Smith	155,793	155,793
Malcolm Ward	1,712,464	1,378,464
David Williamson	144,003	72,003
Sien Van Nguyen	399,603	399,603
Paul Job	18,002	18,002

**(e) Transactions with entities in the Consolidated Entity**

During the current and prior reporting periods support services and funding was provided to FoodWorks Retail. The support services were provided on terms identical to other members, whilst the funding was a non interest bearing loan.

**NOTE 24: AUDITOR'S REMUNERATION**

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Amounts paid and payable to Pitcher Partners (Melbourne) for:</b>		
(i) Audit and other assurance services		
An audit or review of the financial report of the entity and any other entity in the consolidated entity	105	112
Other assurance services	3	2
Total remuneration for audit and other assurance services	108	114
(ii) Other non-audit services		
Taxation services	10	11
<b>Total auditors' remuneration</b>	<b>118</b>	<b>125</b>

**NOTE 25: PARENT ENTITY INFORMATION**

Summarised presentation of the parent entity, Australian United Retailers Ltd, financial statements:

	<b>2015</b>	<b>2014</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Summarised statement of financial position</b>		
<b>Assets</b>		
Current assets	12,872	11,607
Non-current assets	3,353	4,128
Total assets	16,225	15,735
<b>Liabilities</b>		
Current liabilities	16,180	16,351
Non-current liabilities	212	210
Total liabilities	16,392	16,561
<b>Net assets</b>	(167)	(826)
<b>Equity</b>		
Contributed capital	10,119	10,119
Accumulated losses	(10,286)	(10,945)
Total equity	(167)	(826)
<b>(b) Summarised statement of comprehensive income</b>		
Profit for the year	659	68
Other comprehensive income for the year	-	-
Total comprehensive income for the year	659	68
The profit for the parent entity includes a loan impairment of \$1,231,000 (2014: \$3,702,000).		
<b>(c) Parent entity guarantees</b>		
The parent entity has provided the guarantees outlined in Note 20(b).		
<b>(d) Parent entity contingent liabilities</b>		
The parent entity has a contingent liability relating to the Second Amendment and Restatement Deed with CSA Retail (Finance) Pty Ltd as disclosed in Note 20(a).		
<b>(e) Parent entity contractual commitments</b>		
The parent entity finance lease obligations as outlined in Note 19(b).		
The future minimum lease payments under non-cancellable operating leases are payable:		
– Not later than one year	1,263	1,334
– Later than one year and not later than five years	4,449	4,213
– Later than five years	2,205	3,147
	7,918	8,694

**NOTE 26: SUBSEQUENT EVENTS**

There has been no matter or circumstance, which has arisen since 30 June 2015 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2015, of the consolidated entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2015, of the consolidated entity.



**DIRECTORS DECLARATION**

The directors declare that the financial statements and notes set out on pages 28 to 63 in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements;
- (b) As stated in Note 1(a) the consolidated financial statements also comply with International Financial Reporting Standards; and
- (c) Give a true and fair view of the financial position of the consolidated entity as at 30 June 2015 and of its performance for the year ended on that date.

**In the directors' opinion**, having regard to those matters discussed in Note 1(c) in relation to the going concern basis on which the accounts are prepared, there are reasonable grounds to believe that Australian United Retailers Ltd 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 ending 30 June 2015.

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



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N. Osborne  
Director

Melbourne  
Date 7 September 2015

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

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

**Report on the Financial Report**

We have audited the accompanying financial report of Australian United Retailers Ltd and controlled entities, which comprises the statement of financial position as at 30 June 2015, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply 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. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about 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 company's preparation of the financial report that gives a true and fair view 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 company'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 AND CONTROLLED ENTITIES**  
**ABN 93 077 879 782**

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

*Opinion*

In our opinion:

- (a) the financial report of Australian United Retailers Ltd and controlled entities is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards 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 9 to 15 of the directors' report for the year ended 30 June 2015. 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.

*Opinion*

In our opinion, the Remuneration Report of Australian United Retailers Ltd and controlled entities for the year ended 30 June 2015 complies with section 300A of the *Corporations Act 2001*.



K L BYRNE  
Partner

7 September 2015



PITCHER PARTNERS  
Melbourne

## **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 11,560,388 Class A redeemable preference shares issued at 30 June 2015.

**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 135 Class B redeemable preference shares issued at 30 June 2015. There are no substantial shareholders of Class B 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 2015**

	<b>No of shares</b>	<b>%</b>
MR MALCOLM GEOFFREY WARD	891,250	7.71%
MR JEFFREY NEVILLE HALL	866,000	7.49%
MR PAUL DAMIAN REILLY	865,000	7.48%
MR MICHAEL DAMIAN REDDROD + MRS TINA DREYFUS REDDROD <DREYFUS SUPER FUND A/C>	760,000	6.57%
DALEWING PTY LTD	688,001	5.95%
MR GARRY RAYMOND ROBERSON	609,800	5.27%
OAKMEADOW PTY LTD <SUNRISE SUPER FUND A/C>	517,000	4.47%
MRS DU THI TRAN	399,600	3.46%
MELLWAY HOLDINGS PTY LTD	300,001	2.60%
FISH LAY PTY LTD <J & A SUPER FUND A/C>	285,673	2.47%
		<b>53.47%</b>