



13 September 2016

## **Shareholder Update Australian United Retailers Limited (AURL)**

AURL today reported a consolidated profit of \$1.9 million for the year ended 30 June 2016.

The result reflects the ability of the AUR retailers to continue to deliver positive sales growth in competitive market conditions.

AURL's CEO, Mr Rick Wight said "the business is focused on implementing retail formats that better meet the needs of individual retailers and their customers, optimising both sales and profitability".

The Board was pleased to pay the first dividend of 3c per share in April 2016.

The Board today was also pleased to declare a fully franked final dividend of 3c per share taking the full year dividend to 6c per share. The final dividend will be paid in October 2016.

**-ENDS-**

For further company or shareholder information, please contact:

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**AUSTRALIAN UNITED RETAILERS  
LTD**

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

**FINANCIAL REPORT  
FOR THE YEAR ENDED  
30 JUNE 2016**

**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES  
FINANCIAL REPORT FOR THE YEAR ENDED  
30 JUNE 2016**

**TABLE OF CONTENTS**

	<b>Page</b>
Directors' Report	<b>1</b>
Auditor's Independence Declaration	<b>17</b>
Financial Report for the year ended 30 June 2016	
Consolidated Statement of Comprehensive Income	<b>18</b>
Consolidated Statement of Financial Position	<b>19</b>
Consolidated Statement of Changes in Equity	<b>20</b>
Consolidated Statement of Cash Flows	<b>21</b>
Notes to the Financial Statements	<b>22</b>
Directors' Declaration	<b>52</b>
Independent Auditor's Report	<b>53</b>
Shareholder Information	<b>55</b>
Corporate Governance Statement	<b>56</b>

## **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 2016 (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:

<b><u>Name</u></b>	<b><u>Period of directorship</u></b>
Neil Osborne	
Allan Burge	
Fred Fairthorne	
Paul Job	
Deborah Smith	Retired as Director 17 November 2015
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 controlled entities did not engage in any activity during the financial year.

### **Results**

The profit of the Consolidated Entity for the financial year, after income tax, amounted to \$1,863,000 (2015: Profit of \$1,890,000).

### **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 consistent the prior year result. Retail outlets are continuing to secure supply from alternative sources which resulted in a modest reduction in revenues of \$0.7 million when compared to the prior year. The costs of operating the support office were reduced by a similar amount.

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 no borrowings as at 30 June 2016. The Company has cash reserves and additional banking 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 years.

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. This date has now passed and no such capital raise was undertaken, accordingly there is no risk of re-instatement under this particular trigger event.

The Directors are of the view that the restriction under item 9(i) above is 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**

On the 13<sup>th</sup> September 2016, The Board declared a dividend of 3 cents per share which is payable in October 2016. The total amount payable is \$347,000. No other matters or circumstances have arisen since the end of the financial year that have significantly affected or may significantly affect the operations of the Consolidated Entity, the results of those operations, or the state of affairs of the Consolidated Entity in future financial years.

### **Likely developments**

The Company will continue to pursue its 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**

Details of dividends paid, declared or recommended are as follows:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>(a) Dividends paid or declared</b>		
Dividends paid at \$0.03 per share (2015: \$0)	346,794	-
fully franked at 30%	<u>346,794</u>	<u>-</u>
<b>(b) Dividends declared after the reporting period and not recognised</b>		
Since the end of the reporting period the directors have recommended / declared a dividend at \$0.03 per share (2015: \$0) fully franked at 30%	<u>346,810</u>	<u>-</u>

### **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 2015 is provided below, together with details of the company secretary as at the year end.

**Neil Osborne**

- Independent Non Executive Chairman  
(Appointed 19 November 2014)

Qualifications

- 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 Colorado Group since February 2007, Vita Group since June 2007, Beacon Lighting Group since February 2014. 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.

**David Williamson**

- Non Executive Director

Experience

- 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, Chairman of the Supply Chain Committee (Appointed 19 November 2014) and appointed Deputy Chairman of the Board on 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

- Deborah retired as a Director on 17 November 2015.  
  
Deborah was appointed as a Director on 10 April 2003 of Australian United Grocers Pty Ltd, and has been an independent storeowner and operator since 1996. Deborah is a Director of Master Grocers of Australia.

Special Responsibilities

- Was a member of the Audit & Risk Committee and the Remuneration & Nomination Committee.

**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.

**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**

- Non Executive Director

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 three 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.

**Sien Van Nguyen**

- Non Executive Director

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.



<b>Paul Job</b>	- Non Executive Director
Experience	<p>- Appointed as a Director of the Company on 27 November 2012.</p> <p>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.</p> <p>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.</p> <p>Paul has a background in the finance industry with a focus on Development and Leasing finance.</p> <p>Paul and his wife Margaret are well known for their charity work raising funds for seriously ill children.</p>
Special Responsibilities	- Member of the Remuneration & Nomination Committee and the Supply Chain Management Committee.
<b>Rick Wight</b>	- Executive Director
Qualifications	- Rick holds a Bachelor of Business Studies and is a Fellow of the Institute of Chartered Accountants Australia.
Experience	<p>- Appointed as a Director of the Company on 30 May 2014.</p> <p>Rick has a strong background in finance, franchising and strategy management.</p> <p>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.</p> <p>Rick joined FoodWorks in the role of Chief Operating Officer in 2008 and was appointed as Chief Executive Officer in 2010.</p>
Special Responsibilities	- Rick is the Chief Executive Officer of the Consolidated Entity and a member of the Supply Chain Management Committee.
<b>Tony Pacella</b>	- Company Secretary
Qualifications	<p>- Bachelor of Business (Accountancy)</p> <p>Associate of the Australian Institute of Chartered Accountants in Australia</p> <p>Graduate of Australia Institute of Company Directors (G.A.I.C.D.)</p>
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
N Osborne	11	11	-	-	-	-	-	-
A Burge	11	11	-	-	3	3	-	-
F Fairthorne	11	11	-	-	-	-	4	3
D Smith (Retired 17 Nov 2015)	4	4	1	1	-	-	-	-
M Ward	11	11	4	4	-	-	-	-
D Williamson	11	11	-	-	3	3	4	4
S Van Nguyen	11	9	4	4	-	-	4	4
P Job	11	11	-	-	3	3	4	4
R Wight	11	11	-	-	-	-	4	4

### Directors' interests in shares or options

Refer to Remuneration report.

### Transactions with directors and director related entities

For transactions with directors and director related entities, refer to the Remuneration Report and Note 23 (c).

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

Indemnities have been given or insurance premiums paid during or since the end of the financial year, for any directors or officers of the Consolidated Entity.

No indemnities have been given or insurance premiums paid during or since the end of the financial year, for 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 provided by the auditors of entities in the consolidated entity 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*.

	2016 \$	2015 \$
<b>Amounts paid and payable to Pitcher Partners (Melbourne) for non-audit services:</b>		
Other assurance services	2,121	2,580
Taxation services	11,050	10,000
<b>Total auditors' remuneration for non-audit services</b>	<b>13,171</b>	<b>12,580</b>

### Rounding of amounts

In accordance with ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191, the amounts in the directors' report and in the financial report have been rounded to the nearest one thousand dollars (where indicated), or in certain cases, to the nearest dollar.

## **Remuneration report (Audited)**

The directors present the Consolidated Entity's 2016 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>
Neil Osborne		<i>Chairman – Non-Executive</i>
Allan Burge		<i>Director – Non-Executive</i>
Fred Fairthorne		<i>Director – Non-Executive</i>
Paul Job		<i>Director – Non-Executive</i>
Deborah Smith	<i>Retired 17 November 2015</i>	<i>Director – Non-Executive</i>
Sien Van Nguyen		<i>Director – Non-Executive</i>
Malcolm Ward		<i>Director – Non-Executive</i>
David Williamson		<i>Director – Non-Executive</i>
Rick Wight		<i>Director and Chief Executive Officer</i>
<b>(ii) Executives</b>		
Kym Coventry	<i>Appointed 26 October 2015</i>	<i>Chief Operating Officer</i>
Anthony Abdallah	<i>Appointed 7 March 2016</i>	<i>Chief Commercial and Procurement Officer</i>
Tony Pacella		<i>Chief Financial Officer &amp; Company Secretary</i>
Midhat Massoud	<i>Left business 15 July 2016</i>	<i>General Manager – Merchandise &amp; Marketing</i>
Theo Stratopoulos	<i>Left business 25 September 2015</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. During the 2016 year the Company acquired market data to assess the remuneration packages to ensure that they remain market appropriate. In June 2016, Executive-Key Management Personnel went through the Company's Annual Performance Review and an increase in line with performance was applied. In the 2016 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 2016 incentive policy. The criteria for the Company's 2016 incentive policy were based on performance targets for the continuing operations. The criteria for the 2016 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 contract as CEO was extended on 17 February 2016 for a period of three years and five months. 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 2016 year the target was the Company's 2016 incentive policy.

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

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

2016	Short-term				Post Employment		Other	Total	Performance Related Bonus ****
	Salary & Fees ***	Cash Bonus ****	Non-monetary	Other	Superannuation	Retirement benefits	Termination Benefits		
	\$	\$	\$	\$	\$	\$	\$	\$	%
Directors									
N Osborne (Chairman)	142,466	-	-	-	13,534	-	-	156,000	-
A Burge	50,228	-	-	-	4,772	-	-	55,000	-
F Fairthorne	50,000	-	-	-	-	-	-	50,000	-
P Job	50,000	-	-	-	-	-	-	50,000	-
D Smith (Retired 17/11/15)	19,028	-	-	-	-	-	-	19,028	-
M Ward	60,000	-	-	-	-	-	-	60,000	-
D Williamson (Deputy Chairman)	80,000	-	-	-	-	-	-	80,000	-
S Van Nguyen	45,662	-	-	-	4,338	-	-	50,000	-
R. Wight* (Executive Director - CEO)	437,411	64,896	-	-	40,753	-	-	543,060	12
Total	934,795	64,896	-	-	63,397	-	-	1,063,088	12
Executives**									
K. Coventry (joined 26/10/15) ^	291,730	-	18,333	28,684	20,182	-	-	358,929	-
A. Abdallah (joined 07/03/16) ^^	295,906	-	4,046	7,066	8,129	-	-	315,148	-
T. Pacella	270,131	40,313	-	-	30,000	-	-	340,444	12
M. Massoud (ceased 07/03/16) *****	177,043	39,054	-	-	20,488	-	-	236,585	17
T. Stratopoulos (ceased 25/09/2015)	52,602	36,001	6,875	-	8,383	-	217,114	320,976	11
Total	1,087,412	115,368	29,255	35,750	87,183	-	217,114	1,572,082	13
Grand Total	2,022,207	180,264	29,255	35,750	150,579	-	217,114	2,635,169	

\* 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 2016

\*\*\*\* Cash bonus amounts were paid in financial year ended 30 June 2016 in respect to performance based entitlements arising from the financial year ended 30 June 2015

\*\*\*\*\* M. Massoud was no longer considered to be Key management personnel as at 7 March 2016

^ K. Coventry was paid a sign on fee of \$50,000 on 25 September 2015

^^ A. Abdallah was paid a sign on fee of \$180,000 on 1 March 2016

**AUSTRALIAN UNITED RETAILERS LTD AND CONTROLLED ENTITIES**

**ABN: 93 077 879 782**

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

2015	Short-term			Post Employment		Other	Total	Performance Related Bonus ****
	Salary & Fees ****	Cash Bonus *****	Non-monetary	Superannuation	Retirement benefits	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

**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 only 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>2016*</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>
Profit – continuing operations	1,863	1,890	3,770	6,160	3,673
Loss – discontinued operations	-	-	(1,464)	(3,675)	(4,521)
<b>Profit/(loss) for the year</b>	<b>1,863</b>	<b>1,890</b>	<b>2,306</b>	<b>2,485</b>	<b>(848)</b>
Annual incentive to KMP	180	132	195	138	194
Dividends Paid	347	-	-	-	-
End of year share price – Cents	65	65	72	100	100
Change in share price – Cents	-	(7)	(28)	-	45
<b>Incentive Performance Metric</b>					
Earnings before interest and tax	Partial	Partial	Partial	Partial	Yes
Like for Like Sales performance	Partial	Yes	No	Yes	No
Improving business processes in store offer, retention & compliance	Yes	Yes	Yes	Partial	Partial

\* The 2016 short-term incentive is not payable to Executive-Key Management Personnel until the 2017 financial year



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

The following table summarises company performance and key performance indicators:

	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>	<b>2012</b>
Revenue (\$'000)	49,786	50,456	53,377	56,637	57,100
% decrease in revenue	-1%	-5%	-6%	-1%	-4%
Profit before tax (\$'000)	2,717	2,601	2,925	3,223	3,673
% increase/(decrease) in profit before tax	4%	-11%	-9%	-12%	-8%
Change in share price (%)	-	-10%	-28%	-	82%
Dividend paid to shareholders (\$'000)	347	-	-	-	-
Return of capital (\$'000)	-	-	-	-	-
Remuneration of KMP	2,455	1,932	1,934	1,920	2,738
Total performance based remuneration	180	132	195	138	194
Total remuneration of KMP	2,635	2,064	2,129	2,058	2,932

**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		
	Balance at the start of the year	Changes during the year	Balance at the end of the year
Allan Burge	274,002	-	274,002
Fred Fairthorne	1,108,002	132,001	1,240,003
Deborah Smith (retired 17 November 2015)	155,792	-	155,792
Sien Van Nguyen	399,603	-	399,603
Malcolm Ward	1,712,464	9,999	1,722,463
David Williamson	144,003	-	144,003
Paul Job	18,002	-	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 consolidated entity 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 consolidated entity 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

\* Deborah Smith retired as a Director on 17 November 2015 and all disclosures include transactions up the date of her retirement.

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 \$35,803 (2015: \$39,542). The aggregate amount of rebates paid or payable and included in the result for the year is \$2,488,537 (2015: \$2,649,356).

Rebates for Malcolm Ward and Fred Fairthorne are paid via Supermarkets West Pty Ltd. During the financial year \$3,683,165 (2015: \$3,053,317) 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.

During the period that Deborah Smith was a Director of the Consolidated Entity, Deborah Smith was a Director of the Master Grocers Association (MGA). Fees totalling \$116,217 (2015: \$247,965) were paid to the MGA for industry representation including legal & human resources support, training & compliance services. The MGA provides services directly to member stores as well as providing general advocacy services for the independent retail sector. Fees payable to the MGA are based on the same arms-length fee schedules applicable to any other independent store owner.

***H. 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)***-----

**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 13<sup>th</sup> Day of September 2016

**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 2016, 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 year.



K L BYRNE  
Partner

13 September 2016



PITCHER PARTNERS  
Melbourne

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND COMPREHENSIVE INCOME  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>Revenue &amp; Other Income</b>			
Supplier & member income	5	48,957	50,040
Interest income	5	66	29
Other income	5	763	387
		<u>49,786</u>	<u>50,456</u>
<b>Less: expenses</b>			
Distribution to members		(18,553)	(18,801)
Cost of members services		(6,985)	(7,344)
Merchandising expenses		(3,302)	(4,348)
Marketing expenses		(2,035)	(2,020)
Business development expenses		(1,034)	(527)
Administrative expenses		(15,078)	(14,585)
Depreciation and amortisation	6	(82)	(227)
		<u>(47,069)</u>	<u>(47,852)</u>
Finance costs	6	-	(3)
<b>Profit before income tax</b>		<u>2,717</u>	<u>2,601</u>
Income tax expense	7	(854)	(711)
<b>Profit for the year</b>		<u><u>1,863</u></u>	<u><u>1,890</u></u>
Other comprehensive income		-	-
<b>Total comprehensive income</b>		<u>1,863</u>	<u>1,890</u>
<b>Profit is attributable to:</b>			
Members of the parent		<u>1,863</u>	<u>1,890</u>
<b>Total comprehensive income attributable to:</b>			
Members of the parent		<u>1,863</u>	<u>1,890</u>
<b>Earnings per share attributable to equity holders of the parent entity</b>	21	<b>Cents</b>	<b>Cents</b>
- basic earnings per share		16.11	16.35
- diluted earnings per share		16.11	16.35

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

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION  
AS AT 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>Current assets</b>			
Cash and cash equivalents	<b>10</b>	4,207	1,996
Trade and other receivables	<b>11</b>	10,448	10,851
Other	<b>12</b>	116	24
<b>Total current assets</b>		14,771	12,872
<b>Non-current assets</b>			
Property, plant and equipment	<b>13</b>	870	282
Deferred tax asset	<b>7c</b>	2,217	3,071
<b>Total non-current assets</b>		3,087	3,353
<b>Total assets</b>		17,858	16,225
<b>Current liabilities</b>			
Trade and other payables	<b>14</b>	13,796	13,594
Provisions	<b>15</b>	2,524	2,597
<b>Total current liabilities</b>		16,321	16,191
<b>Non-current liabilities</b>			
Provisions	<b>15</b>	198	212
<b>Total non-current liabilities</b>		198	212
<b>Total liabilities</b>		16,519	16,403
<b>Net assets / (deficiency)</b>		1,339	(178)
<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>	3,408	1,890
<b>Total equity</b>		1,339	(178)

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2016**

<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 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>
<b>Balance as at 1 July 2015</b>	10,119	(10,297)	(178)
Profit for the year	-	1,863	1,863
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>1,863</b>	<b>1,863</b>
Dividend paid		(347)	(347)
<b>Balance as at 30 June 2016</b>	<b>10,119</b>	<b>(8,780)</b>	<b>1,339</b>

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

**CONSOLIDATED STATEMENT OF CASH FLOWS  
FOR THE YEAR ENDED 30 JUNE 2016**

	Note	2016 \$'000	2015 \$'000
<b>Cash flows from operating activities</b>			
Cash receipts in the course of operations		52,895	52,904
Cash payments in the course of operations		(50,322)	(51,002)
Interest received		66	29
Finance costs		-	(3)
<b>Net cash received in operating activities</b>	<b>18(b)</b>	2,639	1,928
<b>Cash flows from investment activities</b>			
Payments for purchases of property, plant and equipment		(87)	(163)
Proceeds from sale of fixed assets		6	-
<b>Net cash used in investing activities</b>		(81)	(163)
<b>Cash flows from financing activities</b>			
Dividends paid		(347)	-
Loan equipment payments		-	(111)
<b>Net cash used in financing activities</b>		(347)	(111)
Net increase in cash held		2,211	1,654
Cash and cash equivalents at beginning of financial year		1,996	342
<b>Cash and cash equivalents at end of financial year</b>	<b>18(a)</b>	4,207	1,996

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



## **NOTES TO THE FINANCIAL STATEMENTS YEAR ENDED 30 JUNE 2016**

### **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 2016 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 13 September 2016.

#### *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 \$1,863,000 (2015: \$1,890,000), a net surplus of assets totalling \$1,339,000 (2015: deficiency of \$178,000) and a current working capital deficit of \$1,550,000 (2015: current working capital deficit of \$3,319,000).

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.

As at 30 June 2016, 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 Consolidated entity 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.

*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 with indefinite useful lives 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.

For impairment assessment purposes, assets are generally grouped at the lowest levels for which there are largely independent cash flows ('cash generating units'). Accordingly, most assets are tested for impairment at the cash-generating unit level. Because it does not generate cash flows independently of other assets or groups of assets, goodwill is allocated to the cash generating unit or units that are expected to benefit from the synergies arising from the business combination that gave rise to the goodwill.

Assets other than goodwill, intangible assets not yet ready for use and intangible assets with indefinite useful lives are assessed for impairment whenever events or circumstances arise that indicate the asset may be impaired.

An impairment loss is recognised when the carrying amount of an asset or cash generating unit exceeds the asset's or cash generating unit's recoverable amount. The recoverable amount of an asset or cash generating unit is defined as the higher of its fair value less costs to sell and value in use. Refer to Note 2 for a description of how management determines value in use.

Impairment losses in respect of individual assets are recognised immediately in profit or loss unless the asset is carried at a revalued amount such as property, plant and equipment, in which case the impairment loss is treated as a revaluation decrease in accordance with the applicable Standard. Impairment losses in respect of cash generating units are allocated first against the carrying amount of any goodwill attributed to the cash generating unit with any remaining impairment loss allocated on a pro rata basis to the other assets comprising the relevant cash generating unit.

**(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 Limited (parent entity) and its wholly owned subsidiaries have implemented the tax consolidation legislation and have formed a tax-consolidated group from 1 July 2009. The parent entity and subsidiaries in the tax-consolidated group have entered into a tax funding agreement such that each entity in the tax-consolidated group recognises the assets, liabilities, expenses and revenues in relation to its own transactions, events and balances only. This means that:

- the parent entity recognises all current and deferred tax amounts relating to its own transactions, events and balances only;
- the subsidiaries recognise current or deferred tax amounts arising in respect of their own transactions, events and balances; and
- current tax liabilities and deferred tax assets arising in respect of tax losses, are transferred from the subsidiary to the head entity as inter-company payables or receivables.

The tax-consolidated group also has a tax sharing agreement in place to limit the liability of subsidiaries in the tax-consolidated group arising under the joint and several liability requirements of the tax consolidation system, in the event of default by the parent entity to meet its payment obligations.

### **(I) 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 (other than termination benefits) expected to be settled wholly before twelve months after the end of the annual reporting period are measured at the (undiscounted) 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 and accumulated sick leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables in the statement of financial position.

#### *(ii) Other long-term employee benefit obligations*

The provision for other long-term employee benefits, including obligations for long service leave and annual leave, which are not expected to be settled wholly before twelve months after the end of the reporting period, are measured at the present value of the estimated future cash outflow to be made in respect of the services provided by employees up to the reporting date. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee turnover, and are discounted at rates determined by reference to market yields at the end of the reporting period on high quality corporate bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the change occurs.

Other long-term 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. All other long-term employee benefit obligations are presented as non-current liabilities in the statement of financial position.

#### *(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*

The Consolidated entity recognises an obligation and expense for termination benefits at the earlier of: (a) the date when the consolidated entity can no longer withdraw the offer for termination benefits; and (b) when the consolidated entity recognises costs for restructuring and the costs include termination benefits. In either case, the obligation and expense for termination benefits is measured on the basis of the best estimate of the number of employees expected to be affected. Termination benefits that are expected to be settled wholly before twelve months after the annual reporting period in which the benefits are recognised are measured at the (undiscounted) amounts expected to be paid. All other termination benefits are accounted for on the same basis as other long-term employee benefits

**(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, financial liabilities and derivative financial instruments. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of its financial instruments at initial recognition.

*Initial recognition and measurement*

Financial assets and financial liabilities are recognised when the entity becomes a party to the contractual provisions of the instrument. For financial assets, this is equivalent to the date that the entity commits itself to either the purchase or sale of the asset (ie trade date accounting is adopted).

Financial instruments are initially measured at fair value adjusted for transaction costs, except where the instrument is classified as fair value through profit or loss, in which case transaction costs are immediately recognised as expenses in 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. Loans and receivables are subsequently measured at amortised cost using the effective interest rate method.

*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.

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.

#### *Derivative financial instruments*

The consolidated entity may hold derivative financial instruments to mitigate its risk exposures from foreign currency and interest rate movements.

Derivatives that are not designated in a qualifying hedge relationship are subsequently measured at fair value through profit or loss. Derivatives designated as hedging instruments are accounted for as described below.

Some financial instruments have embedded derivatives within them. Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at fair value through profit or loss.

### **(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 entity 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 Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 and accordingly, the amounts in the consolidated financial statements and in the directors' report have been rounded to the nearest thousand dollars, or in certain cases, to the nearest dollar (where indicated).

**(w) Accounting standards issued but not yet effective at 30 June 2016**

The AASB has issued a number of new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods, some of which are relevant to the Consolidated Entity. The Consolidated Entity has decided not to early adopt any of these new and amended pronouncements. The Consolidated Entity's assessment of the new and amended pronouncements that are relevant to the Consolidated Entity but applicable in future reporting periods is set out below.

AASB 9: *Financial Instruments* (December 2014), AASB 2014-7: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014), AASB 2014-8: Amendments to Australian Accounting Standards arising from AASB 9 (December 2014) – Application of AASB 9 (December 2009) and AASB 9 (December 2010) (applicable for annual reporting periods commencing on or after 1 January 2018). These Standards will replace AASB 139: *Financial Instruments: Recognition and Measurement*. The key changes that may affect the Consolidated entity on initial application of AASB 9 and associated amending Standards include:

- simplifying the general classifications of financial assets into those carried at amortised cost and those carried at fair value;
- permitting entities to irrevocably elect on initial recognition to present gains and losses on an equity instrument that is not held for trading in other comprehensive income (OCI);
- simplifying the requirements for embedded derivatives, including removing the requirements to separate and fair value embedded derivatives for financial assets carried at amortised cost;
- requiring an entity that chooses to measure a financial liability at fair value to present the portion of the change in its fair value due to changes in the entity's own credit risk in OCI, except when it would create an 'accounting mismatch';
- introducing a new model for hedge accounting that permits greater flexibility in the ability to hedge risk, particularly with respect to non-financial items; and
- requiring impairment of financial assets carried at amortised cost to be based on an expected loss approach.

The Consolidated Entity has yet to assess the impact of new general hedge accounting model on its hedge arrangements.

AASB 15: *Revenue from Contracts with Customers*, AASB 2014-5: Amendments to Australian Accounting Standards arising from AASB 15, AASB 2015-8: Amendments to Australian Accounting Standards – Effective Date of AASB 15 and AASB 2016-3: Amendments to Australian Accounting Standards – Clarifications to AASB 15 (applicable for annual reporting periods commencing on or after 1 January 2018).

AASB 15 will provide (except in relation to some specific exceptions, such as lease contracts and insurance contracts) a single source of accounting requirements for all contracts with customers, thereby replacing all current accounting pronouncements on revenue.

These Standards provide a revised principle for recognising and measuring revenue. Under AASB 15, revenue is recognised in a manner that depicts the transfer of promised goods or services to customers in

an amount that reflects the consideration to which the provider of the goods or services expects to be entitled. To give effect to this principle, AASB 15 requires the adoption of the following 5-step model:

- identify the contract(s) with a customer;
- identify the performance obligations under the contract(s);
- determine the transaction price;
- allocate the transaction price to the performance obligations under the contract(s); and
- recognise revenue when (or as) the entity satisfies the performance obligations.

AASB 15 also provides additional guidance to assist entities in applying the revised principle to licences of intellectual property, warranties, rights of return, principal/agent considerations and options for additional goods and services.

The changes in revenue recognition requirements in AASB 15 may cause changes to the timing and amount of revenue in the financial statements as well as additional disclosures. The Consolidated Entity has yet to assess the impact.

AASB 16: *Leases* (applicable for annual reporting periods commencing on or after 1 January 2019).

AASB 16 will replace AASB 117: *Leases* and introduces a single lessee accounting model that will require a lessee to recognise right-of-use assets and lease liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Right-of-use assets are initially measured at their cost and lease liabilities are initially measured on a present value basis. Subsequent to initial recognition:

- right-of-use assets are accounted for on a similar basis to non-financial assets, whereby the right-of-use asset is accounted for in accordance with a cost model unless the underlying asset is accounted for on a revaluation basis, in which case if the underlying asset is:
  - investment property, the lessee applies the fair value model in AASB 140: *Investment Property* to the right-of-use asset; or
  - property, plant or equipment, the lessee can elect to apply the revaluation model in AASB 116: *Property, Plant and Equipment* to all of the right-of-use assets that relate to that class of property, plant and equipment; and
- lease liabilities are accounted for on a similar basis as other financial liabilities, whereby interest expense is recognised in respect of the liability and the carrying amount of the liability is reduced to reflect lease payments made.

AASB 16 substantially carries forward the lessor accounting requirements in AASB 117. Accordingly, under AASB 16 a lessor would continue to classify its leases as operating leases or finance leases subject to whether the lease transfers to the lessee substantially all of the risks and rewards incidental to ownership of the underlying asset, and would account for each type of lease in a manner consistent with the current approach under AASB 117.

The Consolidated Entity has yet to assess the impact of AASB16 on the accounting of its operating leases.



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

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 consolidated entity 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.

*(c) Non Contract Income*

Due to the timing delay between when stores make purchases and when suppliers provide purchase data to the consolidated entity, management use historical data to estimate the income to be accrued at year end. In order to appropriately recognise accrued income at year end relating to purchase volumes, the recording of accrued income involves estimation and judgement

**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>2016</b>	<b>Retail Support Services \$'000</b>	<b>Retail Stores \$'000</b>	<b>Total \$'000</b>
<b>Segment revenue</b>			
Total segment revenue	49,786	-	49,786
<b>Total segment revenue from external source</b>	49,786	-	49,786
<b>Segment result</b>			
Total segment result	1,863	-	1,863
Inter-segment impairment elimination	-	-	-
<b>Segment result from external source</b>	1,863	-	1,863
Items included within the segment result:			
Interest revenue	66	-	66
Depreciation and amortisation	(82)	-	(82)
Income tax expense	(854)	-	(854)
<b>Total Segment Assets</b>	17,858	-	17,858
<b>Total Segment Liabilities</b>	16,509	10	16,519

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

<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 benefit	(711)	-	(711)
<b>Total Segment Assets</b>	16,225	-	16,225
<b>Total Segment Liabilities</b>	16,393	10	16,403

**NOTE 4: FINANCIAL RISK MANAGEMENT**

The Consolidated Entity is exposed to a variety of financial risks comprising:

- Interest rate risk
- Credit risk
- Liquidity risk
- Currency 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>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Financial assets</b>		
Cash and cash equivalents	4,207	1,996
Receivables	10,448	10,851
	<hr/> 14,655	<hr/> 12,847
<b>Financial liabilities</b>		
Payables	13,796	13,594
	<hr/> 13,796	<hr/> 13,594

**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>\$'000</b>	<b>\$'000</b>	<b>\$'000</b>	<b>%</b>	
<b>2016</b>					
<i>(i) Financial assets</i>					
Cash	4,205	2	4,207	1.7	Variable
Trade and other receivables	-	10,448	10,448	-	
Total financial assets	4,205	10,450	14,655	-	
<i>(ii) Financial liabilities</i>					
Trade and other creditors	-	13,796	13,796	-	
Total financial liabilities	-	13,796	13,796	-	
<b>2015</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	-	

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 2016</b>					
Cash and cash equivalents	4,207	-	-	4,207	4,207
Receivables	10,448	-	-	10,448	10,448
Payables	(13,772)	-	(24)	(13,796)	(13,796)
Net maturities	883	-	(24)	859	859
<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)
Net maturities	(649)	(98)	-	(747)	(747)

**(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.

**(e) Currency risk**

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. If change in currency 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 5: REVENUE AND OTHER INCOME**

**Revenue and other income**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Operating activities</i>		
Supplier & member income	47,939	48,785
Rent from member stores	1,018	1,255
	<u>48,957</u>	<u>50,040</u>
<i>Other income</i>		
Interest	66	29
Other revenue	763	387
Total revenue & other income	<u>49,786</u>	<u>50,456</u>

**NOTE 6: PROFIT FROM OPERATIONS**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Employee benefits expense</i>		
Wages and salaries	10,186	9,870
Workers' compensation costs	42	36
Superannuation costs	815	781
	<u>11,043</u>	<u>10,687</u>
<i>Depreciation and amortisation of non-current assets</i>		
Leasehold improvements	12	38
Plant and equipment	10	13
Leased assets	-	102
Computer equipment	55	51
Furniture, fixtures and fittings	4	23
	<u>81</u>	<u>227</u>
<i>Finance costs expensed</i>		
Equipment loan interest	-	3
	<u>-</u>	<u>3</u>
<i>Other expenses</i>		
Inventory write-off	(10)	(109)
Bad debts	43	19
Doubtful debts write back	(66)	(98)
Net Loss on disposal of Plant & Equipment	(4)	-
	<u>(37)</u>	<u>(188)</u>

**NOTE 7: INCOME TAX**

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Current tax	-	-
Deferred tax	854	711
	<u>854</u>	<u>711</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	2,717	2,601
Total profit before income tax	<u>2,717</u>	<u>2,601</u>

Prima facie income tax payable on profit before income tax at 30% (2015: 30%)

815                      780

Add tax effect of:

- other non-allowable items

10                      1

825                      781

Less tax effect of:

- other allowable items

-                      (5)

- recognition of deferred tax assets not previously brought to account

-                      (65)

- Under provision for income tax in prior year

29

29                      (70)

Income tax expense attributable to profit

854                      711

**(c) Deferred tax**

Deferred tax relates to the following:

*Deferred tax assets*

The balance comprises:

Provision for doubtful debts	142	161
Provision for obsolescence	-	29
Accruals	452	107
Employee benefits – annual and long service leave	817	843
Tax losses carried forward	806	1,931

*Net deferred tax assets*

2,217                      3,071



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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(d) Deferred income tax revenue/(expense) included in income tax expense comprises</b>		
Decrease in deferred tax assets	854	711

**(e) 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: DIVIDENDS**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Dividends paid or declared</b>		
Dividends paid at \$0.03 per share (2015: \$0) fully franked at 30%	347	-
	347	-
<b>(b) Dividends declared after the reporting period and not recognised</b>		
Since the end of the reporting period the directors have declared a dividends at \$0.03 per share (2015: \$0) fully franked at 30%	347	-
<b>(c) Franking account</b>		
Balance of franking account on a tax paid basis at financial year-end adjusted for franking credits arising from payment of provision for income tax and dividends recognised as receivables, franking debits arising from payment of proposed dividends and any credits that may be prevented from distribution in subsequent years:	822	970

**NOTE 9: DISCONTINUED OPERATION**

During the current financial year, the discontinued operations did not engage in any activity. The last corporate owned store sites were surrendered during the year end 30 June 2015.

	<b>2016</b>	<b>2015</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	-	-
Income tax expense	-	-
Loss on store divestments after income tax	-	-
Loss) from discontinued operation	-	-

**(ii) Cash flow information**

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

The Net cash provided by financing activities in the year ended 30 June 2015 totalled \$1,231,000 which 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	-	-
---	---	---

*Liabilities*

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

**NOTE 10: CASH AND CASH EQUIVALENTS**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Cash at bank and on hand	2	1
Deposits at call	4,205	1,995
	<u>4,207</u>	<u>1,996</u>

**NOTE 11: TRADE AND OTHER RECEIVABLES**

**CURRENT**

Trade and member receivables	8,856	9,409
Provision for impairment	(72)	(138)
	<u>8,784</u>	<u>9,271</u>
 Sundry debtors and accrued income	 2,064	 1,980
Provision for impairment	(400)	(400)
	<u>1,664</u>	<u>1,580</u>
	<u>10,448</u>	<u>10,851</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 2016 or 2015 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>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Movements in the provision for impairment were:		
Opening balance at 1 July	538	636
Charge for the year	(66)	(98)
Closing balance at 30 June	<u>472</u>	<u>538</u>

**NOTE 11: TRADE AND OTHER RECEIVABLES (Cont'd)**

**(b) Trade receivables**

Trade and other receivables ageing analysis at 30 June is:

	<b>Gross 2016 \$'000</b>	<b>Impairment 2016 \$'000</b>	<b>Gross 2015 \$'000</b>	<b>Impairment 2015 \$'000</b>
Not past due	4,828	-	4,947	-
Past due 31-60 days	1,736	-	1,115	-
Past due 61-90 days	124	52	179	16
Past due more than 91 days	(2)	-	(81)	-
	<u>6,686</u>	<u>52</u>	<u>6,160</u>	<u>16</u>

**(c) Member receivables**

Member receivables ageing analysis at 30 June is:

	<b>Gross 2016 \$'000</b>	<b>Impairment 2016 \$'000</b>	<b>Gross 2015 \$'000</b>	<b>Impairment 2015 \$'000</b>
Not past due	1,163	-	1,012	-
Past due 31-60 days	1,035	20	1,160	122
Past due 61-90 days	2	-	1,186	-
Past due more than 91 days	(30)	-	(109)	-
	<u>2,170</u>	<u>20</u>	<u>3,249</u>	<u>122</u>
<b>Trade and member receivables</b>	<b><u>8,856</u></b>	<b><u>72</u></b>	<b><u>9,409</u></b>	<b><u>138</u></b>

**NOTE 12: OTHER CURRENT ASSETS**

	<b>2016 \$'000</b>	<b>2015 \$'000</b>
Prepayments	115	23
Security deposit	1	1
	<u>116</u>	<u>24</u>

**NOTE 13: PROPERTY PLANT AND EQUIPMENT**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Leasehold improvements</i>		
At cost	1,137	1,137
Accumulated depreciation	(984)	(972)
	<u>153</u>	<u>165</u>
<i>Plant and equipment</i>		
At cost	183	199
Accumulated depreciation	(175)	(179)
	<u>8</u>	<u>20</u>
<i>Computer equipment</i>		
At cost	958	873
Capital work in progress	584	-
Accumulated depreciation	(859)	(804)
	<u>683</u>	<u>69</u>
<i>Furniture, fixtures and fittings</i>		
At cost	86	85
Accumulated depreciation	(60)	(56)
	<u>26</u>	<u>29</u>
<i>Total property, plant and equipment</i>		
Cost	3,559	2,905
Accumulated depreciation and amortisation	(2,689)	(2,622)
<b>Total property, plant and equipment</b>	<b><u>870</u></b>	<b><u>282</u></b>

**(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 2014	100	17	77	102	50	346
Additions	103	16	42	-	2	163
Disposal	-	-	-	-	-	-
Depreciation charge for the year	(38)	(13)	(51)	(102)	(23)	(227)
Carrying amount as at 30 June 2015	<u>165</u>	<u>20</u>	<u>69</u>	<u>-</u>	<u>29</u>	<u>282</u>
Additions	-	-	670	-	1	671
Disposals	-	(2)	-	-	-	(2)
Depreciation charge for the year	(12)	(10)	(55)	-	(4)	(81)
Carrying amount at 30 June 2016	<u>153</u>	<u>8</u>	<u>683</u>	<u>-</u>	<u>26</u>	<u>870</u>

**NOTE 14:      TRADE & OTHER PAYABLES**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
CURRENT		
Trade payables	6,555	7,558
Sundry payables and accrued expenses	7,241	6,036
	<u>13,796</u>	<u>13,594</u>

**NOTE 15:      PROVISIONS**

CURRENT		
Employee benefits	<u>2,524</u>	<u>2,597</u>
NON-CURRENT		
Employee benefits	<u>198</u>	<u>212</u>
Aggregate employee benefits liability	<u>2,722</u>	<u>2,809</u>

**NOTE 16: CONTRIBUTED CAPITAL**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>

**(a) Issued and paid up capital**

11,560,348 Class A redeemable preference shares (2015: 11,560,388)	10,119	10,119
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**(b) Movements in shares on issue**

	<b>Parent Equity</b>	<b>2016</b>	<b>Parent Equity</b>	<b>2015</b>
	<b>No of Shares</b>	<b>\$'000</b>	<b>No of Shares</b>	<b>\$'000</b>
Beginning of the financial year	11,560,388	10,119	11,560,399	10,119
– Shares issued during the year	78	-	89	-
– Share buybacks	(118)	-	(100)	-
End of the financial year	11,560,348	10,119	11,560,388	10,119

**(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. There is no obligation to redeem the shares and redemption is at the discretion of the directors.

27 February 2007 was the last date on which the Company issued Class 'B' redeemable preference shares to 'bannered' members. As at 30 June 2016 123 Class 'B' preference shares are on issue (2015: 135). 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.

**(d) 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. This date has now passed and no such capital raise was undertaken. Refer to Note 20(a) for other details regarding the potential for the Transitional Funding Facility to be reinstated.

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

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>

**(a) Accumulated losses**

Accumulated losses at the beginning of the financial year	(12,188)	(12,188)
Accumulated losses at the end of the financial year	(12,188)	(12,188)

**(b) Accumulated profits reserve**

Accumulated profits reserve at the beginning of the financial year	1,890	-
Profit attributable to members of the entity	1,863	1,890
Dividends paid	(347)	-
Accumulated profits reserve at the end of the financial year	3,408	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>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Cash Items</b>		
– Cash on hand	2	1
– Cash at bank	4,205	1,995
Closing cash balance	<u>4,207</u>	<u>1,996</u>

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

Profit from ordinary activities after tax	1,863	1,890
<b>Non - Cash Items</b>		
– Depreciation and amortisation	82	227
– Accrued capital expenditure	(584)	-
– Net Profit on disposal of PP&E	(4)	-
– Decrease in provision for doubtful debts	(66)	(98)
<b>Changes in assets and liabilities</b>		
– Decrease in debtors	469	487
– Decrease in deferred tax asset	854	711
– (Increase)/decrease in other assets	(91)	1
– Increase/(decrease) in trade and other payables	202	(1,727)
– (Decrease)/increase in provisions	(86)	437
<b>Net cash flow from operating activities</b>	<u><b>2,639</b></u>	<u><b>1,928</b></u>

**(c) Credit stand by arrangements with banks (National Australia Bank)**

Credit facility	4,775	4,825
Amount utilised	(270)	(329)
Unused credit facility	<u>4,505</u>	<u>4,496</u>

**(d) Loan facilities**

Bank guarantee facility	350	400
Business card facility – variable interest rate	125	125
Direct Payments facility –variable interest rate	4,000	4,000
Unused bank loan facility	300	300



**NOTE 19: COMMITMENTS**

**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.

Comparative amounts relating to the financial year end 30 June 2015 have been amended retrospectively, as it was noted CPI had incorrectly been applied to an operating lease, as well as GST included for property leases.

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
The future minimum lease payments under non-cancellable operating leases are payable:		
– Not later than one year	1,209	1,195
– Later than one year and not later than five years	3,353	4,035
– Later than five years	1,319	1,725
Aggregate lease expenditure contracted for at reporting date	5,881	6,955

**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. This date has now passed and no such capital raise was undertaken, accordingly there is no risk of re-instatement under this particular trigger event.

**(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 \$2.9 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>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
Reconciliation of earnings used in calculating earnings per share:		
Profit used in calculating basic earnings per share	1,863	1,890
	<b>2016</b>	<b>2015</b>
	<b>No of Shares</b>	<b>No of Shares</b>
Weighted average number of preference shares used in calculating basic earnings per share	11,560,368	11,560,394

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>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b><i>Compensation by category</i></b>		
Short-term employment benefits	2,267,476	1,893,033
Post-employment benefits	150,579	170,690
Termination benefits	217,114	-
	2,635,169	2,063,723

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:

	Country of incorporation	Percentage owned	
		2016	2015
<i>Parent Entity:</i>			
Australian United Retailers Ltd	Australia		
<i>Subsidiaries of Australian United Retailers Ltd</i>			
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 2016 (2015: \$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:

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

- \* Deborah Smith retired as a Director on 17 November 2015 and all disclosures include transactions up to the date of her retirement.

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 \$35,803 (2015: \$39,542). The aggregate amount of rebates paid or payable and included in the result for the year is 2,488,537 (2015: \$2,649,356).

Rebates for Malcolm Ward and Fred Fairthorne are paid via Supermarkets West Pty Ltd. During the financial year \$3,683,165 (2015: \$3,053,317) 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.

During the period that Deborah Smith was a Director of the Consolidated Entity, Deborah Smith was a Director of the Master Grocers Association (MGA). Fees totalling \$116,217 (2015: \$247,965) were paid to the MGA for industry representation including legal & human resources support, training & compliance services. The MGA provides services directly to member stores as well as providing general advocacy services for the independent retail sector. Fees payable to the MGA are based on the same arms-length fee schedules applicable to any other independent store owner.

**NOTE 23: RELATED PARTY DISCLOSURES (cont'd)**

Dividends (Franked) paid at the date of this report:

	<b>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
Alan Burge	11,743	-
Fred Fairthorne	53,143	-
Deborah Smith*	6,677	-
Malcolm Ward	73,820	-
David Williamson	6,172	-
Sien Van Nguyen	17,126	-
Paul Job	772	-

\* Deborah Smith retired as a Director on 17 November 2015 and has retained her shares in the Company up to the date of this report.

**(d) Director Shareholdings**

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

*"A" Class redeemable non-cumulative preference shares:*

	<b>2016</b>	<b>2015</b>
	<b>No of Shares</b>	<b>No of Shares</b>
Alan Burge	274,002	274,002
Fred Fairthorne	1,240,003	1,108,002
Deborah Smith*	155,792	155,793
Malcolm Ward	1,722,463	1,712,464
David Williamson	144,003	144,003
Sien Van Nguyen	399,603	399,603
Paul Job	18,002	18,002

\* Deborah Smith retired as a Director on 17 November 2015 and has retained her shares in the Company up to the date of this report.

**(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>2016</b>	<b>2015</b>
	<b>\$</b>	<b>\$</b>
<b>Amounts paid and payable to Pitcher Partners (<i>Melbourne</i>) 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	104,616	105,150
Other assurance services	2,121	2,580
Total remuneration for audit and other assurance services	<u>106,737</u>	<u>107,730</u>
(ii) Other non-audit services		
Taxation services	<u>11,050</u>	<u>10,000</u>
<b>Total auditors' remuneration</b>	<b><u>117,787</u></b>	<b><u>117,730</u></b>

**NOTE 25: PARENT ENTITY INFORMATION**

	<b>2016</b>	<b>2015</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>(a) Summarised statement of financial position</b>		
<b>Assets</b>		
Current assets	14,771	12,872
Non-current assets	3,087	3,353
Total assets	17,858	16,225
<b>Liabilities</b>		
Current liabilities	16,311	16,181
Non-current liabilities	198	212
Total liabilities	16,509	16,392
<b>Net assets</b>	1,349	(168)
<b>Equity</b>		
Contributed capital	10,119	10,119
Accumulated losses	(12,178)	(12,178)
Accumulated profits reserve	3,408	1,890
Total equity	1,349	(168)
<b>(b) Summarised statement of comprehensive income</b>		
Profit for the year	1,863	659
Other comprehensive income for the year	-	-
Total comprehensive income for the year	1,863	659
The profit for the parent entity includes a loan impairment of NIL (2015: \$1,231,000).		
<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(a).		
The future minimum lease payments under non-cancellable operating leases are payable:		
– Not later than one year	1,209	1,195
– Later than one year and not later than five years	3,353	4,035
– Later than five years	1,319	1,725
	5,881	6,955

**NOTE 26: SUBSEQUENT EVENTS**

On the 13<sup>th</sup> September 2016, The Board declared a dividend of 3 cents per share which is payable in October 2016. The total amount payable is \$347,000. There has been no other matter or circumstance, which has arisen since 30 June 2016 that has significantly affected or may significantly affect:

- (a) the operations, in financial years subsequent to 30 June 2016, of the Consolidated Entity, or
- (b) the results of those operations, or
- (c) the state of affairs, in financial years subsequent to 30 June 2016, of the Consolidated Entity.

## **DIRECTORS DECLARATION**

The directors declare that the financial statements and notes set out on pages 18 to 51 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 2016 and of its performance for the year ended on that date.

In the directors' opinion 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 2016.

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



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N. Osborne  
Director

Melbourne  
Date 13<sup>th</sup> September 2016

**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 2016, 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 2016 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 16 of the directors' report for the year ended 30 June 2016. 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 2016 complies with section 300A of the *Corporations Act 2001*.



K L BYRNE  
Partner  
13 September 2016



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 11,560,348 Class A redeemable preference shares issued at 30 June 2016.

**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 123 Class B redeemable preference shares issued at 30 June 2016. 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 2016**

	<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%
DALEWING PTY LTD	820,002	7.09%
MR MICHAEL DAMIAN REDDROP + MRS TINA DREYFUS REDDROP <DREYFUS SUPER FUND A/C>	760,000	6.57%
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>54.62%</b>

### **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 Governance tab on 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 process of Directors is designed 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 assesses the range of skills, experience and expertise on the Board so as to identify its needs. This 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 six 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 for details on the Audit and Risk Committee.

### **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), David Williamson, Deborah Smith and Paul Job. Deborah Smith was a member until 17 November 2015 when she retired from the Board. The Committee held three meetings during the year to 30 June 2016. 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. Anthony Abdallah, Kym Coventry, Midhat Massoud (*left business 15 July 2016*) 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.

### **CORPORATE GOVERNANCE STATEMENT (CONT'D)**

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.

The Company has no formal policy concerning diversity. Such policies normally outline 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 June 2016, the proportion of women employees in the whole organisation is 59%. There are no females on the Board.

#### **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 Governance tab on 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), Deborah Smith (until her retirement from the Board) and Sien Van Nguyen.

The Committee met four times in the year to 30 June 2016. 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 which forms part of the financial statements for the Consolidated Entity. 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 some 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 Governance Tab of My Shares section of the Extranet.*