



# AUR

Australian United Retailers Ltd.



# Offer Information Statement

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

AURL lodged this Offer Information Statement with ASIC on 14 December 2016.

## IMPORTANT INFORMATION

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



**Truly Local & Independent**



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A handwritten signature in blue ink, consisting of a series of loops and a long horizontal stroke.

.....  
Tony Pacella  
Secretary

## IMPORTANT INFORMATION

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

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

**CORPORATE DIRECTORY**

Company

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

Directors

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

Company Secretary

Tony Pacella

Lawyers to the Company

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

Auditor

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

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

**IMPORTANT NOTICE**

This is an offer information statement issued under Part 6D.2 of the Corporations Act (**OIS**). Eligible Applicants should note that this document is not a prospectus and that an OIS has a lower level of disclosure requirements than a prospectus.

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

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

This OIS is dated 14 December 2016 (**OIS Date**). A copy of this OIS was lodged with the Australian Securities and Investments Commission (**ASIC**) on 14 December 2016. ASIC does not take any responsibility for the contents of this OIS or the merits of the Offer contained in it.

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

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

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

**Offer for Australian Residents**

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

**Definitions and Abbreviations**

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

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

### **1.1 The Offer**

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

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

Yes, you have to pay \$1.00.

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

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

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

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

### **1.4 Key Dates**

<b>Event</b>	<b>Date</b>
OIS Lodgement Date at ASIC	14 December 2016
Offer Opens	14 December 2016
Offer Closes	This Offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 12 January 2018)
Shares Issued	Normally after scheduled Board meetings (see section 7.3)

### **1.5 Application Criteria**

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

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

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

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

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

## **1.7 Key Risks**

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

## **2 Glossary**

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

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

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

"ASIC" means the Australian Securities and Investments Commission.

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

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

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

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

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

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

"Board" means the board of Directors of FoodWorks.

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

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

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

"Chargeback" means the accounts payable service, where FoodWorks makes payment to a range of Suppliers on behalf of stores, and debits the stores for their corresponding Supplier purchases or any subsequent variant of the above process which may be introduced from time to time.

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

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

"Closing Date" means the date on which the Offer closes, being 5:00pm AEST on 12 January 2018.

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

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

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

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



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

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

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

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

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

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

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

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

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

"NSX" means National Stock Exchange of Australia Limited.

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

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

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

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

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

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

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

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

"Share" means a share in the Company.

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

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

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

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

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

"Unity Agreement" means an agreement between FoodWorks and:

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

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

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

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

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

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

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

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

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

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

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

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

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

As at the date of this OIS, the Company has 11,560,349 Class A Redeemable Preference Shares and 121 Class B Redeemable Preference Shares on issue.

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

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

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

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

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

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

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

The Company paid its first dividend in April 2016. The dividend paid was 3 cents per share. A further dividend of 3 cents per share was paid in October 2016. The declaration of any future dividend and any dividend payment will be subject to the Company's ability to meet any of its then cash funding requirements for the growth of the business and taking into account the capital and trading requirements of the Company and its subsidiaries at the time as well as compliance with Corporations Act and other legal requirements prevailing at the time that a dividend is considered.

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

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

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

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

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

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

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

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

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

### **4.1 Background information**

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

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

The business has a network of 550 stores with annual sales turnover in excess of \$2.1 billion.

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

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

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

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

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

### **4.2 Proposed de-listing of AURL from the NSX**

As at the date of this OIS, the Company’s securities are listed on the NSX. However, the Directors have resolved to voluntarily withdraw the listing of AURL on the NSX, which was approved by the holders of its listed securities by way of a special resolution as required by the Listing Rules, at the Annual General Meeting on 22 November 2016.

The proposed de-listing of AURL is expected to be completed on or around 20 February 2017. Following the de-listing of the Company from NSX, this would result in less information being publicly available in relation to AURL, including to Members and Members will no longer be able to trade their securities on the NSX platform.

### **4.3 The FoodWorks National Network**

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

### **4.4 Member Distributions**

One of the Company’s most important achievements to date is the evolution of its advanced, competitive distribution scheme to Members who own Approved Stores. This scheme is based on monthly rebates attached to Eligible Warehouse Withdrawals, along with other behavioural rebates

aimed at rewarding participation in major initiatives. The Board believes that the distribution scheme has been effective in rewarding the performance and growth of Members who own Approved Stores, and their support of the business' key drivers.

#### **4.5 What does FoodWorks do?**

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

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

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

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

#### **4.6 Key FoodWorks Services**

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

## **4.7 Merchandising**

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

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

### **4.7.1 Supplier Agreements**

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

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

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

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

### **4.7.2 Private Label Ranges**

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

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

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

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

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

### **4.7.4 Promotional Negotiations and Support**

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

#### **4.7.5 Space Management**

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

#### **4.8 Retail Operations**

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

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

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

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

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

#### **4.9 Business & Store Development**

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

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

These barriers include:

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

FoodWorks' response has been to develop structured systems to assist in analysing supermarket growth opportunities, either through new stores or the enhancement of existing stores. The approach is systematic and comprehensive, having regard to the current FoodWorks network, existing and proposed competition, local demographic characteristics, forecast population growth, and the market potential to support additional retail floorspace.

The team also supports Member retailers with:

- Internal retail design - offering Member retailers an effective way to create a new and innovative shopping experience for their customers by focusing on interior fit-outs.
- Sourcing competitive pricing for equipment, expense items and services to enable our members to operate more cost effectively.



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- Advice on energy efficient equipment, practices and store design.
- Provision of signage and branding for new FoodWorks stores at no charge to the retailer.
- Assistance to fight competitor proposals, including town planning objections.
- Store surveys to understand the needs of customers and opportunities to improve the customer experience and grow sales.

#### **4.10 Marketing**

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

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

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

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

#### **4.11 Information Technology**

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

Other services include:

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

#### **4.12 Pricing and Hosting Support Services**

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

#### **4.13 Finance**

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

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

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

#### **4.14 Human Resources**

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

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

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

### **5 FoodWorks' Vision**

FoodWorks' stated vision is "Enabling Retailers to Succeed".

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

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

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

### **6 Industry overview**

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

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

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

#### **7.1 Key dates**

<b>Event</b>	<b>Date</b>
OIS Lodgement Date at ASIC	14 December 2016
Offer Opens	14 December 2016
Offer Closes	This offer is open for a period of 13 months from the date of lodgement, and closes on the Closing Date (5:00pm AEST on 12 January 2018)
Shares Issued	Normally after a scheduled Board meeting (see section 7.3)

## **7.2 Offer terms**

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

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

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

## **7.3 Offer structure**

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

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

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

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

Applicants should note that the Company has reached agreement with NSX that applications for quotation on NSX of Shares issued under this Offer will be made in batch lots at the end of each quarter of the financial year (with earlier application to be made in the event that 100 Shares are issued), which could result in a delay of up to 3 months between the issue and quotation of Shares on NSX. However, see section 4.2, which notes that, as at the date of this OIS, the Directors have proposed to withdraw the listing of AURL on the NSX. As such, it may be that prior to the Closing Date, the Company's Class A Redeemable Preference Shares will no longer be listed on the NSX.

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

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

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

In order to ensure compliance with section 254K of the Corporations Act, the Directors have resolved that funds raised under the Offer (**Offer Proceeds**) may be applied to fund the Redemption Amount payable by the Company on redemption of any Class A Redeemable Preference Shares and / or Class

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B Redeemable Preference Shares. In other words, the amount payable by the Company (per share redeemed) where the Board elects to redeem Class A Redeemable Preference Shares and / or Class B Redeemable Preference Shares will be funded by the proceeds of the Offer.

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

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

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

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

#### **7.6 Closing Date**

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

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

Applicants who require additional copies of the OIS can contact:

Company Secretary

Australian United Retailers Limited

Ph: 03 9809 8600

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

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

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

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

## **8 Directors and Senior Management**

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

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

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

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

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

The Board comprises the following Directors:

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

With over 30 years' experience in the retail industry, Neil was appointed to AURL as a director in November 2006 and appointed as Chairman in November 2014.

Neil has been a Director of Vita Group since June 2007 and Beacon Lighting Group since 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 the world's largest consulting and technology services firm, Accenture.

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

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

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

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

In 2002 David was voted onto the FoodWorks Supermarket Group board as a Retail board member and served for two years before choosing to resign in 2004 to help reduce the number of board members when the two groups merged to become AURL. In 2006, with his wife, David purchased the Gisborne

store, excited by the prospect of carrying on his family's legacy. Since this time he has also purchased Sunbury FoodWorks.

#### **8.1.3 Frederick Fairthorne – Non Executive Director**

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

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

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

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

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

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

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

#### **8.1.5 Sien (John) Van Nguyen – Non Executive Director**

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

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

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

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

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

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

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

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

#### **8.1.7 Rick Wight – Executive Director**

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

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

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

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

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

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

#### **8.1.8 Tony Pacella – Company Secretary**

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

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

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

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



## **8.2 The Senior Management team**

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

The Company's Management Team comprises:

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

Refer to paragraph 8.1.7.

### **8.2.2 Tony Pacella – Chief Financial Officer**

Refer to paragraph 8.1.8.

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

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

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

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

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

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

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

### **8.2.4 Anthony Abdallah – Chief Commercial & Procurement Officer**

Anthony joined AURL in March 2016 as the Chief Procurement and Commercial Officer. Anthony's senior executive career reflects his experience in strategy development, tactical implementation, change management and building high performance teams.

His experience includes senior management roles in both retail, wholesale and supply chain, in finance, merchandising and procurement in the Food & Grocery, Liquor and Fashion industries. He has held various senior roles over the last 16 years with Metcash including financial, buying and commercial roles with an expertise in leadership, business strategy, negotiating, process and marketing. Most recently he was responsible for the transformation of the private label offering for the independent grocery retailers.

Anthony holds a Bachelor of economics from Macquarie University and an Executive MBA from the University of Technology, Sydney. He is CPA qualified and is a fellow of the Governance Institute of Australia.

## **9 Risk factors**

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

### **9.1 Specific Key Risks**

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

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

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

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

### **9.2 Specific Other Risks**

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

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

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

#### **9.2.2 Competitive retail environment**

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

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

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

### **9.2.4 Information Technology**

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

### **9.2.5 Retention of Members**

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

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

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

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

### **9.2.7 Government Legislation**

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

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

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

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

### **9.2.9 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 to make a payment. The Company's financial position could be impacted if third parties do not make payment to it in accordance with contractual obligations. While the Company has a credit risk management strategy in place, it may not be adequate to protect the Company against liability for losses relating to Chargeback.

### **9.3 General Risks**

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

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

## **10 Rights attaching to Shares**

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

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

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

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

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

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

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- 10.2.5 do not carry a right to participate on a winding up of the Company or reduction of capital; and
- 10.2.6 carry a restriction on transfer (see section 11.3.12).

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

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

- 10.3.1 the Member ceasing (for whatever reason) to be an Approved Storeowner of the Approved Store in respect of which the share was allotted, or otherwise ceasing to be an Eligible Member;
- 10.3.2 the holder becoming bankrupt or insolvent;
- 10.3.3 where the Member is an Approved Storeowner, a Default Event occurs (see section 10.4); or
- 10.3.4 the holder requests in writing that the Company redeems some or all of the Redeemable Preference Shares held by that holder; and
- 10.3.5 the holder fails to give notice within one month that they hold the shares as trustee and the Board reasonably believes that the reason a notice was not given was to avoid disclosing full particulars of the beneficial ownership of the Shares so held.

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

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

Relevant Default Events in respect of an Approved Storeowner include:

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

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

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

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

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

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

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

## **10.7 Voting Restrictions**

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

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

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

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

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

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

## **10.9 Risks**

Given the limited volume and value of Class A Redeemable Preference Shares issued under this OIS, an investment under the Offer does not involve a significant degree of risk. Regardless, Applicants are advised to carefully consider the Risks Section of this OIS set out in section 9.

## **11 Additional information**

### **11.1 Incorporation**

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

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

The rights attaching to Shares in the Company are:

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

### **11.3 Constitution**

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

#### **11.3.1 General**

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

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

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

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

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

- (vi) If any provision of the Constitution is or becomes inconsistent with the Listing Rules the Constitution is deemed not to contain that provision to the extent of the inconsistency.

However, see section 4.2, which notes that, as at the date of this OIS, the Directors have proposed to withdraw the listing of AURL on the NSX. As such, it may be that prior to the Closing Date, the Company's Class A Redeemable Preference Shares will no longer be listed on the NSX.

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

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

### **11.3.4 Redemption & Forfeiture**

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

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

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



### **11.3.5 Partly paid Shares**

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

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

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

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

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

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

### **11.3.8 Dividends**

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

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

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

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

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

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

### **11.3.11 Winding Up**

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

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

### **11.3.12 Transfer of Shares**

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

### **11.3.13 Directors**

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

### **11.3.14 Indemnities and Insurance**

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

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

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

## **11.4 Unity Agreements**

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

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

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

There are still a small number of Storeowners who remain bound by an older version of the Unity Agreement. The former Unity Agreement generally continued for a term of six years from the date of commencement, subject to termination provisions and the right of both parties to consent to the renewal of the agreement.

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

Storeowner's entitlement to the loyalty rebate is immediately withdrawn from the date they give written notice that they are terminating the agreement.

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

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

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

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

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

### **11.5 Approved Store Agreements**

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

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

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

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

### **11.6 Banner Agreements**

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

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

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

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

### **11.7 Metcash Supply Agreement**

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

### **11.8 Supply Agreements**

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

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

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

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

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

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

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

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

#### **11.10 CEO employment agreement**

In February 2016, the Company extended its employment agreement with Rick Wight, the Company's Chief Executive Officer through to 25 October 2019. The employment agreement incorporates a base salary and an annual bonus which is dependent on attainment of annual performance targets.

#### **11.11 Tax Considerations**

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

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

### **12.1 Directors**

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

### **12.2 Pitcher Partners**

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

- the inclusion in this OIS of the Independent Audit Report to the Members of Australian United Retailers Limited which relates to the financial report of Australian United Retailers Limited and controlled entities for the period ended 30 June 2016;
- the references to that report in the form and context in which they appear in this OIS; and
- being named in this OIS as the auditor to Australian United Retailers Limited.

Pitcher Partners has not been involved in the preparation or distribution of this OIS and has not authorised or caused the issue of this OIS. Pitcher Partners expressly disclaims and takes no responsibility for, any part of this OIS.

### **12.3 SBA Law**

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

Dated 14 December 2016

Signed for, and on behalf of, Australian United Retailers Ltd



Neil Osborne

Chairman of the Board of Directors

# AUSTRALIAN UNITED RETAILERS LIMITED "COMPANY"

ACN 077 879 782

## CONSENT OF DIRECTORS TO PROPOSED OFFER INFORMATION STATEMENT

### Compliance with the Corporations Act 2001

At a meeting of the Company's board of Directors on 14 December 2016 it was noted that:

(a) The Company proposes to issue an Offer Information Statement (OIS). Further, the issue of and the content to be included in an OIS is regulated by the Corporations Act.

(b) An OIS is a form of disclosure document that has a lower level of disclosure requirement than a prospectus, but which is available to the Company as the value of the shares to be issued under the document, when added to all amounts previously raised by the Company under an OIS, will be less than \$10 million.

(c) The OIS will be issued by the Company in respect of the issue to each new Approved Storeowner of one A Class Redeemable Preference Share in respect of each Approved Store or as otherwise permitted under the Constitution.

### Disclosure

It was noted that the Directors are aware of the potential liability issues for the Company and the Directors arising from the issue of a disclosure document. In particular, that the Directors must be satisfied that the OIS to be issued by the Company:

(a) Does not contain any misleading or deceptive statement in either the document itself or the accompanying application form.

(b) Does not omit any information or material as required by the Corporations Act.

Further, that any statements made in the disclosure document with respect to future matters have been duly considered and are based on reasonable grounds.

To this end the Directors have:

- reviewed the current draft of the OIS, a copy of which was circulated to the Board prior to the 14 December 2016 Board meeting; and
- considered the draft OIS, including provision of consents from each Director to the document being issued by the Company.

### Verification

It was noted that the draft OIS was based on the OIS issued by the Company on or around 16 December 2015, amended to reflect changes in the Company's activities and risk profile, having regard to matters which have occurred since the issue of the 2015 OIS.

The current draft OIS has been the subject of a review by Senior Management (in respect of matters relating to the Company, its business and its officers) and a high-level review by SBA Law (in respect of legal matters). Further, the Directors have been provided with an opportunity to ask any questions of Senior Management deemed necessary to satisfy themselves that it meets the disclosure requirements set out above.

### Approval

By signing below each Director indicates:


- he or she has read and carefully considered the OIS;
- he or she approves the draft OIS, subject to anything identified between the date of this certificate and the date of issue;
- he or she authorises the Company Secretary to make any additional amendments of a non-material nature that are considered necessary including to ensure that the document meets the content requirements under the Corporations Act; and
- he or she consents to the issue of the OIS and its lodgement at ASIC.


Dated this 14th day of December 2016


Neil Osborne.....

Malcolm Ward.....

David Williamson.....

Sien Van Nguyen.....

Fred Fairthorne.....

Rick Wight.....

Paul Job.....



**AUSTRALIAN UNITED RETAILERS LIMITED ("The Company")  
ACN 077 879 782**

**CONSENT TO INCLUSION OF AUDIT REPORT  
IN OFFER INFORMATION STATEMENT**

1. Pitcher Partners of Level 19/15 William Street, Melbourne, VIC 3000 acknowledges that:
  - a) The Company proposes to issue an Offer Information Statement ("**OIS**") for the offer of securities in the Company;
  - b) The OIS may be issued in hard copy or electronic format; and
  - c) It has received a copy of the draft OIS dated 14 December 2016.
2. Pitcher Partners consents to:
  - a) being named as the Auditor of the Company;
  - b) the inclusion in Appendix 1 of the OIS of the Independent Audit Report to the Members of Australian United Retailers Limited which relates to the financial report of Australian United Retailers Limited and controlled entities for the period ended 30 June 2016, and
  - c) the references to that report in the form and context in which they appear in the OIS.
3. Pitcher Partners has not been involved in the preparation or distribution of this OIS, and has not authorised or caused the issue of this OIS.
4. Pitcher Partners expressly disclaims and takes no responsibility for, any part of this OIS or any omissions thereon.

SIGNED by



K L BYRNE  
Partner



PITCHER PARTNERS

14 December 2016



**OFFER INFORMATION STATEMENT**  
**AUSTRALIAN UNITED RETAILERS LIMITED**

**CONSENT**

14 December 2016

SBA Law confirms that it has consented to being named as lawyers of Australian United Retailers Limited (**the Company**) in the Offer Information Statement of the Company dated on or around 14 December 2016 in the form and context in which it is named, and that it has not withdrawn that consent.

SBA Law has not authorised or caused the issue of, and expressly disclaims and takes no responsibility for, any part of the Offer Information Statement.

*SBA Law per S. Casper.*  
.....

**SBA Law**

per Steven Casper  
Principal  
SBA Law  
Level 13, 607 Bourke Street  
Melbourne, Victoria 3000

# Annual Report

2015/2016  
Financial Year



Truly Local & Independent

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

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## DIRECTORS' REPORT

The directors present their report together with the financial report of the Consolidated Entity consisting of Australian United Retailers Ltd ("AURL") and the entities it controlled, for the financial year ended 30 June 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:

<u>Name</u>	<u>Period of directorship</u>
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:

	2016 \$	2015 \$
(a) Dividends paid or declared		
Dividends paid at \$0.03 per share (2015: \$0)	346,794	-
fully franked at 30%	<u>346,794</u>	<u>-</u>
(b) Dividends declared after the reporting period and not recognised		
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, <b>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.</b>  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 <b>prospect of carrying on his family's legacy. Since this time he has also purchased FoodWorks Sunbury.</b>
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	- Non Executive Director
Qualifications	- 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	- Non Executive Director
Qualifications	- 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	- Non Executive Director
Experience	- 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	<p>- Appointed as a director of the Company on 17 November 2010.</p> <p>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.</p> <p>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.</p>
Special Responsibilities	- Chairman of the Audit & Risk Committee.
Sien Van Nguyen	- Non Executive Director
Experience	<p>- Appointed as a Director of the Company on 22 November 2011.</p> <p>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.</p> <p><b>Sien's successes in retail and strategic management have</b> 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.</p>
Special Responsibilities	- Member of the Audit & Risk Committee and the Supply Chain Committee.

Paul Job	- 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.
Rick Wight	- 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.
Tony Pacella	- 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.

### 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 \$
Amounts paid and payable to Pitcher Partners (Melbourne) for non-audit services:		
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

(i) Directors	Period of Responsibility	Position
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>
<i>(ii) Executives</i>		
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



(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:

	2016*	2015	2014	2013	2012
	\$'000	\$'000	\$'000	\$'000	\$'000
Profit – continuing operations	1,863	1,890	3,770	6,160	3,673
Loss – discontinued operations	-	-	(1,464)	(3,675)	(4,521)
Profit/(loss) for the year	1,863	1,890	2,306	2,485	(848)
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
Incentive Performance Metric					
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:

	2016	2015	2014	2013	2012
<b>Revenue (\$'000)</b>	49,786	50,456	53,377	56,637	57,100
% decrease in revenue	-1%	-5%	-6%	-1%	-4%
<b>Profit before tax (\$'000)</b>	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	-	-	-	-
<b>Return of capital (\$'000)</b>	-	-	-	-	-
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
Revenue & Other Income			
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>
Less: expenses			
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	<u>(82)</u>	<u>(227)</u>
		<u>(47,069)</u>	<u>(47,852)</u>
Finance costs	6	<u>-</u>	<u>(3)</u>
Profit before income tax		2,717	2,601
Income tax expense	7	<u>(854)</u>	<u>(711)</u>
Profit for the year		<u><u>1,863</u></u>	<u><u>1,890</u></u>
Other comprehensive income		<u>-</u>	<u>-</u>
Total comprehensive income		<u><u>1,863</u></u>	<u><u>1,890</u></u>
Profit is attributable to:			
Members of the parent		<u><u>1,863</u></u>	<u><u>1,890</u></u>
Total comprehensive income attributable to:			
Members of the parent		<u><u>1,863</u></u>	<u><u>1,890</u></u>
Earnings per share attributable to equity holders of the parent entity	21	Cents	Cents
- 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 <b>\$'000</b>	2015 <b>\$'000</b>
Current assets			
Cash and cash equivalents	10	4,207	1,996
Trade and other receivables	11	10,448	10,851
Other	12	<u>116</u>	<u>24</u>
Total current assets		<u>14,771</u>	<u>12,872</u>
Non-current assets			
Property, plant and equipment	13	870	282
Deferred tax asset	7c	<u>2,217</u>	<u>3,071</u>
Total non-current assets		<u>3,087</u>	<u>3,353</u>
Total assets		<u><u>17,858</u></u>	<u><u>16,225</u></u>
Current liabilities			
Trade and other payables	14	13,796	13,594
Provisions	15	<u>2,524</u>	<u>2,597</u>
Total current liabilities		<u>16,321</u>	<u>16,191</u>
Non-current liabilities			
Provisions	15	<u>198</u>	<u>212</u>
Total non-current liabilities		<u>198</u>	<u>212</u>
Total liabilities		<u><u>16,519</u></u>	<u><u>16,403</u></u>
Net assets / (deficiency)		<u>1,339</u>	<u>(178)</u>
Equity			
Share capital	16	10,119	10,119
Accumulated losses	17a	(12,188)	(12,188)
Accumulated profits reserve	17b	<u>3,408</u>	<u>1,890</u>
Total equity		<u><u>1,339</u></u>	<u><u>(178)</u></u>

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

Consolidated Entity	Contributed equity \$'000	Retained earnings \$'000	Total Equity \$'000
Balance as at 1 July 2014	10,119	(12,188)	(2,069)
Profit for the year	-	1,890	1,890
Total comprehensive income for the year	-	1,890	1,890
Balance as at 30 June 2015	10,119	(10,297)	(178)
Balance as at 1 July 2015	10,119	(10,297)	(178)
Profit for the year	-	1,863	1,863
Total comprehensive income for the year	-	1,863	1,863
Dividend paid		(347)	(347)
Balance as at 30 June 2016	10,119	(8,780)	1,339

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
Cash flows from operating activities			
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		<u>-</u>	<u>(3)</u>
Net cash received in operating activities	18(b)	2,639	1,928
Cash flows from investment activities			
Payments for purchases of property, plant and equipment		(87)	(163)
Proceeds from sale of fixed assets		<u>6</u>	<u>-</u>
Net cash used in investing activities		<u>(81)</u>	<u>(163)</u>
Cash flows from financing activities			
Dividends paid		(347)	-
Loan equipment payments		<u>-</u>	<u>(111)</u>
Net cash used in financing activities		<u>(347)</u>	<u>(111)</u>
Net increase in cash held		2,211	1,654
Cash and cash equivalents at beginning of financial year		<u>1,996</u>	<u>342</u>
Cash and cash equivalents at end of financial year	18(a)	<u><u>4,207</u></u>	<u><u>1,996</u></u>

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:

Class of fixed asset	Depreciation rates	Depreciation basis
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.

### **(l) Provisions**

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

### **(m) Employee benefits**

#### *(i) Short-term employee benefit obligations*

Liabilities arising in respect of wages and salaries, annual leave, accumulated sick leave and any other employee benefits (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*

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

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

2015	Retail Support Services \$'000	Retail Stores \$'000	Total \$'000
Segment revenue			
Total segment revenue	50,456	-	50,456
Total segment revenue from external source	50,456	-	50,456
Segment result			
Total segment result	659	-	659
Inter-segment impairment elimination	1,231	-	1,231
Segment result from external source	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)
Total Segment Assets	16,225	-	16,225
Total Segment Liabilities	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:

	2016	2015
	<b>\$'000</b>	<b>\$'000</b>
Financial assets		
Cash and cash equivalents	4,207	1,996
Receivables	10,448	10,851
	<hr/> 14,655	<hr/> 12,847
Financial liabilities		
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:

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted average effective interest rate	Fixed / variable rate
	\$'000	\$'000	\$'000	%	
<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.

	< 6 Months \$'000	6-12 Months \$'000	1-5 years \$'000	Total contractual cash flows \$'000	Carrying amount \$'000
Year ended 30 June 2016					
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
Year ended 30 June 2015					
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

	2016 \$'000	2015 \$'000
<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:

	2016 \$'000	2015 \$'000
<i>Employee benefits expense</i>		
Wages and salaries	10,186	9,870
<b>Workers' compensation costs</b>	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:

	2016 \$'000	2015 \$'000
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)**

	2016 \$'000	2015 \$'000
(d) Deferred income tax revenue/(expense) included in income tax expense comprises		
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**

	2016 \$'000	2015 \$'000
(a) Dividends paid or declared		
Dividends paid at \$0.03 per share (2015: \$0) fully franked at 30%	347	-
	347	-
(b) Dividends declared after the reporting period and not recognised		
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	-
(c) Franking account		
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.

	2016 \$'000	2015 \$'000
(i) Financial performance information		
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		
<i>Assets</i>		
Assets directly associated with discontinued operations	-	-
<i>Liabilities</i>		
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

	2016	2015
	\$'000	\$'000
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.

	2016	2015
	\$'000	\$'000
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:

	Gross 2016 \$'000	Impairment 2016 \$'000	Gross 2015 \$'000	Impairment 2015 \$'000
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:

	Gross 2016 \$'000	Impairment 2016 \$'000	Gross 2015 \$'000	Impairment 2015 \$'000
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>
Trade and member receivables	<u>8,856</u>	<u>72</u>	<u>9,409</u>	<u>138</u>

NOTE 12: OTHER CURRENT ASSETS

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

NOTE 13: PROPERTY PLANT AND EQUIPMENT

	2016 \$'000	2015 \$'000
<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)
Total property, plant and equipment	<u>870</u>	<u>282</u>

(a) Movement in carrying amounts

	Leasehold Improve- ments \$'000	Plant and Equipment \$'000	Computer equipment \$'000	Leased assets \$'000	Furniture fixtures and fittings \$'000	Total \$'000
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

	2016	2015
	\$'000	\$'000
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>
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NON-CURRENT

Employee benefits	<u>198</u>	<u>212</u>
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Aggregate employee benefits liability	<u>2,722</u>	<u>2,809</u>
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NOTE 16: CONTRIBUTED CAPITAL	2016	2015
	\$'000	\$'000

(a) Issued and paid up capital

11,560,348 Class A redeemable preference shares (2015: 11,560,388)	10,119	10,119
-----------------------------------------------------------------------	--------	--------

(b) Movements in shares on issue

	Parent Equity 2016		Parent Equity 2015	
	No of Shares	\$'000	No of Shares	\$'000
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

	2016	2015
	\$'000	\$'000
(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:

	2016 \$'000	2015 \$'000
Cash Items		
– 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
Non - Cash Items		
– 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)
Changes in assets and liabilities		
– 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
Net cash flow from operating activities	<u>2,639</u>	<u>1,928</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.

	2016	2015
	\$'000	\$'000
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:

	2016	2015
	\$'000	\$'000
Reconciliation of earnings used in calculating earnings per share:		
Profit used in calculating basic earnings per share	1,863	1,890
	2016	2015
	No of Shares	No of Shares
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**

	2016	2015
	\$	\$
<i>Compensation by category</i>		
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:

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

\* 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:**

	2016	2015
	No of Shares	No of Shares
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**

	2016	2015
	\$	\$
Amounts paid and payable to Pitcher Partners ( <i>Melbourne</i> ) for:		
(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>	<u>117,787</u>	<u>117,730</u>

NOTE 25: PARENT ENTITY INFORMATION

	2016 \$'000	2015 \$'000
(a) Summarised statement of financial position		
Assets		
Current assets	14,771	12,872
Non-current assets	3,087	3,353
Total assets	17,858	16,225
Liabilities		
Current liabilities	16,311	16,181
Non-current liabilities	198	212
Total liabilities	16,509	16,392
Net assets	1,349	(168)
Equity		
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) Summarised statement of comprehensive income		
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).		
(c) Parent entity guarantees		
The parent entity has provided the guarantees outlined in Note 20(b).		
(d) Parent entity contingent liabilities		
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).		
(e) Parent entity contractual commitments		
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

	No of shares	%
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%
		54.62%

## 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.*