



Offer information statement

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

AURL lodged this Offer Information Statement with ASIC on 23 December 2011.

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.

CORPORATE DIRECTORY

Company

Australian United Retailers Limited
Trading as FoodWorks
ACN 077 879 782
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Directors

John Bridgfoot – Chairman and Non Executive Director
Neil Osborne - Deputy Chairman and Non Executive Director
Allan Burge – Non Executive Director
Fred Fairthorne – Non Executive Director
Jack Scanlan –Non Executive Director
Deborah Smith - Non Executive Director
Sein Van Nguyen - Non Executive Director
Malcolm Ward – Non Executive Director
David Williamson – Non Executive Director

Company Secretary

Ken Sleep

Lawyers to the Company

DLA Piper Australia
Level 21
140 William Street
Melbourne, Victoria, 3000

Auditor

Pitcher Partners
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Melbourne, Victoria, 3000

IMPORTANT NOTICE

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

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

Eligible Applicants should read this OIS in its entirety before deciding to invest in the Company. In particular, Eligible Applicants should refer to sections 8 and 9 for details of the risk factors that could affect the performance of the Company and for financial information relating to the Company. The Offer does not take into account the investment objectives, personal circumstances (including financial and taxation issues) and particular needs of Eligible Applicants. Eligible Applicants should consider the prospects of the Company in the light of their individual objectives, circumstances and needs. Eligible Applicants should seek professional advice from a solicitor, accountant or other independent financial advisor before deciding to apply for a Class A Redeemable Preference Share(s) in the Company. Neither the Company nor any other person guarantees the success of the Company, the repayment of capital or the payment of dividends.

This OIS is dated 23 December 2011 (**OIS Date**). A copy of this OIS was lodged with the Australian Securities and Investments Commission (**ASIC**) on 23 December 2011. The 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.

Exposure Period

The Corporations Act prohibits the Company from processing applications in the seven (7) day period after the OIS Date. This period is known as the Exposure Period. This Exposure Period may be extended by the ASIC by up to seven (7) days. The purpose of the Exposure Period is to enable this OIS to be examined by market participants prior to the raising of funds. That examination may result in the identification of deficiencies in the disclosure document. In those circumstances any application that has been received may need to be dealt with in accordance with section 724 of the Corporations Act.

Applications received during the Exposure Period will not be processed until after the expiry of that period. No preference will be conferred on applications received during the Exposure Period.

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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1 Investment Overview

1.1 The Offer

Australian United Retail 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 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

Event	Date
OIS Lodgement Date at ASIC	23 December 2011
Offer Opens	23 December 2011
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 23 January 2013)
Shares Issued	Normally after scheduled Board meetings (see section 6.3)

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

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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 9 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 8(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 – and in this OIS represents the pre Merger Queensland based business.

"AURL" means Australian United Retailers Limited (ACN 077 879 782) trading as FoodWorks and in this OIS represents the post Merger business.

"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 and FoodWorks' corporate stores.

"Board" means the Board of Directors of FoodWorks.

"Brand" means the Business Names, Trade Marks or other Intellectual Property by which the Company promotes FoodWorks Branded Stores and the Company's Private Label program.

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

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

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

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

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

"Closing Date" means the date on which the Offer closes, being 5:00pm AEST on 23 January 2013.

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

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

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

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"Customer Value Proposition" means the collective offer presented to the customer including product, pricing and presentation.

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

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

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

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

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

"Exposure Period" means the period of seven days after lodgement of this OIS which may be extended by the ASIC by not more than seven days pursuant to section 727(3) of the Corporations Act.

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

"FoodWorks Retail" means FoodWorks Retail Pty Ltd (ACN 136 178 240)

"FSG" means FoodWorks Supermarket Group Ltd (ACN 077 879 782) and in this OIS represents the pre Merger Victorian based business.

"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.

"Merger" means the merger of the FSG and Australian United Retailers (AUR) in November 2004.

"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.

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"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.

"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 6 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 9 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 There are different classes of Shares. What's the reason for this?

Following the Merger, one Class A Redeemable Preference Share was issued to each Member who signed the Approved Store Agreement and one Class B Redeemable Preference Share was issued to each Member who also signed the Banner Agreement.

On 5 March 2007, the holders of both Class A and Class B Redeemable Preference Shares passed special resolutions varying the rights attached to each share class. In addition, the holders of Class A Redeemable Preference Shares voted to amend the Constitution by creating a new class of Share, Class C Redeemable Preference Shares.

The purpose of these amendments was to enable the Company to undertake a capital raising via an issue of Class C Redeemable Preference Shares under a prospectus lodged with the ASIC on 2 April 2007.

Under the terms of issue and the Constitution, Class C Redeemable Preference Shares issued under the prospectus (including any bonus shares issued) converted to Class A Redeemable Preference Shares on 15 June 2009 (the Conversion Date).

Until their conversion to Class A Redeemable Preference Shares on 15 June 2009, Class C Redeemable Preference Shares were listed on the Official List of the exchange operated by the NSX, a prescribed financial market under the Corporations Act. From that date, the Class A Redeemable Preference Shares have been listed on that exchange.

As at the date of this OIS, the Company has 11,560,447 Class A Redeemable Preference Shares and 197 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 10.3.3 and 10.3.12.

3.6 What is a 'redeemable preference share'?

Essentially, 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. Primarily, 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).

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

Further details on the rights and restrictions attaching to each class of Shares are set out in section 9.

3.7 Will you get any dividends?

If the financial performance of the Company is in line with the Directors' current expectations, it is the Directors' current expectation that the Company will pay a dividend within the next two years, 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.

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 or by contacting the Company.

4 Information about the Company, its business and plans

4.1 Background information

Australian United Retailers Limited (AURL) is an independent retail supermarket group trading under the "FoodWorks" Brand. It was created from the Merger of the FoodWorks Supermarket Group Ltd and Australian United Retailers (AUR) 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 Merger created a network of stores which has grown to approximately 630 stores with annual aggregate store turnover in excess of \$1.9 billion.

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

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

In particular, since the Merger, the Company has been delivering on the Company's mission to increase retailer prosperity through a significant increase in store wide sales, total income to the Company and distributions to Members who own Approved Stores.

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The Board has also invested significantly in raising the levels of governance and professionalism of the Company, to those expected of a well established, publicly listed organisation.

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

The Company undertook a capital raising under the prospectus lodged with the ASIC on 2 April 2007 to fund its growth strategy. Approximately \$10.3 million was raised under the prospectus.

On 29 June 2009, the Company announced its intention to purchase up to 45 Coles stores in South Australia, Victoria, New South Wales and Queensland at a total acquisition value of around \$35 million. This acquisition was approved by the Company's members on 17 August 2009 and 22 of those stores were progressively transferred to the FoodWorks group during the period until February 2010. The acquisition was financed by the Wesfarmers group. In March 2010 the Company announced that initial performance benchmarks for the acquired stores had not been met and that plans would be developed to divest a number of stores. In addition to reaching agreement with Coles that FoodWorks was not required to acquire further stores under the original sale and purchase agreement, a divestment and closure plan was developed and, as at the date of this OIS, it is expected that closure or settlement on the sale of all the stores acquired by FoodWorks will have occurred with the exception of one store located in Coonabarabran (which the Company is currently endeavouring to sell). The net proceeds from the divestment of these stores was applied to reduce the Wesfarmers group debt financing. For further information regarding the Wesfarmers debt financing arrangements, refer to paragraph 10.9 of this OIS.

4.2 The FoodWorks National Network

FoodWorks has grown to represent a network of Branded and Unbranded stores, spanning all states and territories across Australia.

In the initial years following the Merger, stores were concentrated in the Eastern seaboard states and supported by offices in Brisbane and Melbourne, with additional representation in NSW. FoodWorks is now a national business following the expansion into Western Australia and South Australia.

4.3 Growth of Member Distributions

One of the Company's most important achievements to date since the Merger has been the evolution and growth 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.

Over the last three years, total distributions to Members who own Approved Stores has continued to grow. Over the same period, the total distributions as a proportion of Eligible Warehouse Withdrawals have increased materially.

4.4 What does FoodWorks do?

The Company's Activities - Overview

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

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- 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 business plans, product sales benchmarking information, space planning, Retail Development Partners (RDPs), Fresh Specialists
 - manage** their businesses - such as training, manuals, price file hosting and maintenance and accounts payable services (e.g. Chargeback); and
 - reduce** the cost of doing business – such as local area marketing, media buying, production and distribution of catalogues, Telstra, and Commonwealth Bank EFTPOS contracts;
- Assisting Members who own Approved Stores regarding store refurbishment and redevelopment opportunities and the management of their development projects;
- Assisting Members who own Approved Stores in their choices of Point of Sale and Back Office Systems, and associated support arrangements; and
- Representing the interests of independent retailers generally with governments, industry groups or associations.

Unbranded Stores are able to take advantage of a number of the FoodWorks' services – including all SSupplier 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 EFTPOS rates, telecommunication deals, the Company's store refurbishment and redevelopment expertise and a competitive structure of distribution to Members who own Approved Stores.

4.5 Key FoodWorks Services

To effectively deliver its diverse range of support services to Members who own Approved Stores, FoodWorks is organised into six primary functions – Merchandising, Retail Services (including Marketing, IT and Pricing), Retail Operations (including Business and Store Development), Finance, and People, Culture and Communications. The activities of each of these functions are outlined below.

4.6 Merchandising

On behalf of its Member retailers, 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 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 10.7.

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

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

4.8 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.

4.9 Category Specific Initiatives - LiquorLink and TobaccoLink

LiquorLink and TobaccoLink are FoodWorks' innovative, value added 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. The LiquorLink and TobaccoLink arrangements are good examples of the potential prize available to both parties when Suppliers' and Members' objectives are aligned.

4.10 Promotional Negotiations and Support

FoodWorks provides its members with an ongoing promotional program to drive customers into the stores and to increase sales. There are up to 51 catalogues produced each year which can be distributed around the stores' catchment areas. These catalogues are tailored to the stores' size and are available in a 12 page, 6 page and 2 page version. Promotional activities are typically one week specials, or 4 week price reductions. Supplier support is negotiated on behalf of the network by the Merchandise Team to meet price points that are market competitive and drive increased customer count.

4.11 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.

4.12 Retail Services

The FoodWorks Retail Services team provides support services across the following functions:

- Marketing;
- Information Technology; and
- Pricing and Hosting Support Services.

4.13 Marketing

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

The FoodWorks Marketing function drives awareness of the FoodWorks brand and Customer Value Proposition among consumers and other stakeholders. The awareness of the quality and value available from FoodWorks stores assists in driving consumer traffic.

4.14 Marketing Support Services

The 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

4.15 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.

4.16 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.

4.17 Retail Operations

The FoodWorks Operations Team and 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.

4.18 Store Development

FoodWorks' store development function encompasses a range of specialist services, from investigating and identifying new business opportunities through to computer aided design (CAD) based design documentation.

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

These barriers include:

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

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

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

- Internal retail design - offering Member retailers a cost effective way to create a new and innovative shopping experience for their customers by focusing on interior fit-outs.
- Sourcing competitive pricing for equipment and services to enable our members to operate more cost effectively.
- Provision of signage and branding to FoodWorks standards at no charge to the retailer.

4.19 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 increase income generation, control spending, and mitigate risk areas which 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, telephone Suppliers 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.

4.20 People, Culture and Communications

FoodWorks has a team which is dedicated to 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 remuneration and performance management 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.

The team provides 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.

4.21 FoodWorks' Vision

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FoodWorks' Vision in relation to its Members' retailer stores is to offer its Member retailers a smart, contemporary, retail and business system that:

- improves retailer standard profitability;
- listens to customers and responds to their needs; and
- strives to be Australia's premier independent retail Brand.

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.

5 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.

6 Details of the Offer

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

6.1 Key dates

Event	Date
OIS Lodgement Date at ASIC	23 December 2011
Offer Opens	23 December 2011
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 23 January 2013)
Shares Issued	Normally after a scheduled Board meeting (see section 6.3)

6.2 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.

6.3 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 paragraph 6.2 above are met.

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

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

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

6.4 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 6.2 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 9 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 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 Offer Proceeds.

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.

6.5 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.

6.6 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.

6.7 What to do if you have queries or want extra copies of this OIS

Applicants who require additional copies of the OIS can contact:

Australian United Retailers Limited
ACN 077 879 782

Company Secretary

Australian United Retailers Ltd

Ph: 03 9809 8600

Email: companysecretary@foodworks.com.au

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

6.8 Company's discretion

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

7 Directors and senior management

7.1 Who are AURL's directors and officers?

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

The Board also includes independent directors who have 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, marketing, operational and management, which enables 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:

7.1.1 John Leslie Bridgfoot - Chairman and Non Executive Director

John was appointed as a director of Australian United Retailers (AUR) in October 2001 and as the Chairman in July 2004, and has been a director and Chairman of AURL since the Merger. He is an ex-officio member of the Audit & Risk and Remuneration & Nomination committees.

John is currently the Managing Director of Pacific Rim Securities, a private equities and commodities trader, which he established in 1998.

John was previously an independent retail storeowner and operator from January 1999 until March 2006.

Prior to this, John held a number of senior executive service roles with the Victorian Government from 1985 until 1998, principally in the health industry.

During that time, from 1993 until 1996, John also worked for Arrow Consulting and First Capital Alliance as a business analyst, providing consulting advice to their clientele in the field of economics and securities analysis.

7.1.2 Neil Anthony Osborne – Deputy Chairman and Non Executive Director

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With over 19 years' experience in the retail industry, Neil was appointed to AURL as a director in November 2006. He is Chairman of the Board's Audit & Risk Committee.

Neil is a Director of the Vita Group, a company listed on the ASX.

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.

7.1.3 Allan Burge – Non Executive Director

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

Allan was appointed to the Q.I.W. Board in 1981. In 1983, when Q.I.W. was taken over by Q.I.W. Retailers, Allan was elected a Director and was founding Chairman, a position he was elected to annually for the next 10 years, eventually retiring from the Board in 1993. At the direction of a General Meeting of SPAR Retailers during 1993, a group of retailers prepared a business plan for the purchase and distribution of fresh fruit and vegetables for QLD and N.S.W. SPAR Fresh Pty Ltd was registered and commenced operations in 1999 trading as Independent Produce Professionals. It is still progressing into its 12th year. Allan was elected a Director and founding Chairman and he has retained these positions to date.

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

7.1.4 Frederick Falkener Fairthorne - Non Executive Director

Fred was appointed as a Director of the Company in September 2009. He is a member of the Audit & Risk 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.

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

7.1.5 John Patrick Scanlan - Non Executive Director

Jack was a director and founding Chairman of FoodWorks Supermarket Group Ltd from 1997 until 2004 and has been a director of AURL since the Merger and its Deputy Chairman until November 2011. He is a member of the Remuneration and Nomination committee of the Board.

From 1969 - 2000 Jack was a Partner in the firm Scanlan Carroll Commercial Lawyers and has practised as a Barrister and Solicitor for 40 years.

Jack holds a Bachelor of Laws (Melbourne University) and is a Barrister and Solicitor of the Supreme Court of Victoria.

7.1.6 Deborah Smith - Non Executive Director

Deborah was appointed a director of the Company in October 2003 and has been a director of AURL since the Merger. Deborah is a member of the Board's Remuneration & Nomination Committee.

Since 1996, Deborah has been an independent retail storeowner and operator.

Deborah holds a Master of Business Administration, Diploma in Education, a Diploma of Management, Graduate Certificate of Management, is a Member of the Australian Institute of Company Directors and is a Director of Master Grocers of Australia.

7.1.7 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 of the Board.

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.

Before entering the retail industry, John and his family operated an award-winning restaurant in Brisbane, which catered for 200 patrons. He was responsible for its operation, financial management, purchasing and quality control.

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.

7.1.8 Malcolm Geoffrey Ward – Non Executive Director

Malcolm was appointed as a Director of the Company in November 2010 and is a member of the Audit & Risk Committee of the Board.

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 4 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.

7.1.9 David William Williamson – Non Executive Director

David was appointed as a Director of the Company in November 2010 and is a member of the Remuneration & Nomination 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 13 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 the AUR. 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.

7.1.10 Kenneth Malcolm Sleep - Company Secretary

Ken joined AURL in December 2004 as Company Secretary, with responsibility for all Board matters, share register, corporate governance and regulatory compliance generally.

Previously, Ken had an extensive career with the Mayne Nickless Group, where he held administration, finance and company secretarial responsibilities, and spent the latter period as Group Company Secretary, with wide ranging secretarial responsibilities for the holding company and all subsidiaries.

In the period since, Ken has provided significant consultancy to a top ASX 100 company on company secretarial, corporate governance and superannuation matters, with limited similar consultancies to other public companies.

Ken holds a Bachelor of Economics Degree (Monash), and is FCPA and a Fellow of the Chartered Institute of Secretaries.

7.2 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:

7.2.1 Ricky Francis Wight - Chief Executive Officer

Rick was appointed as CEO in October 2010. Prior to this he was the Chief Operating Officer. 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), Finance and Administration 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.

7.2.2 Antonio Pacella - Chief Financial Officer

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

He joined FoodWorks in 2010. 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.

7.2.3 Midhat Massoud - General Manager, Merchandise

Midhat joined FoodWorks in 2009 from the wholesale retail sector.

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

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

He is responsible for overseeing the national category management and promotions team.

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

7.2.4 Helene Margaret Gordon - General Manager People, Culture and Communications

Helene joined the FoodWorks group in early 2009 to oversee the People team. Helene has extensive experience in retail with the Coles Myer Group in managing human resources operations and significant change and transformation projects.

A graduate of Monash University, Helene holds a Bachelor of Business with a double major in Management and Marketing, specialising in Human Resources.

She has also undertaken professional development in areas such as workplace behaviours, internal consulting, remuneration management and executive capability assessment from accredited providers.

She is a Fellow of the Australian Human Resources Institute (FAHRI), its mentoring program and the Attraction and Retention Special Interest Group. Helene is passionate about the role people play in the overall success of a business.

7.2.5 Stephanie Anne Holmes - General Manager – Retail Services

Stephanie is responsible for the Marketing, Information Technology, and Hosting functions as well as overseeing the relationship between FoodWorks and Metcash.

She joined FoodWorks in 2002, and during her time with the business, has worked across a broad range of departments including operations, business development and merchandising. She uses her extensive experience in project management, operations, business process development and business assessment to assist in building the future success of the Company.

With a Bachelor of Business, Stephanie has worked for Shell, developing and implementing a range of initiatives across the business. Other career highlights includes several years as Operations Manager of an international Direct Marketing company, overseeing the import and distribution of fast moving consumer goods into Australia and Asia, and time spent working as Operations Manager of several hospitality and gaming businesses.

7.2.6 Theodoros Stratopoulos - General Manager Retail Operations

Theo joined the FoodWorks group in mid 2009 as the National Operations Manager for FoodWorks Retail. Theo drove the store transition program as well as overseeing day to day operations for all stores across 4 States.

In March 2011, Theo moved into the role of General Manager – Retail Operations, taking on the responsibility for all FoodWorks stores and also overseeing the business and store development teams.

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Theo has 25 years experience in supermarket retailing, 23 of which were with the Coles Group at all levels of store operation and a number of senior state and national positions.

A graduate of Victoria University and Deakin University, Theo holds an Associate Diploma in Food Retailing and a Diploma of Management.

He has also undertaken professional development in areas such as Strategic Planning, Supply Chain Management, efficiency process mapping and solution implementation.

Theo is passionate about supermarkets and imparting his knowledge as well as developing people.

8 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.

8.1 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 risk listed first.

8.1.1 Divestment and Closure of Coles stores

The closure and divestment program associated with certain Corporate owned stores from Coles is approaching completion. There is one store located in Coonabarabran which the Company is yet to close or divest. The Company is currently endeavouring to sell this store.

It is important to note that, in respect of a number of the stores that have been closed (as opposed to sold), the Company (or one of its subsidiaries) has ongoing payment obligations in respect of the store. The Company is actively managing its remaining obligations for the remaining sites and expects that these will be discharged in a satisfactory manner but there remains some element of uncertainty around the finalisation of these matters.

8.1.2 Supply Chain Risk

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

Further details of the Company's contractual arrangements with Suppliers are set out in section 10.

8.2 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 those Specific Key Risks 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.

8.2.1 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.

8.2.2 Retention of Members

Notwithstanding the introduction of the Unity Agreement (see section 10.4), some Member retailers operate under the Approved Store Agreement and / or Banner Agreement (see sections 10.5 and 10.6). 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.

8.2.3 Competitive retail environment

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

8.2.4 Risks associated with losing key personnel

The Company's ongoing performance will depend to some extent on its key personnel, in particular the Management Team discussed in section 7.2. 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.

8.2.5 Information Technology

The Company is continually monitoring its information technology systems as well as those of its Members who own Approved Stores. There is a risk that any investment in information technology could be compromised by technological failure, implementation issues or other such

difficulties which may have a material adverse impact on capital expenditure, operations and the financial performance of the Company.

8.2.6 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.

8.2.7 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.

8.2.8 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.

8.3 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 will depend significantly on 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.

9 Rights attaching to Shares

9.1 What rights and restrictions attach to the Class A Shares?

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

- 9.1.1 may only be held by an Eligible Member;
- 9.1.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 10.3.4);
- 9.1.3 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 10.3.6);
- 9.1.4 carry the right to participate in any dividend declared and paid by the Company to holders of shares in the class;
- 9.1.5 carry the right, on a winding up of the Company, to participate in any distribution of assets; and
- 9.1.6 carry a restriction on transfer (see section 10.3.12).

9.2 What rights and restrictions attach to the Class B Shares?

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

- 9.2.1 may only be held by an Eligible Member;
- 9.2.2 may be redeemed in accordance with the Redemption Procedure upon the occurrence of a Redemption Event (see section 10.3.4);
- 9.2.3 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;
- 9.2.4 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;
- 9.2.5 do not carry a right to participate on a winding up of the Company or reduction of capital; and
- 9.2.6 carry a restriction on transfer (see section 10.3.12).

9.3 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:

- 9.3.1 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;
- 9.3.2 the holder becoming bankrupt or insolvent;
- 9.3.3 where the Member is an Approved Storeowner, a Default Event occurs (see section 9.4); or
- 9.3.4 the holder requests in writing that the Company redeems some or all of the Redeemable Preference Shares held by that holder; and
- 9.3.5 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 10.3.4.

9.4 What are 'Default Events'?

Relevant Default Events in respect of an Approved Storeowner include:

- 9.4.1 default or breach of any contractual obligation or commitment owed by the Approved Storeowner to the Company;
- 9.4.2 failure to pay, when due and payable, for goods ordered by or on behalf of the Approved Storeowner from a Supplier;
- 9.4.3 failure to pay, when due and payable, monies owed to the Company;
- 9.4.4 vacation or ceasing to own, lease, operate or control an Approved Store without the prior written consent of the Directors;
- 9.4.5 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

- 9.4.6 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.

9.5 What is the 'Redemption Procedure'?

- 9.5.1 Where a Redemption Event occurs, the Directors have a right at their option exercisable at any time to:
- 9.5.2 Suspend the voting rights attached to the relevant Shares with immediate effect.
- 9.5.3 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.
- 9.5.4 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.

Applicants should note that as under the Corporations Act a redemption can only occur from profits or the proceeds of a further share issue.

9.6 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.

9.7 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.

9.8 Future Entitlement to Issue Additional Shares

Australian United Retailers Limited
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The Board is empowered in the future to issue further Class C Redeemable Preference 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.

9.9 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 8.

10 Additional information

10.1 Incorporation

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

10.2 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 9 above and 10.3 below; and
- in certain circumstances, regulated by the Corporations Act and the general law.

10.3 Constitution

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

10.3.1 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 10.4, 10.5 and 10.6 of this OIS.

10.3.2 Application of Listing Rules

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

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

- (v) If the Listing Rules require the Constitution not to contain a provision and it contains that provision, the Constitution is deemed not to contain that provision.
- (vi) If any provision of the Constitution is or becomes inconsistent with the Listing Rules the Constitution is deemed not to contain that provision to the extent of the inconsistency.

10.3.3 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.

10.3.4 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.

10.3.5 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.

10.3.6 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. As the Class A Redeemable Preference Shares are admitted to the Official List, a Member 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.

10.3.7 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.

10.3.8 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.

10.3.9 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.

10.3.10 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.

10.3.11 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.

10.3.12 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.

10.3.13 Directors

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

10.3.14 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.

10.3.15 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.

10.4 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**). Unity Agreements generally continue for a term of six years from their date of commencement, subject to termination provisions and the right of both parties to consent to the renewal of an 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 10.5) Unity Storeowners must comply with all relevant FoodWorks policies, as well as a range of specific obligations, including the maintenance of adequate stock and staffing levels, stocking recommended levels of allocated brands and compliance with specified store upkeep requirements. Branded Storeowners who have signed Unity Agreements, referred to throughout as Unity Branded Storeowners, are also subject to additional obligations, including ongoing compliance with specified branding criteria, the provision of information relating to store performance, compliance with FoodWorks' promotional programs, the maintenance of accurate sales data and ensuring that staff training and uniform requirements are met.

FoodWorks is required to provide a range of services to Unity Storeowners, primary of which is providing access to negotiated supply arrangements with Suppliers. FoodWorks negotiates

and receives Supplier rebates and allowances, and pays portions of those rebates and allowances to Unity Storeowners.

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

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

10.5 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 10.7 and 10.8 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 10.4 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.

10.6 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 9.2 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.

10.7 Metcash Supply Agreement

In September 2009, FoodWorks entered into a Corporate Stores Supply Agreement, under which FoodWorks-owned stores have agreed to purchase products available from Metcash (subject to competitive carve-outs), as well as a Member Store Supply Agreement, under which Metcash agrees to supply FoodWorks Members' stores with products ordered by such members and that are available through Metcash. Each agreement continues for an initial term of 10 years, and can be terminated without cause with 1 years notice following that initial term. However, the agreements can be terminated earlier in certain circumstances, including if a party materially breaches its obligations under an agreement. Both agreements provide for the provision of rebates by Metcash, based in part on the volume of goods supplied under the agreements.

10.8 Supply Agreements

In addition to the Metcash supply agreements, as referred to in section 10.7, FoodWorks has entered into numerous supply agreements with various other Suppliers relating to a range of retailer products. These agreements set out the principal terms under which the Suppliers agree to provide various products to FoodWorks Members who own Approved Stores, including the specification of rebate levels.

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

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

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

10.9 Acquisition of supermarkets from Coles

In June 2009, FoodWorks entered into various transaction documents, under which a subsidiary of FoodWorks agreed to acquire the assets of up to 45 supermarkets (and 8 liquor outlets) from the Coles Group. The Supermarkets Sale Agreement sets out the primary terms of these acquisitions, including the manner in which FoodWorks subsidiaries would become the tenant under the relevant property leases and the employer of relevant supermarket staff. A purchase price was allocated to each portfolio store (which is then adjusted with respect to matters including the value of stock, cash float and accrued employee entitlements). A number of representations and warranties were provided by Coles, and a limitation of liability regime applies.

These arrangements were subsequently varied such that the number of supermarkets whose assets would be acquired was reduced to 22 stores and, by early 2010, the 22 stores were acquired. The divestment and closure of these stores has subsequently occurred in respect of all of these stores, except for the store located in Coonabarabran (which the Company is endeavouring to sell).

Under a Credit Agreement (and related documents), the Coles Group agreed to provide FoodWorks with finance in order to fund the store acquisitions, and FoodWorks (and various subsidiaries) have agreed to provide security in favour of Coles. The initial funding arrangements included a 3 year deferred credit facility of approximately \$35 million and a 1 year term facility of up to \$11,875,000. The Credit Agreement set out the terms on which this funding is provided, including the repayment obligations of FoodWorks, the conditions for draw downs, the interest charged by Coles and the events of default which may trigger early repayment obligations (amongst other matters). Security has also been granted by FoodWorks and the various FoodWorks subsidiaries to Coles to secure the liability under the Credit Agreement. FoodWorks has provided a featherweight charge and the various FoodWorks subsidiaries have provided various fixed and floating charges and mortgages of lease. The shares in the FoodWorks subsidiaries, including FoodWorks Retail, have also been mortgaged.

The initial financing agreements with the vendor financiers were varied on 28 June 2011 such that all debt outstanding under this agreement has been reduced to a zero balance.

10.10 Deeds of indemnity, insurance and access

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

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

10.11 CEO employment agreement

In October 2010, the Company entered into a new employment agreement with Rick Wight, the Company's Chief Executive Officer. It operates for the period to 26 October 2013 and incorporates a base fixed salary and an annual bonus which is dependent on attainment of annual performance targets.

10.12 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.

11 Director's statement and Consents

11.1 Directors

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

11.2 Pitcher Partners

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

- inclusion of its report for the Company in respect of the year ended 30 June 2011 in this OIS; and
- being named in the OIS as the auditor to Australian United Retailers Limited in the form and context in which it appears in the OIS.

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

11.3 DLA Piper Australia

DLA Piper Australia 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.

Dated 23 December 2011

Signed for, and on behalf of, FoodWorks

A handwritten signature in black ink, appearing to read 'John Bridgfoot', with a stylized flourish at the end.

John Bridgfoot

Chairman and Non Executive Director

**Australian United Retailers Ltd
and Controlled Entities
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Financial Report
For the year ended 30 June 2011

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**AUSTRALIAN UNITED RETAILERS LTD
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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 2011 and auditor's report thereon. This financial report has been prepared in accordance with Australian Accounting Standards.

Principal Activities

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

The principal activities of the Controlled entities during the financial period were:

- a) The operation of supermarkets in Australia; and
- b) The negotiation and settling of contracts for the divestment of corporate stores.

No significant change in the nature of the activities of the parent entity occurred during the year.

Results

The profit of the consolidated entity for the financial year, after providing for income tax, amounted to \$16,677,000.

Review of Operations

The consolidated entity's trading profit after tax for the year ended 30 June 2011, is as follows:

	\$ 000's
Profit for the year (Continuing operations)	3,980
Profit for the year (Discontinued Operations)	12,697
Profit for the year	<u>16,677</u>

The Directors are pleased with progress made on the divestment program during the year with only three Corporate stores remaining at the end of the year and importantly the positive impact on the overall financial position of the consolidated entity arising from FoodWorks Retail Pty Ltd entering into a Second amendment and restatement deed with CSA Retail (Finance) Pty Ltd. The restatement deed has resulted in the forgiveness of all amounts owing under both the Transitional Funding Facility and the Deferred Credit Facility which resulted in the recognition of a non-recurring debt forgiveness income item of \$24,379,000.

As disclosed in note 18, the restatement deed includes some potential restrictions which if triggered will result in the re-instatement of the Transitional Funding Facility Reinstatement Amount. This re-instatement would equate to \$7.1 Million plus interest accruing on the facility up to the date that the triggering event occurs.

The trigger events are:

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

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

Significant Changes in State of Affairs

Except for matters described in this report, there were no significant changes in the consolidated entity's state of affairs during the financial period.

**AUSTRALIAN UNITED RETAILERS LTD
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DIRECTORS' REPORT (CONT'D)

After Balance Date Events

As disclosed in note 30, in the period subsequent to 30 June 2011, the consolidated entity has:

- established a bank loan facility of \$1M with its Bankers which has enabled the consolidated entity to promptly cease operating the remaining Corporate stores and has enabled normal operations during this period, and
- closed two corporate stores and entered into an agreement to sell the remaining Corporate store by 31 December 2011.

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

Likely Developments

The Company will continue to pursue its operating strategy to deliver quality retail support services to its Members and to finalise the sale of the remaining corporate store. In the opinion of the Directors, disclosure of any further information would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental Regulation

The consolidated entity's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

Dividends Paid, Recommended, and Declared

No dividends were paid or declared since the start of the financial year. No recommendation for payment of dividends has been made.

Share Options

No options over unissued shares or interests in the consolidated entity were granted during or since the end of the financial year and there were no options outstanding at the end of the financial year.

Indemnification of Officers

All Directors of the consolidated entity have entered into a Deed of Indemnity, Insurance and Access. The premium paid in relation to the year ended 30 June 2011 was \$39,797. Disclosure of details of the policy is prohibited under the terms of the relevant insurance policy.

Apart from this, no other indemnities have been given or insurance premiums paid, during or since the end of the financial year, for any person who is or has been an officer of the consolidated entity.

Proceedings on Behalf of the Company

No person has applied for leave of Court to bring proceedings on behalf of the Company or intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or any part of those proceedings.

The Company was not a party to any such proceedings during the year.

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DIRECTORS' REPORT (CONT'D)

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 the end of the financial year is provided below, together with details of the Company Secretary as at reporting date.

John Bridgfoot	- Independent Non Executive Chairman
Qualifications	- Exec. M.B.A. (Washington State) B.A. (La Trobe University) Member Australian Institute of Company Directors (M.A.I.C.D)
Experience	- John was appointed as a Director on 22 September 2001 of Australian United Grocers Pty Ltd. In July 2004 John was appointed chairman of AUURL. He is currently the Managing Director of Pacific Rim Securities. John was previously an independent storeowner and operator from 9 January 1999 until March 2006.
Special Responsibilities	- Member of Remuneration & Nomination Committee and Audit & Risk Committee. John has been engaged on the divestment of our retail stores project on a month to month basis throughout the year to manage and direct the execution of the strategic objectives of that project on behalf of FoodWorks Retail Pty Ltd.
Jack Scanlan	- Non Executive Deputy Chairman
Qualifications	- Bachelor of Laws (Melbourne University) Barrister & Solicitor of the Supreme Court of Victoria
Experience	- A Director (and founding chairman until July 2004) of AUURL since 22 May 1997, Jack was previously a Partner in the firm Scanlan Carroll Commercial Lawyers (1969 - 2000) and has practiced as a Barrister and Solicitor for 40 years.
Special Responsibilities	- Chairman of the Remuneration & Nomination Committee.
Deborah Smith	- Non Executive Director
Qualifications	- Dip. Ed. (Townsville) Master of Business Administration (University of New England) Graduate Certificate of Management (University of New England) Diploma of Management (University of New England) Member Australian Institute of Company Directors (M.A.I.C.D)
Experience	- A Director since 4 October 2003, Deborah has been an independent storeowner and operator since 1996. Deborah is a Director of Master Grocers of Australia.
Special Responsibilities	- Member of the Remuneration & Nomination Committee.

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DIRECTORS' REPORT (CONT'D)

Don Howell	<ul style="list-style-type: none"> - Independent Non Executive Director - Retired 17 November 2010
Qualifications	<ul style="list-style-type: none"> - Certified Practising Accountant
Experience	<ul style="list-style-type: none"> - Don has been an independent Non-Executive Director of AURL from 23 July 1997 until his retirement. Don brought to the Company extensive experience in senior positions including Senior Vice President of Mattel Inc and CEO of Mattel Australia.
Special Responsibilities	<ul style="list-style-type: none"> - Chairman of Audit & Risk Committee until his retirement.
Wayne Pattison	<ul style="list-style-type: none"> - Non Executive Director
Qualifications	<ul style="list-style-type: none"> - Member Australian Institute of Company Directors (M.A.I.C.D)
Experience	<ul style="list-style-type: none"> - Wayne has been a Director since 4 October 2003 and he has 28 years experience in the retail industry in Victoria. Wayne is a shareholder in an independently owned retail store in Victoria. Before purchasing these stores he was a Bank Officer for 20 years including 8 years as a Business Development Officer. Since 1983 Wayne has continually been representing retailers on committees for several groups in the Industry, He was also a councillor for the Liquor Stores Association of Victoria. He was a member of CHEEERS Liquor Group committee for 18 years, including 10 years as Chairman.
Special Responsibilities	<ul style="list-style-type: none"> - Member of the Audit & Risk Committee.
Neil Osborne	<ul style="list-style-type: none"> - Independent Non Executive Director
Qualifications	<ul style="list-style-type: none"> - Fellow Australian Institute of Company Directors (FAICD) Bachelor of Commerce Certified Practising Accountant Company Directors Course Diploma (Australian Institute of Company Directors)
Experience	<ul style="list-style-type: none"> - With over 20 years experience in the retail industry, Neil was appointed as a Director in November 2006. He is also a Director of the Vita Group. Neil has held a variety of senior executive positions with Myer Grace Bros and Coles Myer Ltd, as well as being a former partner of Accenture.
Special Responsibilities	<ul style="list-style-type: none"> - Member of the Audit & Risk Committee until 15 December 2010 and its Chairman from that date.
Janette Kendall	<ul style="list-style-type: none"> - Independent Non Executive Director
Qualifications	<ul style="list-style-type: none"> - Fellow Australian Institute of Company Directors (FAICD) Bachelor of Business (Marketing)
Experience	<ul style="list-style-type: none"> - Janette was appointed as a Director in August 2007. Janette is Executive General Manager – Marketing of Crown Limited and has a strong background in brand marketing, advertising, promotions and customer relationship management. Previously Janette was a divisional general manager of Pacific Brands, and the first female board member of Clemenger, a leading international advertising agency
Special Responsibilities	<ul style="list-style-type: none"> - Member of the Remuneration & Nomination Committee.

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DIRECTORS' REPORT (CONT'D)

Fred Fairthorne

Experience

- Non Executive Director
- Fred was 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 with a strong focus on merchandising, marketing product offerings and store layout development.

Special Responsibilities

- Member of the Audit & Risk Committee.

Allan Burge

Qualifications

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

Experience

- Allan was 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.

Allan was appointed to the Q.I.W. Board in 1981. In 1983, when Q.I.W. was taken over by Q.I.W. Retailers, Allan was elected a Director and was founding Chairman, a position he was elected to annually for the next 10 years, eventually retiring from the Board in 1993. 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 QLD and N.S.W. SPAR Fresh Pty Ltd was registered and commenced operations in 1999 trading as Independent Produce Professionals. It is still progressing into its 12th year. Allan was elected a Director and founding Chairman and he has retained these positions to date.

Special Responsibilities

- Member of the Audit & Risk Committee from 15 December 2010.

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DIRECTORS' REPORT (CONT'D)

Malcolm Ward

- Non Executive Director

Experience

- Malcolm was appointed as a director of the Company on 17 November 2010
Malcolm and his wife Liz have been owner/operators of supermarkets since 1994. Malcolm is the Managing Director of their family companies operating three FoodWorks stores in Western Australia, and is a director of Supermarkets West Pty Ltd, the marketing and promotion company for FoodWorks and Farmer Jacks stores in WA.

Malcolm is a director and audit committee member of several production and marketing companies in the Australian egg industry, including Farm Pride Foods Ltd, 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.

Special Responsibilities

- Member of the Audit & Risk Committee from 15 December 2010.

David Williamson

- Non Executive Director

Experience

- David was appointed as a director of the Company on 17 November 2010

David has been part of a family who has been serving its local community as owners of an Independent Retail Business for over 30 years. He has grown up in this industry, helping his family run their Tuckerbag Supermarket from a young age. At the age of 17, he became Store Manager of his family's second store, Riddell's Creek Riteway. From there he moved on to manage their third store which became a Payless Super barn and then graduated to their biggest store, Tuckerbag. He continued as the Store manager until 14 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 board as a Retail board member and served for two years before choosing to resign in 2004 to help reduce the number of board members when the two groups merged to become AURL. In 2006, with his wife, David purchased the Gisborne store, excited by the prospect of carrying on his family's legacy. Since this time he has also purchased FoodWorks Sunbury.

Special Responsibilities

- Member of the Remuneration & Nomination Committee from 15 December 2010.

Peter Noble

- Executive Director & Chief Executive Officer
Resigned as a Director on 4 August 2010

Qualifications

- Bachelor of Applied Science (Queensland University)
Member Australian Institute of Company Directors (M.A.I.C.D)

Experience

- A Director of AUR Ltd since 19 August 2002, Peter had 25 years experience with Shell Australia including four years as Managing Director of Shell SW Pacific.

Special Responsibilities

- Chief Executive Officer to 31 July 2010, Member of Remuneration & Nomination Committee until 4 August 2010.

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DIRECTORS' REPORT (CONT'D)

Ken Sleep

Qualifications

Experience

- Company Secretary
- Bachelor of Economics (Monash) FCPA FCIS
- Ken joined AURL in December 2004 as Company Secretary, with responsibility for all Board matters, share register, corporate governance and regulatory compliance generally. Previously, Ken had a long career with the Mayne Nickless Group, where he held administration, finance and company secretarial responsibilities, and spent the last nine years as Group Company Secretary, with wide ranging secretarial responsibilities for the holding company and all subsidiaries.

In the period since, Ken has provided significant consultancy to a top ASX 100 company on company secretarial, corporate governance and superannuation matters, with limited similar consultancies to other public companies.

Meetings of Directors

DIRECTORS	BOARD MEETINGS		AUDIT & RISK COMMITTEE		REMUNERATION & NOMINATION COMMITTEE	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
A Burge	8	8	1	-	-	-
J Bridgfoot	17	17	4	4	4	3
F Fairthorne	17	17	4	4	-	-
D Howell	9	7	3	3	-	-
J Kendall	17	15	-	-	4	3
P Noble	1	1	-	-	-	-
N Osborne	17	16	4	4	-	-
W Pattison	17	17	4	4	-	-
J Scanlan	17	16	-	-	4	4
D Smith	17	17	-	-	4	4
M Ward	8	8	1	-	-	-
D Williamson	8	8	-	-	2	2

Note: Corporate Stores (Viva) Committee was discontinued from 15th December 2010, no meetings were held during the current year.

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DIRECTORS' REPORT (CONT'D)

Directors' Interests in Shares or Options

Directors' relevant interests in the shares of the Company are detailed below.

Directors' relevant interests in:	A Class Redeemable Preference Shares of AUR Ltd
Allan Burge	162,002
Fred Fairthorne	730,003
Peter Noble	120,000
Wayne Pattison	198,002
Deborah Smith	150,003
Jack Scanlan	240,000
Malcolm Ward	620,214
David Williamson	72,003

Transactions with Directors are disclosed in note 28. Directors have no other interests in contracts with the consolidated entity other than those disclosed at Note 28.

Auditor's Independence Declaration

A copy of the auditor's declaration 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 Board on recommendation of the audit committee. Non-audit services provided by the auditors of the consolidated entity during the year, Pitcher Partners, are detailed below. The Directors are satisfied that the provision of the non-audit services during the year by the auditor is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

	2011 \$	2010 \$
Amounts paid or payable to an auditor for non-audit services provided during the year by the auditor to by any entity that is part of the consolidated entity for:		
Other assurance services	18,950	18,830
Taxation services	127,495	24,180

AUSTRALIAN UNITED RETAILERS LTD
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REMUNERATION REPORT

This report outlines the remuneration arrangements in place for Directors and Key Management Personnel of the Company.

Remuneration Policy

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:

- Setting the terms and conditions of employment for the CEO;
- Reviewing and approve policies for senior executives' remuneration;
- Reviewing and make recommendations to the Board on the Company's incentive schemes, remuneration policies and superannuation arrangements;
- Reviewing the budget for salaries and monitor 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 policy has 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 demanding performance hurdles;
- Non-Executive Director remuneration will not include any incentive based components;
- Positioning the Company to address future opportunities and respond effectively to business threats; and
- External market remuneration data will be considered when determining executive and Non-Executive Director remuneration structures.

The primary goal of the remuneration arrangements for 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 FoodWorks' culture of rewarding excellent performance and attitude. The variable component of remuneration relates to the achievement of specific Company and individual objectives.

The remuneration package of Key Management Personnel excluding the CEO is annually assessed against relevant executive remuneration market data. In July 2010, Key Management Personnel went through the company's Annual Performance Review and an increase in line with performance and Board approval was applied. Each member of the Key Management Personnel team is eligible for a maximum incentive of 20% expressed as a percentage of total remuneration package. 50% of the incentive component is applied for the achievement of company criteria and 50% is applied to Key Performance Indicators which are negotiated for each key management person. Company criteria for the year ended 30 June 2011 comprised achievement of budgeted Profit, achievement of stretch Profit and Retailer Sales to deliver Like for Like sales by 1% above food inflation.

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REMUNERATION REPORT (CONT'D)

Chief Executive Officer (CEO) Peter Noble resigned effective 30 September 2010. Rick Wight was appointed Acting CEO and then on 26 October 2010 was appointed CEO on a 3 year fixed term contract. The employment conditions comprise a fixed salary package and an annual incentive which is dependent on attainment of annual performance targets.

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

The target criteria for the incentive components of remuneration of the CEO and other 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 discussion with the 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.

Non-Executive Director remuneration is fixed and comprises payment for service on the Board and up to two committees. Levels of remuneration have regard to fees paid by comparable companies, time commitment and responsibilities. External remuneration consultant advice is sought periodically.

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

The names and positions of each person who held the position of Director at any time during the financial year is provided in the Directors Report. Key Management Personnel including those who received the highest remuneration for the financial year are:

Executive	Position
Peter Noble (resigned 30 September 2010)	Chief Executive Officer
Rick Wight	Chief Operating Officer / Chief Executive Officer
Midhat Massoud (appointed 9 December 2010)	General Manager Merchandise
Tony Pacella	Chief Financial Officer
Simon Thompson (resigned 23 July 2010)	National Manager Business Development
Jeff Rogut (resigned 6 May 2011)	General Manager Marketing and Merchandise Services
Stephanie Holmes	Manager Business Projects / General Manager Retail Services
Helene Gordon	General Manager People, Culture & Communications
Theo Stratopoulos (appointed 31 March 2011)	General Manager Retail Operations

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DIRECTORS' AND EXECUTIVES' COMPENSATION

2011	Short-term			Post Employment		Equity		Other		Total	Performance Related Bonus %
	Salary & Fees ***	Cash Bonus ****	Non-monetary	Superannuation	Retirement benefits	Options		Termination Benefits			
	\$	\$	\$	\$	\$		\$	\$		\$	
Directors											
J Bridgfoot	171,600	-	-	-	-	-	-	-	-	171,600	-
J Scanlan	119,900	-	-	-	-	-	-	-	-	119,900	-
D Smith	71,500	-	-	-	-	-	-	-	-	71,500	-
P Noble*	251,259	-	-	22,638	-	-	-	77,812	-	351,709	-
D Howell	12,027	-	-	16,667	-	-	-	-	-	28,694	-
W Pattison	42,560	-	-	21,667	-	-	-	-	-	64,227	-
N Osborne	62,175	-	-	12,500	-	-	-	-	-	74,675	-
J Kendall	74,837	-	-	-	-	-	-	-	-	74,837	-
F Fairthorne	71,500	-	-	-	-	-	-	-	-	71,500	-
M Ward*	37,271	-	-	3,354	-	-	-	-	-	40,625	-
D Williamson*	44,489	-	-	-	-	-	-	-	-	44,489	-
A Burge*	37,528	-	-	3,131	-	-	-	-	-	40,659	-
Total	996,646	-	-	79,957	-	-	-	77,812	-	1,154,415	-
Executives**											
A. Pacella	221,293	-	-	19,367	-	-	-	-	-	240,660	-
S. Thompson*	19,510	-	-	1,620	-	-	-	33,819	-	54,949	-
H. Gordon	211,009	-	-	18,991	-	-	-	-	-	230,000	-
S. Holmes	201,835	-	-	18195	-	-	-	-	-	220,030	-
R. Wight	382,187	-	-	34,397	-	-	-	-	-	416,584	-
M. Massoud	236,368	-	-	21,273	-	-	-	-	-	257,641	-
J. Rogut*	175,683	-	-	14,777	-	-	-	-	-	190,460	-
T. Stratopoulos	172,821	-	15,500	15,554	-	-	-	-	-	203,875	-
Total	1,620,706	-	15,500	144,174	-	-	-	33,819	-	1,814,199	-

* Amounts refer to only part of the financial year

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

*** These amounts include fees paid and accrued during the financial year ended 30 June 2011

**** No cash bonus amounts have been paid in financial year ended 30 June 2011 in respect to performance based entitlements arising from the financial year ended 30 June 2010

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DIRECTORS' AND EXECUTIVES' COMPENSATION (CONT'D)

2010	Short-term			Post Employment		Equity	Other		Performance Related Bonus %
	Salary & Fees	Cash Bonus ****	Non-monetary	Superannuation	Retirement benefits		Termination Benefits	Total	
	\$	\$	\$	\$	\$	\$	\$	\$	
Directors									
J Bridgfoot	169,500	-	-	-	-	-	-	169,500	-
J Scanlan	45,417	-	-	58,333	-	-	-	103,750	-
D Smith	65,750	-	-	-	-	-	-	65,750	-
P Noble*	419,380	82,569	-	45,000	-	-	-	546,949	15
D Howell	22,000	-	-	50,000	-	-	-	72,000	-
M Reddrop**	40,000	-	-	-	-	-	-	40,000	-
W Pattison	38,608	-	-	25,142	-	-	-	63,750	-
N Osborne	59,174	-	-	5,326	-	-	-	64,500	-
J Kendall	63,337	-	-	413	-	-	-	63,750	-
F Fairthorne***	52,500	-	-	-	-	-	-	52,500	-
J Ehrenfeld***	-	-	-	-	-	-	-	-	-
Total	975,666	82,569	-	184,214	-	-	-	1,242,449	-
Executives**									
G. Longmuir***	51,301	58,522	-	46,745	-	-	140,924	297,492	20
W. Vermeend***	218,568	28,573	16,575	14,827	-	-	55,000	333,543	9
A. Pacella***	37,214	-	-	4,366	-	-	-	41,580	-
S. Thompson	221,650	47,307	-	26,033	-	-	-	294,990	16
H. Gordon	201,100	12,203	-	19,098	-	-	-	232,401	5
S. Holmes	158,867	24,096	-	16,329	-	-	-	199,292	12
R. Wight	282,093	39,688	-	30,476	-	-	-	352,257	11
Total	1,170,793	210,389	16,575	157,874	-	-	195,924	1,751,555	-

* P Noble had the potential to earn a bonus of 25% of his salary
** Executives have the potential to earn a bonus of 20% of their salary
*** Amounts refer to only part of the financial year.
**** Cash bonus amounts paid in the year ended 30 June 2010 related to performance based entitlements arising from the year ended 30 June 2009

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Rounding of Amounts

The amounts contained in the report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the company under ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

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

The Chief Executive Officer and Chief Financial Officer have given a declaration to the Board concerning the Group's financial statements for the year ended 30 June 2011 under section 295A(2) of the Corporations Act 2001.

Corporate Governance

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

Signed in accordance with a resolution of the Board of Directors:



Director

J Bridgfoot

Dated this 12th day of September 2011



PITCHER PARTNERS

An independent Victorian Partnership
ABN 27 975 255 196

AUDITOR'S INDEPENDENCE DECLARATION

To the Directors of Australian United Retailers Ltd

In relation to the independent audit for the year ended 30 June 2011, 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.

K L BYRNE

Partner

12 September 2011

PITCHER PARTNERS

Melbourne

**AUSTRALIAN UNITED RETAILERS LTD
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CORPORATE GOVERNANCE STATEMENT

The Company's corporate governance practices have continued to be refined in the latest reporting period, reflecting developments within the Company and application of the Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council (ASX Principles).

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

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

Recognising the interests of our stakeholders

The Company is very aware of its important relationships with its many stakeholders – including Shareholders, employees, suppliers and service providers, customers of its Shareholders, and the wider community where it's Shareholders operate. The Company takes its governance responsibilities for each of these groups very seriously.

The Company's principal shares have been listed on the National Stock Exchange of Australia (NSX) since December 2007. Listing enhances transparency and potential liquidity for share ownership. Satisfying stringent corporate governance standards was an important precondition for admission to listing on the NSX.

Testing the views of Shareholders, obtaining feedback on important directions under consideration and making a wide range of material about the Company readily available to our members are important elements in ensuring we are in-step with the aspirations of our Shareholders.

The introduction of the FoodWorks Extranet online site, available to all bannered stores, was a significant initiative, designed to keep members in-touch with Company developments. This facility has been continually developed and enhanced during the year to provide a more effective interface with our members. It includes practical assistance and information to assist members to operate and develop their businesses.

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

A range of information regarding corporate governance is contained within the My Shares section of the Extranet website referred to below.

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

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CORPORATE GOVERNANCE STATEMENT (CONT'D)

Board and Management Roles

The Board has determined those matters which are reserved for it and has determined the authority of the Chief Executive Officer (CEO).

In summary, the principal matters reserved for the Board include:

- Appointment of the CEO and Company Secretary, approval of the appointment of Executive Staff upon the recommendation of the CEO, recommendations regarding appointment and removal of the auditor, appointment of Directors to fill casual Board vacancies;
- Delegations of authority to the CEO;
- Membership and terms of reference of Board committees;
- Assessment of performance of the Company, CEO and Board;
- Succession planning for the CEO and Board members;
- Approval of remuneration and incentive policies and individual executive employment contracts;
- Dividend policy;
- Approval of the annual financial reports, and accounting policies;
- Approval of any borrowings, and financial arrangements and policies;
- Approval of strategic objectives, the strategic plan and the business plan;
- Approval of proposals for major expansion or changes to the Company's structure or relationships;
- Approval of the capital expenditure budget and major individual expense items and contracts; and
- Risk management policies and risk assessment and insurance policies.

Refer to the My Shares section of the Extranet 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. The CEO is also responsible for certifying in writing to the Board, in relation to annual and half year financial statements, that they give a true and fair view of the Company's financial position, are in accordance with relevant accounting standards and the Corporations Act and are founded on a sound system of risk management and internal compliance and control which implements the policies adopted by the Board. In addition, the CEO provides comfort that the Company's risk management and internal compliance and control system has been operating effectively and efficiently during the period in all material respects.

A contract of engagement has been entered into with the CEO, setting out the terms and conditions of his appointment. In addition, the Company has entered into a Deed of Indemnity, Insurance and Access with each Director.

Regarding evaluation of the performance of Key Management Personnel, an ongoing participative process with the CEO is used which involves:

- Clarifying and agreeing on the outcomes/objectives of individual roles;
- Identifying the strengths of each individual and their valuable contribution to the Company;
- Monitoring the process towards the achievement of agreed outcomes and reaching agreement regarding outcomes and objectives and the strategies designed to achieve them; and
- Discussion of the reasons for the performance rating and overall specific goals obtained.

The performance review of Key Management Personnel undertaken during the year followed these principles.

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CORPORATE GOVERNANCE STATEMENT (CONT'D)

Board structure and processes

Under the constitution approved by the 2007 AGM, the Board is to have between 6 and 10 Directors of whom at least four will be Retail Directors. At each AGM from 2009 the longest serving one-third of the Directors shall retire from office, but are eligible for re-election. The Board considers that three of its non-executive Directors are independent.

During the course of its annual program, which included 11 scheduled meetings plus several additional meetings in the current year, the Board examines strategic issues. It reviews and approves the Strategic Plan and Financial Budget and systematically reviews all material areas of the Company's activities, including regularly receiving reports and presentations from Key Management Personnel. The terms of reference of the Remuneration and Nomination Committee of the Board include developing and implementing a plan for identifying, assessing and enhancing Director competencies and establishing procedures for use by the Committee to evaluate the performance of the Board and each Director.

Details of the skills, experience, expertise, independent status or otherwise, and period of office of each Director, are set out in the Directors' Report.

To assist in the execution of its responsibilities, the Board currently has two Board committees - Audit and Risk and Remuneration and Nomination. These committees have written terms of reference, which are subject to ongoing review. Matters addressed by Board committees are reported to the Board following each meeting. Committees have no executive powers regarding their findings and recommendations. The Chair of each Committee is a non-executive Director. Details of Committee members and their attendance at committee meetings during the year are set out in the Directors' Report. During the year, the Corporate Stores (Viva) Committee was discontinued. No meetings of this Committee were held during the year.

Ethical and responsible decision making

The Board has adopted as its Code of Conduct, the Code of Conduct of the Australian Institute of Company Directors. This Code sets out the conduct that Shareholders would reasonably expect from their Board of Directors - including honesty and good faith, care and diligence, no misuse or abuse of the office of Director, independent judgment, confidentiality, and compliance with the letter and spirit of the law and this Code.

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

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

Audit and Risk Committee

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

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

Members of the Committee throughout the year were Wayne Pattison, Fred Fairthorne, Neil Osborne and John Bridgfoot and Don Howell who was Chairman of the Committee until his retirement on 17 November 2010. Allan Burge and Malcolm Ward were appointed to the Committee on 15 December 2010 at which date Neil Osborne was elected as its Chairman. The Committee met four times in the year to 30 June 2011.

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CORPORATE GOVERNANCE STATEMENT (CONT'D)

Remuneration and Nomination Committee

In relation to the remuneration aspects of its responsibilities, the role of the Remuneration and Nomination Committee is to assist the Board in fulfilling its responsibilities in respect of establishing appropriate remuneration levels and incentive policies for employees and ensuring appropriate salary budgets are adopted by the Company.

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

The terms of reference of the Committee can be found in the My Shares section of the Extranet.

Members of the Committee were Jack Scanlan (Chairman) and Deborah Smith throughout the year, with Janette Kendall and David Williamson appointed to the Committee on 15 December 2010. John Bridgfoot was a member throughout the year and Peter Noble was also a member until 4 August 2010. The Committee held four meetings in the year to 30 June 2011.

Corporate Stores (Viva) Committee

“Viva” is the name for the project associated with the acquisition and divestment of 22 Coles corporate stores. Initially the purpose of the Committee was to manage negotiations with the vendor of the Viva stores for the purchase of the corporate stores. Subsequently the Committee was empowered to renegotiate with the Vendor group the credit and loans repayment arrangements under the relevant agreements.

The Committee did not meet during the reporting year and was discontinued from 15 December 2010.

Members of the Committee were John Bridgfoot (Chair), Fred Fairthorne, Peter Noble (to 4 August 2010), Neil Osborne and Jack Scanlan.

Financial Reporting

In addition to annual statutory reporting requirements the Company is subject to and has complied with the half yearly reporting obligations applicable to listed public companies and the “continuous disclosure” obligations (whereby share-price-sensitive information is required to be disseminated to the market immediately) prescribed in the Corporations Act. Since listing in December 2007, the Company has also been required to comply with the Listing Rules of the NSX.

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

Preparation of the Company’s statutory financial reports is in compliance with all relevant corporate legislation and accounting standards. A pre-condition of consideration of these reports and their recommendation by the Audit and Risk Committee to the Board is the Committee’s review of a statement in writing to the Board signed by the Chief Executive Officer and Chief Financial Officer. The statement certifies that the Company’s financial reports present a true and fair view, in all material respects, of the Company’s financial condition and operational results and are in accordance with relevant accounting standards. In addition, the integrity of the Company’s risk management and internal compliance and control systems are certified.

Risk Management

The Board, through the Audit and Risk Committee, oversees the establishment, implementation and ongoing review of the Company’s risk management and internal control system.

The regular monitoring and assessment of risk controls and the recommendation of appropriate risk strategies will continue to be an important part of the Audit & Risk Committee’s role.

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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED 30TH JUNE 2011

	Note	2011 \$'000	2010 \$'000
Continuing operations			
Revenue			
Supplier & member income	5	59,041	55,423
Sales revenue		164	761
Interest Income	5	154	150
Other income		199	201
		<u>59,558</u>	<u>56,535</u>
Less: expenses			
Change in inventories of finished goods		(296)	(1,069)
Distribution to members		(24,732)	(23,098)
Cost of members services		(7,338)	(7,296)
Merchandising expenses		(3,282)	(2,396)
Marketing expenses		(1,731)	(2,064)
Business development expenses		(356)	(316)
Administrative expenses		(17,444)	(17,152)
Depreciation		<u>(382)</u>	<u>(383)</u>
		(55,561)	(53,774)
Finance costs	6	<u>(17)</u>	<u>(27)</u>
Profit before income tax		3,980	2,734
Income tax expense	7	<u>-</u>	<u>(902)</u>
Profit/ from continuing operations		3,980	1,832
Net profit/(loss) from discontinued operations	9	<u>12,697</u>	<u>(27,847)</u>
Profit/(Loss) for the year		<u><u>16,677</u></u>	<u><u>(26,015)</u></u>

AUSTRALIAN UNITED RETAILERS LTD
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CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (CONT'D)
AS AT 30TH JUNE 2011

	Note	2011 \$'000	2010 \$'000
Other comprehensive income		-	-
Total comprehensive income/(loss)		<u>16,677</u>	<u>(26,015)</u>
Profit/(loss) is attributable to:			
Members of the parent		<u>16,677</u>	<u>(26,015)</u>
Total comprehensive profit/(loss) attributable to:			
Members of the parent		<u>16,677</u>	<u>(26,015)</u>
Earnings per share from continuing operations attributable to equity holders of the parent entity	8	Cents	Cents
- basic earnings per share		34.43	15.84
- diluted earnings per share		34.43	15.84
Earnings/(loss) per share attributable to equity holders of the parent entity	8		
- basic earnings/(loss) per share		144.26	(225.04)
- diluted earnings/(loss) per share		144.26	(225.04)
Earnings/(loss) per share from discontinued operations attributable to equity holders of the parent entity	8		
- basic earnings/(loss) per share		109.83	(240.88)
- diluted earnings/(loss) per share		109.83	(240.88)

AUSTRALIAN UNITED RETAILERS LTD
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CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AS AT 30TH JUNE 2011

	Note	2011 \$'000	2010 \$'000
Current assets			
Cash and cash equivalents	10	3,643	5,932
Trade and other receivables	11	15,533	12,522
Inventories	12	607	9,721
Intangibles	13	-	-
Other	14	77	137
		<hr/>	<hr/>
Non-current assets held for sale	16	-	4,334
		<hr/>	<hr/>
Total current assets		19,860	32,646
		<hr/>	<hr/>
Non-current assets			
Property, plant and equipment	15	724	1,029
		<hr/>	<hr/>
Total non-current assets		724	1,029
		<hr/>	<hr/>
Total assets		20,584	33,675
		<hr/> <hr/>	<hr/> <hr/>
Current liabilities			
Trade and other payables	17	23,937	25,283
Short term borrowings	18	161	9,670
Provisions	19	2,340	4,907
		<hr/>	<hr/>
Total current liabilities		26,438	39,860
		<hr/>	<hr/>
Non-current liabilities			
Long term borrowings	18	-	16,324
Provisions	19	158	180
		<hr/>	<hr/>
Total non-current liabilities		158	16,504
		<hr/>	<hr/>
Total liabilities		26,596	56,364
		<hr/> <hr/>	<hr/> <hr/>
Net deficiency		(6,012)	(22,689)
		<hr/> <hr/>	<hr/> <hr/>
Equity			
Share capital	20	10,119	10,119
Accumulated losses	21	(16,131)	(32,808)
		<hr/>	<hr/>
Total equity		(6,012)	(22,689)
		<hr/> <hr/>	<hr/> <hr/>

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED 30 JUNE 2011

	Contributed equity \$'000	Accumulated losses \$'000	Total Equity \$'000
Balance as at 1 July 2009	9,282	(6,793)	2,489
Loss for the period	-	(26,015)	(26,015)
Total comprehensive loss for the period	-	(26,015)	(26,015)
Transactions with owners in their capacity as owners:			
Issue of share capital	837	-	837
Dividends paid	-	-	-
	837	-	837
Balance as at 30 June 2010	10,119	(32,808)	(22,689)
Profit for the period	-	16,677	16,677
Total comprehensive loss for the period	-	16,677	16,677
Transactions with owners in their capacity as owners:			
Issue of share capital	-	-	-
Dividends paid	-	-	-
	-	-	-
Balance as at 30 June 2011	10,119	(16,131)	(6,012)

AUSTRALIAN UNITED RETAILERS LTD
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CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED 30TH JUNE 2011

	Note	2011 \$'000	2010 \$'000
Cash flows from operating activities			
Cash receipts in the course of operations		115,633	172,169
Cash payments in the course of operations		(125,418)	(178,500)
Interest received		229	150
Borrowing costs		<u>(17)</u>	<u>(287)</u>
Net cash used in operating activities	22(b)	<u>(9,573)</u>	<u>(6,468)</u>
 Cash flows from investment activities			
Payments for purchases of property, plant and equipment		(77)	(3,555)
Payments for business combinations		-	(16,319)
Cash acquired in business combination		-	523
Proceeds from sale of business combinations		<u>10,509</u>	<u>2,563</u>
Net cash provided by/(used in) investing activities		<u>10,432</u>	<u>(16,788)</u>
 Cash flows from financing activities			
Loan equipment payments		(137)	(155)
Proceeds from share issue		-	837
Net repayment/proceeds from borrowings		<u>(3,011)</u>	<u>25,137</u>
Net cash provided by/(used in) financing activities		<u>(3,148)</u>	<u>25,819</u>
 Net increase/(decrease) in cash held		(2,289)	2,563
Cash at beginning of financial year		<u>5,932</u>	<u>3,369</u>
Cash at end of financial year	22(a)	<u>3,643</u>	<u>5,932</u>

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)

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) 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 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.

The financial report was authorised for issue by the Directors on 12 September 2011.

Compliance with IFRS

The consolidated financial statements of Australian United Retailers Ltd also comply with the International Financial reporting Standards (IFRS) as 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.

Critical Accounting Estimates

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

(b) 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 of \$16,677,000 (2010: \$26,015,000 loss) including debt forgiveness income of \$24,379,000, a Net deficiency of assets totalling \$6,012,000 (2010: Net deficiency of assets totalling \$22,689,000) and a current working capital deficit of \$6,578,000 (2010: current working capital deficit of \$7,214,000).

The Directors believe that, with the completion of the divestment program, and based on achieving the forecasted cash flows including continuous cost containment and monitoring of discretionary spending, the on-going trading activities of the core business are expected to return the consolidated entity back to a positive net asset position.

FoodWorks Retail Pty Ltd is a wholly owned subsidiary of Australian United Retailers Limited and has entered into a Second Amendment and Restatement Deed with CSA Retail (Finance) Pty Ltd with respect to its short term and long term credit facilities which resulted in the forgiveness of all amounts owing under both the Transitional Funding Facility and the Deferred Credit Facility.

As disclosed in note 18, the potential restrictions contained in the Second Amendment and Restatement Deed includes certain conditions which if triggered will result in the re-instatement of the Transitional Funding Facility Reinstatement Amount. 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.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(b) Going concern (Continued)

As disclosed in note 30, in the period subsequent to 30 June 2011, the consolidated entity has:

- established a bank loan facility of \$1,000,000 with its Bankers which has enabled the prompt closure of the remaining Corporate stores and has enabled normal operations during this period, and
- has closed two corporate stores and entered into an agreement to sell the remaining Corporate store by 31 December 2011.

The bank loan facility noted above has an expected duration of 13 months but can be cancelled by the relevant Bank at short notice; 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.

Should the restrictions contained in the Second Amendment and Restatement Deed be triggered or should the bank withdraw the bank loan facility, the consolidated entity may in the future not be able to pay its debts as and when they fall due and may therefore be required to realise assets and extinguish liabilities other than in the ordinary course of business with the amount realised being different from those shown in the financial statement. The financial report does not include any adjustments relating to the recoverability and classification of the recorded assets amount nor to the amounts and classifications of liabilities that may be necessary should the company and the consolidated entity not continue as a going concern.

(c) Principles of consolidation

The consolidated financial statements are those of the consolidated entity, comprising the financial statements of the parent entity and of all entities which Australian United Retailers Ltd has the power to control the financial and operating policies so as to obtain benefits from its activities. Details of the controlled entities are contained in Note 24.

The financial statements of subsidiaries are prepared for the same reporting period as the parent entity, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies which may exist. All inter-company balances and transactions, including any unrealised profits or losses have been eliminated on consolidation. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(d) Income Tax

Income tax expense is payable on the current period's taxable income based on the applicable income tax rate adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax base of assets and liabilities and their carrying amounts in the financial statements.

A balance sheet approach is adopted under which deferred tax assets and liabilities are recognised for temporary differences at the applicable tax rates when the assets are recovered or liabilities are settled. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

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

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(d) Income Tax (Continued)

Tax Consolidation

The parent entity and its controlled entities have formed an income tax consolidated group under the tax consolidation legislation. The parent entity is responsible for recognising the current tax liabilities and deferred tax assets arising in respect of tax losses, for the tax consolidated group. The tax consolidated group has also entered into a tax funding agreement whereby each company in the group contributes to the income tax payable in proportion to their contribution to the net profit before tax of the tax consolidated group.

(e) Finance Costs

Finance costs can include interest, amortisation of discounts or premiums relating to borrowings, ancillary costs incurred in connection with arrangement of borrowings, foreign exchange losses net of hedged amounts on borrowings, including trade creditors and lease finance charges.

Finance costs are expensed as incurred.

(f) Impairment

Assets with an indefinite useful life are not amortised but are tested annually for impairment in accordance with AASB 136. Assets subject to annual depreciation or amortisation are reviewed for impairment whenever events or circumstances arise that indicate that the carrying amount of the asset may be impaired.

An impairment loss is recognised where the carrying amount of the asset exceeds its recoverable amount. The recoverable amount of an asset is defined as the higher of its fair value less costs to sell and value in use.

(g) Comparative Figures

Where required by Accounting Standards comparative figures have been adjusted to conform with changes in presentation for the current financial year.

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

(h) Revenue recognition

Revenue from sale of goods is recognised upon the delivery or provision of goods to the customer.

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

Revenue from the rendering of a service is recognised upon the delivery of the service to the customer.

Revenue from the sale of stores is recognised as at settlement date.

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

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).

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(i) Inventories

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

- (i) Merchandising signage - purchase cost on a first-in-first-out basis
- (ii) Stock of goods - are measured at the lower cost and net realisable value. Cost comprises purchase price and associated delivery costs. Costs are assigned to individual items of inventory on the basis of current purchase costs (excluding any short term promotional support). Costs of purchased inventory are determined after deducting any rebate entitlements attached specifically to that inventory.

(j) 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 short term borrowings in current liabilities on the statement of financial position.

(k) Receivables

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An estimate for impairment is made when there is objective evidence that the Group will not be able to collect the debts. Bad debts are written-off when identified.

Other receivables relate principally to GST refunds and expense reimbursements outstanding at balance date and are carried at the nominal amount due.

Receivables from related parties are recognised and carried at the nominal amount due less impairment loss.

Interest is taken up as income on an accruals basis. A receivable for interest accrued is recognised using the effective interest method, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

(l) Investments and other financial assets

The Group has investments in controlled entities.

Investments in controlled entities

All investments are initially recognised at cost, being the fair value of the consideration given. Acquisition costs are recognised in the statement of comprehensive income. After initial recognition, investments in controlled entities are measured at fair value, having regard to underlying net assets of the controlled entities. Any diminution in value is recorded separately as a reduction in recoverable amount of the investment.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(m) Property, plant and equipment

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

Property, plant and equipment

Property, plant and equipment is measured on the cost basis.

Depreciation

The depreciable amount of all fixed assets are depreciated over their estimated useful lives to the company commencing from the time the asset is held ready for use.

Leasehold improvements are depreciated over the shorter of either the unexpired period of the lease or the estimated useful lives of the improvements.

The depreciation rates used for each class of assets are:

Class of fixed asset	Depreciation rates	Depreciation basis
Leasehold improvements	16.67 - 25 %	Straight Line
Property, plant and equipment	12.5 - 33 %	Straight Line
Motor Vehicles	23%	Straight Line
Furniture, Fixtures and Fittings	7.5 - 20 %	Straight Line
Computer Equipment	33%	Straight Line

Impairment

The carrying values of plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and historical cost.

An impairment exists when the carrying value of an asset or cash-generating unit exceeds its estimated recoverable amount. The asset or cash generating unit is then written-down to its recoverable amount.

Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the statement of comprehensive income in the period the item is derecognised.

(n) Employee Benefits

Liabilities arising in respect of wages and salaries, annual leave, sick leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date.

Contributions made by the company to an employee superannuation fund are recognised as an expense as they become payable. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payment is available.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(o) Financial Instruments

Classification

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

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are measured at fair value at inception and subsequently at amortised cost using the effective interest rate method.

Non-interest bearing loans and receivables are designated as receivable 'at call' and are therefore carried at face value.

Financial liabilities

Financial liabilities include trade payables, other creditors and loans from third parties including inter-company balances and loans from or other amounts due to director-related entities.

Non-derivative financial liabilities are recognised at amortised cost, comprising original debt less principal payments and amortisation.

Non-interest bearing loans and payables are payable on demand and are therefore carried at face value.

(p) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is shorter.

Operating Leases

Lease payments for operating leases, where substantially all the risks and benefits remain with the lessor, are charged as expenses in the periods in which they are incurred.

(q) Trade and other payables

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Group prior to the end of financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services.

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NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(r) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised in the statement of comprehensive income.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(s)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the statement of comprehensive income, but only after a reassessment of the identification and measurement of the net assets acquired.

(s) Intangibles

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of net identifiable assets of the acquired entities at the date of acquisition.

Goodwill is not amortised but is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is carried at cost less accumulated impairment losses.

(t) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Amortised cost is calculated by taking into account any issue costs, and any discount or premium on settlement.

Gains and losses are recognised in the statement of comprehensive income when the liabilities are derecognised as well as through the amortisation process.

(u) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the statement of comprehensive income net of any reimbursement.

If the effect of time value of money is material, provisions are determined by discounting the expected future cashflows at a pre-tax rate that reflects current market assessments of the time value of money and where appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

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**NOTES TO AND FORMING PART OF THE FINANCIAL STATEMENTS
FOR THE YEAR ENDED 30TH JUNE 2011 (CONT'D)**

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT'D)

(v) 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.

(w) Foreign currency

Both the functional and presentation currency of Australian United Retailers Limited and its subsidiaries is Australian dollars (A\$).

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

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

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

(y) Rounding of amounts

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

(z) New Accounting standards and interpretations

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

(aa) Non-current assets held for sale

Non-current assets are classified as held for sale and stated at the lower of their carrying value and fair value less costs to sell. If their carrying amount will be recovered principally through a sale transaction rather than through continuing use an impairment loss is recognised for any initial or subsequent write down of the assets to their fair value less costs to sell.

The impairment for the corporate owned stores is based on the actual contracted prices of the stores already sold, for the other stores, expressions of interest were used for the impairment of these assets after taking into consideration of any selling costs.

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2. CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are based on past performance and management's expectation for the future. The group makes certain estimates and assumptions concerning the future, which, by definition will seldom represent actual results. The estimates and assumptions that have a significant inherent risk in respect of estimates based on future events which could have a material impact on the assets and liabilities in the next financial year are discussed below:

(a) Income taxes

Income tax benefits are based on the assumption that no adverse change will occur in the income tax legislation and the anticipation that the group will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

(b) Employee benefits

Calculation of long term employment benefits requires estimation of the retention of staff, future remuneration levels and timing of the settlement of the benefits. The estimates are based on historical trends.

(c) Closure costs

Calculation of the provision for expected closure costs associated with the store divestment program requires estimation of the proceeds on closure of the store, make-good, redundancy and any on-going rental obligations. The estimates are based on contractual agreements.

3. SEGMENT INFORMATION

(a) Descriptions 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 operate solely in Australia and are reported as discontinued operations throughout this report.

(b) Segment information

2011	Retail Support Services \$'000	Retail Stores \$'000	Total \$'000
Segment revenue			
Total segment revenue	61,012	83,373	144,385
Inter-segment revenue	(1,454)	-	(1,454)
Total segment revenue from external source	59,558	83,373	142,931
Segment result			
Total segment result	(1,971)	12,697	10,726
Inter-segment elimination	-	-	-
Inter-segment impairment elimination	5,951	-	5,951
Segment result from external source	3,980	12,697	16,677
Items included within the segment result:			
Interest revenue	154	-	154
Interest expense	(17)	-	(17)
Depreciation and amortisation	(382)	-	(382)
Total Segment Assets	19,838	746	20,584
Total Segment Liabilities	10,700	15,896	26,596

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3. SEGMENT INFORMATION (CONT'D)

2010	Retail Support Services	Retail Stores	Total
	\$'000	\$'000	\$'000
Segment revenue			
Total segment revenue	60,886	99,540	160,426
Inter-segment revenue	(4,351)	-	(4,351)
Total segment revenue from external source	56,535	99,540	156,075
Segment result			
Total segment result	(2,878)	(27,847)	(30,725)
Inter-segment elimination	(650)	-	(650)
Inter-segment impairment elimination	5,360	-	5,360
Segment result from external source	1,832	(27,847)	(26,015)
Items included within the segment result:			
Interest revenue	150	-	150
Interest expense	(27)	-	(27)
Depreciation and amortisation	(383)	-	(383)
Income tax expense	(902)	-	(902)
Total Segment Assets	14,700	18,975	33,675
Total Segment Liabilities	17,610	38,754	56,364

(i) Reconciliation of segment revenue from external source to the consolidated statement of comprehensive income

	2011	2010
	\$'000	\$'000
Segment revenue from external source	59,195	55,573
Sales revenue	164	761
Other revenue	199	201
Discontinued operations	83,373	99,540
Total Revenue	142,931	156,075

The total amount of external revenue derived from one major customer where the revenue is greater than 10% of the consolidated entity's total revenue was \$23,130,000 (2010: \$24,753,000). Revenue from this customer is included in Segment 1 and Segment 2.

(ii) Reconciliation of segment result from the external source to the consolidated statement of comprehensive income

	2011	2010
	\$'000	\$'000
Segment result from external source	3,980	1,832
Discontinued operations after income tax	12,697	(27,847)
Total Profit/(Loss)	16,677	(26,015)

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3. SEGMENT INFORMATION (CONT'D)

	2011	2010
	\$'000	\$'000
<i>(iii) Reconciliation of segment assets to the consolidated statement of financial position</i>		
Segment assets	19,895	17,407
Inter-segment eliminations	(11,368)	(8,067)
Inter-segment impairment elimination	11,311	5,360
Discontinued operations	746	18,975
Total Assets	20,584	33,675
<i>(iv) Reconciliation of segment liabilities to the consolidated statement of financial position</i>		
Segment liabilities	22,068	17,610
Inter-segment eliminations	(11,368)	(8,067)
Discontinued operations	15,896	46,821
Total Liabilities	26,596	56,364

4. FINANCIAL RISK MANAGEMENT

The group's financial instruments consist mainly of deposits with banks, accounts receivable and payable. The main purpose of non-derivative financial instruments is to raise finance for group operations.

The group does not have any derivative instruments.

Market risk

The main risks the group is exposed to through its financial instruments are interest rate risk, liquidity risk and credit risk.

Interest rate risk

Cash deposits and interest bearing debt attract interest at the prevailing floating interest rate. See Note 26. Interest rate risk is managed by maintaining competitive interest rates or fixing rates as may be appropriate. If interest rates were to increase/decrease by 100 basis points (bps) as at the reporting date, then the impact on profit for the year and equity is as follows:

	2011	2010
	\$'000	\$'000
+/- 100bps variation	+/-	+/-
Impact on pre-tax profit	2	49
Tax effect	-	-
Impact on equity	2	49

Foreign currency risk

The group is not exposed to fluctuations in foreign currencies.

Liquidity risk

The group manages liquidity risk by forecasting and monitoring cash flows on a continual basis. The group has access to adequate financing facilities. Refer Note 22(c) for available and used lending facilities.

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4. FINANCIAL RISK MANAGEMENT (CONT'D)

Credit risk

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

The consolidated entity does not have material credit risk exposure to any single receivable or group of receivables under financial instruments entered into by the consolidated entity.

Fair value

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

5. REVENUE FROM CONTINUING OPERATIONS

	Note	2011 \$'000	2010 \$'000
Operating activities			
- Supplier & member income		58,005	54,721
- Rent from member stores		1,036	702
		<u>59,041</u>	<u>55,423</u>
- Sale of goods		164	761
- Interest	5(a)	154	150
- Other revenue		199	201
Total revenue		<u>59,558</u>	<u>56,535</u>
 (a) Interest from:			
- Other persons		154	137
- Related parties		-	13
		<u>154</u>	<u>150</u>

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6. PROFIT FROM CONTINUING OPERATION

	2011	2010
	\$'000	\$'000
Profit/(loss) from continuing operations before income tax has been determined after the following specific expenses:		
Employee benefits expense		
Wages and salaries	10,434	8,744
Workers' compensation costs	56	32
Superannuation costs	808	914
Total employee benefits expense	<u>11,298</u>	<u>9,690</u>
Finance costs expensed		
Equipment loan interest	<u>17</u>	<u>27</u>
Total finance costs expensed	<u>17</u>	<u>27</u>
Depreciation of non-current assets		
Leasehold improvements	145	170
Plant and equipment	35	31
Motor vehicles	-	1
Office equipment	193	173
Furniture, fixtures and fittings	<u>9</u>	<u>8</u>
Total depreciation of non-current assets	<u>382</u>	<u>383</u>
Other expenses		
Inventory write off/(back)	39	(40)
Bad debts	208	30
Doubtful debts expense	353	-
Provision for asset impairment	-	104
Net loss on disposal of plant and equipment	<u>-</u>	<u>48</u>
	<u>600</u>	<u>142</u>

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7. INCOME TAX

	2011	2010
	\$'000	\$'000
Income tax expense:		
Current tax	-	-
Deferred tax	-	902
	<u>-</u>	<u>902</u>
Deferred income tax revenue included in income tax expense comprises:		
Decrease in deferred tax assets	-	913
(Decrease)/Increase in deferred tax liability	-	(11)
	<u>-</u>	<u>902</u>
The prima facie tax payable on profit before income tax from continuing operations is reconciled to the income tax expense as follows:		
Prima facie income tax payable on continuing operations profit before income tax at 30% (2010 - 30%)	1,194	820
Add:		
Tax effect of:		
- Other non-allowable items	15	19
- Tax losses not brought to account/(utilised)	<u>(1,209)</u>	<u>63</u>
Income tax expense attributable to loss	<u>-</u>	<u>902</u>
Tax losses not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in the accounting policies note occur.		
Tax losses	<u>5,720</u>	<u>15,522</u>

Recognition of deferred tax assets

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.

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8. EARNINGS/(LOSS) PER SHARE

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

	2011 \$'000	2010 \$'000
Net profit attributable to equity holders from continuing operations	3,980	1,832
Net profit/(loss) attributable to discontinued operations	<u>12,697</u>	<u>(27,847)</u>
Net profit/(loss) for the year	<u><u>16,677</u></u>	<u><u>(26,015)</u></u>
	2011 no.	2010 no.
Weighted average number of preference shares for basic earnings/(loss) per share	11,560,462	11,560,475
Effect of dilution:		
Share options	<u>-</u>	<u>-</u>
Adjusted weighted average number of preference shares for diluted earnings/(loss) per share	<u><u>11,560,462</u></u>	<u><u>11,560,475</u></u>
Weighted average number of converted, lapsed or cancelled potential preference shares included in diluted earnings/(loss) per share	<u><u>-</u></u>	<u><u>-</u></u>

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

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9. DISCONTINUED OPERATIONS

The 22 corporate stores purchased from Coles from acquisition date (see Note 25) through to divestment, closure or reporting date all contribute to the results of the discontinued operations as included in the consolidated financial statements.

During the year 17 of the 20 stores that remained at the end of last year were divested. In addition FoodWorks Retail Pty Ltd entered into a Second Amendment and Restatement Deed with CSA Retail (Finance) Pty Ltd which resulted in the forgiveness of all amounts owing under both the Transitional Funding Facility and the Deferred Credit Facility. This resulted in the recognition of a non-recurring debt forgiveness income item of \$24,379,000. The divestment program continued to progress with a further two stores closing in the period subsequent to balance date and agreement achieved on the sale of the remaining store (see note 30).

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

	Note	2011 \$'000	2010 \$'000
(i) Financial performance information			
Sales Revenue		52,149	97,862
Other Revenue:			
Gains on disposal	(iv)	6,725	1,469
Debt forgiveness income	18(a)	24,379	-
Other income		120	209
Total Revenue		<u>83,373</u>	<u>99,540</u>
Expenses			
Expected closure costs from divestment program		(2,005)	-
Impairment of goodwill		-	(358)
Impairment of property, plant and equipment		(214)	(4,474)
Interest on loans		(1,695)	(587)
Operating expenses		<u>(66,762)</u>	<u>(121,690)</u>
Expenses		(70,676)	(126,522)
Income tax expense		-	(865)
<i>Profit/(Loss) from discontinued operations</i>		<u><u>12,697</u></u>	<u><u>(27,847)</u></u>
(ii) Cash flow information			
Net cash used in operating activities		(5,581)	(10,251)
Net cash provided by/(used in) investing activities		10,509	(16,123)
Net cash (used in)/provided by financing activities		<u>(8,818)</u>	<u>30,403</u>
<i>Net cash flow</i>		<u><u>(3,890)</u></u>	<u><u>4,029</u></u>

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9. DISCONTINUED OPERATIONS (Continued)

	2011 \$'000	2010 \$'000
(iii) Carrying amount of assets and liabilities		
<i>Assets</i>		
Cash	139	4,029
Inventories	607	9,561
Receivables	-	939
Non-current assets held for sale	-	4,334
Other assets	-	112
<i>Assets directly associated with discontinued operations</i>	<u>746</u>	<u>18,975</u>
<i>Liabilities</i>		
Payables and accruals – external	(4,330)	(12,672)
Payables – parent entity	(11,311)	(5,360)
Provisions	(255)	(3,093)
Interest bearing liabilities	-	(25,696)
<i>Liabilities directly associated with discontinued operations</i>	<u>(15,896)</u>	<u>(46,821)</u>
<i>Net liabilities attributable to discontinued operations</i>	<u>(15,150)</u>	<u>(27,846)</u>

(iv) Details of discontinued operations disposed

Consideration received or receivable	10,509	2,563
Less:		
Net assets disposed of	(3,449)	(1,094)
Costs of divestment program	(335)	-
Gain on disposal of discontinued operations before tax	<u>6,725</u>	<u>1,469</u>
Income tax expense	-	-
Profit from disposal of discontinued operations	<u>6,725</u>	<u>1,469</u>

10. CASH AND CASH EQUIVALENTS

	2011 \$'000	2010 \$'000
Cash on hand	76	1,305
Cash at bank	<u>3,567</u>	<u>4,627</u>
	<u>3,643</u>	<u>5,932</u>

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11. TRADE AND OTHER RECEIVABLES

	2011	2010
	\$'000	\$'000
<i>Current</i>		
Trade & member receivables	13,519	11,198
Provision for impairment	<u>(250)</u>	<u>(211)</u>
	<u>13,269</u>	<u>10,987</u>
 Sundry debtors and accrued income	 2,786	 1,535
Provision for impairment	<u>(522)</u>	<u>-</u>
	<u>2,264</u>	<u>1,535</u>
	<u><u>15,533</u></u>	<u><u>12,522</u></u>

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. All trade receivables that are not impaired are expected to be received within trading terms.

Movements in the provision for impairment were:

Opening balance at 1 July 2010	211	107
Charge for the year	<u>561</u>	<u>104</u>
Closing balance at 30 June 2011	<u><u>772</u></u>	<u><u>211</u></u>

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11. TRADE AND OTHER RECEIVABLES (CONT'D)

a) Trade Debtors

Trade receivables ageing analysis

	Gross 2011 \$'000	Impairment 2011 \$'000	Gross 2010 \$'000	Impairment 2010 \$'000
Not past due	6,851	-	3,586	-
Past due 0-30 days	2,611	4	694	-
Past due 31-90 days	636	-	562	6
Past due more than 91 days	275	143	202	17
	<u>10,373</u>	<u>147</u>	<u>5,044</u>	<u>23</u>

b) Member Debtors

Trade receivables ageing analysis

	Gross 2011 \$'000	Impairment 2011 \$'000	Gross 2010 \$'000	Impairment 2010 \$'000
Not past due	3,140	97	5,444	-
Past due 0-30 days	5	5	508	1
Past due 31-90 days	-	-	24	20
Past due more than 91 days	1	1	178	167
	<u>3,146</u>	<u>103</u>	<u>6,154</u>	<u>188</u>
Trade and member debtors	<u>13,519</u>	<u>250</u>	<u>11,198</u>	<u>211</u>

12. INVENTORIES

	2011 \$'000	2010 \$'000
Merchandising signage at cost	156	195
Stock of goods at cost	1,343	10,216
Provision for impairment	(892)	(690)
	<u>607</u>	<u>9,721</u>

13. INTANGIBLES

	2011 \$'000	2010 \$'000
Goodwill	203	582
Accumulated impairment	(203)	(358)
Transfer to non-current assets held for sale	-	(224)
	<u>-</u>	<u>-</u>

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14. OTHER ASSETS

	2011	2010
	\$'000	\$'000
<i>Current</i>		
Security Deposit	1	-
Prepayments	76	137
	<u>77</u>	<u>137</u>

15. PROPERTY, PLANT & EQUIPMENT

Leasehold improvements

At cost	1,073	1,067
Less accumulated depreciation	<u>(813)</u>	<u>(668)</u>
	260	399

Plant and equipment

Plant and equipment

At cost	184	168
Less accumulated depreciation	<u>(113)</u>	<u>(75)</u>
	71	93

Computer equipment

At cost	1386	1,328
Less accumulated depreciation	<u>(1059)</u>	<u>(865)</u>
	327	463

Furniture, fixtures and fittings

At cost	109	108
Less accumulated depreciation	<u>(43)</u>	<u>(34)</u>
	66	74

Total plant and equipment

<u>464</u>	<u>630</u>
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Total property, plant and equipment

<u>724</u>	<u>1,029</u>
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15. PROPERTY, PLANT & EQUIPMENT (CONT'D)

(a) Movement in Carrying Amounts

	Leasehold Improve- ments	Property, Plant and Equipment	Computer equipment	Motor vehicles	Furniture fixtures and fittings	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Carrying amount as at 1 July 2009	439	112	214	8	22	795
Additions	144	28	422	-	70	664
Disposals	(14)	(16)	-	(7)	(10)	(47)
Depreciation charge for the year	(170)	(31)	(173)	(1)	(8)	(383)
Carrying amount as at 30 June 2010	399	93	463	-	74	1029
Additions	6	13	57	-	1	77
Disposals	-	-	-	-	-	-
Depreciation charge for the year	(145)	(35)	(193)	-	(9)	(382)
Carrying amount at 30 June 2011	260	71	327	-	66	724

Impairment charge

The recoverable amount of a cash generating unit (CGU) is based on present value less costs to sell. The consolidated entity commenced the divestment process of its corporate owned stores in the year ended 30 June 2010. The Directors have taken the view that the value of property plant and equipment be impaired to its recoverable amount. The value of the assets held for sale is disclosed in note 16.

16. NON CURRENT ASSETS HELD FOR SALE

	2011 \$'000	2010 \$'000
Property, plant & equipment	934	8,584
Intangibles	118	224
	1,052	8,808
Accumulated impairment	(1,052)	(4,474)
	-	4,334

17. TRADE AND OTHER PAYABLES

Current

Trade payables	14,775	19,347
Sundry payables and accrued expenses	9,162	5,936
	23,937	25,283

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18. BORROWINGS

	2011 \$'000	2010 \$'000
<i>Current</i>		
Secured liabilities		
Transitional funding facility	-	6,586
Working capital facility	-	2,947
Equipment loan	161	137
	<u>161</u>	<u>9,670</u>
<i>Non-Current</i>		
Secured liabilities		
Deferred credit facility	-	16,163
Equipment loan	-	161
	<u>-</u>	<u>16,324</u>

(a) Terms and conditions relating to CSA Retail (Finance) Pty Ltd facilities:

- (i) As at 30 June 2011 the consolidated entity had no existing credit facilities with CSA Retail (Finance) Pty Ltd except for the outstanding guarantees disclosed in note 22(c). In the period subsequent to balance date a bank loan facility was established as disclosed in note 30.
- (ii) As at 30 June 2010, three credit facilities existed via FoodWorks Retail Pty Ltd with CSA Retail (Finance) Pty Ltd as the financier. The details are as follows:
 - 3 year amortising deferred credit facility of \$35,000,000 (Deferred Credit Facility);
 - 1 year amortising non-revolving cash advance facility of \$11,875,000 (Transitional Funding Facility);
 - 1 year non-revolving cash advance facility of \$3,500,000 (Working Capital Facility); and
 - a guarantee facility of up to \$3,997,000

These facilities are secured by a fixed and floating charge over the assets of FoodWorks Retail Pty Ltd, the shares of FoodWorks Retail Pty Ltd held by the Company and a mortgage over all leases held by FoodWorks Retail Pty Ltd.

The original conditions around the loans included:

Fixed charge cover ratio to exceed quarterly tests as set by the financier

Net leverage ratio must not exceed quarterly tests as set by the financier.

These conditions were amended by the Financier on 28 June 2011 when a Second Amendment and Restatement Deed was entered into whereby all outstanding amounts under the facilities and all facility limits were reduced to Nil (2010: \$22,749,000), (including all capitalised costs, fees and interest owing or remaining unpaid).

The Second Amendment and Restatement Deed includes the following conditions which if triggered will result in the re-instatement of the Transitional Funding Facility Reinstatement Amount which equates to \$7,100,000 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.

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18. BORROWINGS (CONT'D)

(b) Items pledged as security:

(i) CSA Retail (Finance) Pty Ltd

First Registered Mortgage Debenture over the whole of the assets including goodwill and uncalled capital and called but unpaid capital of Australian United Grocers Pty Ltd.

(ii) National Australia Bank

Guarantee & Indemnity for \$312,880 (2010: \$2,300,000) given by AURL and lease purchase agreements. Operating lease commitments are disclosed in note 27(b).

19. PROVISIONS

	Notes	2011 \$'000	2010 \$'000
<i>Current</i>			
Employee benefits	(a)	2,340	4,694
Onerous contract provision	(b)	-	213
		<u>2,340</u>	<u>4,907</u>
<i>Non-current</i>			
Employee benefits	(a)	158	180
		<u>158</u>	<u>180</u>
(a) Aggregate employee benefits liability		<u>2,498</u>	<u>4,874</u>

(b) Onerous Contract Provision

An onerous contract provision is an unavoidable contract in which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it.

The discontinued operations had one such contract which related to in-store equipment. The contract was considered onerous as it related to a minimum volume and involved timeframes that would never be required under the store divestment program.

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20. ISSUED AND PAID UP CAPITAL

		2011 \$'000	2010 \$'000
11,560,449 : (2010 : 11,560,475) Class A Redeemable preference shares	20(a)	10,119	10,119
		<u>10,119</u>	<u>10,119</u>
(a) Class A Redeemable preference shares		\$'000	\$'000
At the beginning of the reporting period		10,119	8,704
Shares transferred from C Class		<u>-</u>	<u>1,415</u>
At reporting date		<u>10,119</u>	<u>10,119</u>
		No.	No.
At the beginning of reporting period		11,560,475	10,274,698
Shares transferred from C Class		-	1,285,790
Shares issued during the year		73	82
Shares bought back during the year		<u>(99)</u>	<u>(95)</u>
At reporting date		<u>11,560,449</u>	<u>11,560,475</u>

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21. ACCUMULATED LOSSES

	2011	2010
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(32,808)	(6,793)
Accumulated (losses)/profit attributable to members of the entity	<u>16,677</u>	<u>(26,015)</u>
Accumulated losses at the end of the financial year	<u>(16,131)</u>	<u>(32,808)</u>

22. CASHFLOW INFORMATION

(a) Reconciliation of cash

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

	2011	2010
	\$'000	\$'000
Cash on hand	76	1,305
Cash at bank	<u>3,567</u>	<u>4,627</u>
	<u>3,643</u>	<u>5,932</u>

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

Net Profit / (loss) from ordinary activities after tax	16,677	(26,015)
--	---------------	-----------------

Adjustments for:

Depreciation and amortisation	382	1,443
Provision for impairment	214	4,832
Provision for impairment of Trade and other receivables	561	104
Forgiveness of loan	(24,379)	-
Equipment loan interest	-	27
Loan interest	1,695	587
Divestment program costs incurred	335	-
Net loss/(profit) on disposal of property, plant and equipment	-	48
Net loss/(profit) on disposal of stores	(6,725)	(1,469)

Changes in assets and liabilities:

(Increase)/Decrease in debtors	(3,572)	1,241
(Increase)/Decrease in inventories	9,114	(9,435)
(Increase)/Decrease in prepayments and other assets	60	632
(Increase)/Decrease in deferred tax assets	-	902
Increase/(Decrease) in trade and other payables	(1,346)	10,712
Increase/(Decrease) in provisions	(2,589)	2,584
Changes due to business combination purchase	-	6,954
Changes due to business combination sale	-	385
Net cash from operating activities	<u>(9,573)</u>	<u>(6,468)</u>

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22. CASHFLOW INFORMATION (CONT'D)

(c) Credit: Standby Arrangements with banks

	2011	2010
	\$'000	\$'000
Credit Facility	5,741	63,220
Amount Utilised	(1,520)	(30,377)
Unused Credit Facility	<u>4,221</u>	<u>32,843</u>

The major facilities are summarised as follows:

Deferred Credit Facility

Nil : (2010: \$35,000,000) fixed interest rate facility provided by CSA Retail (Finance) Pty Ltd

Transitional Funding Facility

Nil : (2010: \$11,875,000) 1 year non-revolving variable interest rate facility provided by CSA Retail (Finance) Pty Ltd

Guarantee Facility

\$1,017,378 (2010: \$3,997,000) facility provided by CSA Retail (Finance) Pty Ltd

Working Capital Facility

Nil: (2010: \$3,500,000) 1 year non-revolving variable interest rate facility provided by CSA Retail (Finance) Pty Ltd

Bank Guarantee Facility

\$312,880(2010: \$2,300,000) facility provided by the National Australia Bank

Business Card Facility

\$250,000 (2010: \$250,000) variable interest rate facility provided by the National Australia Bank

Equipment Loan Facility

\$161,000 : (2010: \$298,000) fixed interest rate facility provided by the National Australia Bank

Direct Payments Facility

\$4,000,000 : (2010: \$6,000,000) variable interest rate facility provided by the National Australia Bank

23. AUDITORS REMUNERATION

	2011	2010
	\$'000	\$'000
Amounts received or due and receivable by Pitcher Partners for:		
- an audit or review of the financial report of the entity and any other entity in the consolidated group	451	285
Other services in relation to the entity and any other entity in the consolidated group		
- tax compliance	132	24
- other assurance services	17	19
	<u>600</u>	<u>328</u>

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24. CONTROLLED ENTITIES

(a) Controlled entities

	Country of Incorporation	Percentage Owned (%)	
		2011	2010
Parent Entity:			
Australian United Retailers Ltd	Australia		
Subsidiaries of Australian United Retailers Ltd:			
Australian United Grocers Pty Ltd	Australia	100	100
National Retailers Group Pty Ltd	Australia	100	100
Foodworks Retail Pty Ltd	Australia	100	100
FW Retail Holdings Pty Ltd	Australia	100	100
FW Viva 1 Pty Ltd	Australia	100	100
FW Viva 3 Pty Ltd	Australia	-	-
FW Viva 5 Pty Ltd	Australia	100	100
FW Viva 8 Pty Ltd	Australia	100	100
FW Viva 9 Pty Ltd	Australia	-	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 17 Pty Ltd	Australia	-	100
FW Viva 18 Pty Ltd	Australia	100	100

25. BUSINESS COMBINATIONS

During the period FoodWorks Retail Pty Ltd disposed of FW Viva 3 Pty Ltd, FW Viva 9 Pty Ltd and FW Viva 17 Pty Ltd as part of the divestment program for the discontinued operations.

The business acquired in FW Viva 3 Pty Ltd (Gulgong) was sold on 21 June 2010 for a total consideration of \$2,101,000, realising a profit on sale of \$1,469,000.

The business acquired in FW Viva 9 Pty (Redbank) was sold on 29 September 2010 for a total consideration of \$1, realising a profit of \$35,000

One of the businesses acquired in FW Viva 17 Pty Ltd (Maryborough) was sold on 20 March 2011 for a total consideration of \$1, realising a loss of \$179,000.

Interests are held by FoodWorks Retail Pty Ltd in the following related subsidiaries:

Associated entity details	Equity Instrument	Ownership Interest	Carrying Amount of Investment
		%	\$
FW Retail Holdings Pty Ltd	Ordinary shares	100	1
FW Viva 1 Pty Ltd	Ordinary shares	100	1
FW Viva 5 Pty Ltd	Ordinary shares	100	1
FW Viva 8 Pty Ltd	Ordinary shares	100	1
FW Viva 10 Pty Ltd	Ordinary shares	100	1
FW Viva 11 Pty Ltd	Ordinary shares	100	1
FW Viva 13 Pty Ltd	Ordinary shares	100	1
FW Viva 15 Pty Ltd	Ordinary shares	100	1
FW Viva 18 Pty Ltd	Ordinary shares	100	1

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All entities have a balance date of 30 June 2011. All voting power is reflective of the ownership interest.

25. BUSINESS COMBINATIONS (CONT'D)

During the year ended 30 June 2010, the consolidated entity acquired 11 legal entities from Coles Supermarkets Australia Pty Ltd and Bi-Lo Pty Ltd being FW Retail Holdings Pty Ltd, FW Viva 1 Pty Ltd, FW Viva 3 Pty Ltd, FW Viva 5 Pty Ltd, FW Viva 8 Pty Ltd, FW Viva 9 Pty Ltd, FW Viva 10 Pty Ltd, FW Viva 11 Pty Ltd, FW Viva 13 Pty Ltd, FW Viva 15 Pty Ltd and FW Viva 17 Pty Ltd.

The entities were acquired to facilitate the purchase of 22 formerly owned Coles supermarkets, four with adjoining liquor outlets during the period. The acquisitions were staggered throughout the period and as such the group is unable to quantify what the revenue and operating results of the combined entity would be as though all acquisitions were completed on 1 July 2009.

Details of the transaction are contained in the table on the following page.

During the year ended 30 June 2010, FoodWorks Retail Pty Ltd disposed of:

- a business acquired in FW Viva 3 Pty Ltd was sold on 21 June 2010 for a total consideration of \$2,101,000, realising a profit on sale of \$1,469,000, and
- One of the businesses acquired in FW Viva 17 Pty Ltd (Sydney CBD), was closed and the loss on closure of the business was \$51,000.

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NOTE 25: BUSINESS COMBINATIONS (CONT'D)

	FoodWorks Retail Pty Ltd	FW Retail Holdings Pty Ltd	FW Viva 1 Pty Ltd	FW Viva 3 Pty Ltd	FW Viva 5 Pty Ltd	FW Viva 8 Pty Ltd	FW Viva 9 Pty Ltd	FW Viva 10 Pty Ltd	FW Viva 11 Pty Ltd	FW Viva 13 Pty Ltd	FW Viva 15 Pty Ltd	FW Viva 17 Pty Ltd	FW Viva 18 Pty Ltd	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Date acquired	5 November 2009	25 November 2009	9 November 2009	9 February 2010	7 October 2009	1 October 2009	14 October 2009	21 October 2009	26 October 2009	10 November 2009	1 February 2010	25 November 2009	8 February 2010	
Total acquisition cost	519	5,705	294	994	868	886	545	787	892	765	707	2,091	1,266	16,319
Net assets acquired	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value	Fair Value
Assets														
- Cash float	22	154	19	22	19	29	30	33	30	28	36	78	22	522
- Property, plant and equipment	-	2,937	-	584	432	526	-	133	519	323	99	1,279	537	7,369
- Inventory	646	3,173	343	432	514	444	581	650	339	452	677	937	828	10,016
- Deferred tax asset	74	332	21	31	41	49	34	34	17	33	65	106	82	919
Total assets acquired	742	6,596	383	1,069	1,006	1,048	645	850	905	836	877	2,400	1,469	18,826
Liabilities														
- Provisions	(246)	(1,106)	(69)	(104)	(138)	(162)	(112)	(114)	(57)	(110)	(217)	(353)	(273)	(3,061)
Total liabilities acquired	(246)	(1,106)	(69)	(104)	(138)	(162)	(112)	(114)	(57)	(110)	(217)	(353)	(273)	(3,061)
Net assets acquired	496	5,490	314	965	868	886	533	736	848	726	660	2,047	1,196	15,765
Bargain purchase gain	-	-	(20)	-	-	-	-	-	-	-	-	(56)	-	(76)
Goodwill on acquisition	23	215	-	29	-	-	12	51	44	39	47	100	70	630

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26. FINANCIAL INSTRUMENTS

(a) Interest rate risk

The consolidated entity's exposure to interest rate risk, which is the risk that a financial instrument's value will fluctuate as a result of changes in market interest rates and the effective weighted average interest rates on classes of financial assets and financial liabilities, is as follows:

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted average effective interest rate	Fixed / variable rate
2011	\$'000	\$'000	\$'000	%	
<i>(i) Financial assets</i>					
Cash	3,567	76	3,643	3.92	Variable
Trade and other receivables	-	15,533	15,533	-	
Total financial assets	3,567	15,609	19,176		
<i>(ii) Financial liabilities</i>					
Trade and other creditors	-	23,937	23,937	-	
Equipment loan	161	-	161	7.29	Fixed
Total financial liabilities	161	23,937	24,098		

Financial instruments	Interest bearing	Non-interest bearing	Total carrying amount	Weighted average effective interest rate	Fixed / variable rate
2010	\$'000	\$'000	\$'000	%	
<i>(i) Financial assets</i>					
Cash	4,627	1,305	5,932	3.30	Variable
Trade and other receivables	-	12,522	12,522	-	
Total financial assets	4,627	13,827	18,454		
<i>(ii) Financial liabilities</i>					
Trade and other creditors	-	(25,283)	(25,283)	-	
Equipment loan	(298)	-	(298)	7.29	Fixed
Borrowings – Deferred credit	(16,163)	-	(16,163)	9.36	Fixed
Borrowings – Transitional funding	(6,586)	-	(6,586)	8.18	Variable
Borrowings – Working capital	(2,947)	-	(2,947)	8.62	Variable
Total financial liabilities	(25,994)	(25,283)	(51,277)		

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26. FINANCIAL INSTRUMENTS (CONT'D)

(b) Liquidity risk

Maturity analysis

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

Year ended 30 June 2011	Note	< 6 Months \$'000	6 - 12 Months \$'000	1-5 Years \$'000	Total \$'000
Cash and cash receivables	10	3,643	-	-	3,643
Receivables	11	15,533	-	-	15,533
Payables	17	(22,059)	(1,878)	-	(23,937)
Borrowings	18	(80)	(81)	-	(161)
Net outflow		(2,963)	(1,959)	-	(4,922)

Year ended 30 June 2010	Notes	< 6 Months \$'000	6 - 12 Months \$'000	1-5 Years \$'000	Total \$'000
Cash and cash receivables	10	5,932	-	-	5,932
Receivables	11	12,522	-	-	12,522
Payables	17	(25,283)	-	-	(25,283)
Borrowings	18	(68)	(9,602)	(16,324)	(25,994)
Net outflow		(6,897)	(9,602)	(16,324)	(32,823)

(c) Credit risk

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

(d) Net fair values

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

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27. COMMITMENTS AND CONTINGENT LIABILITIES

	Note	2011 \$'000	2010 \$'000
(a) Equipment Loan			
Payable			
- not later than one year		167	155
- later than one year and not later than five years		-	167
- later than five years		-	-
Minimum equipment loan payments		167	322
Less future finance charges		(6)	(24)
Total equipment loan liability		<u>161</u>	<u>298</u>
Represented by:			
Current liability	18	161	137
Non-current liability	18	-	161
		<u>161</u>	<u>298</u>
(b) Operating lease commitments			
Non-cancellable operating leases contracted for but not capitalised in the financial statements:			
Payable			
- not later than one year		3,228	8,132
- later than one year and not later than five years		9,517	24,552
- later than five years		8,120	26,228
		<u>20,865</u>	<u>58,912</u>

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

Non-property operating leases have an average lease term of 3 years. Assets that are the subject of operating leases include motor vehicles and items of small machinery and office equipment.

(c) Estimate accumulated interest

Estimated accumulated interest not capitalised in the financial statements:

Payable		
- not later than one year	-	1,100
- later than one year and not later than five years	-	5,000
- later than five years	-	-
	<u>-</u>	<u>6,100</u>

Estimated accumulated interest is payable on the all credit facilities payable to CSA Retail (Finance) Pty Ltd which were forgiven during the year.

(d) 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 \$7.1m 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.

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27. COMMITMENTS AND CONTINGENT LIABILITIES (CONT'D)

(e) Closure Costs

During the year ended 30 June 2010, the consolidated entity instigated a divestment program for all of its 22 stores. This divestment program involved the sale or closure of all the corporate owned stores. As at 30 June 2011 only three stores remained. As disclosed in note 30, two of those stores have been closed in the period subsequent to balance date and the remaining store has been contracted for sale. For the year ended 30 June 2011 the closure costs are included in Trade and Other Payables as disclosed in Note 17.

	2011	2010
	\$'000	\$'000
Store Closure Costs (including separation payments & Make Good Costs)	-	2,020
Divestment related costs	-	440
Aggregate other expenditure not contracted for at reporting date	-	2,460

(f) 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.

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

28. RELATED PARTY TRANSACTIONS

(a) Loans to and from directors and director related entities

There were no loans to and from Directors and director related entities at 30 June 2011 (2010: \$nil).

(b) 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:

Wayne Pattison	Malcolm Ward
Deborah Smith	Alan Burge
Fred Fairthorne	David Williamson

These transactions are on the same 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 \$36,000 (2010: \$36,000). The aggregate amount of rebates paid or payable and included in the result for the year is \$3,716,000 (2010: \$2,912,000).

John Bridgfoot, is a director and shareholder of Pacific Rim Securities Pty Ltd. The consolidated entity entered into a contract with Pacific Rim Securities during the reporting period for the provision of management services. During the period \$90,000 (2010: \$80,000) was paid to Pacific Rim Securities Pty Ltd for their services at normal commercial terms and conditions.

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28. RELATED PARTY TRANSACTIONS (CONT'D)

(c) Directors' Shareholdings

Aggregate number of shares disposed during the year:

Fred Fairthorne 650,000 shares (2010: Nil shares)

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

"A" Class redeemable non-cumulative preference shares:

Allan Burge	162,002 shares (2010: 162,002 shares)
Fred Fairthorne	730,003 shares (2010: 1,380,003 shares)
Peter Noble	120,000 shares (2010: 120,000 shares)
Wayne Pattison	198,002 shares (2010: 198,002 shares)
Deborah Smith	150,003 shares (2010: 150,003 shares)
Jack Scanlan	240,000 shares (2010: 240,000 shares)
Malcolm Ward	620,214 shares (2010: 520,004 shares)
David Williamson	72,003 shares (2010: 72,003 shares)

Superate Pty Ltd is an entity which controls a trust that owns 3 FoodWorks stores, and hence owns 3 Class A Shares. Entities associated with Jack Scanlan and Peter Noble own units in the relevant trust. The entity Superate Pty Ltd held 426,003 Class A shares at the year ended 30 June 2011 (2010: 426,003 shares).

29. DIRECTORS' AND EXECUTIVES' COMPENSATION

(a) Details of Directors and Key Management Personnel

(i) The names of Directors who have held office during the financial year are:

John Bridgfoot
Allan Burge – Appointed 17 November 2010
Fred Fairthorne
Peter Noble - Resigned 04 August 2010
Wayne Pattison
Deborah Smith
Jack Scanlan
Malcolm Ward – Appointed 17 November 2010
David Williamson – Appointed 17 November 2010
Neil Osborne
Janette Kendall
Don Howell – Resigned 17 November 2010

(ii) The Key Management Personnel of the consolidated entity during the financial year are:

Rick Wight
Tony Pacella
Helene Gordon
Stephanie Holmes
Simon Thompson - Resigned 23 July 2010
Midhat Massoud
Jeff Rogut – Resigned 6 May 2011
Theo Stratopoulos – Appointed 31 March 2011

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29. DIRECTORS' AND EXECUTIVES' COMPENSATION (CONT'D)

(b) Remuneration of Key Management Personnel

Refer to the Directors' report for disclosure on the remuneration policies and remuneration for Directors and Key Management Personnel.

Remuneration disclosures are provided on page 8 - 11 of the Directors' Report.

Grants of performance-related bonuses

Key Management Personnel have not received any performance related bonuses during the period (2010: \$ 210,389). Refer to the Directors Report for disclosure on the remuneration policies including performance-related bonuses for Directors and Executives.

The criteria used to determine the amount of compensation is based on the principles and processes described in the Directors report.

(c) Employment Contracts and Service Agreements

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

30. SUBSEQUENT EVENTS

In the period subsequent to 30 June 2011, the consolidated entity has:

- established a bank loan facility of \$1M with its Bankers which has enabled the prompt closure of the remaining Corporate stores and has enabled normal operations during this period, and
- has closed two corporate stores and entered into an agreement to sell the remaining Corporate store by 31 December 2011.

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31. PARENT ENTITY INFORMATION

	2011	2010
	\$'000	\$'000
(a) Summarised statement of financial position		
Assets		
Current assets	19,171	16,378
Non-current assets	724	1,029
Total Assets	<u>19,895</u>	<u>17,407</u>
Liabilities		
Current liabilities	21,909	17,269
Non-current liabilities	159	341
Total Liabilities	<u>22,068</u>	<u>17,610</u>
Net deficiency	<u>(2,173)</u>	<u>(203)</u>
Equity		
Contributed capital	10,119	10119
Retained earnings	(12,292)	(10,322)
Total equity	<u>(2,173)</u>	<u>(203)</u>
(b) Summarised statement of comprehensive loss		
Loss for the year	(1,971)	(2,878)
Other comprehensive income/(loss)	-	-
Total comprehensive loss for the year	<u>(1,971)</u>	<u>(2,878)</u>
(c) Parent entity guarantees		
The parent entity has provided the guarantees outlined in note 27(f)		
(d) Parent entity contingent liabilities		
The parent entity has the following non cancellable operating leases contracted for but not capitalised in the financial statements:		
Payable		
- not later than one year	1,178	1,213
- later than one year and not later than five years	984	1,819
- later than five years	-	-
	<u>2,162</u>	<u>3,032</u>

(e) Parent entity contractual commitments

The parent entity has the equipment loan obligations as outlined in note 27(a)

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AND CONTROLLED ENTITIES

DIRECTORS DECLARATION

The directors declare that the financial statements and notes set out on pages 19 to 60 are in accordance with the *Corporations Act 2001*:

- (a) Comply with Accounting Standards and the *Corporations Regulations 2001*, and other mandatory professional reporting requirements; and
- (b) As stated in Note 1, the financial statements also comply with *International Financial Reporting Standards*; and
- (c) Give a true and fair view of the financial position of the company and the consolidated entity as at 30 June 2011 and of their performance as represented by the results of their operations, changes in equity and their cash flows, for the year ended on that date.

In the directors' opinion, having regard to those matters discussed in note 1(b) in relation to the going concern basis on which the accounts are prepared, there are reasonable grounds to believe that Australian United Retailers 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 sections 295A of the *Corporations Act 2001* for the financial period ending 30 June 2011.

Signed in accordance with a resolution of the Board of Directors:



Director

J Bridgfoot

Dated this 12th day of September 2011

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

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

Report on the Financial Report

We have audited the accompanying financial report of Australian United Retailers Ltd and controlled entities, which comprises the consolidated statement of financial position as at 30 June 2011, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated 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 of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation 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 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 entity'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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

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

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

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

Opinion

In our opinion:

- (a) the financial report of Australian United Retailers Ltd is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 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.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 (b) Going Concern in the financial report which indicates that the consolidated entity incurred a net profit of \$16,677,000 (30 June 2010: net loss \$26,015,000) including debt forgiveness income of \$24,379,000. As at that date, the consolidated entity's current liabilities exceeded current assets by \$6,578,000 (30 June 2010: \$7,214,000) and total liabilities exceed total assets by \$6,012,000 (30 June 2010: \$22,689,000). These conditions, along with other matters set forth in Note 1(b) Going Concern, indicate the existence of a material uncertainty that may cast significant doubt about the consolidated entity's ability to continue as a going concern and therefore, the consolidated entity may be unable to realise its assets and discharge its liabilities in the normal course of business.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 12 of the directors' report for the year ended 30 June 2011. 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 2011 complies with section 300A of the *Corporations Act 2001*.



K L BYRNE

Partner

12 September 2011



PITCHER PARTNERS

Melbourne

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

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 11,560,449 Class A Redeemable Preference Shares issued at 30 June 2011.

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 206 Class B Redeemable Preference Shares issued at 30 June 2011. There are no Substantial Shareholders of Class B Redeemable Preference Shares.

Class C Redeemable Preference Shares. Under the terms of issue and the Constitution, Class C Redeemable Preference Shares issued under the prospectus that are fully paid converted to Class A Redeemable Preference Shares on 15 June 2009. Until then, other than in certain prescribed circumstances, they had no voting rights at general meetings of the Company. Partly paid Class C Redeemable Preference Shares continued to have such limited voting rights at general meetings of the Company until they were fully paid. There were nil partly paid Class C Redeemable Preference Shares issued as at 30 June 2011. There are no Substantial Shareholders of Class C Redeemable Preference Shares.

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

Top 10 holders of fully paid Class A Redeemable Preference Shares as at 30 June 2011.

	No of shares	%
PKAT INVESTMENTS PTY LTD	802,800	6.9%
DREYFUS PTY LTD	770,000	6.7%
MR JEFFREY NEVILLE HALL	716,000	6.2%
MR PAUL DAMIAN REILLY	650,000	5.6%
DALEWING PTY LTD	430,000	3.7%
OAKMEADOW PTY LTD	400,000	3.5%
BACCHUS MARSH MEGA FRESH PTY LTD	374,000	3.2%
MELLWAY HOLDINGS PTY LTD	300,000	2.6%
RUMMAGE MARKET PTY LTD	240,000	2.1%
HOCKNEY NOMINEES PTY LTD	222,000	1.9%
		42.4%

The Storeowner and Eligible Applicant named below hereby makes application for one Class A Redeemable Preference Share of \$1.00 in Australian United Retailers Limited ACN 077 879 782 of Level 1, 1601 Malvern Road, Glen Iris, Victoria 3146 ('FoodWorks').

Read "How to complete this Application" over page then complete sections A-C.

<div style="background-color: black; color: white; padding: 2px 5px; font-weight: bold; float: left; margin-right: 10px;">A</div> Storeowner/Eligible Applicant			
Individual/Joint/Company names – refer over page to correct forms of registrable title			
Title or Company Name	Given Name (s)	Surname	
ABN		ACN (Company only)	
Joint Owner 2			
ABN			
Joint Owner 3			
ABN			
<div style="background-color: black; color: white; padding: 2px 5px; font-weight: bold; float: left; margin-right: 10px;">B</div> Address for Storeowner communications			
Unit	Street Number	Street Name	
City / Suburb / Town		State	Postcode
Fax		Email	

This application form accompanies the Offer Information Statement, and by completing and lodging it the Eligible Applicant is taken to acknowledge the terms set out in that document and agrees to become a member of the Company and to be bound by the Company's Constitution.

C

Store Address

Store Address (if different from Storeowner address)

Unit

Street Number

Street Name

City / Suburb / Town

State

Postcode

How to complete this Application

A Storeowner/Eligible Applicant

Enter the full name of the Storeowner/Eligible Applicant. This must be either a company or the name(s) of the individual(s). Up to 3 Joint Applicant may register. Trust and partnership names cannot be registered. See below for correct forms of registrable title.

B Storeowner Address

Enter full address for correspondence with Storeowner.

C Store Details

Enter the store address if different from Storeowner/Eligible Applicant address.

Correct forms of registrable title(s)

Type of Investor	Correct Form of Registration	Incorrect Form of Registration
Individual - Use given name(s) in full, not initials	Mr John Alfred Smith	JA Smith
Joint - Use given name(s) in full, not initials	Mr John Alfred Smith & Mrs Janet Marie Smith	John Alfred & Janet Marie Smith
Company - Use company title, not abbreviations	ABC Pty Ltd	ABC P/L ABC Co
Trusts - Use trustee(s) personal name(s) - Do not use the name of the trust	Ms Penny Smith <Penny Smith Family A/C>	Penny Smith Family Trust
Minor (a person under the age of 18) - Use the name of a responsible adult with an appropriate designation	Mr John Alfred Smith <Peter Smith A/C>	Peter Smith
Partnerships - Use partners personal name(s) - Do not use the name of the partnership	Mr John Smith & Mr Michael Smith <John Smith & Son A/C>	John Smith & Son
Clubs/Unincorporated Bodies/Business Names - Use office bearer(s) personal names(s) - Do not use the name of the club etc	Mrs Janet Smith <ABC Tennis Association A/C>	ABC Tennis Association
Superannuation Funds - Use the name of trustee of the fund - Do not use the name of the fund	John Smith Pty Ltd <Super Fund A/C>	John Smith Pty Ltd Superannuation Fund