

Mittenmet Limited

and its Controlled Entities

ABN 76 141 010 906



General Purpose Financial Report

For the period ended 30 April 2010

Corporate Information

ABN 76 141 010 906

DIRECTORS

The names and details of the Company's Directors in office during the financial period are as follows:

Lance H Collins (Chairman)	appointed 25 March 2010
Philip J Petrie	appointed 25 March 2010
Gary J Woodruff	appointed 25 March 2010
Andrew Reitzer	appointed 8 December 2009
Ken Bean	appointed 8 February 2010
Edwin M Jankelowitz	appointed 8 December 2009
Michael R Jablonski	appointed 8 February 2010
Gregory C Watson	appointed 8 December 2009, resigned 25 March 2010

COMPANY SECRETARY

Gregory C Watson	appointed 8 December 2009, resigned 25 March 2010
John Randall	appointed 8 February 2010

REGISTERED OFFICE

50 Waterloo Road
Macquarie Park NSW 2113
Telephone: 61 2 9751 8200

SHARE REGISTER

Registries Limited
GPO Box 3993
Sydney NSW 2001
Telephone: 61 2 9290 9600
Facsimile: 61 2 9279 0664

AUDITORS

Ernst & Young

Directors' Report

For the period - 8 December 2009 to 30 April 2010

Your Directors submit their report for the period - 8 December 2009 to 30 April 2010.

DIRECTORS

The names and details of the Company's Directors in office during the financial year are as follows:

Lance H Collins (Chairman) (appointed 25 March 2010)

Philip J Petrie (appointed 25 March 2010)

Gary J Woodruff (appointed 25 March 2010)

Andrew Reitzer

Ken Bean (appointed 8 February 2010)

Edwin M Jankelowitz

Michael R Jablonski (appointed 8 February 2010)

Gregory C Watson (resigned 25 March 2010)

Directors were in office for this entire period unless otherwise stated.

COMPANY SECRETARY

John A Randall

DIVIDENDS

There were no dividends provided for or paid during the period, nor since the end of the year. No recommendation for payment of dividends has been made.

NATURE OF OPERATIONS AND PRINCIPAL ACTIVITIES

On 25 March 2010, Mittenmet Limited acquired Mitre 10 Australia Limited, which is the parent undertaking of Mitre 10 Limited. Subsequent to acquisition, the consolidated group has engaged in

- procurement, distribution, marketing of hardware products with in Australia.

- retail support services to independently owned hardware businesses licensed to trade under the Mitre 10 and True Value Hardware banners and to certain unlicensed businesses.

CORPORATE INFORMATION

Mittenmet Limited was incorporated on 8 December 2009, and is a company limited by shares and is incorporated and domiciled in Australia. Its immediate parent entity is Metcash Trading Limited, and its ultimate parent undertaking is Metcash Limited

The principal activities during the period of entities within the consolidated entity were the wholesale distribution and marketing of hardware products.

REVIEW AND RESULTS OF OPERATIONS

Summarised operating results are as follows:

	2010	
	Revenues \$'000	Loss after tax \$'000
Consolidated entity sales and loss from ordinary activities after income tax expense	61,705	(2,173)

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the Company occurring during the relevant financial period.

SIGNIFICANT EVENTS AFTER THE BALANCE DATE

No matters or circumstances have arisen since the end of the year which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the company in future financial periods.

ENVIRONMENTAL REGULATION AND PERFORMANCE

The Group is not subject to any particular or significant environmental regulation.

Directors' Report

For the period - 8 December 2009 to 30 April 2010

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

It is the opinion of the Directors that the inclusion of any other information referring to likely developments in the operations of the Group and their expected results in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Constitution of the Company permits the grant of an indemnity (to the maximum extent permitted by law) in favour of each Director, the Company Secretary, past Directors and Secretaries, and all past and present Executive Officers. The Company has entered into Deeds of Indemnity and Access with all of the current Directors and certain other officers of the Company. This indemnity is against any liability to third parties (other than related Mittenmet companies), by such officers unless the liability arises out of conduct involving a lack of good faith. The indemnity also includes costs or expenses incurred by an officer in unsuccessfully defending proceedings relating to that person's position.

During the financial year, the Company has paid, or agreed to pay, a premium in respect of a contract of insurance insuring officers (and any persons who are officers in the future) against certain liabilities incurred in that capacity. Disclosure of the total amount of the premiums and the nature of the liabilities in respect of such insurance is prohibited by the contract of insurance.

ROUNDING

The amounts contained in this 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 Australian Securities and Investments Commission (ASIC) Class Order 98/0100. The Company is an entity to which the Class Order applies.

CEO AND FINANCE DIRECTOR DECLARATION

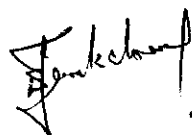
The Chief Executive Officer and Finance Director have provided a declaration that states:

- (a) With regard to the integrity of the financial report of Mittenmet Limited for the period to 30 April 2010:
- (i) The financial statements and associated notes comply in all material respects with the accounting standards as required by Section 296 of the Corporations Act 2001;
 - (ii) The financial statements and associated notes give a true and fair view, in all material respects, of the financial position as at 30 April 2010 and performance of the Company for the period then ended as required by Section 297 of the Corporations Act 2001;
 - (iii) In our opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable;
- (b) With regard to the financial records and systems of risk management and internal compliance and control of Mittenmet Limited for the period ended 30 April 2010:
- (i) The financial records of the Company have been properly maintained in accordance with Section 286 of the *Corporations Act 2001*;
 - (ii) The statements made in (a) above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors;
 - (iii) The risk management and internal compliance and control systems of the Company relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects.
 - (iv) Subsequent to 30 April 2010, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal control and control systems of the Company.

AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration for the period ended 30 April 2010 has been received and is included on page 34.

Signed in accordance with a resolution of the Directors.



Edwin Jankelowitz
Director
Sydney, 29 July 2010

Directors' Declaration

For the period - 8 December 2009 to 30 April 2010

In accordance with a resolution of the directors of Mittenmet Limited, I state that:

1. In the opinion of the directors:

a. The financial statements of the Company and of the consolidated entity are in accordance with the Corporations Act 2001, including:

i. Giving a true and fair view of the Company's and consolidated entity's financial position as at 30 April 2010 and of their performance for the period ended on that date; and

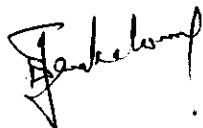
ii. Complying with Accounting Standards and Corporations Regulations 2001; and

b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

2. This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the period ending 30 April 2010.

3. In the opinion of the directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in note 22 will be able to meet any obligation or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Edwin Jankelowitz
Director
Sydney, 29 July 2010

Consolidated Statement of Comprehensive Income

For the period - 8 December 2009 to 30 April 2010

		Mittenmet Group	Mittenmet Limited
	Notes	2010 \$'000	2010 \$'000
Revenue	3a	61,705	86
Cost of sales		(56,167)	-
Gross profit		5,538	86
Distribution costs		(1,724)	-
Administrative costs		(2,178)	-
Specific items			
Payment of business acquisition costs	3e	(3,376)	(3,376)
Finance costs	3f	(13)	-
Loss from continuing operations before income tax		(1,753)	(3,290)
Income tax expense	4	(420)	-
Net loss for the period		(2,173)	(3,290)
Other comprehensive income			
Foreign currency hedge adjustment		(93)	-
Income tax/(expense) on items of other comprehensive income		-	-
Other comprehensive income for the period, net of tax		(93)	-
Total comprehensive income for the period		(2,266)	(3,290)
Profit for the period is attributable to:			
Equity holders of the parent		(2,173)	(3,290)
Minority Interest		-	-
		(2,173)	(3,290)
Total comprehensive income for the period is attributable to:			
Equity holders of the parent		(2,266)	(3,290)
Minority Interest		-	-
		(2,266)	(3,290)

The above Consolidated Statement of Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Statement of Financial Position

As at 30 April 2010

		Mittenmet Group	Mittenmet Limited
	Notes	2010 \$'000	2010 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	5	15,486	-
Trade and other receivables	6	104,419	11,962
Inventories	7	29,726	-
Assets held for sale		3,983	-
GST receivable		214	-
Income tax receivable		18	-
Prepayments and other		633	-
Total current assets		154,479	11,962
Non current assets			
Trade and other receivables	8	3,221	-
Investments in associates accounted for using the equity method	9	6,091	-
Other financial assets	10	-	110,220
Property, plant and equipment	11	18,698	-
Net deferred tax assets	4	5,516	-
Intangible assets and goodwill	12	61,075	-
Total non current assets		94,601	110,220
TOTAL ASSETS		249,080	122,182
LIABILITIES			
Current liabilities			
Trade and other payables	13	114,379	476
Interest and non interest bearing loans and borrowings	14	43,225	42,386
Derivative financial instruments	15	572	-
Provisions	16	4,958	-
Other financial liabilities	17	167	-
Total current liabilities		163,301	42,862
Non current liabilities			
Interest bearing loans and borrowings	14	3,176	-
Provisions	16	245	-
Other financial liabilities	17	1,930	-
Convertible redeemable preference shares	18	55,000	55,000
Total non current liabilities		60,351	55,000
TOTAL LIABILITIES		223,652	97,862
NET ASSETS		25,428	24,320
EQUITY			
Contributed equity	19	27,610	27,610
Reserves	19	(93)	-
Retained earnings	19	(2,173)	(3,290)
Parent Interest		25,344	24,320
Minority Interest		84	-
TOTAL EQUITY		25,428	24,320

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

Statement of Changes in Equity

For the period - 8 December 2009 to 30 April 2010

	Mittenmet Group				
	Contributed equity \$'000	Retained Earnings \$'000	Cash Flow Hedge Reserve \$'000	Minority Interest \$'000	Total equity \$'000
On incorporation	-	-	-	-	-
Total comprehensive income	-	(2,173)	(93)	-	(2,266)
Transactions with owners in their capacity as owners:					
Shares Issued	27,610	-	-	-	27,610
Minority Interest on acquisition	-	-	-	84	84
At 30 April 2010	27,610	(2,173)	(93)	84	25,428

	Mittenmet Limited			
	Contributed equity \$'000	Retained earnings \$'000	Total equity \$'000	
On incorporation	-	-	-	
Total comprehensive income	-	(3,290)	(3,290)	
Transactions with owners in their capacity as owners:				
Shares Issued	27,610	-	27,610	
Minority Interest on acquisition	-	-	-	
At 30 April 2010	27,610	(3,290)	24,320	

The above Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Statement of Cash Flows

For the period - 8 December 2009 to 30 April 2010

Notes	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Cash flows from operating activities:		
Receipts from customers	64,632	-
Payments to suppliers and employees	(62,772)	-
Interest received	131	-
Finance costs	(13)	-
Income tax paid	(47)	-
Net cash flows from operating activities	1,931	-
Cash flows from investing activities:		
Purchase of property, plant and equipment	(84)	-
Payments for intangibles	-	-
Payment of business acquisition costs	(3,376)	-
Loans (to)/from subsidiaries	-	(55,220)
Loans (to)/from parent	-	27,610
Loans (to)/from other entities	-	-
Payment on acquisition of businesses	(44,339)	-
Net cash flows used in investing activities	(47,799)	(27,610)
Cash flows from financing activities:		
Proceeds from the issue of ordinary shares	27,610	27,610
Proceeds from borrowings – other	42,386	-
Repayments of borrowings – other	(8,574)	-
Repayment of finance lease principal	(68)	-
Net cash flows used in financing activities	61,354	27,610
Net increase/(decrease) in cash and cash equivalents	15,486	-
Add opening cash brought forward	-	-
Effect of exchange rate changes on cash	-	-
Cash and cash equivalents at end of period	15,486	-

Notes to the Financial Statements

Period ended 30 April 2010

1 CORPORATE INFORMATION

The financial report of Mittenmet Limited (the Company) for the year ended 30 April 2010 was authorised for issue in accordance with a resolution of the Directors on 29 July 2010.

Mittenmet Limited and its controlled entities (the Group), is a company limited by shares incorporated in Australia. The nature of the operations and principal activities of the Group are described in the Directors' Report.

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(i) Basis of accounting

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

The financial report has been prepared using the historical cost basis except for derivative financial instruments which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest \$1,000 unless otherwise stated under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(ii) Statement of Compliance

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards

Standards and amendments issued but not yet effective

A number of new or amended accounting standards have been issued, but are not mandatory for financial periods ended 30 April 2010. These have not been adopted in preparing the financial report for the period ended 30 April 2010 and are not expected to have a material impact on the group's financial report in future periods.

(iii) Basis of consolidation

The consolidated financial statements comprise the financial statements of Mittenmet Limited and its subsidiaries as at 30 April 2010.

The financial statements of controlled entities are prepared for the same reporting period as the parent entity, using consistent accounting policies.

Controlled entities are all those entities over which the Group has the power to govern the financial and operating policies so as to obtain benefits from their activities.

Controlled entities are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

In preparing the consolidated financial statements all intercompany balances and transactions have been eliminated in full.

Investments in subsidiaries held by Mittenmet Limited are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the purchase method of accounting.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(iv) Significant accounting judgements, estimates and assumptions

(a) Significant accounting judgements

In the process of applying the Group's accounting policies, management has made the following judgements, apart from those involving estimations, which have a significant effect on the amounts recognised in the financial statements:

Contractual customer relationships

Identifying those acquired relationships with customers that meet the definition of separately identifiable intangibles that have a finite life.

(b) Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill

The Group determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash generating units to which the goodwill is allocated.

The assumptions used in this estimation of the recoverable amount and the carrying amount of goodwill is discussed in note 12.

Contractual customer relationships

The useful life of contractual customer relationships of 25 years is based on management's expectation of future attrition rates based on historical rates experienced.

(v) Foreign Currency Translation

Translation of foreign currency transactions

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

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date. All exchange differences in the consolidated financial report are taken to profit or loss.

(vi) Cash and cash equivalents

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash, which are subject to an insignificant risk of changes in value and have a maturity of three months or less at the date of acquisition.

(vii) Trade and other receivables

Trade receivables, are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off as incurred.

(viii) Investments and other financial assets

All investments are initially recognised at cost, being the fair value of the consideration given and including acquisition charges associated with the investment.

After initial recognition, investments, which are classified as held for trading and available-for-sale, are measured at fair value. Gains or losses on investments held for trading are recognised in the consolidated statement of comprehensive income.

For investments that are actively traded in organised financial markets, fair value is determined by reference to Stock Exchange quoted market bid prices at the close of business on the relevant reporting date.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(ix) Derivative financial instruments

The Group uses derivative financial instruments (including forward currency contracts) to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date at which a derivative contract is entered into and are subsequently remeasured to fair value.

Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

The fair values of forward currency contracts are calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

Any gains or losses arising from changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to profit or loss for the year.

The fair value of derivative contracts are determined by reference to market values for similar instruments.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges, when they hedge the exposure to changes in the fair value of recognised asset or liability; or
- cash flow hedges, when they hedge the exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction.

Hedges that meet the strict criteria for hedge accounting are accounted as follows:

Cashflow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or to a forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

(x) Investment in associates

The Group's investments in its associates are accounted for using the equity method of accounting in the consolidated financial statements. These are the entities in which the Group has significant influence and which are neither subsidiaries nor joint ventures.

The financial statements of the associates are used by the Group to apply the equity method.

The investments in associates are carried in the consolidated statement of financial position at cost plus post-acquisition changes in the Group's share of net assets of the associate, less any impairment in value. Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised. The consolidated statement of comprehensive income reflects the Group's share of the results of operations of the associates.

Where there has been a change recognised directly in the associate's equity, the Group recognises its share of any changes and discloses this in the consolidated statement of changes in equity.

(xi) Inventories

Inventories are valued at the lower of cost or net realisable value. Costs incurred in bringing each product to its present location and condition, are accounted for using the standard cost method. Cost is determined by deducting from the supplier's invoice price any purchase incentives, allowances, discounts and net marketing income.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xii) Property, plant and equipment

Cost

All classes of property, plant and equipment are measured at cost less accumulated depreciation and any accumulated impairment losses.

Depreciation

Depreciation is provided on a straight-line basis on all property, plant and equipment, other than freehold land.

Major depreciation periods are:

	2010
Freehold buildings:	40 years
Plant and equipment:	2–10 years
Leased Assets	5 years

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.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

Impairment losses are recognised in the consolidated statement of comprehensive income.

De-recognition

An item of property, plant and equipment is de-recognised 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 de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of comprehensive income in the period the item is de-recognised.

(xiii) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that the value of an asset may be impaired. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets. In this case, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(xiv) Leases

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

Operating leases

Group as a lessee

Operating leases are those where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased item. Operating lease payments are recognised as an expense on a straight-line basis.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xiv) Leases (continued)

Finance leases

Leases that transfer to the Group substantially all of the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the lower of fair value of the leased property or the present value of the minimum lease payments.

Capitalised leases are disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Minimum lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are charged directly against income. Capitalised lease assets are depreciated over the shorter of the assets estimated useful life of the assets and the lease term.

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

(xv) Goodwill

Goodwill acquired in a business combination is initially measured at cost; being the excess of the cost of the business combination over the Group's interest in the net fair value of the acquirer's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is not amortised. Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units expected to benefit from the combination's synergies.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. Where the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses for goodwill are not subsequently reversed.

(xvi) Intangible assets

Intangible assets acquired separately or in a business combination are initially measured at cost. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite. Where amortisation is charged on assets with finite lives, this expense is taken to the profit or loss on a straight-line basis.

Intangible assets (excluding software development costs) created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred.

Intangible assets are tested for impairment where an indicator of impairment exists. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

Trade Names are recognised as intangible assets where a registered trade mark is acquired with attributable value. Trade Names are valued on a Relief from Royalty method. Trade names are considered to be indefinite life intangibles and are not amortised. Trade Name balances will be tested annually for impairment at the same time as goodwill is tested.

Contractual customer relationships are recognised as intangible assets when the criteria specified in *AASB 138 Intangible Assets* have been met. Contractual customer relationships are assessed to have a finite life and are amortised over the asset's useful life.

The carrying value of these assets are reviewed for impairment where an indicator of impairment exists.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xvi) Intangible assets (continued)

Software development costs incurred on an individual project are carried forward when future recoverability can reasonably be assured. Following the initial recognition of software development costs, the cost model is applied requiring the asset to be carried at cost less any accumulated amortisation and accumulated impairment losses.

Any costs carried forward are amortised over the assets' useful economic lives.

The carrying value of software development costs is reviewed for impairment annually when an asset is not in use or more frequently when an indicator of impairment arises during a reporting period indicating that the carrying value may not be recoverable.

Gains or losses arising from de-recognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the consolidated statement of comprehensive income when the asset is de-recognised.

The estimated useful lives of existing finite intangible assets are as follows:

- Customer contracts – twenty five years;
- Software development costs – five years.
- Other – ten years.

(xvii) Trade and other payables

Trade payables and other payables are carried at amortised cost. They represent liabilities for goods and services provided to the Group prior to the end of the 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.

(xviii) Employee leave benefits

(a) Wages, salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(b) Long service leave

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match as closely as possible, the estimated future cash outflows.

(xix) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received net of issue costs associated with the borrowing.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

Gains and losses are recognised in profit or loss when the liabilities are de-recognised.

(xx) 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 probable. The expense relating to any provision is presented in the consolidated statement of comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Dividends payable are recognised when a legal or constructive obligation to pay the dividend arises, typically following approval of the dividend at a meeting of directors.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxi) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

Rendering of services

Revenue from promotional activities is recognised when the promotional activities occur.

Interest

Revenue is recognised as the interest is earned.

Dividends

Revenue is recognised when the right to receive the payment is established.

Rental income

Rental income is accounted for on a straight-line basis over the lease term. Contingent rental income is recognised as income in the periods in which it is earned.

(xxii) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from, or paid to the taxation authority. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the relevant reporting date.

Deferred income tax is provided on all temporary differences at the reporting date, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

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

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting 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.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the relevant reporting date.

Deferred tax assets and deferred liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the consolidated statement of comprehensive income.

Notes to the Financial Statements

Period ended 30 April 2010

2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(xxiii) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and

- receivables and payables which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the consolidated statement of financial position.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, is classified as operating cash flow.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

(xxiv) Convertible redeemable preference shares

The component of the convertible redeemable preference shares that exhibits characteristics of a liability is recognised as a liability in the statement of financial position.

(xxv) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

(xxvi) Borrowing costs

Borrowing costs are recognised as an expense when incurred, except borrowing costs that are capitalised for acquisition of qualifying assets.

(xxvii) Operating segment

The directors have determined that the group has only one operating segment, and as such is not required to provide segment disclosures.

Notes to the Financial Statements

Period ended 30 April 2010

3 REVENUE AND EXPENSES

	Mittenmet Group	Mittenmet Limited
	2010 \$'000	2010 \$'000
(a) Revenue		
Sale of goods	61,556	-
Rent	18	-
Interest from related party	-	86
Interest from other person/corporation	131	-
	<u>61,705</u>	<u>86</u>
(b) Other expenses		
Depreciation/ Amortisation of property, plant and equipment	118	-
Impairment of trade receivables	13	-
Inventories obsolescence provision	-	-
(c) Operating lease rental		
Minimum lease payments	670	-
(d) Employee benefits expense		
Wages and salaries	1,668	-
Defined contribution plan expense	149	-
Workers compensation costs	42	-
Other employee benefits costs	124	-
(e) Significant item		
Payment of business acquisition costs	3,376	3,376
(f) Finance costs		
Interest expense	13	-

4 INCOME TAX

The major components of income tax expense are:

Current income tax

Current income tax charge	420	-
Adjustments in respect of current income tax of previous years	-	-
Deferred income tax relating to origination and reversal of temporary differences	-	-
Income tax expense reported in the Consolidated Statement of Comprehensive Income	<u>420</u>	<u>-</u>

A reconciliation between tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:

Accounting profit before income tax	<u>(1,753)</u>	<u>(3,290)</u>
At the Group's statutory income tax rate of 30%	(526)	(987)
Expenditure not allowable for income tax purposes - business combination expenses	987	987
Expenditure not allowable for income tax purposes - other	(41)	-
Income not assessable for income tax purposes	-	-
Adjustments in respect of current income tax of previous years	-	-
Income tax expense reported in the at an effective tax rate of 30%	<u>420</u>	<u>-</u>

Notes to the Financial Statements

Period ended 30 April 2010

4 INCOME TAX (continued)

	Consolidated Statement of Financial Position	Consolidated Statement of Comprehensive Income
	2010 \$'000	2010 \$'000
Deferred income tax		
Deferred income tax of the Mittenmet Group at 30 April relates to the following:		
Deferred tax liabilities		
Accelerated depreciation for tax purposes	2,380	
Intangibles	2,957	
Other receivables	93	
Set off of deferred tax assets	(5,430)	
	<u>-</u>	
Deferred tax assets		
Provisions	1,430	
Trade and other receivables	1,590	
Inventories	445	
Trade and other liabilities	3,135	
Unutilised Tax Losses	2,856	
Other	1,490	
Set off of deferred tax liabilities	(5,430)	
	<u>5,516</u>	
Deferred tax income expense		<u>-</u>
Recognised net deferred tax assets		
Opening Balance		
Charged to Income Statement		
Charged to Equity		
Acquisitions / Disposals	5,516	
Closing Balance	<u>5,516</u>	

At 30 April 2010, there is no recognised or unrecognised deferred income tax liability for taxes that would be payable on the unremitted earnings of certain of the Group's subsidiaries and associates as the Group has no liability for additional taxation should these earnings be remitted.

Notes to the Financial Statements

Period ended 30 April 2010

5 CASH AND CASH EQUIVALENTS

	Mittenmet Group	Mittenmet Limited
	2010 \$'000	2010 \$'000
Cash at bank and on hand	15,486	-
	<u>15,486</u>	<u>-</u>
(a) Reconciliation of net loss after tax to net cash flows from operations		
Net profit	(2,173)	(3,290)
<i>Adjustments for:</i>		
Depreciation and amortisation	118	-
Net (profit)/loss on disposal of property, plant and equipment	-	-
Share of associates' net profit	-	-
Dividends received from associates	-	-
Business combination expenses	3,376	3,376
Deferred borrowing costs	-	-
Share based payments	-	-
Net loss on disposal of associate	-	-
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries	-	-
(Increase)/decrease in trade and other receivables	3,071	(86)
(Increase)/decrease in other current assets	102	-
(Increase)/decrease in inventories	(1,377)	-
(Increase)/decrease in deferred tax assets	402	-
(Decrease)/increase in payables and provisions	(1,560)	-
(Decrease)/increase in tax payable	(28)	-
(Decrease)/increase in derivative financial instruments	-	-
Net cash from operating activities	<u>1,931</u>	<u>-</u>
(b) Non-cash financing and investing activities		
Acquisition of assets by means of finance lease	-	-

6 TRADE AND OTHER RECEIVABLES (CURRENT)

Trade receivables (i)	108,731	-
Allowance for impairment loss	(5,061)	-
	<u>103,670</u>	<u>-</u>
Customer loans (ii)	48	-
Other receivables (iii)	701	-
Related party receivables: (iv) wholly owned subsidiaries	-	11,962
	<u>104,419</u>	<u>11,962</u>

(i) Trade receivables are non-interest bearing and terms vary. At 30 April 2010, 97.7% of trade receivables are required to be settled within 30 days and 2.3% of trade receivables have terms extending from 30 days to 120 days. The amount of the allowance/impairment loss has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.

(ii) Customer loans receivable are current and have repayment terms of less than 12 months. All loans are interest-bearing have a weighted average annual interest of 8.00%.

(iii) Other receivables are non-interest bearing and have repayment terms of less than 12 months.

(iv) For terms and conditions relating to related party receivables refer to note 22. Amounts receivable from related parties are neither past due nor impaired. These receivables are non-interest bearing. The credit quality of these receivables is good. The amount of these receivable is considered to be recoverable in full.

Notes to the Financial Statements

Period ended 30 April 2010

6 TRADE AND OTHER RECEIVABLES (CURRENT) (continued)

Impaired trade receivables

In the period to 30 April, 2010 trade receivables with a notional value of \$13,000 were provided for as impaired. Movement in the allowance for impairment loss:

	Mittenmet Group
	2010
	\$'000
On incorporation	-
Acquisition from business combination	(5,021)
Charge for the period	(13)
Amounts recovered	(27)
Closing balance	<u>(5,061)</u>

Debtors Ageing

In the period to 30 April 2010, the analysis of trade receivables for the Mittenmet Group that were past due but not impaired is as follows:

	Neither past due or impaired	Less than 30 days overdue	More than 30 less than 60	More than 60 less than 90	More than 90 less than 120	More than 120	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2010	98,170	3,130	499	784	41	1,046	103,670
	94.7%	3.0%	0.5%	0.8%	0.0%	1.0%	100.0%

The credit quality of the unimpaired trade receivables is good. Mittenmet believe that the above trade receivables will be fully recovered.

Customer Loans Ageing

As at 30 April 2010, the analysis of customer loans receivable for the Mittenmet Group that were past due but not impaired is as follows:

	Neither past due or impaired	Less than 30 days overdue	More than 30 less than 60	More than 60 less than 90	More than 90 less than 120	More than 120	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2010	3,269	-	-	-	-	-	3,269
	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

The credit quality of the customer loans is good. As these amounts do not contain impaired assets Mittenmet believe that the above receivables will be fully recovered.

Other Receivables Ageing

In the period to 30 April 2010, the analysis of other receivables for the Mittenmet Group that were past due but not impaired is as follows:

	Neither past due or impaired	Less than 30 days overdue	More than 30 less than 60	More than 60 less than 90	More than 90 less than 120	More than 120	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
2010	701	0	0	0	0	0	701
	100.0%	0.0%	0.0%	0.0%	0.0%	0.0%	100.0%

The credit quality of the unimpaired other receivables is good. Mittenmet believe that all the above other receivables will be fully recovered.

Customer Loan Security

As at balance date, Mittenmet provided loans to a number of customers. The outstanding loan balance can be summarised as follows:

	Mittenmet Group
	2010
	\$'000
Current loans	48
Non Current loans	3,221
	<u>3,269</u>

Notes to the Financial Statements

Period ended 30 April 2010

7 INVENTORIES

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Finished goods (at net realisable value)	29,726	-
Total inventories at the lower of cost and net realisable value	29,726	-

Inventory write-downs recognised as an expense totalled \$nil for the Group and \$ nil for the Company.

8 RECEIVABLES (NON-CURRENT)

Customer loans (i)	3,221	-
Total	3,221	-

(i) Customer loans receivable are non-current and have repayment terms of greater than 12 months. All loans are interest bearing and have a weighted average annual interest rate of 8.00%. Refer to Note 6 for ageing analysis and credit quality.

Fair values

The fair value and carrying values of non-current receivables of the Mittenmet Group are as follows:

	Carrying amount 2010 \$'000	Fair value 2010 \$'000
Customer loans	3,221	3,221
Other receivables	-	-
Total	3,221	3,221

The fair values are based on cash flows discounted at a rate reflecting current market rates adjusted for counter party credit risk. The Directors consider that the carrying amount of the non-current receivables recorded in the financial statements approximates their fair value as at the reporting date.

9 INVESTMENTS

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Investments accounted for using the equity method	6,091	-

Investment in associates

	Ownership interest 2010 %
Principal activities	Balance date
Sunshine Hardware Pty Ltd	49.0
Hardware retailing	30 June

The following table illustrates summarised financial information relating to the Group's investment in associates.

Share of associates' profit:

	Mittenmet Group 2010 \$'000
Profit/(loss) before income tax	-
Income tax expense	-
Profit after income tax	-
Share of associates' Consolidated Statement of Financial Position:	
Current assets	9,909
Non-current assets	5,890
Total Assets	15,799
Current liabilities	(4,334)
Non-current liabilities	(5,315)
Total Liabilities	(9,649)
Net assets	6,150

Notes to the Financial Statements

Period ended 30 April 2010

10 OTHER FINANCIAL ASSETS (NON-CURRENT)

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Investments in subsidiaries (Note 22)	-	110,220
	-	110,220

11 PROPERTY, PLANT AND EQUIPMENT

	Mittenmet Group Land and buildings \$'000	Mittenmet Group Plant and equipment \$'000	Total \$'000	Mittenmet Limited Land and buildings \$'000	Mittenmet Limited Plant and equipment \$'000	Total \$'000
On incorporation						
net of accumulated depreciation and impairment	-	-	-	-	-	-
Acquisition from business combination	11,944	6,788	18,732	-	-	-
Additions	-	84	84	-	-	-
Depreciation charge for the year	(6)	(112)	(118)	-	-	-
At 30 April 2010,						
net of accumulated depreciation and impairment	11,938	6,760	18,698	-	-	-

The carrying value of plant and equipment held under finance leases and hire purchase contracts at 30 April 2010 is \$4.41 million .

12 INTANGIBLE ASSETS AND GOODWILL

	Mittenmet Group				Mittenmet Limited	
	Software Development Costs \$'000	Customer Contracts \$'000	Goodwill \$'000	Trade Names \$'000	Total \$'000	Total \$'000
On incorporation						
Net carrying amount	-	-	-	-	-	-
Acquisition from business combination	37	9,937	23,912	27,189	61,075	-
Amortisation	-	-	-	-	-	-
At 30 April 2010						
Net carrying amount	37	9,937	23,912	27,189	61,075	-
At 30 April 2010						
Cost (gross carrying amount)	37	9,937	23,912	27,189	61,075	-
Accumulated amortisation and impairment	-	-	-	-	-	-
Net carrying amount	37	9,937	23,912	27,189	61,075	-

(a) Description of the Groups Intangible Assets & Goodwill

Software development costs

Development costs have been capitalised at cost and are amortised using the straight-line method over the asset's useful economic life which has been assessed as five years. Software development costs are tested for impairment where an indicator of impairment exists. Useful lives are also estimated on an annual basis and adjustments, where applicable, are made on a prospective basis.

Customer Contracts

Customer contracts are acquired either through business combinations or through direct acquisition of contractual relationships. The carrying amount represents the costs less accumulated amortisation. Customer contracts are amortised over a 25 year period. The amortisation has been recognised in the statement of comprehensive income in the line item "Administrative Costs". If an impairment indication arises, the recoverable amount is estimated and an impairment loss is recognised to the extent that the recoverable amount is less than the carrying amount.

Trade Names

Trade Names have been acquired through business combinations and are carried at cost less any impairment losses. These intangibles assets have been determined to have an indefinite useful life. Trade marks will be subjected to impairment testing on an annual basis or whenever there is an indication of impairment. Due to the timing of the acquisition of these assets in the current year, no impairment test has been carried out.

Notes to the Financial Statements

Period ended 30 April 2010

12 INTANGIBLE ASSETS AND GOODWILL (continued)

(b) Impairment tests for Goodwill and Intangibles with indefinites useful lives

(i) Description of Cash Generating Units

Goodwill acquired through business combinations has been allocated to the lowest level within the entity at which the goodwill is monitored by management, being the single business pillar (Mitre 10). Under AIFRS, goodwill and intangibles with indefinite lives have to be tested annually and when impairment indicators arise, provided the testing is done at the same time each year.

The goodwill was acquired on 25 March 2010. As such, the directors do not consider that any indicators of impairment have arisen between the date of valuation and balance date. The goodwill will be subject to impairment testing annually, commencing in the 2011 financial year.

(ii) Trade Names Valuation

Trade Names were valued on acquisition of the Mitre 10 business and represent the value of the various Trade Marks registered to the Mitre 10 Group of companies. At the date of acquisition, the Trade Names were valued on a Relief from Royalty basis. The following represent the key assumptions used:

Royalty Rate - An estimate based on similar royalty rates for similar types of franchising store formats in a similar industry from a global analysis

Budgeted gross margins - These have been estimated based on utilisation of existing assets and on the average gross margins achieved immediately before the budgeted year, increased for expected efficiency improvements.

Discount Rates - The weighted average cost of capital for the Mitre 10 Group based on risk free rates of return, the company's risk profile relative to the market, the marginal cost of borrowing for the company, its average level of gearing and a market risk premium.

Future growth - driven by population growth, estimated inflation and changes in market share.

The trade name valuation was completed as at 25 March 2010. As such, the directors do not consider that any indicators of impairment have arisen between the date of valuation and balance date. The Trade Names will be subject to impairment testing annually, commencing in the 2011 financial year.

13 TRADE AND OTHER PAYABLES (CURRENT)

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Trade payables	103,480	476
Other payables	10,899	-
	114,379	476

Trade and other payables are non-interest-bearing and are normally settled within 30-day terms.

(a) Fair value

Due to the short term nature of these payables, their carrying value is assumed to approximate their fair value.

14 INTEREST BEARING LOANS AND BORROWINGS

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Current		
Finance lease obligation (i)	839	-
Loans from Parent (ii)	14,776	14,776
Loans from Parent - interest free (iii)	27,610	27,610
	43,225	42,386
Non-current		
Finance lease obligation (i)	3,176	-
	3,176	-

(i) Finance leases have an average lease term of five years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the lease is 9.46%. Secured lease liabilities are secured by a charge over the leased asset.

(ii) Interest on the loan from the parent undertaking has been calculated with respect to the Metcash borrowing facility, being 2.7% above base rate.

(iii) Interest free loan. The loan represents the second instalment of the subscription price for the equity injection by Metcash Trading Limited into Mittenmet Limited. It is expected that this loan will be settled by October 2010.

(a) Fair Value

The carrying amount of the Group's current and non-current borrowings approximate their fair value.

(b) Defaults or breaches

During the current period, there were no defaults or breaches on any of the loans.

(c) Interest rate risk and liquidity risk

Details regarding interest rate risk and liquidity risk are disclosed in Note 20.

Notes to the Financial Statements

Period ended 30 April 2010

15 DERIVATIVE FINANCIAL INSTRUMENTS

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Current		
Derivatives		
Foreign currency forward contract (i)	572	-
	<u>572</u>	<u>-</u>

(i) Derivatives that are designated and effective as hedging instruments are carried at fair value.

16 PROVISIONS

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Current		
Employee entitlements	2,978	-
Redundancy (i)	1,980	-
	<u>4,958</u>	<u>-</u>
Non-current		
Employee entitlements	245	-
	<u>245</u>	<u>-</u>
Total	<u>5,203</u>	<u>-</u>

(a) Movements in provisions

	Consolidated \$'000	Company \$'000
Redundancy (i)		
Acquired through business combination	1,980	-
Utilised	-	-
Unused amounts released	-	-
30 April 2010	<u>1,980</u>	<u>-</u>

(b) Nature and timing of provisions

(i) Redundancy

The provision for redundancy costs represents the present value of the directors' best estimate of the costs directly and necessarily caused by the restructuring of the Mittenmet group as a direct consequence of its acquisition by Metcash Limited.

17 OTHER FINANCIAL LIABILITIES

	Mittenmet Group 2010 \$'000	Mittenmet Limited 2010 \$'000
Current		
Lease incentives	167	-
	<u>167</u>	<u>-</u>
Non - current		
Lease incentives	1,930	-
	<u>1,930</u>	<u>-</u>

Notes to the Financial Statements

Period ended 30 April 2010

18 CONVERTIBLE REDEEMABLE PREFERENCE SHARES

	Maturity	Mittenmet Group	Mittenmet Limited
		2010	2010
		\$'000	\$'000
Non-current			
Convertible redeemable preference shares (CRPS)	2012-2013	55,000	55,000
		<u>55,000</u>	<u>55,000</u>

The CRPS will have the same rights as the partly paid Mittenmet Ordinary Shares issued to Metcash Trading with respect to voting and dividends. Metcash Trading has the right to require Mittenmet to redeem all of the CRPS shares with the 30 day period after finalisation of the 2012 Accounts or the 2013 Accounts, as Metcash Trading may elect.

If Metcash Trading exercises its rights to require Mittenmet to redeem all of the RCP shares in either 2012 or 2013: The CRP shares will be cancelled by Mittenmet; Mittenmet will pay the former holders of the CRP shares a cash amount equal to the Redemption amount; and Metcash Trading will hold all the issued share capital of Mittenmet and, accordingly, Mittenmet will become a wholly owned subsidiary of Metcash Trading.

In broad terms, the redemption amount is determined by carrying out the following steps in the following order: Calculating 5.8 times the combined group's EBITDA for the 12 months period ending 30 June 2012 or 30 June 2013 (as applicable) (Group Enterprise Value); Deducting from the Group Enterprise Value, the combined group's net debt as at 30 June 2012 or 30 June 2013 (as applicable) (other than any net debt incurred for the purposes of making acquisitions in the relevant 12 month period) (Group Equity Value); and multiplying the Group Equity value by the percentage which the CRPS shares on issue represent of the total number of shares on issue in Mittenmet (Aggregate Redemption Amount).

The proportion of the aggregate redemption amount to which each holder of the CRPS shares will be entitled will be the proportion which their CRPS shares represent of the total number of CRPS shares on issue.

The fair values and carrying values of the Group's and the Parent's preference shares are as follows:

	Carrying amount	Fair value
	2010	2010
		\$'000
Convertible redeemable preference shares	55,000	55,000
		<u>55,000</u>

The face value of the preference shares are deemed to be the fair value.

19 CONTRIBUTED EQUITY AND RESERVES

	Mittenmet Group		Mittenmet Limited	
	Number of shares	2010	Number of shares	2010
		Thousands	Thousands	\$'000
<i>(a) Ordinary shares:</i>				
Issued and partly paid	501,000	27,610	501,000	27,610
		<u>501,000</u>	<u>501,000</u>	<u>27,610</u>

(a) Fully paid ordinary shares carry one vote per share and carry the right to dividends.

Reserves

	Mittenmet Group			Mittenmet Limited	
	Contributed equity	Cash Flow Hedge Reserve	Total	Contributed equity	Total
		\$'000	\$'000	\$'000	\$'000
On incorporation	-	-	-	-	-
Acquisition from business combination	27,610	-	27,610	27,610	27,610
Movement in fair value of derivatives	-	(93)	(93)	-	-
At 30 April 2010	<u>27,610</u>	<u>(93)</u>	<u>27,517</u>	<u>27,610</u>	<u>27,610</u>

Nature and purpose of reserves

Cash flow hedge reserve

This reserve records the portion of the unrealised gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

Retained earnings

	Mittenmet Group	Mittenmet Limited
	2010	2010
		\$'000
On incorporation	-	-
Profit/(loss) for the period	(2,173)	(3,290)
At 30 April	<u>(2,173)</u>	<u>(3,290)</u>

Notes to the Financial Statements

Period ended 30 April 2010

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Financial risk management objectives and policies (Group and Company)

The Group's principal financial instruments comprise overdrafts, finance and operating leases, cash and short-term deposits and derivatives.

The main purpose of these instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and payables, which arise directly from its operations.

The Group manages its exposure to key financial risks including interest rate and credit risks in accordance with the Group's financial risk management policy. The objective of the policy is to support delivery of the Group's financial targets while protecting future financial security.

The Group enters into a small number of derivative transactions from time to time principally to manage foreign currency risks arising from the Group's operations and its sources of finance.

The main risks arising from the Group's financial instruments are liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are detailed below.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial instrument, financial liability and equity instrument are disclosed in Note 2 Summary of Significant Accounting Policies.

Risk exposures and liquidity risk exposures

Interest rate risk

The Group's exposure to the risk of changes in market interest rates is minimal as the Group's long-term debt obligations are limited to finance leases which have fixed interest rates.

The Group enters into interest rate derivatives designated to limit the Group's exposure to volatility in interest payments from time to time. Nonetheless, as at 30 April 2010, the Group has no interest rate derivative financial instruments.

The consolidated entity exposure to interest rate risk and the effective rates of financial assets and liabilities, both recognised and unrecognised at balance date, are as follows:

Financial Instruments - Group

	1 year or less	Over 1 to 5 years	More than 5 years	Total carrying amount per the Consolidated Statement of Financial Position	Weighted average effective interest rate
	2010	2010	2010	2010	2010
	\$'000	\$'000	\$'000	\$'000	%
(i) Financial assets					
Fixed rate					
Trade and other receivables	48	1,425	1,796	3,269	8.00
Floating rate					
Cash	15,486	-	-	15,486	4.25
Total financial assets	15,534	1,425	1,796	18,755	
(ii) Financial liabilities					
Fixed rate					
Finance lease liability*	839	3,176	-	4,015	8.80
Floating rate					
Loans from parent - interest bearing	14,776	-	-	14,776	8.16
Non-interest bearing					
Loans from parent - non interest bearing	27,610	-	-	27,610	-
Trade and other payables	114,379	-	-	114,379	-
Total financial liabilities	157,604	3,176	-	160,780	

*Finance leases have an average lease term of five years with the option to purchase the asset at the completion of the lease term for the asset's market value. The average discount rate implicit in the lease is 8.80%. Secured lease liabilities are secured by a charge over the leased asset.

At the reporting date, the carrying value of all financial assets and liabilities approximate their net fair values.

The other financial instruments of the Group and parent that are not included in the above tables are non-interest-bearing and are therefore not subject to interest rate risk.

Financial Instruments - Parent

	1 year or less	Over 1 to 5 years	More than 5 years	Total carrying amount per the Trade and other payables	Weighted average effective interest rate
	2010	2010	2010	2010	2010
	\$'000	\$'000	\$'000	\$'000	%
(i) Financial assets					
Non-interest bearing					
Other loans	11,962	-	-	11,962	-
Total financial assets	11,962	-	-	11,962	
(ii) Financial liabilities					
Floating rate					
Loans from parent - interest bearing	14,776	-	-	14,776	8.16
Non-interest bearing					
Loans from parent - non interest bearing	27,610	-	-	27,610	-
Trade and other payables	476	-	-	476	-
Total financial liabilities	42,862	-	-	42,862	

Sensitivity Analysis

The Group constantly analyses its interest rate exposure. Within this analysis, consideration is given to potential renewal of existing positions, alternative financing, alternative hedging positions and the mix of fixed and floating interest rates.

As the Group's long term debt obligations are based on fixed interest rates and has no interest rate derivative financial instruments, as at 30 April, 2010, movements in interest rates would have no impact on post tax profit and other comprehensive income.

Notes to the Financial Statements

Period ended 30 April 2010

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk and funding management

Liquidity risk is the risk that the Group will be unable to meet its payment obligations when they fall due under normal and stress circumstances. To limit this risk, management manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis.

Remaining contractual maturities

Remaining contractual liabilities consist of non-interest bearing liabilities amounting to \$114.4m for the Group and nil for the Parent and are due one year or less.

Maturity analysis of financial liabilities based on contracted date

The risk implied from the values shown in the table below, reflects a balanced view of cash inflows and outflows. Leasing obligations, trade payables and other financial liabilities mainly originate from the financing of assets used in our ongoing operations such as property, plant, equipment and investments in working capital such as inventories and trade receivables. These assets are considered in the Group's overall liquidity risk. The following table reflects the contracted date of settlement of financial liabilities. The table includes both principal and interest cashflows.

Year ended 30 April 2010	Mittenmet Group				Mittenmet Limited			
	1 year or less \$'000	Years \$'000	1-5 5 Years \$'000	More than 5 Years Total \$'000	1 year or less \$'000	1-5 Years \$'000	More than 5 Years \$'000	Total \$'000
Financial assets								
Cash and cash equivalents	15,486	-	-	15,486	-	-	-	-
Trade and other receivables	104,419	-	-	104,419	-	-	-	-
Derivative financial instruments	-	-	-	-	-	-	-	-
	<u>119,905</u>	<u>-</u>	<u>-</u>	<u>119,905</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Financial liabilities								
Trade and other payables	114,379	-	-	114,379	-	-	-	-
Finance lease liability	1,185	3,794	-	4,979	-	-	-	-
Loans from parent - interest bearing	14,776	-	-	14,776	-	-	-	-
Derivative liabilities - gross settled	-	-	-	-	-	-	-	-
Inflows	(9,670)	-	-	(9,670)	-	-	-	-
Outflows	10,242	-	-	10,242	-	-	-	-
Loans from parent - non interest bearing	27,610	-	-	27,610	27,610	-	-	27,610
	<u>158,522</u>	<u>3,794</u>	<u>-</u>	<u>162,316</u>	<u>27,610</u>	<u>-</u>	<u>-</u>	<u>27,610</u>

The Group monitors forecasts of liquidity reserves on the basis of expected cash flow.

Derivative financial liabilities

The table below details the liquidity risk arising from derivative liabilities held by the Group at the reporting date

Mittenmet Group	1-6 mths	6-12 mths	1-5 years	>5 years	Total
	\$'000	\$'000	\$'000	\$'000	\$'000
Year ended 30 April 2010					
Derivative liabilities - net settled	-	-	-	-	-
Derivative liabilities - gross settled	8,916	1,326	-	-	10,242
- Inflows	-	-	-	-	-
- Outflows	-	-	-	-	-
Net maturity	<u>8,916</u>	<u>1,326</u>	<u>-</u>	<u>-</u>	<u>10,242</u>

Gross settled derivatives comprise forward exchange contracts that are used to hedge anticipated purchase commitments.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group.

The Group trades with a large number of customers across the business operations and it is Group policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, in certain circumstances where a loan has been provided, the Group takes security over certain asset of the customer.

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

As identified in note 6 (Trade and Other Receivables), the current level of impairment provision represents less than 4.7% of the receivables balance, indicating that the balances are actively and effectively managed.

There are no significant concentrations of credit risk within the Group.

Notes to the Financial Statements

Period ended 30 April 2010

20 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group undertakes some foreign currency transactions in the purchases of goods and services. The Group enters into forward foreign exchange contracts and foreign currency options to manage the risk associated with anticipated purchase commitments denominated in foreign currencies.

The amount of foreign exchange cover is based on anticipated future purchases in light of current conditions in foreign markets, commitments from customers and experience.

Foreign currency sensitivity analysis

The following table is based on the foreign currency exposures in existence at the reporting date. It details the Group's sensitivity to a 10% increase and decrease in the Australian dollar against the relevant foreign currencies for the foreign currency contracts that existed at the reporting date.

At 30 April, 2010, had the Australian dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgement of reasonable possible movements:

	Post Tax Profit Higher/(Lower) 2010 \$'000	Other comprehensive Income Higher/(Lower) 2010 \$'000
Mittenmet Group		
AUD/USD - 10%	12	740
AUD/USD +10%	(8)	(605)
AUD/GBP - 10%	-	-
AUD/GBP +10%	-	-

Price risk

The Mittenmet Group purchases energy in the form of electricity, petrol and oil, LPG and water from various sources. These costs represent less than 5% of combined Distribution and Administrative expenses. The group enters into periodic contracts for supply of these products via third party tender. No derivative price instruments are used to manage price risk associated with these commodities as the Group's exposure to commodity and equity security price risk is minimal.

Capital Management

The Board's intention is to return earnings to shareholders while retaining adequate funds within the business to reinvest in future growth opportunities. Management and the Board remained focused on seeking growth opportunities, both organic and via acquisition.

The Board and Management set out to achieve and maintain Consolidated Statement of Financial Position ratios that would satisfy an investment grade rating. The nature and calculation of these ratios are not disclosed due to commercial sensitivity.

Management monitor capital through the gearing ratio (debt / total capital). The gearing ratio at 30 April 2010 was 27.8%. This is within an acceptable target range.

Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The different methods have been defined as follows:

*Level 1: the fair value is calculated using quoted prices in active markets.

*Level 2: the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

*Level 3: the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The table below analyses financial instruments carried at fair value, by valuation method:

Year ended 30 April 2010

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
Available for sale financial assets	-	-	-	-
Financial assets designated at fair value through profit or loss	-	-	-	-
Financial assets held for trading	-	-	-	-
Derivative financial assets	-	-	-	-
Derivative financial liabilities	-	572	-	572
	-	572	-	572

The Directors consider that the carrying amount of the financial assets and liabilities recorded in the financial statements approximates their fair value as at the reporting date.

Notes to the Financial Statements

Period ended 30 April 2010

21 COMMITMENTS

(a) Operating lease commitments

	Mittenmet Group	Mittenmet Limited
	2010	2010
	\$'000	\$'000
Within 1 year	7,993	-
After 1 year but not more than 5 years	24,725	-
More than 5 years	25,437	-
Aggregate lease expenditure contracted for at reporting date	58,155	-

(b) Finance lease commitments

	Future minimum lease payments	Present value of minimum lease payments
	2010	2010
	\$'000	\$'000
Within 1 year	1,185	839
After 1 year but not more than 5 years	3,795	3,176
More than 5 years	-	-
	4,980	4,015
Less amounts representing finance charges	(965)	-
Present value of minimum lease payments	4,015	4,015

22 RELATED PARTY DISCLOSURE

(a) Subsidiaries

The consolidated financial statements include the financial statements of Mittenmet Limited and the subsidiaries listed in the following table.

Name	Country of incorporation	Percentage of equity interest held by the consolidated entity	2010
			%
ACN 001 259 570 Pty Ltd	Australia		100.00
ACN 007 702 721 (SA) Ltd (In Liquidation)	Australia		100.00
ACN 008 698 093 (WA) Ltd	Australia		99.44
Anzam (Aust.) Pty Ltd	Australia		100.00
Australian Hardware Support Services Pty Ltd	Australia		100.00
Chelsea Heights Operations Pty Limited	Australia		100.00
DIY Superannuation Pty Ltd	Australia		100.00
Handyman Stores Pty Ltd	Australia		100.00
Hardware Property Trust	Australia		100.00
Himaco Pty Ltd (i)	Australia		100.00
Lilydale Operations Pty Limited	Australia		100.00
Mega Property Management Pty Ltd	Australia		100.00
Mitre 10 Limited (i)	Australia		100.00
Mitre 10 Australia Ltd (i)	Australia		100.00
Mitre 10 Mega Pty Ltd (i)	Australia		100.00
Modbury Operations Pty Ltd (In Liquidation)	Australia		100.00
National Retail Support Services Pty Ltd	Australia		100.00
Ringwood Operations Pty Ltd (In Liquidation)	Australia		100.00
South Coast Operations Pty Ltd	Australia		100.00
South West Operations Pty Ltd (i)	Australia		100.00
Sydney Importing Co Limited	Australia		97.65
Timber and Hardware Exchange Pty Ltd	Australia		52.00
WA Hardware Services Pty Ltd	Australia		100.00

(b) Ultimate parent

Metcash Limited is the ultimate parent entity.

Notes to the Financial Statements

Period ended 30 April 2010

22 RELATED PARTY DISCLOSURE (continued)

(c) Entities subject to class order relief

Pursuant to an order from ASIC under section 340(1) of the Corporations Act dated 13 August 1998 which is based on Class Order 98/1418 (Order), relief has been granted to certain controlled entities of Mittenmet Limited, being those marked (i), from the Corporations Act requirements for preparation, audit and lodgement of their financial reports. As a condition of the Order, Mittenmet Limited and the controlled entities, being those marked as (i) (the Closed Group) entered into a Deed of Cross Guarantee on 22 April 2010. The effect of the deed is that Mittenmet Limited has guaranteed to pay any deficiency in the event of winding up of these controlled entities. These controlled entities have also given similar guarantees in the event that Mittenmet Limited is wound up.

The Consolidated Statement of Comprehensive Income and Consolidated Statement of Financial Position of the entities that are members of the 'Closed Group' are as follows:

	Closed Group
	2010
	\$'000
<i>(i) Consolidated Statement of Comprehensive Income</i>	
Profit before income tax	(1,901)
Income tax expense	(443)
Profit after tax	<u>(2,344)</u>
Net profit for the financial year	<u>(2,344)</u>
Retained profits at the beginning of the financial year	-
Dividends provided for or paid	-
Retained profits at the end of the financial year	<u>(2,344)</u>
<i>(ii) Consolidated Statement of Financial Position</i>	
ASSETS	
Current Assets	
Cash and cash equivalents	13,589
Trade and other receivables	103,592
Inventories	25,360
Income tax receivable	7
Other	588
Total Current Assets	<u>143,136</u>
Non-Current Assets	
Receivables	6,257
Investments	7,328
Property, plant and equipment	18,698
Net Deferred tax assets	5,308
Intangible assets	61,075
Total Non-Current Assets	<u>98,666</u>
Total Assets	<u>241,802</u>
LIABILITIES	
Current Liabilities	
Trade and other payables	107,910
Interest-bearing loans and borrowings	15,615
Non-interest bearing loan	27,610
Other financial liabilities	572
Current tax liabilities	-
Other	167
Provisions	4,420
Total Current Liabilities	<u>156,294</u>
Non-Current Liabilities	
Interest-bearing loans and borrowings	3,176
Convertible redeemable preference shares	55,000
Other	1,930
Provisions	229
Total Non-current Liabilities	<u>60,335</u>
Total Liabilities	<u>216,629</u>
NET ASSETS	<u>25,173</u>
EQUITY	
Contributed equity	27,610
Reserves	(93)
Retained earnings	<u>(2,344)</u>
TOTAL EQUITY	<u>25,173</u>

Notes to the Financial Statements

Period ended 30 April 2010

22 RELATED PARTY DISCLOSURE (continued)

(d) Transactions with related parties

Related Party		Sales to Related Parties \$'000	Purchases from Related Parties \$'000	Other Transactions with Related Parties \$'000
Consolidated				
<i>Associates</i>				
Sales to Associates	2010	2,589	-	-

(e) Amounts Due from or Payable to Related Parties

Related party	2010 \$'000
Consolidated	
<i>Associates</i>	
Trade Accounts Receivable	4,972
Parent	
<i>Subsidiaries</i>	
Loans receivable	-
Loans Payable	-

Terms and conditions of amounts due from and payable to related parties

Loans and trade accounts receivable are due and payable on normal commercial terms and conditions.

For the year ending 30 April 2010, the Group has not made any allowance for impairment loss relating to trade accounts receivable or loans due from associates.

23 AUDITORS REMUNERATION

The audit fee for the Mittenmet group of companies has been borne by the ultimate parent entity - Metcash Limited. At 30 April 2010, Deloitte remain in office as the auditors of the former Mitre 10 Group. No fees have been paid to Deloitte in respect of the audit of these entities during the period.

Notes to the Financial Statements

Period ended 30 April 2010

24 BUSINESS COMBINATIONS

(a) The Mittenmet Group acquired the assets of the following entities:

Date of acquisition	Entity Purchased	% Acquired
25 March 2010	Mittenmet Limited Group - Mitre 10 Australia (M10)	100.0%

Details of the fair value of the assets and liabilities acquired are as follows:

	Mitre 10 \$'000
(b) Purchase consideration:	
Cash paid to date	55,220
Convertible redeemable preference shares issued at fair value	55,000
Total purchase consideration	110,220
Less cash acquired	(10,881)
Net purchase consideration	99,339
Fair value of net identifiable assets acquired (c)	(75,426)
Goodwill	23,913

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

Accounts receivable	107,705
Prepayments	735
Assets held for sale	3,983
Property, plant and equipment	18,731
Intangible - Software	37
Inventory	28,349
Joint venture investment	6,091
Trademark	27,189
Customer supply contracts	9,937
Deferred tax assets	5,918
Other non current assets	3,220
Fair Value of forward currency contracts	(572)
Creditors and employee benefits provision	(123,014)
Borrowings	(12,799)
Minority interest	(84)
Fair value of net identifiable assets acquired attributable to the parent	75,426

(d) The acquisition by Mittenmet Limited of 100% of the Mitre 10 business was through the issue of ordinary shares in Mittenmet Limited, the immediate parent undertaking of Mitre 10. The former shareholders of Mitre 10 were issued with Convertible Redeemable Preference Shares. Metcash paid \$27.61 million for the equity, and advanced a further \$27.61 million in the form of a loan. This loan will be converted to equity on 30 June 2010 at a rate dependent upon the result of Mitre 10 for the year then ended.

Metcash Trading has the option to force the redemption of the preference shares as at 30 June 2012 or 2013 at a rate dependent up on the results to date. Otherwise, if they do not exercise that option, they will convert to ordinary shares at that date. The purchase price accounting for the final consideration for Mitre 10 is based upon Management's judgement that the scheme EBITDA for the year ending 30 June 2010 range which falls within a the specified range and no adjustment to the purchase consideration is required.

(e) The consolidated statement of comprehensive income includes sales revenue and a loss after tax for the year ended 30 April 2010 of \$61.6 million and \$2.2 million respectively, as a result of the acquisition of 50.1% of Mitre 10 (M10). Had the acquisition of M10 occurred at the beginning of the reporting period, the consolidated statement of comprehensive income would have included revenue and profit after tax of \$829.3 million and \$12.3 million respectively.

Notes to the Financial Statements

Period ended 30 April 2010

25 CONTINGENT LIABILITIES

	Mittenmet Group	Mittenmet Limited
	2010	2010
	\$'000	\$'000
Court Proceedings (i)	999	-
Court Proceedings (ii)	1,200	-
	<u>2,199</u>	<u>-</u>

(i) On 1 July 2010 Mitre 10 Mega Pty Ltd (Mega) commenced proceedings in the Victorian Civil and Administrative Tribunal (VCAT) against two companies from which it had leased premises for a store in Campbellfield, Victoria. The premises were sub-let to a Member to own and operate a Mega store. The premises were subsequently found to be defective on account of being built on unstable landfill. Mega terminated the lease and sub-lease and the store was closed in March 2009. The sub-tenant is filing proceedings against Mega and the two actions will most likely be joined and heard together. Mega has received legal advice that any claim from the sub-tenant which is directly attributable to the landlord's actions in leasing defective premises should not be payable by Mega, even if the landlords are found to be unable to pay. There may be some component of the sub-tenant's claim that is not able to be passed through. The amount of losses being claimed by Mega and the sub-tenant are yet to be quantified.

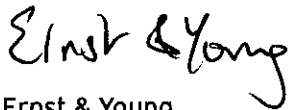
Supreme Court that seek to force Mitre 10 to pay for residual stock that the supplier retained at the end of its contract. The directors believe, based on legal advice, that there are strong grounds for defending the action. A hearing date has been set for 6 December 2010. The amount claimed in the proceedings is \$1.2 million.

26 SUBSEQUENT EVENTS

There are no subsequent events that impact the results.

Auditor's Independence Declaration to the Directors of Mittenmet Limited

In relation to our audit of the financial report of Mittenmet Limited for the period ended 30 April 2010, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'Mike Wright'.

Mike Wright
Partner
29 July 2010

Independent auditor's report to the members Mittenmet Limited

Report on the Financial Report

We have audited the accompanying financial report of Mittenmet Limited, which comprises the statement of financial position as at 30 April 2010, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the period ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the period end or from time to time during the financial period.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 2, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 and International Standards on Auditing. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance 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 our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report 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 controls. 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.

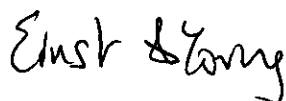
Independence

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included by reference in the directors' report.

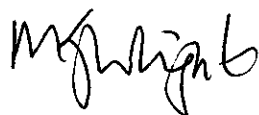
Auditor's Opinion

In our opinion:

1. the financial report of Mittenmet Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the financial position of Mittenmet Limited and the consolidated entity at 30 April 2010 and of their performance for the period ended on that date; and
 - ii complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.



Ernst & Young



Mike Wright
Partner
Sydney
29 July 2010