

# **Mittenmet Limited**

**and its Controlled Entities**

**ABN 76 141 010 906**



## **Half-Year Financial Report**

**for the half-year ended 31 October 2010**

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# Directors' Report

Your Directors submit their report for the half-year ended 31 October 2010.

## DIRECTORS

The names and details of the Company's Directors in office during the half-year and until the date of this report are as follows:

Lance H Collins (Chairman)  
Philip J Petrie  
Gary J Woodruff  
Andrew Reitzer  
Ken Bean  
Edwin M Jankelowitz  
Michael R Jablonski

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

## REVIEW AND RESULTS OF OPERATIONS

Consolidated net profit after income tax attributable to shareholders for the half-year was \$3,650,000.

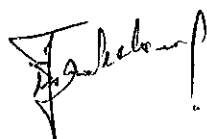
## AUDITOR INDEPENDENCE

The directors have received the independence declaration included on page 12 from the auditors of Mittenmet Limited, which forms part of the Directors' Report.

## 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 ASIC Class Order 98/0100. The company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the directors.



Edwin Jankelowitz  
Director  
Melbourne, 3 December 2010

# Consolidated Statement of Comprehensive Income

For the Half-Year ended 31 October 2010

Notes

		2010 \$'000
Revenue	3(i)	401,719
Cost of sales		<u>(368,634)</u>
<b>Gross profit</b>		<u>33,085</u>
Distribution costs		(10,220)
Administrative costs		(16,162)
Specific items		
Payment of business acquisition costs	3(iv)	(939)
Share of profit of associates		315
Finance costs	3(v)	<u>(976)</u>
<b>Profit from continuing operations before income tax</b>		5,103
Income tax expense		<u>(1,447)</u>
<b>Net profit for period</b>		<u>3,656</u>
<b>Other comprehensive income</b>		
Foreign currency translation adjustments		-
Cashflow hedge adjustment		253
Income tax/(expense) on items of other comprehensive income		<u>(76)</u>
<b>Total comprehensive income for the period, net of tax</b>		<u>3,833</u>
Profit is attributable to:		
Equity holders of the parent		3,650
Non controlling interest		<u>6</u>
		<u>3,656</u>
Total comprehensive income for the period is attributable to:		
Equity holders of the parent		3,827
Non controlling interest		<u>6</u>
		<u>3,833</u>

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

Mittenmet Limited and its Controlled Entities

# Consolidated Statement of Financial Position

As at 31 October 2010

	Notes	As at 31 October 2010 \$'000	As at 30 April 2010 \$'000
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents		16,018	15,486
Trade and other receivables	4	116,384	104,419
Inventories		37,787	29,726
Assets held for sale		9,281	3,983
Prepayments and other		741	865
<b>Total current assets</b>		<u>180,211</u>	<u>154,479</u>
<b>NON-CURRENT ASSETS</b>			
Trade and other receivables	4	7,191	3,221
Investments in associates accounted for using the equity method		6,078	6,091
Property, plant and equipment		25,075	18,698
Net deferred tax assets		4,840	5,516
Intangible assets and goodwill		60,704	61,075
<b>Total non-current assets</b>		<u>103,888</u>	<u>94,601</u>
<b>Total assets</b>		<u>284,099</u>	<u>249,080</u>
<b>LIABILITIES</b>			
<b>Current liabilities</b>			
Trade and other payables		125,394	114,379
Interest bearing loans and borrowings		33,026	43,225
Derivative financial instruments		181	572
Provisions		3,612	4,958
Income tax payable		1,056	-
Other financial liabilities		167	167
<b>Total current liabilities</b>		<u>163,436</u>	<u>163,301</u>
<b>Non-current liabilities</b>			
Interest bearing loans and borrowings		2,776	3,176
Provisions		286	245
Other financial liabilities		1,847	1,930
Convertible redeemable preference shares		55,000	55,000
<b>Total non-current liabilities</b>		<u>59,909</u>	<u>60,351</u>
<b>Total liabilities</b>		<u>223,345</u>	<u>223,652</u>
<b>Net assets</b>		<u>60,754</u>	<u>25,428</u>
<b>EQUITY</b>			
Contributed equity		59,115	27,610
Other reserves		84	(93)
Retained earnings		1,477	(2,173)
Non controlling interest		78	84
<b>Total equity</b>		<u>60,754</u>	<u>25,428</u>

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

# Consolidated Statement of Changes in Equity

For the Half-Year ended 31 October 2010

Mittenmet Group	Attributable to equity holders of Mittenmet Limited				
	Contributed equity \$'000	Retained Earnings \$'000	Cash Flow Hedge Reserve \$'000	Non Controlling Interest \$'000	Total equity \$'000
<b>At 01 May 2010</b>					
Total equity at the beginning of the financial period	27,610	(2,173)	(93)	84	25,428
Profit for the period	-	3,650	-	6	3,656
Other comprehensive income	-	-	177	-	177
<b>Transactions with owners in their capacity as owners:</b>					
Dividend paid				(12)	(12)
Final call on partly paid ordinary shares	31,505	-	-	-	31,505
<b>At 31 October 2010</b>					
Total equity at the end of the financial period	59,115	1,477	84	78	60,754

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

## Consolidated Statement of Cash Flows

For the Half-Year ended 31 October 2010

Notes

	2010 \$'000
<b>Cash flows from operating activities</b>	
Receipts from customers	416,316
Payments to suppliers and employees	(412,502)
Dividends received	328
Interest received	430
Finance costs	(205)
Income tax paid	(21)
Goods and services tax paid	(2,980)
<b>Net cash inflow from operating activities</b>	<u>1,366</u>
<b>Cash flows from investing activities</b>	
Proceeds from sale of property, plant and equipment	-
Purchase of property, plant and equipment	(6,741)
Payments for intangibles	(522)
Payment of business acquisition costs	(939)
Loans to other entities	(4,033)
Payment on acquisition of businesses	(8,521)
Payment on acquisition of associates	-
<b>Net cash outflow from investing activities</b>	<u>(20,756)</u>
<b>Cash flows from financing activities</b>	
Proceeds from borrowings – other	20,344
Repayments of borrowings – other	-
Payment of dividends on ordinary shares	-
Dividend paid to non controlling interest	(12)
Repayment of finance lease principal	(410)
<b>Net cash outflow from financing activities</b>	<u>19,922</u>
<b>Net increase in cash and cash equivalents</b>	532
Cash and cash equivalents at the beginning of the period	15,486
Effect of exchange rate changes on cash	-
<b>Cash and cash equivalents at the end of the period</b>	<u>16,018</u>

7 (a)

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

# Notes to the Financial Statements

31 October 2010

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Basis of preparation

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investment activities of the consolidated entity as the full financial report.

The half-year financial report should be read in conjunction with the Annual Financial Report of Mittenmet Limited as at 30 April 2010.

The half-year financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, AASB 134 "Interim Financial Reporting" and other mandatory professional reporting requirements.

Apart from the changes noted below, the same accounting policies have been applied by each entity in the consolidated group and are consistent with those adopted and disclosed in the annual financial report for the period ended 30 April 2010.

Mittenmet Limited was incorporated on 8 December 2009. Accordingly, the financial results are presented for the half year ended 31 October 2010 and comparative period financial results are not required to be presented.

Due to the seasonality of Mittenmet business, the first half results represent approximately 35% to 40% of the anticipated annual profit after tax, before significant items.

### Changes in accounting policy

The Group has not elected to early adopt any new standards or amendments.

## 2. SEGMENT INFORMATION

### Segment products and locations

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 (Continued)

31 October 2010

## 3. REVENUES AND EXPENSES

	October 2010 \$'000
<b>Specific Items</b>	
Profit from ordinary activities before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the financial performance of the entity:	
<b>(i) Revenue</b>	
Revenue from sale of goods	401,169
Rent	120
Interest from other person/corporation	430
	<u>401,719</u>
<b>(ii) Operating lease rental</b>	
Lease payments	3,659
<b>(iii) Expenses</b>	
Depreciation/ Amortisation of property, plant and equipment	772
Amortisation of customer relationships	202
<b>(iv) Specific item</b>	
Payment of business acquisition costs for Mitre 10 Group	939
<b>(v) Finance costs</b>	
Interest expense - external	205
Interest expense - parent entity	771
	<u>976</u>

	October 2010 \$'000	April 2010 \$'000
<b>4. RECEIVABLES</b>		
<b>Current</b>		
Trade receivables	119,400	108,731
Allowance for impairment loss	(3,621)	(5,061)
	<u>115,779</u>	<u>103,670</u>
Customer loans	26	48
Other receivables	579	701
	<u>116,384</u>	<u>104,419</u>
<b>Non-current</b>		
Customer loans	7,191	3,221
	<u>7,191</u>	<u>3,221</u>

## 5. SUBSEQUENT EVENTS

There are no events that have occurred after the half-year end that would materially affect the reported results or would require disclosure in this half-year financial report.

## Notes to the Financial Statements (Continued)

31 October 2010

	October 2010 \$'000	April 2010 \$'000
<b>6. CONTINGENT LIABILITIES</b>		
Court Proceedings (i)	-	999
Court Proceedings (ii)	-	1,200
	-	2,199

(i) Mitre 10 Mega Pty Ltd (a subsidiary of the Mitre 10 Group) has commenced legal proceedings in the Victorian Civil and Administrative Tribunal (VCAT) against two companies from which it had leased premises for a Mega Mitre 10 store located in Campbellfield, Victoria. The premises were sub-let to a Member to own and operate a Mega Mitre 10 store. The premises were subsequently found to be defective on account of being built on unstable landfill. Mitre 10 Mega Pty Ltd (Mega) terminated the lease and sub-lease and the store was closed in March 2009. The sub-tenant has also filed proceedings against Mega and the two actions have been ordered by VCAT to be heard and determined together, most likely in mid-2011.

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, therefore the contingent liability is not known.

(ii) At the prior period end Mitre 10 Australia Pty Ltd (Mitre 10) had a contingent liability in relation to a private label supplier that had instituted Legal proceedings in the New South Wales Supreme Court seeking to force Mitre 10 to pay for residual stock that the supplier retained at the end of its contract. This contingent liability was settled subsequent to 31 October 2010.

### 7. BUSINESS COMBINATIONS

	October 2010 \$'000
The Mittenmet Group acquired the assets of the following entities:	
<b>Date of acquisition</b>	<b>% Acquired</b>
30 June 2010	100% 1
30 September 2010	100% 1

#### (1) Acquisitions of business assets

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

	Total \$'000
<b>(a) Purchase consideration:</b>	<b>8,521</b>
Cash paid to date	8,521
Total purchase consideration	8,521
Less cash acquired	-
Net purchase consideration	8,521
Accrued direct costs	-
Fair value of net identifiable assets acquired (b)	(8,521)
Goodwill	(0)

#### (b) Assets and liabilities acquired

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

Accounts receivable	166
Property, plant and equipment	350
Net deferred tax assets	23
Inventory	2,890
Assets held for sale	5,298
Creditors and employee benefits provision	(206)
Fair value of net identifiable assets acquired	8,521

The fair value of the identifiable assets and liabilities of Echuca and Wallington approximated their carrying values at the dates of acquisition.

The results of Echuca and Wallington from acquisition to 31 October 2010 have not been disclosed separately as they are not significant to the total Group results.

The revenue and results of the total Mittenmet Group for the period ended 31 October 2010, as though Echuca and Wallington had been acquired on 1 May 2010, would not be significantly different to the Group results as currently reported.

The accounting for the above business combinations is provisional as at 31 October 2010.

#### Finalisation of Mitre 10 Consideration:

The acquisition of Mitre 10 provided for a "true up" of the final purchase consideration payable by Metcash for the partly paid shares issued by Mittenmet Limited. In accordance with the formula set out in the Mitre 10 Scheme Booklet the final call was determined to be \$31.505 million. As these amounts were advanced to the Mitre 10 group by Metcash Trading Limited at the date of acquisition, no additional cash flow has occurred.

## Directors' Declaration

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

In the opinion of the directors:

(a) the financial statements and notes of the consolidated entity:

- (i) give a true and fair view of the financial position as at 31 October 2010 and the performance for the half-year ended on that date; and
- (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the 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.

On behalf of the Board



**Edwin Jankelowitz**  
**Director**  
Melbourne, 3 December 2010

## **Report on the Half-Year Financial Report**

We have reviewed the accompanying half-year financial report of Mittenmet Limited, which comprises the consolidated statement of financial position as at 31 October 2010, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half year end or from time to time during the half year period.

### ***Directors' Responsibility for the Half-Year Financial Report***

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### ***Auditor's Responsibility***

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and Other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 October 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Mittenmet Limited and the entities it controlled during the half-year ended 31 October 2010, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

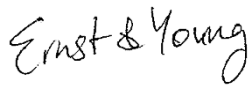
### ***Independence***

In conducting our review, we have complied with 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 in the Directors' Report.

### **Conclusion**

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Mittenmet Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 31 October 2010 and of its performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A handwritten signature in black ink that reads 'Ernst & Young'.

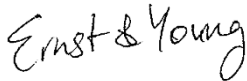
Ernst & Young

A handwritten signature in black ink that reads 'Michael J Wright'.

Michael J Wright  
Partner  
Sydney  
3 December 2010

## Auditor's Independence Declaration to the Directors of Mittenmet Limited

In relation to our review of the financial report of Mittenmet Limited for the half year ended 31 October 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 black ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Michael J Wright'.

Michael J Wright  
Partner  
3 December 2010