

Appendix 4D Half year report

Name of Entity

Retail Cube Limited

ABN

85 108 096 251

Half yearly
(tick)

Preliminary
final (tick)

Financial year ended ('current period')

31 December 2004

Results for announcement to the market	\$A '000
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Revenues from ordinary activities	* Up '- ' from '- '		to 32,874
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Sales revenue	* Up '- ' from '- '		to 29,066
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Earnings before interest, taxation and amorisation of goodwill	* Up '- ' from '- '		to 2,917
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Profit from ordinary activities after tax attributable to members	* Up '- ' from '- '		to 1,432
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Dividends (distributions)	Amount per security	Franked amount per security
Interim Dividend	1.2 cents	100%
Previous corresponding period	-	-
Record date for determining entitlements to the dividend	31 March 2005	
Net Tangible Assets (cents per share)	8.3	

Brief explanation of any figures reported above and commentary on the results for the period:

* There are no comparison with the previous corresponding period as this is the first year of operation of the reporting entity.

REFER REVIEW OF OPERATIONS ATTACHED

Retail Cube Limited

ABN 85 108 096 251



Directors

Eric Melman
Robert Estcourt
William Bartlett
Ron Baskin
Michael Cooper

CFO & Company Secretary

Michael Hirschowitz

Registered and Administration Office

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Website: www.retailcube.com.au

Share Registry

Computershare Investor Services Pty
Limited ABN 48 078 279 277
GPO Box 2975
Melbourne VIC 3001
Telephone: 1300 850 505

Auditors

Haines Norton

Bankers

Westpac Banking Corporation

Stock Exchange Listing

Australian Stock Exchange Limited
(ASX Code: RCG)



RETAIL CUBE LIMITED

ABN 85 108 096 251

Financial Report for the Half-Year Ended 31 December 2004

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This interim financial report does not include all notes of the type normally included in an annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the half-year financial report should be considered together with the prospectus dated 19 May 2004 and any public announcements made by Retail Cube Limited during the half-year ended 31 December 2004.





Directors' Report

Your directors submit their report for the half-year ended 31 December 2004.

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 below:

ERIC MELMAN
NON-EXECUTIVE CHAIRMAN
B Com (Honours)

Eric has over 25 years experience in merchant banking, investment banking and financial markets. He was the founding Managing Director of Investec Australia Limited and brings a wealth of commercial, banking and market acumen to the company. He is Chief Executive Officer of BEAM Corp Pty Limited, a boutique corporate advisory company.

ROBERT ESTCOURT
CHIEF EXECUTIVE OFFICER
BA (Hons.Econ), MA (Fin), GAICD

Robert has spent most of his working life in the financial services industry, working in Australia and abroad. He has managed and built a variety of investment and insurance companies. Robert has a wealth of management experience in running companies and in mergers and acquisitions.

WILLIAM BARTLETT
NON-EXECUTIVE DIRECTOR AND CHAIRMAN OF THE AUDIT COMMITTEE
FCA, CPA, FCMA, CA (SA)

Bill sits on a number of boards including those of Suncorp Metway Limited, RGA Inc, Bradman Foundation, Bradman Museum and St James Ethics Centre. He has had 35 years experience in accounting public practice and was a Partner of Ernst and Young Australia for 23 years. Bill has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board since 1994. He has been appointed by Federal Treasury and the Financial Reporting Council to undertake the Council's auditor independence consulting.

RON BASKIN
NON-EXECUTIVE DIRECTOR

Ron has been a shareholder in King of Knives Pty Limited since 1989. He has extensive national and international experience in retailing through his ownership of Sunglass World which had in excess of 100 stores in Australia and the USA when he sold it in 1994. He has many years experience of shopping lease negotiations and networking with shopping centre developers with whom he has established long-standing and ongoing relationships.

MICHAEL COOPER
EXECUTIVE DIRECTOR
MBA, GAICD





Michael has been with The Athlete's Foot since 1988, fulfilling a number of operational roles including management of store operations and the merchandising function. Largely responsible for establishing the product direction of The Athlete's Foot and relationships with all major vendors, he became Managing Director of The Athlete's Foot in March 2002

Principal Activities

Retail Cube is an investment holding company. Currently it owns 100% of three well established, mid-sized specialty retailers; Amazing Paints, King of Knives and The Athlete's Foot. Each has their own distinctive market position and competitive advantages in their respective markets. Retail Cube provides a platform that delivers to each operating company enhanced opportunities for growth and expansion whilst at the same time diversifying the risk to the investor of investing in only one relatively small entity.

Operating Results

The consolidated profit for the six months ended 31 December 2004 of the economic entity after providing for income tax was \$1,431,542.

Review of Operations

Summary

The six months ended December 2004 has been a very busy and challenging period for management. The period was characterised by an unexpected softening of sales in two specialist sectors as the half year progressed. This exposed a number of weaknesses in the operations of the companies and required management to take vigorous counter measures. These measures were additional to the integration and operational plans already being implemented.

Management has continued to concentrate on developing the basis for the future growth of the Group. In the six months Retail Cube has:

- opened six new King of Knives/Chef King stores and refurbished four;
- opened five new The Athlete's Foot stores;
- opened one new Amazing Paints store;
- a further ten new store openings are planned to take place before June 2005 , these being:
 - six King of Knives stores,
 - three The Athlete's Foot stores, and
 - one Amazing Paints store;
- rolled out a Point of Sales system at the Amazing Paints chain of stores;
- implemented remedial actions at Amazing Paints. (discussed in detail below)
- prepared for the introduction of franchising to the King of Knives chain, expected to be implemented in the last quarter of this financial year;
- reviewed a number of acquisition opportunities, at this stage none have satisfied management's investment criteria;
- Strengthened general management as follows:



- o From 1 March 2005, Michael Hirschowitz has been promoted to the new position of Head of Franchising and New Business Development for the Group.
- o Suresh Kumar has been promoted to the position of Chief Financial Officer;
- o The functions of Company Secretary and Human Resources management has been brought in-house, and
- o A new head of The Athlete's Foot's New Zealand operations has been appointed;
- brought forward the upgrading of the IT capacity at King of Knives including the new Point of Sales system to commence in the current half year.

During the half year the unexpected soft retail sales combined with pressure on gross margins, the need to progress with new store openings, various upgrading programs and programs that were implemented to combat the poor sales environment, adversely affected results. Directors do expect recovery to set in this half year but it will take time to fully mature. Combined with the current uncertainty in the retail sector as a whole, it is very difficult to forecast future performance with any certainty.

Directors today declared a maiden fully franked interim dividend of 1.2 cents per share. This is in line with the policy of paying out between 55% and 75% of earnings as dividends. As no acquisitions have been made directors believe it is justified to have a dividend cover in the upper half of that range.

Amazing Paints

Six months to 31 December 2004

	(\$000)
Turnover	7,071
EBIT	188

Towards the end of the 2004 financial year the general weakening of confidence in the housing market had a noticeable adverse impact on demand in the paint sector. The weakness continued throughout the latter half year and was particularly severe during the election period when retail sales generally seem to have suffered. Recovery only set in towards the end of the calendar year and even then sales ran below the levels of the previous year and well below budget.

Management took vigorous action to mitigate the impact of this soft market on sales and the adverse affect on profits. Besides the introduction of the Point of Sales system and the opening of the budgeted new store, the following additional strategies were implemented:

- The range of products and their prices were fully reviewed;
- New products introduced (both proprietary and external);
- New sales tools introduced;
- The sales mix was altered with the specific goal of margins improvement;
- Store refurbishment and upgrading program was accelerated so as to improve future brand equity;
- New training programs were introduced and recruiting procedures enhanced ;





- Management actively promoted the sale of a specific identified range of proprietary products to targeted external customers in areas where Amazing Paints did not have a presence.

The benefits of these initiatives are now starting to manifest themselves. Sales have stabilised and margins have started to rise, albeit slowly. However in view of the continued depressed level of activity in the housing market, it is difficult to foresee a rapid recovery in sales. Therefore we believe that results in the second half of the year will not significantly exceed those just reported for the six months to December 2004.

King of Knives

Six months to 31 December 2004

	(\$000)
Turnover	16,110
EBIT	1,752

In line with general consumer spending in the early part of the financial year, the King of Knives' Australian operations started the current financial year strongly. In the first two months of the financial year sales were well up on the previous year. Sales started weakening after the announcement of the general election in September and have not yet recovered to the previous years' levels. The results were further adversely affected by unexpected delays in refurbishment and development completion at a number of shopping centres. This delayed a number of new store openings until late in the half-year. As a result, despite six new store openings during the period, sales for the half year were below the levels of 2003. Furthermore as general retail sales softened the company also had to absorb pressure on margins as a consequence of the fierce competition in its market sector.

Actions taken or planned by King of Knives to overcome these problems and restore performance include:

- The opening of six new stores by December 2004;
- The refurbishment of four existing stores in the six months to December 2004;
- The commitment to open a further six new stores prior to the end of June 2005;
- The acceleration of the introduction of a franchising program to be implemented in the last quarter of the current financial year
- The introduction of a new Point of Sales system to commence before the end of the current financial year;
- The review of training, inventory control, ranging and operational practices
- The implementation of a refocused marketing strategy.
- The selective hiring of specialist staff to broaden and deepen managerial resources.

The benefits from these strategic investments and initiatives will be only fully evident in the next financial year. Consequently it is difficult to foresee results for next half year significantly exceeding those just reported.





The Athlete's Foot

Six months to 31 December 2004

	(\$000)
Turnover- Corporate Stores	5,883
Revenue from Franchisees	2,687
EBIT	1,119

Trading conditions have proven much more stable for The Athlete's Foot than for the other two speciality businesses, although the footwear sector was not immune to the effects of a slow down in retail spending in the last six weeks of the year. However five new store openings accompanied by the normal vigorous and well targeted advertising and marketing campaigns has enabled the company to keep profits growing steadily. Results were enhanced by a recovery in the performance of The Athlete's Foot's New Zealand operations.

Since Christmas, sales have been strong, in time for the main selling season with January traditionally being the best month. Bolstered by more store openings, continued improving results from New Zealand and the franchising of stores in the next six months, management is confident the company will generate a result in line with budget and well above the level of last year.

Forecast

Whilst the group has made good progress towards its longer term objective of expanding the operating companies and introducing franchising to the King of Knives and Amazing Paints, trading results this financial year will fall short of the Prospectus forecast due to lower than expected sales and the cost of remedial actions. There is the added uncertainty after the recent weakness in the level of demand in the retail sector; consequently it is very difficult to forecast future performance with any certainty.

Subsequent Events

In order to ensure that the implementation of the franchising initiative is successful at the King of Knives and to strengthen the management structure in that company, Michael Hirschowitz is relinquishing his role of Chief Financial Officer and Company Secretary from 1 March 2005 and being promoted to the role of "Head of Group Franchising and Business Development." He will be responsible for:

- o The establishment of the KOK franchise infrastructure and rollout of KOK franchises.
- o The accelerated rollout of new TAF and KOK stores (franchised and corporate).
- o A review of the operations of King of Knives and the development and implementation of a revised strategy designed to aggressively maintain and reinforce King of Knives dominant market position as the pre-eminent specialty retailer in its sector. This will include, a review of marketing, training, inventory control and ranging and operational practices.





Suresh Kumar will be assuming the Chief Financial Officer role. Suresh was previously the Financial Controller and has many years experience at The Athlete's Foot as well as in the consulting and accountancy professions.

Auditors' Independence Declaration

We have obtained the following independence declaration from our Auditors, Haines Norton:



**AUDITOR'S INDEPENDENCE DECLARATION
TO THE DIRECTORS OF RETAIL CUBE LIMITED**

In relation to our review of the financial report of Retail Cube Limited for the half-year ended 31 December 2004, 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.

Mark Nicholaeff
Partner

25th February 2005

HAINES NORTON
Chartered Accountants

Signed at Sydney this 25th day of February 2005 in accordance with a resolution of the directors.

Eric Melman
Chairman

Robert Estcourt
Chief Executive Officer





Directors' Declaration

The Directors of the company declare that:

1. The financial statements and notes, as set out on pages 9 to 33, are in accordance with the Corporations Act 2001:
 - a. comply with Accounting Standards and Corporation Regulations 2001; and
 - b. give a true and fair view of the financial position as at 31 December 2004 and performance for the half-year ended on that date of the economic entity.
2. In the Directors' 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.

This statement is made in accordance with a resolution of the Board of Directors and is signed for and on behalf of the Directors by:

Eric Melman
Chairman

Rob Estcourt
Chief Executive Officer

Sydney, 25th February 2005



Statement of Financial Performance
for the half-year ended 31 December 2004

	Note	Economic Entity
		\$
Revenues from ordinary activities	2	<u>32,873,884</u>
Cost of goods sold		(14,862,801)
Employee benefits expense		(7,124,714)
Depreciation and amortisation	3	(777,909)
Borrowing costs	3	(184,645)
Other expenses from ordinary activities	3	<u>(7,969,260)</u>
Profit from ordinary activities before income tax expense		1,954,555
Income tax expense relating to ordinary activities	4	<u>(523,013)</u>
Net profit from ordinary activities after income tax expense attributable to members of parent entity		1,431,542
Total changes in equity other than those resulting from transactions with owners as owners		<u><u>1,431,542</u></u>
Basic and diluted earnings per share (cents per share)		1.70
Franked dividends per share (cents per share)		1.20

The accompanying notes form part of these financial statements.



Statement of Financial Position
as at 31 December 2004

	Note	Economic Entity \$
CURRENT ASSETS		
Cash	5	2,067,869
Receivables	6	2,186,355
Inventories	7	12,080,849
Other	8	749,675
TOTAL CURRENT ASSETS		<u>17,084,748</u>
NON-CURRENT ASSETS		
Property, plant and equipment	9	6,286,435
Deferred tax asset	10	407,321
Intangibles	11	33,397,705
Other	12	188,221
TOTAL NON-CURRENT ASSETS		<u>40,279,682</u>
TOTAL ASSETS		<u>57,364,430</u>
CURRENT LIABILITIES		
Payables	13	11,962,783
Interest bearing liabilities	14	2,214,663
Tax liabilities	15	718,466
Provisions	16	558,708
Other	17	42,400
TOTAL CURRENT LIABILITIES		<u>15,497,020</u>
NON-CURRENT LIABILITIES		
Interest bearing liabilities	14	817,469
Tax liabilities	15	31,489
Provisions	16	516,365
Other	17	169,600
TOTAL NON-CURRENT LIABILITIES		<u>1,534,923</u>
TOTAL LIABILITIES		<u>17,031,943</u>
NET ASSETS		<u>40,332,487</u>
EQUITY		
Contributed equity	18	39,036,134
Retained profits	19	1,296,353
TOTAL EQUITY		<u>40,332,487</u>

The accompanying notes form part of these financial statements.



Statement of Cash Flows
for the half-year ended 31 December 2004

	Economic Entity
	\$
CASH FLOW FROM OPERATING ACTIVITIES	
Receipts from customers	32,218,013
Interest received	20,266
Payments to suppliers and employees	(25,271,276)
Payments for rents	(3,692,457)
Income tax paid	(1,077,829)
Interest paid	(168,378)
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>2,028,339</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Purchase of business and debt retirement	(19,866,000)
Payment for fixed assets	(489,606)
NET CASH USED IN INVESTING ACTIVITIES	<u>(20,355,606)</u>
CASH FLOWS FROM FINANCING ACTIVITIES	
Lease payments	(90,998)
Proceeds from issue of shares	20,500,000
Payments relating to initial public offering and listing	(1,963,866)
Net borrowings	1,950,000
NET CASH RECEIVED FROM FINANCING ACTIVITIES	<u>20,395,136</u>
Net increase in cash held	2,067,869
Add cash at beginning of reporting period	-
Closing cash carried forward	<u><u>2,067,869</u></u>

The accompanying notes form part of these financial statements.

NON - CASH FINANCING AND INVESTING ACTIVITIES

- a) During the period, the group acquired fixed assets on finance lease of \$759,000. These acquisitions are not reflected in the statement of cash flows.
- b) During the period 43 million shares worth \$21,500,000 were issued for purposes of acquisition of businesses and provision of services. These issues are not reflected in the statement of cash flows.





Notes to the Financial Statements

forming part of the financial statements for the half-year ended 31 December 2004

1. STATEMENT OF SIGNIFICANT ACCOUNTING POLICIES

The financial report is a general-purpose financial report that has been prepared in accordance with the Accounting Standards, Urgent Issues Group Consensus Views and other authoritative pronouncements of the Australian Accounting Standards Board.

The interim financial report does not include all notes of the type normally included in an annual financial report. It is recommended that the half-yearly report should be considered together with the prospectus dated 19 May 2004 and any public announcements made by Retail Cube Limited during the half-year ended 31 December 2004 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001.

The financial report covers Retail Cube as an economic entity. Retail Cube is a company limited by shares, incorporated and domiciled in Australia.

The financial report is based on historical costs and does not take into account changing money values or current valuations of non-current assets except for certain properties which are stated at independent valuations. Cost is based on fair values of the consideration given in exchange of assets.

Principles of Consolidation

A controlled entity is any entity controlled by Retail Cube Limited. Control exists where Retail Cube Limited has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with Retail Cube Limited to achieve the objectives of Retail Cube Limited. The economic entity comprises Retail Cube Limited and its controlled entities, Amazing Paints Discounts Pty Limited, Robertson & Co Pty Limited, The Athlete's Foot Australia Pty Limited, King of Knives Pty Limited and King of Knives Limited (New Zealand), TAF Constructions Pty Limited, Heritage Paints Pty Limited, Barrojest Pty Limited, Toveken Pty Limited, Monto Pty Limited, Aymtold Pty Limited, Brynex Pty Limited and King of Knives Franchising Pty Ltd.

All inter-company balances and transactions between the entities in the economic entity, including any unrealised profits or losses have been eliminated on consolidation.

Inventories and Raw Materials

Inventories and raw materials are measured at the lower of cost and net realisable value. Costs are allocated on "first-in first-out" basis and manufactured stock include direct labour, direct materials and an appropriate amount of fixed and variable overhead expenses.





Depreciation

All property, plant and equipment is depreciated at rates based upon its expected economic life using the straight line method. The depreciation or amortisation rates used for each class of assets are as follows:

- Plant and equipment 12.5%-33%
- Property 1.25%

The profit and loss on disposal of all property, plant and equipment is determined as the difference between the carrying amount of the asset at the time of disposal and the proceeds thereof and is included in the profit from ordinary activities before income tax of the consolidated entity in the year of disposal.

The carrying amount of property, plant and equipment is reviewed annually by directors to ensure it is not in excess of the recoverable amount from those assets. The recoverable amount is assessed on the basis of the expected net cash flows, which will be reviewed from the assets employed and subsequent disposal. The expected net cash flows have not been discounted to present values in determining recoverable amounts.

Property

Freehold land and building is measured on the fair value basis, being the amount for which the asset could be exchanged between knowledgeable willing parties in an arm lengths transaction. It is the policy of the economic entity to have an independent valuation every three years, with annual appraisals being made by the directors.

The revaluation of land and building has taken into account the potential capital gains tax.

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.

Where substantially all the risks and benefits incidental to the ownership of a leased fixed asset, but not the legal ownership, are transferred to the company, these leases are classified as finance leases. Finance leases are capitalised as an asset and a liability equal to the present value of the minimum lease payments, including any guaranteed residual value is brought to account. Leased assets are amortised on a straight line basis over their estimated useful lives where it is likely that the company will obtain ownership of the asset, or over the term of the lease. Lease payments are allocated between the lease interest expense for the period and the reduction of the lease liability.



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

Foreign Exchange Transactions and Balances

Foreign currency transactions are converted to Australian currency at the rates of exchange applicable at the dates of the transactions. Amounts receivable and payable in foreign currencies at balance date are converted at the rates of exchange ruling at that date.

All foreign exchange gains and losses, whether realised or unrealised, are included in operating profit before income tax.

Income tax

The economic entity adopts the liability method of tax-effect accounting whereby the income tax expense is based on the profit from ordinary activities adjusted for any permanent differences.

Timing differences which arise due to the different accounting periods in which items of revenue and expense are included in the determination of accounting profit and taxable income are brought to account as either a provision for deferred income tax or as a future income tax benefit at the rate of income tax applicable to the period in which the benefit will be received or the liability will become payable.

Future income tax benefits are not brought to account unless realisation of the asset is assured beyond any reasonable doubt. Future income tax benefits in relation to tax losses are not brought to account unless there is virtual certainty of realisation of the benefit.

The amount of benefits brought to account or which may be realised in the future is based on the assumption that no adverse change will occur in income taxation legislation, and the anticipation that the economic entity will derive sufficient future assessable income to enable the benefit to be realised and comply with the conditions of deductibility imposed by the law.

Employee Entitlements

Provision has been made for the entity's liability for employee entitlements arising from services rendered by employees to balance date. Employee entitlements expected to be settled within one year together with entitlements arising from wages and salaries and annual leave which will be settled after one year, have been measured at amounts expected to be paid when the liability is expected plus related on-costs. Other employee entitlements payable later than one year have been measured at the present value of the estimated future cash outflows to be made for those entitlements.

Contributions are made to an employee superannuation fund and are charged as expenses when incurred.



Intangibles

- **Goodwill**

Purchased goodwill and goodwill on consolidation represents the excess of the purchase consideration over the fair value of net tangible and identifiable assets acquired at the time of acquisition. Purchased goodwill and goodwill on consolidation are amortised on a straight line basis over a period of 20 years. The balances are reviewed annually and any balance representing future benefits the realization of which is considered to be no longer probable is written off.

- **Trademarks**

The trademarks were acquired on 1 July 2004 for \$19,068,442. At 31 December 2004 the trademarks are carried in the accounts at the cost of acquisition. The carrying value will be reviewed annually.

Cash

For the purposes of the Statement of Cash Flows, cash includes cash on hand, cash in banks and market investments convertible readily to cash within two working days, net of outstanding bank overdrafts.

Dividends

The consolidated entity has adopted Accounting Standard AASB 1044 "Provisions, Contingent Liabilities and Contingent Assets". In accordance with the requirements of this Standard, a provision for dividend will only be recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date. In accordance with the Standard, no provision for dividend has been recognised for the half-year ended 31 December 2004.

Revenue Recognition

- **Sale of Goods**

This comprises revenue earned from sale of goods to customers, net of actual returns, and is recognised at the point of sale when control of the goods passes to the customer. Lay-by sales are recognised after the final payment is received from the customer.

- **Franchise Royalty Income**

Franchise royalty income is recognised as income in the period the sales are recorded by the franchisees.



- **Franchise Fees**

Franchise fees are recognised upon exchange of the franchise agreement.

- **Other revenue**

Settlement discounts are brought to account as income at the time the related payment is recorded against a supplier.

Contributed Equity

Issued and paid up capital is recognised at the fair value of consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received.

Lease Incentive Contributions

The consolidated entity has received financial incentive contributions from the lessors of certain stores on the signing of new lease agreements. On receipt, these incentive contributions are recorded as deferred income in the financial statements.

This deferred income is reduced and amortised to income on a straight line basis over the period which the consolidated entity expects to derive a benefit from the incentive contribution.

Receivables

Receivable amounts include sales/royalty receipts not yet collected from customers and purchase rebates due from suppliers, which remain unpaid at balance date, and are carried at the nominal amount. Amounts outstanding are generally recovered within sixty days of invoicing and the collectibility of unpaid amounts is assessed at balance date to determine whether a provision for doubtful debts is required. Bad debts are written off as incurred.

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

Recoverable amount of non-current assets

The carrying amounts of non-current assets are reviewed to determine whether they are in excess of their recoverable amount at balance date. If the carrying amount of non-current asset exceeds the recoverable amount, the asset is written down. In assessing recoverable amounts, the expected net cash flows have not been discounted to their present value.

Payables

Liabilities for trade creditors and other amounts are recognised at cost, which is the fair value of the consideration to be paid in the future for the inventories and



other goods or services received, whether or not billed to the consolidated entity at balance date. Trade accounts payable are non-interest bearing and are normally settled on due dates.

Earnings per share (EPS)

Basic EPS is calculated as net profit attributable to members of the company, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members of the company, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from dilution of potential ordinary shares

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

Goods and Services Tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from Australian Tax Office (ATO). In these circumstances, the GST is recognised as part of the acquisition of the asset or as part of an item of expense.

Receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the ATO is included as a current asset or a liability in the Statement of Financial Position.

Cash flows are included in the Statement of Cash Flows on a gross basis. The GST components of cash flows arising from investing and financing activities which are recoverable from, and or payable to, the ATO are classified as operating cash flows.

Capitalised Borrowing Costs

These relate to initial expenses on setting up of the borrowing facilities and are amortised over the term of the loan.

International Financial Reporting Standards

Retail Cube Limited will be required to prepare financial statements using Australian Standards that comply with International Financial Reporting Standards with their related pronouncements (IFRS) when it reports in respect of the year ending 30 June 2006.



The consolidated entity will report for the first time in compliance with IFRS when the results for the half-year ended 31 December 2005 are released. IFRS requires that the entities complying with the IFRS for the first time also restate their comparative financial statements. This means that the entity's opening IFRS balance sheet will be a restated balance sheet, dated 1 July 2005. Most of the adjustments required on transition to IFRS will be made retrospectively against opening retained earnings on 1 July 2005.

Planning for the introduction of the IFRS is being managed by the Chief Financial Officer who will report to the Board periodically on progress. The Chief Financial Officer has been following developments in IFRS and, working with external advisors, assessing the likely impact that these standards will have on Retail Cube Limited's financial reports and accounting policies.

The difference between Australian generally accepted accounting principles (GAAP) and IFRS identified by the company to date having a significant effect on the financial position and financial performance of Retail Cube Limited are summarized below.

- **Goodwill**

Goodwill acquired in a business combination, will not require amortisation, but instead be subject to impairment testing at least annually. If there is any impairment, it will be recognised immediately in the statement of financial performance as a loss.

- **Equity based compensation**

Equity based compensation in the form of shares and options will be recognised as expenses in the periods during which the employee provides related services.

- **Taxation**

Under IFRS a "balance sheet" approach will be adopted, replacing the "Statement of financial performance" approach previously embodied in Australian Accounting Standards. The balance sheet approach recognizes deferred tax balances when there is a difference between the carrying value of an asset or liability, and its base for income tax purposes. The annual impact on net profit from this change is not expected to be material.

Comparative figures

No comparative figures are provided as the economic entity has applied the Australian Accounting Standard "AASB 1029 Interim Financial Reporting" for the first time at 31 December 2004 and this Standard did not apply to the economic entity in the preceding corresponding interim period.



**Economic
Entity
\$**

2. REVENUE

Operating activities

Operating revenue

Sale of goods	29,065,525
Interest	20,266
Royalties and franchise fees	2,687,110
Other revenue	1,100,983
TOTAL REVENUE	<u>32,873,884</u>

Other revenue includes settlement discounts, amortisation of lease incentive and other sundry revenue.

3. PROFIT FROM ORDINARY ACTIVITIES

Profit from ordinary activities before income tax has been determined after:

a) Expenses

Borrowing costs

- finance charges on capitalised leases	16,267
- others	168,378
	<u>184,645</u>

Depreciation of non-current assets

- property, plant and equipment	367,796
---------------------------------	---------

Amortisation of non-current assets

- goodwill	372,000
- capitalised leased plant and equipment	38,113

Total depreciation and amortisation expense

777,909

Net expense/(income) from movement in provision for:

-employee benefits	20,517
-obsolescence of inventory	(33,483)
-doubtful debts: trade debtors	55,078

Remuneration of auditor

- other services	30,000
------------------	--------



**Economic
Entity
\$**

Rental expense on operating leases - minimum lease payments	3,692,457
--	-----------

4. INCOME TAX

The prima facie tax payable on operating profit is reconciled to the income tax provided in the financial report as follows:

Prima facie income tax payable on operating profit before income tax at 30%	586,366
Add/(Less) tax effect of :	
- amortisation of goodwill	111,900
- other allowable items	(175,253)
Income tax expense attributable to ordinary operations	<u><u>523,013</u></u>

5. CASH

Cash at bank and on hand	<u><u>2,067,869</u></u>
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6. RECEIVABLES

Trade debtors	2,309,433
Less: Provision for doubtful debts	(123,078)
	<u><u>2,186,355</u></u>

7. INVENTORIES

Finished goods	12,007,892
Raw materials	153,800
	<u>12,161,692</u>
Less: Provision for obsolescence	(80,843)
	<u><u>12,080,849</u></u>

8. CURRENT ASSETS - OTHER

Security Deposits	95,589
Prepayments	141,368
Sundry receivable	145,544
Finance company receivable	367,174
	<u><u>749,675</u></u>



**Economic
Entity
\$**

9. PROPERTY, PLANT AND EQUIPMENT

Property - at valuation	1,593,110
Less: Accumulated depreciation	(3,166)
	<u>1,589,944</u>
Plant & equipment - at cost	10,824,748
Less: Accumulated depreciation	(7,138,034)
	<u>3,686,714</u>
Plant & equipment under finance lease - at cost	1,117,462
Less: Accumulated amortisation	(107,685)
	<u>1,009,777</u>
	<u>6,286,435</u>

Movement in carrying amounts

Balance at the beginning of the period	-
Additions	6,654,431
Depreciation	(367,996)
Carrying amount at the end of the period	<u>6,286,435</u>

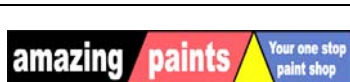
10. DEFERRED TAX ASSETS

Future income tax benefit	<u>407,321</u>
- attributable to timing differences	

Tax benefit for amounts not brought to account in relation to tax deduction of listing costs over the next 4 years are estimated to be \$736,580.

11. INTANGIBLES

Purchased goodwill -cost	322,127
Less: Accumulated amortisation	(236,706)
	<u>85,421</u>
Trademarks at cost (acquired as a part of the business acquisition)	<u>19,068,422</u>
Goodwill on consolidation	14,589,242





	Economic Entity \$
Less: Accumulated amortisation	(363,000)
	<u>14,226,242</u>
Preliminary expenses	17,620
	<u>33,397,705</u>

The directors have determined that the trademark has indefinite life and will not be amortised. The trademark is subjected to a periodic recoverability test as set out in Note 1.

12. OTHER NON-CURRENT ASSETS

Capitalised borrowing costs	<u>188,221</u>
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13. PAYABLES

Trade creditors and accruals	<u>11,962,783</u>
------------------------------	--------------------------

14. INTEREST BEARING LIABILITIES

CURRENT

Bank bill facility (secured)	1,950,000
Hire purchase	77,250
Finance leases	187,413
	<u>2,214,663</u>

NON-CURRENT

Hire purchase	143,237
Finance leases	674,232
	<u>817,469</u>

The Bank bill facility is secured by a fixed and floating charge over the assets of the parent and the subsidiaries. The entity has arranged a bank facility to finance day to day working capital requirements.

15. TAX LIABILITIES

CURRENT

GST payable	578,222
Income tax	140,244
	<u>718,466</u>

NON-CURRENT

Deferred tax liability	<u>31,489</u>
------------------------	----------------------



**Economic
Entity
\$**

16. PROVISIONS

CURRENT

Employee entitlements	<u>558,708</u>
-----------------------	----------------

NON-CURRENT

Employee entitlements	<u>516,365</u>
Aggregate employee benefits liability	<u><u>1,075,073</u></u>

Number of full time equivalent employees at year end	<u><u>414</u></u>
--	-------------------

17. OTHER LIABILITIES

Deferred income	<u><u>212,000</u></u>
-----------------	-----------------------

CURRENT

42,400

NON-CURRENT

169,600

212,000

18. CONTRIBUTED EQUITY

Ordinary Shares	<u>42,000,000</u>
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Movements in contributed equity

At the beginning of reporting period	2,800,000
--------------------------------------	-----------

Shares issued during the period:

- Prospectus equity raising	20,500,000
-----------------------------	------------

- Equity issued to vendors	18,700,000
----------------------------	------------

- Transaction costs relating to the issue of shares	<u>(2,963,866)</u>
---	--------------------

Contributed equity carried forward	<u>39,036,134</u>
------------------------------------	--------------------------

No.

At the beginning of reporting period	5,600,000
--------------------------------------	-----------

Shares issued during the period:

- Prospectus equity raising and issues to vendors	<u>78,400,000</u>
---	-------------------

Number of issued shares carried forward	<u><u>84,000,000</u></u>
---	---------------------------------



**Economic
 Entity
 \$**

19. RETAINED PROFITS

Retained profits at the beginning of the financial period	(135,189)
Profit for the period	1,431,542
Closing balance	<u><u>1,296,353</u></u>

The retained profits at the beginning of the financial period are from the initial setup period of the entity.

20. RELATED PARTY DISCLOSURES

Directors

The names of the persons who were directors of Retail Cube Limited at any time during the financial year are as follows:

Eric Melman (Chairman), Robert Estcourt, William Bartlett, Ron Baskin and Michael Cooper.

1) During the period a store was franchised to an entity with parties related to a director. The transaction was carried out on terms and conditions no more favourable than usual commercial terms.

2) An amount of \$500,000 has been accrued in relation to listing costs payable to a company of which Eric Melman (Chairman) is a related party for advisory, consultancy and formation services performed for the period July 2002 to listing date.

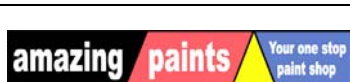
21. EARNINGS PER SHARE

Net profit	
Earnings used in the calculation of earning per share	<u><u>1,431,542</u></u>

Weighted average number of ordinary shares used in calculation of:	No.
-basic earnings per share	84,000,000
-diluted earnings per share	84,000,000

22. DIVIDENDS

	\$
a) Dividends proposed and not recognised as a liability	1,008,000
b) Balance of franking account at period end	5,329,000





**Economic
Entity
\$**

23. COMMITMENT

Capital Commitments:

Expenditure on setting up new stores and refurbishment of existing stores

1,018,000

Operating Lease Commitments

Commitments payable:

-not later than one year

7,745,499

-later than one year but not later than 2 years

5,728,720

-later than 2 years but not later than 5 years

9,816,609

23,290,828

Finance Lease Commitments

Commitments payable:

-not later than one year

231,407

-later than one year but not later than 2 years

208,390

-later than 2 years but not later than 5 years

571,192

1,010,989

less future charges

149,344

861,645

Disclosed as

Current (Note 14)

187,413

Non-current (Note 14)

674,232

861,645

24. CASH FLOW INFORMATION

RECONCILIATION OF OPERATING PROFIT AFTER INCOME TAX TO NET CASH FLOWS FROM OPERATING ACTIVITIES

Operating profit after tax

1,431,542

NON CASH FLOW ITEMS

Provision for depreciation/amortisation

777,909

CHANGE IN ASSETS AND LIABILITIES

Receivables

(635,605)

Inventories

563,200

Prepayments and other assets

1,740,886

Trade creditors and provisions

(2,105,662)

Tax assets and liabilities

256,069

Cashflow from operating activities

2,028,339



Business Segments

The economic entity is organised into the following business units:

King of Knives

Retailers of cutting and sharpening instruments.

The Athlete's Foot

Retailers of general sports footwear.

Amazing Paints

Manufacturers and retailers of paint and related accessories.

Corporate

Provides company secretarial, legal ,financial, human resources management, investor and public relations.



25. SEGMENT INFORMATION (continued)

	King of Knives	The Athlete's Foot	Amazing Paints	Corporate	Consolidated
Sales to external customers	16,110,202	5,883,759	7,071,563	-	29,065,524
Other revenue	15,854	3,493,624	295,152	3,730	3,808,360
Total segment revenue	16,126,056	9,377,383	7,366,715	3,730	32,873,884
Less : Direct costs and overheads	(14,109,112)	(8,104,830)	(7,165,362)	(577,501)	(29,956,805)
Segment earnings before interest, tax, depreciation and amortisation (EBITDA)	2,016,944	1,272,553	201,353	(573,771)	2,917,079
Less: Depreciation and amortisation	(259,578)	(151,078)	(4,166)	(363,057)	(777,879)
Segment result	1,757,366	1,121,475	197,187	(936,828)	2,139,200
Less : Interest expense	(5,034)	(2,297)	(8,936)	(168,378)	(184,645)
Profit from ordinary activities before related income tax expense	1,752,332	1,119,178	188,251	(1,105,206)	1,954,555
Less: Income Tax Expense	-	-	-	(523,013)	(523,013)
Profit from ordinary activities after related income tax expense	1,752,332	1,119,178	188,251	(1,628,219)	1,431,542
Segment assets	14,196,870	5,864,183	7,077,733	30,225,644	57,364,430
Segment liabilities	7,342,555	3,162,351	3,183,103	3,343,934	17,031,943



25. SEGMENT INFORMATION (continued)

Geographical Segments

The economic entity operates in two identified geographical areas.

Australia

The home of the parent entity and its material subsidiaries.

New Zealand

The entities trade as branch operations in New Zealand.

	Australia	New Zealand	Consolidated
Sales to external customers	26,237,356	2,828,168	29,065,524
Other revenue	<u>3,781,099</u>	<u>27,261</u>	<u>3,808,360</u>
Total segment revenue	30,018,455	2,855,429	32,873,884
Less : Direct costs and overheads	<u>(27,260,413)</u>	<u>(2,696,392)</u>	<u>(29,956,805)</u>
Segment earnings before interest ,tax,depreciation and amortisation (EBITDA)	<u>2,758,042</u>	<u>159,037</u>	<u>2,917,079</u>
Less :Depreciation and amortisation	<u>(745,252)</u>	<u>(32,627)</u>	<u>(777,879)</u>
Segment result	<u>2,012,790</u>	<u>126,410</u>	<u>2,139,200</u>
Less : Interest expense	(184,645)	-	(184,645)
Profit from ordinary activities before related income tax expense	1,828,145	126,410	1,954,555
Less: Income Tax Expense	<u>(523,013)</u>	<u>-</u>	<u>(523,013)</u>
Profit from ordinary activities after related income tax expense	<u>1,305,132</u>	<u>126,410</u>	<u>1,431,542</u>
Segment assets	<u>54,674,089</u>	<u>2,690,341</u>	<u>57,364,430</u>
Segment liabilities	<u>16,356,926</u>	<u>675,017</u>	<u>17,031,943</u>



26. FINANCIAL INSTRUMENTS

a) Interest rate risk

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

	Fixed Interest Rate	Floating Interest rate
Financial Assets		
Cash at Bank	1%	-
Financial Liabilities		
Bank Bill facility (Secured)	-	1,950,000

b) Credit risk

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

c) Net Fair Values

The aggregate net fair values and carrying amounts of financial assets and financial liabilities are disclosed in the balance sheet and in the notes forming part of the financial statements

27. EMPLOYEE BENEFITS

Employee benefit and related on cost liabilities:

- Included in accrued expenses	189,211
- Provision for employee benefits - current	558,708
- Provision for employee benefits - non current	516,365
Aggregate employee benefits and related on costs liabilities	<u><u>1,264,284</u></u>

Employee numbers	<u><u>414</u></u>
Number of employees at the end of the financial period	



Share options issued to directors

The company has on issue the following unlisted options:

	No. of Options	Exercise Price \$	Exercised within number of months after listing
Meltrust Pty Ltd (Eric Melman)	720,000	0.550	30 months
Robert Estcourt	500,000	0.450	36 months
Robert Estcourt	300,000	0.575	48 months
Robert Estcourt	400,000	0.650	60 months

Using the Black - Scholes option pricing model the options were valued at \$296,900.

28. DIRECTOR AND EXECUTIVE DISCLOSURES

a) The following persons were directors of Retail Cube Ltd for the financial period:

Directors

Chairman - Non Executive

Eric Melman

Executive Directors

Robert Estcourt, Chief Executive Officer

Michael Cooper

Non Executive Directors

William Bartlett

Ron Baskin

Specified Executives

The following persons were the five executives with the greatest authority for the direction and management of the consolidated entity ("specified executives") during the financial period.

Michael Hirschowitz
Maurice Joffe

CFO and Company Secretary
Managing Director King of Knives P/L



Chris Zournazidis	Managing Director Amazing Paints P/L
Suresh Kumar	Group Financial Controller
Rozelle Joffe	General Manager, King of Knives P/L

b) Number of option held by specified directors and executives

	Balance 31/12/04	Total Vested 31/12/04	Total Exercisable 31/12/04
Specified Directors			
Eric Melman (Meltrust Pty Ltd)	720,000	720,000	None
Robert Estcourt	1,200,000	None	None
William Bartlett	-	-	-
Ron Baskin	-	-	-
Michael Cooper	-	-	-
Specified Executives			
Michael Hirschowitz	-	-	-
Maurice Joffe	-	-	-
Chris Zournazidis	-	-	-
Suresh Kumar	-	-	-
Rozelle Joffe	-	-	-

c) Number of shares beneficially held by specified directors and executives.

Specified Directors

Eric Melman (Meltrust Pty Ltd)	2,950,002
Robert Estcourt	123,000
William Bartlett	87,500
Ron Baskin (incl. minor children)	13,705,566
Michael Cooper	2,419,098

Specified Executives

Michael Hirschowitz	2,419,098
Maurice Joffe	900,000
Chris Zournazidis	236,940



Suresh Kumar	16,000
Rozelle Joffee	900,000

29. BUSINESS ACQUISITION

On the 1st July 2004, the parent entity acquired 100% of the issued capital of the following entities:

- Amazing Paints Discounts Pty Limited.
- Robertson & Co Pty Limited.
- The Athlete's Foot Australia Pty Limited.
- King of Knives Pty Limited.
- King of Knives Limited (New Zealand).
- TAF Constructions Pty Limited.
- Heritage Paints Pty Limited.
- Barrojest Pty Limited.
- Toveken Pty Limited.
- Monto Pty Limited.
- Aymtold Pty Limited.
- Brynex Pty Limited.

Details of acquisition are as follows :

Fair value of identifiable net assets acquired:

Trademarks	19,068,422
Cash	(140,166)
Receivables	3,358,286
Inventories	12,644,052
Property, plant and equipment	5,772,799
Goodwill	118,878
Other assets	608,919
Payables	(15,943,436)
Interest bearing liabilities	(292,487)
Provisions	(1,665,037)
Other liabilities	(413,865)
Net assets	<u>23,116,365</u>
Cash Consideration	17,755,631
Issue of shares to vendors and retirement of debt	<u>19,866,000</u>
Goodwill on consolidation	<u><u>14,505,266</u></u>

30. CONTINGENT LIABILITIES

The Bank Guarantees outstanding on date amount to \$498,935.



Retail Cube Limited
ABN 85 108 096 251

31. COMPANY DETAILS

The registered office and principal place of business is:

Retail Cube Limited
7/29, Bridge Road
Stanmore
NSW 2048
AUSTRALIA





Independent Review Report



INDEPENDENT REVIEW REPORT

To the members of Retail Cube Limited

Scope

We have reviewed the financial report of Retail Cube Limited for the half-year ended 31 December 2004 as set out on pages 8 to 33. It includes the financial statements of Retail Cube Limited Group ("The Consolidated Entity"), which incorporates Retail Cube Limited (the disclosing entity) and the entities it controlled during the half year ended 31 December 2004. The disclosing entity's directors are responsible for the financial report. We have performed an independent review of the financial report in order to state whether, on the basis of the procedures described, anything has come to our attention that would indicate that the financial report is not presented fairly in accordance with Accounting Standard AASB 1029 "Interim Financial Reporting" and other mandatory financial reporting requirements in Australia and statutory requirements, so as to present a view which is consistent with our understanding of the consolidated entity's financial position, and performance as represented by the results of its operations and its cash flows, and in order for the disclosing entity to lodge the financial report with the Australian Securities & Investment Commission.

Our review has been conducted in accordance with Australian Auditing and Assurance Standards applicable to review engagements. A review is limited primarily to enquiries of the disclosing entity's personnel and analytical procedures applied to the financial data. These procedures do not provide all the evidence that would be required in an audit, thus the level of assurance is less than given in an audit. We have not performed an audit and, accordingly, we do not express an audit opinion.

Statement

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 Retail Cube Limited is not in accordance with:

- a) the *Corporations Act 2001*, including:
 - (i). giving a true and fair view of the consolidated entity's financial position as at 31 December 2004 and of its performance for the half-year ended on that date; and
 - (ii). complying with Accounting Standard AASB 1029 "Interim Financial Reporting" and the *Corporations Regulations 2001*; and
- b) other mandatory financial reporting requirements in Australia.

Mark Nicholaeff
Partner

Haines Norton
Chartered Accountants

Date: 25th February, 2005

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