



# ***REDgroup Retail Pty Limited***

**ABN 40 108 801 127**

**Financial Report for the  
52 Weeks Ended 28 August 2010**

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# REDgroup Retail Pty Limited

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## FINANCIAL REPORT FOR THE 52 WEEKS ENDED 28 AUGUST 2010

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# REDgroup Retail Pty Limited

## DIRECTORS' REPORT

The directors of REDgroup Retail Pty Limited submit herewith the financial report of the Company and its subsidiaries ("the Group") for the 52 weeks ended 28 August 2010. In order to comply with the provisions of the *Corporations Act 2001*, the directors report as follows:

### DIRECTORS

The names of the directors of the Company during or since the end of the financial year are:

R. Walker	Chairman (Resigned 31 August 2010)
R. Gardell	Non Executive Director
S. Cain	Non Executive Director (Appointed Chairman 27 September 2010)
S. Pillar	Non Executive Director (Appointed 24 November 2009)
N. Laurent	Non Executive Director (Resigned 24 November 2009)
J. Browne	Non Executive Director (Appointed 31 August 2010)
D. Penlon	Group Managing Director (Resigned 17 November 2010)
T. Ristevski	Chief Financial Officer

### PRINCIPAL ACTIVITIES

REDgroup Retail Pty Limited (and its subsidiaries) is a speciality retail group operating across Australia, New Zealand and Singapore. Operationally the Group is managed as one business, comprising a number of brands which sell a wide range of products including books, magazines, stationery, calendars, gifts, greeting cards, music, DVD's electronic eReaders and eContent.

### REVIEW AND RESULTS OF OPERATIONS

Earnings before interest, tax, depreciation and amortisation, (EBITDA) for the year was \$27,045k.

The consolidated entity's loss after income tax for the year was \$42,970k (2009: \$14,743k). The result includes a one off, stock impairment charge of \$30,317k attributable to the integration of the Borders acquisition. Revenue decreased 10% from prior year as the retail industry generally became more challenging post the global financial crisis. Cost of doing business (excluding interest) decreased 12% realising the full year benefit of prior year integration initiatives. The business continues to take advantage of the internet and technology opportunity making an equity investment in Kobo Inc, and allowing customers to purchase and download eContent directly from REDgroup Retail websites.

### REFINANCING OF BORROWINGS

The Group has successfully completed negotiations to refinance all external debt and a new senior facilities agreement with new lenders was signed prior to the approval of these financial statements. These new facilities have a term of two years and are sufficient to repay all existing external debts of the Group on or before the agreed repayment dates. In addition, these new facilities provide further additional funding in order to support the business plans of the Board and Management for the foreseeable future.

### SUBSEQUENT EVENTS

Other than the refinancing noted above there has not been any matter or circumstance occurring subsequent to the end of the financial year that has significantly affected the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### SHARE OPTIONS

During and since the end of the financial year no share options were granted to any directors or executive of the Company as part of their remuneration:

Throughout the year, no shares were bought back at deemed market value by the Company.

# REDgroup Retail Pty Limited

## DIRECTORS' REPORT (continued)

Details of unissued shares or interest under options as at the date of this report are:

Issuing entity	Number of shares under option	Class of shares	Exercise price of option	Expiry date of option
REDgroup Retail Pty Limited	2,950,000	Ordinary	\$1.00 to \$3.75	2015 to 2017
REDgroup Retail Pty Limited	15,550,000	Management Performance Shares	\$1.00 to \$3.75	2015 to 2017

During and since the end of the financial year 1,050,000 management performance shares were granted to employees of the Company and the Group as part of their remuneration. 2,350,000 management performance shares were cancelled. (Refer note 27)

### FUTURE DEVELOPMENTS

Disclosure of information regarding likely developments in the operations of the Group in future financial years and the expected results of those operations is likely to result in unreasonable prejudice to the Group. Accordingly, this information has not been disclosed in this report.

### DIVIDENDS

No dividends have been paid or declared since the start of the financial year by the Group (2009: Nil). The directors do not recommend the payment of a dividend by the Group in respect of the 52 weeks ended 28 August 2010.

### INDEMNIFICATION OF OFFICERS AND AUDITORS

For the 52 weeks ended 28 August 2010 the Company paid a premium in respect of a contract insuring the directors of the Company (as named above) and all executive officers of the Group and of any related body corporate against any liability incurred as such a director or executive officer to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

### CHANGES IN THE STATE OF AFFAIRS

There have been no other significant changes in the state of affairs during the year other than that referred to in the review of operations, the financial statements or notes thereto.

### AUDITOR'S INDEPENDENCE DECLARATION

The auditor's independence declaration is included on page 7 of the financial report.

### ROUNDING OFF OF AMOUNTS

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

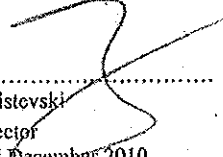
Signed in accordance with a resolution of the directors made pursuant to s.298(2) of the *Corporations Act 2001*.

On behalf of the Directors

  
.....  
S Cain

Director

2nd December 2010

  
.....  
T Risteovski

Director

2nd December 2010

# REDgroup Retail Pty Limited

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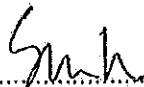
## DIRECTORS' DECLARATION


The directors declare that:

- a) 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;
- b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the *Corporations Act 2001*, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the Group;
- c) the attached financial statements are in compliance with International Financial Reporting Standards as stated in note 3 to the financial statements.

Signed in accordance with a resolution of the directors made pursuant to s.295(5) of the *Corporations Act 2001*.

On behalf of the Directors.

  
.....  
S Cain  
Director  
2nd December 2010

  
.....  
T Ristevski  
Director  
2nd December 2010

## Independent Auditor's Report to the Members of REDgroup Retail Pty Limited

### Report on the Financial Report

We have audited the accompanying financial report of REDgroup Retail Pty Limited, which comprises the consolidated statement of financial position as at 28 August 2010, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the 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 year's end or from time to time during the financial year as set out on pages 5 to 46.

### 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 Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal control 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 3, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the consolidated financial statements and notes complies with International Financial Reporting Standards.

### Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. 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 the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### Auditor's Independence Declaration

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

### Auditor's Opinion

In our opinion:

- (a) the financial report of REDgroup Retail Pty Limited is in accordance with the *Corporations Act 2001*, including:
  - (i) giving a true and fair view of the consolidated entity's financial position as at 28 August 2010 and of its performance for the year ended on that date; and
  - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 3.



DELOITTE TOUCHE TOHMATSU

Patrick McLay  
Partner  
Chartered Accountants  
Melbourne, 2 December 2010

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The Board of Directors  
REDgroup Retail Pty Limited  
Level 19, 8 Exhibition Street  
Melbourne VIC 3000

2 December 2010

Dear Board Members

### REDgroup Retail Pty Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of REDgroup Retail Pty Limited.

As lead audit partner for the audit of the financial statements of REDgroup Retail Pty Limited for the 52 weeks ended 28 August 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Patrick McLay  
Partner  
Chartered Accountants

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Member of Deloitte Touche Tohmatsu Limited

# REDgroup Retail Pty Limited

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME FOR THE 52 WEEKS ENDED 28 AUGUST 2010

	Note	Consolidated	
		52 weeks ended 28 August 2010 \$'000	52 weeks ended 29 August 2009 \$'000
Revenue	5	580,951	648,730
Cost of sales		(346,754)	(353,169)
<b>Gross Profit</b>		<b>234,197</b>	<b>295,561</b>
Other income	5	22,967	27,091
Distribution expenses		(11,469)	(12,772)
Sales and marketing expenses		(112,804)	(122,780)
Occupancy expenses		(93,666)	(97,569)
Administration expenses		(43,299)	(59,123)
Finance costs	6	(24,082)	(20,913)
Other expenses		(15,459)	(23,868)
<b>Loss before tax</b>		<b>(43,615)</b>	<b>(14,373)</b>
Income tax benefit / (expense)	8	645	(370)
<b>Loss for the period</b>		<b>(42,970)</b>	<b>(14,743)</b>
Other comprehensive income			
Exchange differences arising on translation of foreign operations		(752)	(113)
<b>Total comprehensive income for the period</b>		<b>(43,722)</b>	<b>(14,856)</b>
Loss attributable to:			
Equity holders of the parent		(42,970)	(15,236)
Non-controlling interest		-	493
		<b>(42,970)</b>	<b>(14,743)</b>
Total comprehensive income attributable to:			
Equity holders of the parent		(43,722)	(15,349)
Non-controlling interest		-	493
		<b>(43,722)</b>	<b>(14,856)</b>

*Notes to the consolidated financial statements are included on pages 12-47*

# REDgroup Retail Pty Limited

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION AT 28 AUGUST 2010

	Note	28 August 2010 S'000	Consolidated Restated 29 August 2009 S'000	Restated 31 August 2008 S'000
<b>CURRENT ASSETS</b>				
Cash and cash equivalents		15,191	8,764	31,476
Trade and other receivables	11	6,428	13,188	14,263
Inventories	12	110,782	146,269	155,983
Current tax asset		-	-	549
Other financial assets	14	10	-	229
Other	13	1,897	2,407	2,944
<b>TOTAL CURRENT ASSETS</b>		<b>134,308</b>	<b>170,628</b>	<b>205,444</b>
<b>NON-CURRENT ASSETS</b>				
Trade and other receivables		-	-	600
Other financial assets	14	1,041	-	-
Plant and equipment	15	62,078	61,967	59,298
Goodwill	16	144,349	143,402	153,663
Other intangible assets	17	6,544	6,891	6,150
Deferred tax assets	8	20,347	19,241	17,554
Other	13	1,227	1,270	1,321
<b>TOTAL NON-CURRENT ASSETS</b>		<b>235,586</b>	<b>232,771</b>	<b>238,586</b>
<b>TOTAL ASSETS</b>		<b>369,894</b>	<b>403,399</b>	<b>444,030</b>
<b>CURRENT LIABILITIES</b>				
Trade and other payables	18	80,056	83,698	106,433
Other financial liabilities	19	43	938	-
Borrowings	23	105,769	50,852	45,236
Current tax payables		523	2,010	1,415
Provisions	21	7,700	8,966	10,381
Other	20	13,406	17,836	16,056
<b>TOTAL CURRENT LIABILITIES</b>		<b>207,497</b>	<b>164,300</b>	<b>179,521</b>
<b>NON CURRENT LIABILITIES</b>				
Trade and other payables	18	-	1,584	11,679
Borrowings	23	103,601	136,984	119,067
Provisions	21	3,561	5,484	6,125
Other	20	18,311	15,544	12,167
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>125,473</b>	<b>159,596</b>	<b>149,038</b>
<b>TOTAL LIABILITIES</b>		<b>332,970</b>	<b>323,896</b>	<b>328,559</b>
<b>NET ASSETS</b>		<b>36,924</b>	<b>79,503</b>	<b>115,471</b>
<b>EQUITY</b>				
Issued capital	26	73,493	72,302	46,812
Reserves	25	1,313	2,113	45,121
Retained earnings	24	(37,882)	5,088	23,129
		36,924	79,503	115,062
Non-controlling interest		-	-	409
<b>TOTAL EQUITY</b>		<b>36,924</b>	<b>79,503</b>	<b>115,471</b>

Notes to the consolidated financial statements are included on pages 12-47

## REDgroup Retail Pty Limited

### CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE 52 WEEKS ENDED 28 AUGUST 2010

Consolidated	Issued Capital \$'000	Foreign Currency Translation Reserve \$'000	Financial Equity Reserve \$'000	Employee Equity Benefits Reserve \$'000	Retained Earnings \$'000	Non- Controlling Interest \$'000	Total \$'000
Balance at 31 August 2008	46,812	1,797	42,851	473	24,370	409	116,712
Effect of change in accounting policy for franchise income (note 3 (d))	-	-	-	-	(1,241)	-	(1,241)
As restated	46,812	1,797	42,851	473	23,129	409	115,471
Profit / (loss) for the period	-	-	-	-	(15,236)	493	(14,743)
Exchange differences arising on translation of foreign operations	-	(113)	-	-	-	-	(113)
Total comprehensive income for the period	-	(113)	-	-	(15,236)	493	(14,856)
Issue of shares	27,000	-	-	-	-	-	27,000
Issued capital bought back and cancelled	(1,510)	-	-	-	(1,361)	-	(2,871)
Equity-settled benefits	-	-	-	(44)	-	-	(44)
Adjustment against equity for acquiring minority interest	-	-	-	-	(1,444)	(902)	(2,346)
Repayment of shareholder loan	-	-	(42,851)	-	-	-	(42,851)
Balance at 29 August 2009	72,302	1,684	-	429	5,088	-	79,503
Loss for the period	-	-	-	-	(42,970)	-	(42,970)
Exchange differences arising on translation of foreign operations	-	(752)	-	-	-	-	(752)
Total comprehensive income for the period	-	(752)	-	-	(42,970)	-	(43,722)
Issue of shares	1,191	-	-	-	-	-	1,191
Equity-settled benefits	-	-	-	(48)	-	-	(48)
Balance at 28 August 2010	73,493	932	-	381	(37,882)	-	36,924

*Notes to the consolidated financial statements are included on pages 12-17*

# REDgroup Retail Pty Limited

## CONSOLIDATED STATEMENT OF CASH FLOW FOR THE 52 WEEKS ENDED 28 AUGUST 2010

	Consolidated	
	52 weeks ended 28 August 2010 S'000	52 weeks ended 29 August 2009 S'000
<b>Cash Flows From Operating Activities</b>		
Receipts from customers	603,889	672,730
Payments to suppliers and employees	(581,507)	(650,544)
Cash generated from operations	22,382	22,186
Interest paid	(8,441)	(7,483)
Income tax refund / (paid)	(1,651)	705
<b>Net cash provided by operating activities</b>	<b>12,290</b>	<b>15,408</b>
<b>Cash Flows From Investing Activities</b>		
Interest received	283	660
Payment for investments	(2,103)	(20,067)
Payment for property, plant and equipment	(13,897)	(17,084)
Payment for intangible assets	(270)	(1,775)
Proceeds from sale of business	2,158	5,287
<b>Net cash (used in)/provided by investing activities</b>	<b>(13,829)</b>	<b>(32,979)</b>
<b>Cash Flows From Financing Activities</b>		
Proceeds from revolving working capital facility	226,038	183,940
Repayment of revolving working capital facility	(204,513)	(189,592)
Proceeds from borrowings	-	25,245
Repayment of borrowings	(13,295)	(25,593)
Repayment of shareholder funds	-	(105,000)
Proceeds from issue of debt securities	-	81,000
Proceeds from share issue	-	27,000
Payment for share buy-back	-	(2,871)
<b>Net cash used in financing activities</b>	<b>8,230</b>	<b>(5,871)</b>
Effects of exchange rate changes on cash	63	(188)
<b>Net Increase/ (Decrease) In Cash Held</b>	<b>6,754</b>	<b>(23,630)</b>
Cash and cash equivalents at the beginning of the period	8,033	31,476
<b>Cash and cash equivalents at the end of the year</b>	<b>14,722</b>	<b>8,033</b>

Notes to the consolidated financial statements are included on pages 12-47

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 1. GENERAL INFORMATION

REDgroup Retail Pty Ltd is a company domiciled in Australia. The address of the Company's registered office is level 19, 8 Exhibition Street, Melbourne, Vic 3000. The consolidated financial statements of REDgroup Retail as at and for the 52 weeks ended 28 August 2010 comprise the Company and its subsidiaries (together referred to as "the Group" and individually as "Group entities"). The Group is primarily involved in the retail sale of books and other entertainment media and the operation of newsagencies

### 2. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

In the current year, the company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to its operations and effective for the current annual reporting period. The company has also adopted the following Standards as listed below, which only impacted on the company's financial statements with respect to disclosure:

AASB 101 'Presentation of Financial Statements' (revised September 2007)

The company has also adopted the following new and revised Standards and Interpretations as listed below, which have not impacted the amounts reported in these financial statements but may affect the accounting for future transactions or arrangements:

- AASB 3 Business Combinations
- AASB 127 Consolidated and Separate Financial Statements
- Amendments to AASB 128 Investments in Associates
- Amendments to AASB 138 Intangible Assets
- AASB 2008-7 Amendments to Australian Accounting Standards – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
- AASB 2008-1 Amendments to Australian Accounting Standards – Share-based Payments: Vesting Conditions and Cancellations
- AASB 123 Borrowing Costs
- AASB 2008-2 Amendments to Australian Accounting Standards – Puttable Financial Instruments and Obligations Arising on Liquidation
- AASB 2008-8 Amendments to Australian Accounting Standards – Eligible Hedged Items
- Interpretation 16 Hedges of a Net Investment in a Foreign Operation
- Interpretation 17 Distribution of Non-Cash Assets to Owners
- Interpretation 18 Transfers of Assets from Customers

At the date of authorisation of the financial report, a number of Standards and Interpretations were on issue but not yet effective:

AASB 2009-5 Further amendments to Australian Accounting Standards arising from the Annual Improvements Project	Effective for annual reporting periods beginning on or after 1 January 2010
AASB 2009-8 Amendments to Australian Accounting Standards – Group Cash-Settled Share-based Payment Transactions	Effective for annual reporting periods beginning on or after 1 January 2010
AASB 2009-10 Amendments to Australian Accounting Standards – Classification of Rights Issues	Effective for annual reporting periods beginning on or after 1 February 2010
AASB 124 Related Party Disclosures (revised December 2009), AASB 2009-12 Amendments to Australian Accounting Standards	Effective for annual reporting periods beginning on or after 1 January 2011
AASB 9 Financial Instruments, AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	Effective for annual reporting periods beginning on or after 1 January 2013
AASB 2009-14 Amendments to Australian Interpretation – Prepayments of a Minimum Funding Requirement	Effective for annual reporting periods beginning on or after 1 January 2011
Interpretation 19 Extinguishing Financial Liabilities with Equity Instruments	Effective for annual reporting periods beginning on or after 1 July 2010
AASB 1053 Application of Tiers of Australian Accounting Standards and AASB 2010-2 Amendments to Australian Accounting Standards arising from Reduced Disclosure Requirements	Effective for annual reporting periods beginning on or after 1 July 2013
AASB 2010-3 Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Effective for annual reporting periods beginning on or after 1 July 2010
AASB 2010-4 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project	Effective for annual reporting periods beginning on or after 1 July 2011

The directors anticipate that the adoption of these Standards and Interpretations which are relevant to the company in future periods will have no material impact on the financial statements of REDgroup Retail Pty Limited.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

These financial statements are general purpose financial statements which have been prepared in accordance with the Corporations Act 2001, Accounting Standards and Interpretations, and comply with other requirements of the law.

The financial statements comprise the consolidated financial statements of the Group.

Accounting Standards include Australian equivalents to International Financial Reporting Standards ('A-IFRS'). Compliance with A-IFRS ensures that the financial statements and notes of the Company and the Group comply with International Financial Reporting Standards ('IFRS').

The financial statements were authorised for issue by the directors on 2nd December 2010.

#### (b) Basis of preparation

The financial report has been prepared on the basis of historical cost, except for the revaluation of certain non-current assets and financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is a company of the kind referred to in ASIC Class Order 98/0100, dated 10 July 1998, and in accordance with that Class Order amounts in the financial report are rounded off to the nearest thousand dollars, unless otherwise stated.

#### Going concern

The directors have prepared the financial statements on a going concern basis. No adjustments have been made to the financial report relating to the recoverability and classification of the assets carrying amounts or classification of liabilities that might be necessary should the group not continue as a going concern and therefore not realise its assets and extinguish its liabilities in the normal course of business and at amounts stated in the financial statements.

As per note 23 to the financial statements, the group has external debt of \$105,892k classified as "current liabilities" on the basis that \$28,578k of the debt matures on 15 December 2010 and \$77,314k of the debt matures on 31 December 2010. Consequently the group is in a net current liability position of \$73,189k at 28 August 2010.

The group recorded a net loss after tax of \$42,970k for the year ended 28 August 2010 and breached covenants at August and November 2010 under the existing external debt facilities. The group was granted a waiver of its breached covenants in each case subject to 3 conditions including additional undertakings none of which are financial in nature.

The Group has successfully completed negotiations to refinance all external debt and a new senior facilities agreement with new lenders was signed prior to the approval of these financial statements. These new facilities have a term of two years and are sufficient to repay all existing external debts of the Group on or before the agreed repayment dates. In addition, these new facilities provide further additional funding in order to support the business plans of the Board and Management for the foreseeable future.

The directors have prepared detailed profit and cash forecasts for the Group for 12 months ending 27 August 2011 and in outline thereafter. They have applied a number of sensitivities to these forecasts and these show that the Group is able to operate successfully within its new facilities for the foreseeable future.

Accordingly, the Directors consider that the business will continue in operation for the foreseeable future and accordingly it is appropriate to prepare the financial report on a going concern basis.

#### (c) Basis of consolidation

The consolidated financial statements are prepared by combining the financial statements of all the entities that comprise the consolidated entity, being the company (the parent entity) and its subsidiaries as defined in Accounting Standard AASB 127 'Consolidated and Separate Financial Statements'. Consistent accounting policies are employed in the preparation and presentation of the consolidated financial statements.

On acquisition, the assets, liabilities and contingent liabilities of a subsidiary are measured at their fair values at the date of acquisition. Any excess of the cost of acquisition over the fair values of the identifiable net assets acquired is recognised as goodwill. If, after reassessment, the fair value of the identifiable net assets acquired exceeds the cost of acquisition, the deficiency is credited to profit and loss in the period of acquisition.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The interest of minority shareholders is stated at the minority's proportion of the fair values of the assets and liabilities recognised.

The consolidated financial statements include the information and results of each subsidiary from the date on which the company obtains control and until such time as the company ceases to control such an entity.

In preparing the consolidated financial statements, all intercompany balances and transactions, and unrealised profits arising within the consolidated entity are eliminated in full.

#### (d) Change in accounting policies

During the year, the Group changed the recognition of franchise license fee income to defer recognition over the period of the license agreement. Previously revenue was recognised upfront upon entering the agreement. The change in accounting policy has been retrospectively applied to prior periods to match the revenue with the obligation to provide trademarks and branding to franchisees. The current year impact of the adjustment increased deferred income in other liabilities \$1,152k (2009: \$1,241k) and increased other income \$99k (2009: \$16k reduction).

#### (e) Foreign currencies

The individual financial statements of each group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each group entity are expressed in Australian dollars ('\$'), which is the functional currency of the Company and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transaction in currencies other than the entity's functional currency (foreign currencies) are recognised at the rates of exchange prevailing at the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing at the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

For the purpose of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are expressed in Australian dollars using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuated significantly during that period, in which case the exchange rates at the dates of the transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity (attributed to non-controlling interests as appropriate).

#### (f) Borrowing costs

Borrowing costs incurred in connection with the arrangement of borrowings are deferred and amortised over the term of the borrowing.

#### (g) Business combinations

Acquisitions of subsidiaries and businesses are accounted for using the acquisition method. The consideration for each acquisition is measured at the aggregate of the fair values (at the date of exchange) of assets given, liabilities incurred or assumed, and equity instruments issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

Where applicable, the consideration for the acquisition includes any asset or liability resulting from a contingent consideration arrangement, measured at its acquisition-date fair value. Subsequent changes in such fair values are adjusted against the cost of acquisition where they qualify as measurement period adjustments (see below). All other subsequent changes in the fair value of contingent consideration classified as an asset or liability are accounted for in accordance with relevant Standards. Contingent consideration adjustments for business combinations occurring pre 30 August 2009 are adjusted against goodwill and post 30 August 2009 are adjusted against profit or loss. Changes in the fair value of contingent consideration classified as equity are not recognised.

Where a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to fair value at the acquisition date (i.e. the date the Group attains control) and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss, where such treatment would be appropriate if that interest were disposed of.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The acquiree's identifiable assets, liabilities and contingent liabilities that meet the conditions for recognition under AASB 3(2008) are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with AASB 112 *Income Taxes* and AASB 119 *Employee Benefits* respectively;
- liabilities or equity instruments related to the replacement by the Group of an acquiree's share based payment awards are measured in accordance with AASB 2 *Share-based Payment*; and
- assets (or disposal groups) that are classified as held for sale in accordance with AASB 5 *Noncurrent Assets Held for Sale and Discontinued Operations* are measured in accordance with that Standard.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see below), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

The measurement period is the period from the date of acquisition to the date the Group obtains complete information about facts and circumstances that existed as of the acquisition date – and is subject to a maximum of one year.

#### (h) 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 and which are subject to an insignificant risk of changes in value.

Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

#### (i) Derivative financial instruments

The Group enters into a variety of derivative financial instruments to manage its exposure to interest rate and foreign exchange rate risk, including foreign exchange forward contracts and interest rate swaps.

Derivatives are initially recognised at fair value at the date the derivative contract is entered into and are subsequently remeasured to their fair value at the end of each reporting period. The resulting gain or loss is recognised in profit or loss immediately.

#### (j) Employee benefits

A liability is made for benefits accruing to employees in respect of wages and salaries, annual leave, long service leave, and bonuses when it is probable that settlement will be required and they are capable of being measured reliably.

Liabilities made in respect of employee benefits expected to be settled within 12 months, are measured at their nominal values using the remuneration rate expected to apply at the time of settlement.

Liabilities made in respect of employee benefits which are not expected to be settled within 12 months are measured as the present value of the estimated future cash outflows to be made by the consolidated entity in respect of services provided by employees up to reporting date.

#### Defined contribution plans

Contributions to defined contribution superannuation plans are expensed when employees have rendered service entitling them to the contributions.

#### (k) Financial assets

All financial assets are recognised and derecognised on trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the timeframe established by the market concerned, and are initially measured at fair value, plus transaction costs.

Financial assets are classified into the following specified categories: 'held-to-maturity' investments, 'available-for-sale' (AFS) financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts through the expected life of the debt instrument, or (where appropriate) a shorter period.

#### Held-to-maturity investments

Held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment, with revenue recognised on an effective yield basis.

#### Available for sale (AFS) financial assets

The Group has investments in unlisted shares that are not traded in an active market but that are classified as AFS financial assets and stated at cost (because the directors consider that fair value cannot be reliably measured). The investments will be tested for impairment whenever there is an indication that the asset may be impaired. An impairment loss is recognised immediately in profit or loss.

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

#### Loans and receivables

Trade receivables, loans and other receivables are recorded at amortised cost less impairment.

#### (l) Financial liabilities and equity instruments issued by the Group

##### Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangement.

##### Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Group are recognised as the proceeds are received, net of direct issue costs.

##### Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs.

Subsequent to initial recognition, other financial liabilities are measured at amortised cost with any difference between the initial recognised amount and the redemption value being recognised in profit or loss over the period of the liability using the effective interest rate method.

##### Interest and dividends

Interest and dividends are classified as expenses or as distributions of profit consistent with the balance sheet classification of the related debt or equity instruments or component parts of compound instruments.

#### (m) Goods and services tax

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST), except:

- i. where the amount of GST incurred is not recoverable from the taxation authority, it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or
- ii. for receivables and payables which are recognised inclusive of GST.

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

Cash flows are included in the cash flow statement on a gross basis. 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 flows.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (n) Goodwill

##### Goodwill acquired pre 30 August 2009

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

Goodwill is subsequently measured at its cost less any accumulated impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units. Cash-generating units or groups of cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

If the recoverable amount of the cash-generating unit (or group of cash-generating units) is less than the carrying amount of the cash-generating unit (or groups of cash-generating units), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the cash-generating unit (or groups of cash-generating units) and then to the other assets of the cash generating unit (or cash-generating units). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a cash-generating unit, the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

##### Goodwill acquired post 30 August 2009

Goodwill arising in a business combination is recognised as an asset at the date that control is acquired (the acquisition date). Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

If, after reassessment, the Company's interest in the fair value of the acquiree's identifiable net assets exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held equity interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Goodwill is not amortised but is reviewed for impairment at least annually. For the purpose of impairment testing, goodwill is allocated to each of the Company's cash-generating units expected to benefit from the synergies of the combination. Cash-generating units to which goodwill has been allocated are tested for impairment annually, or more frequently when there is an indication that the cash-generating unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit pro-rata on the basis of the carrying amount of each asset in the unit. An impairment loss recognised for goodwill is not reversed in a subsequent period.

On disposal of a subsidiary, the attributable amount of goodwill is included in the determination of the profit or loss on disposal.

#### (o) Impairment of tangible and intangible assets excluding goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher 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 for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

#### (p) Income tax

##### Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the period. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

##### Deferred tax

Deferred tax is accounted for using the comprehensive balance sheet liability method in respect of temporary differences arising from differences between the carrying amount of assets and liabilities in the financial statements and the corresponding tax base of those items.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from goodwill.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries except where the consolidated entity is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the consolidated entity expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

##### Current and deferred tax for the period

Current and deferred tax is recognised as an expense or income in the income statement, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill or excess.

##### Tax consolidation regime

REDgroup Retail Pty Ltd and its wholly-owned Australian resident entities are taxed as a single entity pursuant to the tax consolidation regime. The entities within the Australian tax consolidated group have entered into a tax sharing and funding agreement and a tax contribution agreement with REDgroup Retail Pty Ltd.

Under the tax sharing and funding agreement the entities in the tax consolidated group agree to pay a tax equivalent amount to REDgroup Retail Pty Ltd for current income tax payable or to receive a tax equivalent amount from REDgroup Retail Pty Ltd for current income tax receivable and/or tax losses. The tax sharing and funding agreement also provides the method of allocating tax liabilities should REDgroup Retail Pty Ltd default on its tax payment obligations. The contributions of each entity are determined and recognised under a group allocation method based on stand-alone principles and essentially this method of calculating the contribution requires the calculation of income tax expense as if the entity had not been a member of the tax consolidated group modified to eliminate transactions that would distort the consolidated group tax position.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### (q) Intangible assets

##### Software assets

Amortisation is calculated on a straight line basis so as to write off the net cost of each software asset over its expected useful life to its estimated residual value. The estimated useful lives, residual values and amortisation method are reviewed at the end of each annual reporting period.

The following estimated useful life is used in the calculation of amortisation:

Software assets	3-5 years
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##### Brand license agreement

The brand license agreement recognised by the consolidated group has an indefinite useful life and is not amortised. Each period, the useful life of this asset is reviewed to determine whether events and circumstances continue to support an indefinite useful life assessment for the asset. Such assets are tested for impairment as part of the goodwill impairment assessment.

#### (r) Inventory

Inventories are valued at the lower of cost and net realisable value. Costs, including an appropriate portion of fixed and variable overhead expenses, are assigned to inventory on hand by the method most appropriate to each particular class of inventory, with the majority being valued on an average cost basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

#### (s) Leasing

Leases are classified as finance leases when the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the leased asset to the lessee. All other leases are classified as operating leases.

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

##### Lease incentives

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefits of incentives are recognised as a reduction of rental expense on a straight line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

#### (t) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale in their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less cost to sell.

#### (u) Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis so as to write off the net cost or other revalued amount of each asset over its expected useful life to its estimated residual value. Leasehold improvements are depreciated over the estimated useful life using the straight line method. The estimated useful lives, residual values and depreciation methods are reviewed at the end of each annual reporting period, with the effect of any changes recognised on a prospective basis.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The following estimated useful lives are used in the calculation of depreciation:

Fixtures, fittings and leasehold improvements	6-15 years
Plant and equipment	5 years
Computer equipment	3 years

The gain or loss arising on disposal or retirement of an item of plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

#### (v) 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 the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows.

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

#### Onerous contracts

Present obligations arising under onerous contracts are recognised and measured as provisions. An onerous contract is considered to exist where the Group has a contract under which the unavoidable costs of meeting the obligations under the contract exceed the economic benefits expected to be received under it.

#### Provision for make good

A provision for make good is recognised when there is a present obligation as a result of fit-out construction, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the provision can be measured reliably. The estimated future obligations include the costs of removing fixtures and fittings, and restoring the affected areas.

#### (w) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. The following specific recognition criteria must also be met before revenue is recognised:

#### Sale of goods

Revenue from the sale of goods is recognised when the Group has transferred to the buyer the significant risks and rewards of ownership of the goods.

Sales of goods that result in award credits are accounted for as multiple element revenue transactions and the fair value of the consideration received or receivable is allocated between the goods supplied and the loyalty points granted.

#### Franchise income

Franchise management fees include franchise fees and commission income received from franchisees that is recognised as services are provided, and franchise joining and renewal fees that is recognised over the life of the franchise agreement.

#### Dividend and interest revenue

Dividend revenue from investments is recognised when the shareholder's right to receive payment has been established. Interest revenue is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

#### (x) Share based payments

Equity-settled share-based payments granted after 7 November 2002 that were unvested as of 1 January 2005, are measured at fair value at the date of grant. Fair value is measured by the use of a Black Scholes model.

# REDgroup Retail Pty Limited

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## NOTES TO THE FINANCIAL STATEMENTS

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the consolidated entity's estimate of shares that will eventually vest.

Management performance shares have been expensed on a straight line basis, measured at fair value by use of an independent expert. The fair value of equity settled share based payments are expensed over the likely vesting period.

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and reported amounts of assets and liabilities, incomes and expenses. Actual results may differ from these estimates.

#### Goodwill

Determining whether goodwill is impaired requires an estimation of the value in use of the cash generating units to which goodwill has been allocated. The value in use calculation requires the directors to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value. Details of the goodwill impairment calculation are set out in note 16.

#### Inventory

Net realisable value of inventory represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale. Management applied the following assumptions in assessing net realisable value:

- Stock turnover
- Stock coverage
- Range of stock
- Obsolescence

During the current year management performed a range reduction that resulted in a one-off mark down of the discontinued range. Refer note 7 for further details.

#### Deferred tax

Deferred tax assets have been recognised to the extent that carry forward losses are expected to be utilised in the future. Deferred tax assets is a critical accounting judgement area.

# REDgroup Retail Pty Limited

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## NOTES TO THE FINANCIAL STATEMENTS

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY (continued)

#### Gift cards

Gift card liability within deferred income is initially recorded at the gross liability then adjusted for estimated breakage. Historical redemption rates on expired cards are used to determine the estimated breakage rate. For details on the outstanding liability refer note 20.

#### Share based payments

Equity compensation provided under the share option scheme and management performance share scheme requires management judgement on the fair value and vesting of instruments under these schemes. For full details refer to note 27.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 5. REVENUE AND OTHER INCOME

	Consolidated	
	2010 \$'000	2009 \$'000
An analysis of the consolidated entity's revenue for the year is as follows:		
Revenue from sale of goods	580,951	648,730
Other income:		
Management fees	4,662	4,360
<i>Interest income:</i>		
Bank deposits	283	660
Interest on deferred consideration	226	639
Gain on store closure	-	2,592
Gain on disposal of stores	471	1,957
Other (i)	17,325	16,883
	<u>22,967</u>	<u>27,091</u>
Total revenue and other income	<u>603,918</u>	<u>675,821</u>

(i) Other includes commission income, rental income, supply rebate income and other income.

### 6. FINANCE COSTS

	Consolidated	
	2010 \$'000	2009 \$'000
Interest on bank overdraft and loans	8,166	6,984
Facility fees	2,436	3,801
Interest on convertible note	13,480	9,121
Other financing expense	-	1,007
	<u>24,082</u>	<u>20,913</u>

### 7. LOSS FOR THE PERIOD

	Consolidated	
	2010 \$'000	2009 \$'000
(a) Gains and losses		
Loss for the period has been arrived at after crediting / (charging) the following gains and losses:		
Net unrealised foreign currency (loss) / gain	1,155	(872)
Fair value (loss) / gain on interest rate swaps	217	(401)
Fair value (loss) / gain on foreign currency forward contract	688	(765)

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 7. LOSS FOR THE PERIOD

	Consolidated	
	2010 \$'000	2009 \$'000
<b>(b) Other expenses</b>		
Loss for the period includes the following expenses:		
Cost of sales (i)	346,754	353,169
Depreciation of non-current assets	12,645	12,770
Amortisation of intangible assets:	509	923
Impairment of non-current assets	220	1,324
Impairment of goodwill	105	1,561
Operating lease rental expenses	81,192	82,497
Salaries and wages	97,477	108,085
Post employment benefits (defined contribution plan)	6,150	6,252
Share based payments	(48)	(44)

(i) This balance includes a one-off inventory adjustment of \$30,317k during the current year resulting from the range reduction of Borders, Angus & Robertson and Whitcoulls.

### 8. INCOME TAX

	Consolidated	
	2010 \$'000	2009 \$'000
<b>(a) Income tax recognised in profit or loss</b>		
Tax expense comprises:		
Current tax (benefit) / expense	(13,573)	2,057
Tax losses not recognised	14,159	-
Deferred tax expense / (income) relating to the origination and reversal of temporary differences	(1,106)	(1,687)
Other	(125)	-
Total tax (income) / expense	(645)	370

**(b) The prima facie income tax expense / (benefit) on pre-tax accounting profit / (loss) reconciles to the income tax expense in the financial statements as follows:**

Loss from ordinary activities	(43,615)	(14,373)
Income tax expense calculated at 30% of loss from ordinary activities	(13,085)	(4,312)
Non-deductible expenses / (non-assessable income)	339	6,197
Effect of higher / (lower) rates of tax on overseas income	(10)	-
(Over) / under provision from the prior year	(1,651)	(1,515)
Tax losses not recognised	14,159	-
Other	(397)	-
Income tax (benefit) / expense attributable to the operating loss	(645)	370

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 8. INCOME TAX (continued)

	Consolidated	
	2010 \$'000	2009 \$'000
(c) The following tax losses have not been brought to account as deferred tax assets		
Tax losses (gross)	70,492	22,422
	70,492	22,422

	Consolidated			
	Opening balance \$'000	Charged to income \$'000	Acquisitions \$'000	Closing balance \$'000
(d) Deferred tax assets / (liabilities) arise from the following (tax effected):				
2010				
Temporary differences:				
Other	422	(52)	-	370
	422	(52)	-	370
Provisions & accruals	10,330	1,966	-	12,296
Doubtful debts & impairment losses	36	(10)	-	26
Plant & equipment	853	1,423	-	2,276
	11,219	3,379	-	14,598
	11,641	3,327	-	14,968
Unused tax losses:				
Tax losses	7,600	(2,221)	-	5,379
	19,241	1,106	-	20,347

	Consolidated			
	Opening balance \$'000	Charged to income \$'000	Acquisitions \$'000	Closing balance \$'000
2009				
Temporary differences:				
Other	-	422	-	422
	-	422	-	422
Provisions & accruals	14,086	(3,756)	-	10,330
Doubtful debts & impairment losses	82	(46)	-	36
Plant & equipment	-	853	-	853
	14,168	(2,949)	-	11,219
	14,168	(2,527)	-	11,641
Unused tax losses:				
Tax losses	3,386	4,214	-	7,600
	17,554	1,687	-	19,241

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 8. INCOME TAX (continued)

On 1 June 2004 the directors elected that REDgroup Retail Pty Limited and its wholly owned Australian subsidiaries would join a tax consolidated group effective 1 June 2004. As a result, from that date all income tax expenses, revenues, assets and liabilities of the Australian entities within the group are recognised in the financial statements of the ultimate parent entity, REDgroup Retail Pty Limited. Entities within the tax consolidated group have entered into a tax-sharing agreement and a tax funding arrangement with the head entity. Under the terms of the tax funding arrangement, REDgroup Retail Pty Limited and each of the entities in the tax consolidated group has agreed to pay a tax equivalent payment to or from the head entity, based on the estimated net taxable income or loss of the entity and the current tax rate. Such amounts are reflected in amounts receivable from or payable to other entities in the tax consolidated group.

The tax sharing agreement entered into between members of the tax-consolidated group provides for the determination of the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement as payment of any amounts under the tax sharing agreement is considered remote.

### 9. KEY MANAGEMENT PERSONNEL COMPENSATION

The directors and other members of key management personnel of REDgroup Retail Pty Limited during the year were:

#### Directors

R. Walker	Chairman (Resigned 31/08/10)
R. Gardell	Non Executive Director
S. Cain	Chairman
N. Laurent	Non Executive Director (Resigned 24/11/09)
D. Fenlon	Group Managing Director (Resigned 4/11/10)
T. Ristevski	Chief Financial Officer

#### Executives

J. Gauder	Managing Director (Australia)
J. Webber	Managing Director (Business Development)
P. Kalan	Managing Director (New Zealand)

Short term employee benefits  
Post-employment benefits  
Share-based payments

Consolidated	
2010	2009
\$	\$
3,642,893	2,216,470
91,195	315,926
4,187	149,620
<u>3,738,275</u>	<u>2,682,016</u>

### 10. AUDITOR REMUNERATION

	Consolidated	
	2010	2009
	\$	\$
Auditor of the parent entity		
Audit or review of the financial report	324,042	442,115
Preparation of the tax return	170,911	220,984
Other non-audit services	772,302	2,017,076
	<u>1,267,255</u>	<u>2,680,175</u>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 10. AUDITOR REMUNERATION (continued)

	Consolidated	
	2010	2009
	\$	\$
Other auditors		
Audit or review of the financial report	-	156,753
Other non-audit services	-	14,167
	-	<u>170,920</u>

The auditor of REDgroup Retail Pty Limited is Deloitte Touche Tohmatsu.

### 11. CURRENT TRADE AND OTHER RECEIVABLES

	Consolidated	
	2010	2009
	\$'000	\$'000
Trade receivables	6,640	10,567
Allowance for doubtful debts	(849)	(764)
	<u>5,791</u>	<u>9,803</u>
Landlord receivables	-	1,100
Loans to franchisees	304	763
Deferred settlement	-	600
Other receivables	333	922
	<u>6,428</u>	<u>13,188</u>

#### Allowance for impairment of doubtful debts

Trade receivables are non-interest bearing and are generally on 30 day terms. A provision for impairment is recognised when there is objective evidence that an individual trade/other receivable is impaired. An impairment loss of \$402k for trade receivables (2009: \$435k), \$NIL for other receivables (2009: \$NIL) has been recognised by the Group in the current year. These amounts have been included in other expenses.

Movements in the provision for impairment loss in respect of trade receivables were as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
At the start of the year	(764)	(584)
Charge for the year	(402)	(435)
Amounts written off	26	255
Write backs for the year	291	-
At the end of the year	<u>(849)</u>	<u>(764)</u>

At the end of the year, the ageing analysis of trade receivables past due but not impaired is as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Past due (<30) days	1,097	1,218
Past due (30-60) days	740	585
Past due (60-90) days	368	323
Past due (>90) days	1,171	1,709
Total	<u>3,376</u>	<u>3,835</u>

There have been no renegotiations that have had an impact on the ageing analysis of trade receivables past due but not impaired.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

At year end, the ageing analysis of impaired trade receivables is as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Past due (<30) days	2	22
Past due (30-60) days	15	-
Past due (60-90) days	23	-
Past due (>90) days	809	742
<b>Total</b>	<b>849</b>	<b>764</b>

### Fair value and credit risk

Due to the short term nature of these receivables, their carrying value is assumed to approximate to their fair value. The maximum exposure to credit risk is the carrying value of receivables. The Group does not hold any collateral over these balances.

## 12. INVENTORIES

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Finished goods</b>		
At cost	97,134	103,717
At net realisable value	13,648	42,552
	<b>110,782</b>	<b>146,269</b>

## 13. OTHER ASSETS

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Current</b>		
Prepayments	1,897	2,407
	<b>1,897</b>	<b>2,407</b>
<b>Non-current</b>		
Security deposit	1,227	1,270
	<b>1,227</b>	<b>1,270</b>

## 14. OTHER FINANCIAL ASSETS

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Financial assets carried at fair value through profit or loss (FVTPL)</b>		
Interest rate swap	10	-
	<b>10</b>	<b>-</b>
<b>Available-for-sale investments</b>		
Shares in Kobo Inc (i)	1,041	-
	<b>1,041</b>	<b>-</b>
	<b>1,051</b>	<b>-</b>

- (i) The Group holds 4% of the ordinary share capital of Kobo Inc, a company incorporated in Canada and engaged in providing downloadable eContent including eBooks. Shares in Kobo Inc are carried at cost as the equity instruments do not have a quoted market price in an active market and the fair value cannot be measured reliably.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 15. PLANT AND EQUIPMENT

	Consolidated				TOTAL
	Fixtures, Fittings & Leasehold Improvements \$'000	Office Equipment \$'000	Computer Equipment \$'000	Capital Work in Progress \$'000	
<b>2010</b>					
<b>Gross carrying amount</b>					
Balance at 29 August 2009	83,191	4,740	8,698	1,346	97,975
Additions	7,996	263	3,821	1,942	14,022
Transfers	690	-	-	(690)	-
Disposals	(2,732)	(47)	(299)	-	(3,078)
Net foreign currency exchange differences	(436)	(22)	(56)	(6)	(520)
Balance at 28 August 2010	<u>88,709</u>	<u>4,934</u>	<u>12,164</u>	<u>2,592</u>	<u>108,399</u>
<b>Accumulated depreciation</b>					
Balance at 29 August 2009	29,881	1,510	4,617	-	36,008
Disposals	(2,062)	(43)	(180)	-	(2,285)
Depreciation expense	9,823	783	2,039	-	12,645
Impairment	220	-	-	-	220
Net foreign currency exchange differences	(214)	(17)	(36)	-	(267)
Balance at 28 August 2010	<u>37,648</u>	<u>2,233</u>	<u>6,440</u>	<u>-</u>	<u>46,321</u>
<b>2009</b>					
<b>Gross carrying amount</b>					
Balance at 30 August 2008	72,316	3,515	4,880	2,843	83,554
Additions	11,181	1,311	4,592	-	17,084
Disposals	(1,887)	(90)	(779)	-	(2,756)
Transfers	1,505	-	-	(1,505)	-
Net foreign currency exchange differences	76	4	5	8	93
Balance at 29 August 2009	<u>83,191</u>	<u>4,740</u>	<u>8,698</u>	<u>1,346</u>	<u>97,975</u>
<b>Accumulated depreciation</b>					
Balance at 30 August 2008	20,073	787	3,395	-	24,255
Disposals	(731)	(58)	(1,513)	-	(2,302)
Depreciation expense	9,252	782	2,737	-	12,771
Impairment	1,318	6	-	-	1,324
Net foreign currency exchange differences	(32)	(7)	(2)	-	(41)
Balance at 29 August 2009	<u>29,881</u>	<u>1,510</u>	<u>4,617</u>	<u>-</u>	<u>36,007</u>
<b>Net book value</b>					
At 28 August 2010	<u>51,061</u>	<u>2,701</u>	<u>5,724</u>	<u>2,592</u>	<u>62,078</u>
At 29 August 2009	<u>53,310</u>	<u>3,230</u>	<u>4,081</u>	<u>1,346</u>	<u>61,967</u>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 16. GOODWILL

	Consolidated \$'000
<b>Gross carrying amount</b>	
Balance at 30 August 2008	153,663
Amount recognised from business combinations	1,245
Amount derecognised on disposal of stores	(487)
Derecognition of goodwill on deferred acquisition payment	(9,458)
Balance at 29 August 2009	144,963
Amount recognised from business combinations	830
Adjustment to goodwill for deferred acquisition payment	222
Balance at 28 August 2010	146,015
<b>Accumulated impairment losses</b>	
Balance at 30 August 2008	-
Impairment losses for the year	(1,561)
Balance at 29 August 2009	(1,561)
Impairment losses for the year	(105)
Balance at 28 August 2010	(1,666)
<b>Net book value</b>	
At the beginning of the financial year	143,402
At the end of the financial year	144,349

During the previous financial year, the Group recorded an impairment associated with the Group's newsagency network.

#### Allocation of goodwill to cash generating units

Goodwill has been allocated for impairment testing purposes to the cash-generating units as follows:

	Consolidated	
	2010 \$'000	2009 \$'000
Operations in Australia and Singapore	67,195	67,195
Operations in New Zealand	57,175	57,175
Speciality Retail	19,979	19,032
	144,349	143,402

The recoverable amount of a cash generating unit is determined based on a value in use calculation which uses cash flow projections based on financial budgets approved by management covering a one year period. Discount factors of 11.92% (2009: 10.21% - Australian operations) and 11.92% (2009: 10.21% - New Zealand operations) were applied in the value in use model. Cash flows beyond the one year period have been extrapolated using a steady growth rate equivalent of 3% CPI based on the Reserve Bank of Australia and Reserve Bank of New Zealand target inflation rates (2009: 3%). The growth rate used does not exceed the long term average growth rate for the market in which the cash generating unit operates. Cash flow for businesses with major expansion plans have been based on the 3-5 year growth projection for those businesses. Management believes that any reasonable possible change in the key assumptions on which recoverable amount is based would not cause the cash generating units carrying amount to materially exceed its recoverable amount.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 17. INTANGIBLE ASSETS

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Software assets</b>		
Gross carrying amount		
Balance beginning of financial year	9,337	7,717
Additions	270	1,775
Disposals	(100)	(160)
Net foreign currency exchange differences	(83)	5
Balance at end of financial year	9,424	9,337
<b>Accumulated amortisation</b>		
Balance beginning of financial year	7,446	6,567
Amortisation	509	923
Disposals	(10)	(47)
Net foreign currency exchange differences	(65)	3
Balance at end of financial year	7,880	7,446
<b>Net book value</b>		
At the beginning of the financial year	1,891	1,150
At the end of the financial year	1,544	1,891
<b>Other intangible assets</b>		
Brand name license (i)	5,000	5,000
	6,544	6,891

- (i) The Group holds an indefinite life brand name license for the Borders brand. The carrying value of the brand name is tested for impairment annually as part of the goodwill impairment testing. No impairment has been recognised in the current year (2009:\$Nil).

### 18. TRADE AND OTHER PAYABLES

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Current</b>		
Trade payables	56,488	63,072
Accruals	20,707	19,480
Sundry creditors	2,861	1,146
	80,056	83,698
<b>Non-current</b>		
Deferred acquisition costs	-	1,584
	-	1,584

### 19. OTHER FINANCIAL LIABILITIES

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Financial liabilities carried at fair value through profit or loss</b>		
Interest rate swaps	-	207
Foreign currency forward contracts	43	731
	43	938

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 20. OTHER LIABILITIES

	2010	Consolidated 2009	2008
	S'000	S'000	S'000
<b>Current</b>			
Deferred lease liabilities	2,804	1,048	843
Deferred income	10,602	16,788	15,213
	<b>13,406</b>	<b>17,836</b>	<b>16,056</b>
<b>Non-current</b>			
Deferred lease liabilities	18,311	15,544	12,167
	<b>18,311</b>	<b>15,544</b>	<b>12,167</b>

### 21. PROVISIONS

	Consolidated		
	2010 S'000	2009 S'000	
<b>Current</b>			
Employee benefits	7,608	8,759	
Onerous contracts	92	126	
Other	-	81	
	<b>7,700</b>	<b>8,966</b>	
<b>Non-current</b>			
Employee benefits	858	2,654	
Onerous contracts	-	95	
Make good provision	2,703	2,735	
	<b>3,561</b>	<b>5,484</b>	
	<b>Onerous contracts</b>	<b>Consolidated</b>	<b>Other</b>
	<b>S'000</b>	<b>Make good provision</b>	<b>S'000</b>
		<b>S'000</b>	
<b>Provisions</b>			
Opening balance at 30 August 2009	221	2,735	81
Additional provision recognised	-	-	-
Reduction arising from payment	(129)	(32)	(81)
Closing balance at 28 August 2010	<b>92</b>	<b>2,703</b>	<b>-</b>

### 22. LEASES

	Consolidated	
	2010 S'000	2009 S'000
<b>Operating leases</b>		
<u>Leasing arrangements</u>		
Not later than 1 year	69,898	71,244
Later than 1 year and not later than 5 years	194,520	195,095
Later than 5 years	103,197	117,464
	<b>367,615</b>	<b>383,803</b>

Operating leases relate to the leasing of office equipment, motor vehicles and retail outlets. The lease terms range predominantly from between 1 to 15 years with options to extend. The company does not have an option to purchase the leased assets at the expiry of the lease.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 23. BORROWINGS

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Current</b>		
<i>Secured – at amortised cost</i>		
Commercial advance (i)	3,700	800
Amortising term facility (ii) (iii)	7,444	12,524
Supanews capex facility (ii)(iv)	2,500	-
Borders capex facility (ii)(iv)	4,178	-
Revolving working capital facility (ii)(v)	59,492	38,334
Retail note (vi)	28,578	-
	105,892	51,658
<i>Unsecured</i>		
Bank overdraft	469	731
Prepaid borrowing costs	(592)	(1,537)
	(123)	(806)
	105,769	50,852
<b>Non-current</b>		
<i>Secured – at amortised cost</i>		
Commercial advance (i)	-	3,700
Amortising term facility (ii) (iii)	-	7,518
Supanews capex facility (ii)(iv)	-	2,500
Borders capex facility (ii)(iv)	-	4,178
Retail note (vi)	-	29,351
Convertible note (vii)	103,601	90,121
	103,601	137,368
<i>Unsecured</i>		
Prepaid borrowing costs	-	(384)
	103,601	136,984

- (i) Interest is calculated at a rate of 6.40% (2009: 5.98%) per annum as at 28 August 2010. Secured by a fixed and floating charge over all the assets and undertakings of Supanews Retail Pty Ltd and an unlimited guarantee provided by Supanews Holdings P/L.
- (ii) Part of the Senior Syndicated Facility Agreement secured by a fixed and floating charge over the assets and undertakings of the wholly owned Group. Facility in respect of these borrowings terminates in December 2010.
- (iii) Interest is calculated at a weighted average rate of 8.68% (2009: 6.21%) per annum as at 28 August 2010.
- (iv) Interest is calculated at a rate of 9.18% (2009: 6.50%) per annum as at 28 August 2010.
- (v) Interest is calculated at a weighted average rate of 7.61% (2009: 5.82%) per annum as at 28 August 2010.
- (vi) The Retail Note has a second ranking to the assets of the wholly owned group, and is due for repayment 15 December 2010.
- (vii) The convertible note matures 28 November 2017.

The Senior Debt and Retail Notes are classified as current borrowings as the Senior Syndicated Facility terminates and the Retail Note is redeemable in December 2010

The Group has successfully completed negotiations to refinance all external debt and a new senior facilities agreement with new lenders was signed prior to the approval of these financial statements. These new facilities have a term of two years and are sufficient to repay all existing external debts of the Group on or before the agreed repayment dates. In addition, these new facilities provide further additional funding in order to support the business plans of the Board and Management for the foreseeable future.

### 24. RETAINED EARNINGS

	Consolidated	
	2010 \$'000	2009 \$'000
Balance at beginning of financial year	5,088	23,129
Share buy back	-	(1,361)
Adjustment against equity for acquiring minority interest	-	(1,444)
Net loss attributable to members of the parent entity	(42,970)	(15,236)
Balance at end of financial year	(37,882)	5,088

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 25. RESERVES

	Consolidated	
	2010 \$'000	2009 \$'000
Foreign currency translation reserve	932	1,684
Employee equity reserve	381	429
	<u>1,313</u>	<u>2,113</u>
Foreign currency translation reserve		
Balance at beginning of financial year	1,684	1,797
Translation of foreign operations	(752)	(113)
Balance at end of financial year	<u>932</u>	<u>1,684</u>

Exchange differences relating to the translation from New Zealand and Singapore dollars, being the functional currency of the consolidated entity's foreign controlled entities in New Zealand and Singapore respectively, into Australian dollars are brought to account by entries made directly to the foreign currency translation reserve.

	Consolidated	
	2010 \$'000	2009 \$'000
Employee equity benefits reserve		
Balance at beginning of financial year	429	473
Movement during the year	(48)	(44)
Balance at end of financial year	<u>381</u>	<u>429</u>

The employee equity benefits reserve is used to record the value of equity benefits provided to executives under the employee share scheme. Further information is made in Note 27 to the financial statements.

	Consolidated	
	2010 \$'000	2009 \$'000
Financial equity reserve		
Balance at beginning of financial year	-	42,851
Reduction due to repayment of shareholder loan	-	(42,851)
Balance at end of financial year	<u>-</u>	<u>-</u>

Represented funds from the Company's major shareholder. Funds were repaid to shareholder on refinancing of the senior syndicated facility

### 26. ISSUED CAPITAL

	Parent Entity		Parent Entity	
	2010 Shares	2009 Shares	2010 \$'000	2009 \$'000
Fully paid ordinary shares	61,896,794	61,162,354	73,494	72,302
Movement in ordinary share capital				
Balance at beginning of financial year	61,162,354	46,790,001	72,302	46,812
New fully paid ordinary shares issued during the year	734,440	15,882,353	1,191	27,000
Bought back and cancelled during the year	-	(1,510,000)	-	(1,510)
Balance at end of financial year	<u>61,896,794</u>	<u>61,162,354</u>	<u>73,493</u>	<u>72,302</u>

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

Changes to the then Corporations Law abolished the authorised capital par value concept in relation to share capital from 1 July 1998. Therefore, the company does not have a limited amount of authorised capital and issued shares do not have a par value.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 26. ISSUED CAPITAL (continued)

#### Share options

##### *Employee and director share option scheme*

During the financial year, no options were issued over ordinary shares to employees. At the end of the year there were 2,950,000 unissued ordinary shares in respect of which options were outstanding. Details are provided in note 27.

#### Management Performance Shares

During the financial year 1,050,000 management performance shares were issued to employees. At the end of the year there were 15,550,000 management performance shares outstanding. Details are provided in note 27.

### 27. SHARE BASED PAYMENTS

#### Employee Share Option Scheme

An employee share option scheme has been established where the Company may, at the discretion of the board, grant options over the ordinary shares of REDgroup Retail Pty Limited to senior management and employees of staff of the Group. The options are granted in accordance with guidelines established by the Directors of the Company.

Information with respect to the number of options granted under the employee share incentive scheme is as follows:

	2010		2009	
	Number of options	Weighted average exercise price \$	Number of options	Weighted average exercise price \$
Balance at beginning of financial year	3,511,408	2.33	7,263,908	2.55
Cancelled during the financial period	(561,408)	2.51	(3,752,500)	2.27
Balance at end of period	2,950,000	2.29	3,511,408	2.33
Exercisable at end of period	2,903,171	2.31	3,390,334	2.37

Executive share options carry no rights to dividends and no voting rights.

#### (a) Options granted during the reporting period

There were no options granted by REDgroup Retail Pty Limited to employees during the year.

#### (b) Options exercised/lapsed

There were no options exercised by employees during the year ended 28 August 2010, nor did any options lapse.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 27. SHARE BASED PAYMENTS (continued)

#### (c) Options held as at the end of the reporting period

The following table summarises information about options held by the employees as at 28 August 2010:

Number of options	Grant date	Vesting date	Expiry date	Actual exercise price
250,568	03 April 2005	Note (i)	Note (ii)	1.00
250,568	03 April 2005	On issue	Note (ii)	1.50
238,038	03 April 2005	On issue	Note (ii)	2.00
225,511	03 April 2005	On issue	Note (ii)	2.50
225,511	03 April 2005	On issue	Note (ii)	2.75
559,804	03 April 2005	On issue	Note (ii)	3.75
<u>1,750,000</u>				
7,160	17 October 2005	Note (i)	Note (ii)	1.00
7,160	17 October 2005	On issue	Note (ii)	1.50
6,803	17 October 2005	On issue	Note (ii)	2.00
6,443	17 October 2005	On issue	Note (ii)	2.50
6,443	17 October 2005	On issue	Note (ii)	2.75
15,991	17 October 2005	On issue	Note (ii)	3.75
<u>50,000</u>				
50,113	23 June 2006	Note (i)	Note (ii)	1.00
50,113	23 June 2006	On issue	Note (ii)	1.50
47,609	23 June 2006	On issue	Note (ii)	2.00
45,103	23 June 2006	On issue	Note (ii)	2.50
45,103	23 June 2006	On issue	Note (ii)	2.75
111,959	23 June 2006	On issue	Note (ii)	3.75
<u>350,000</u>				
63,381	20 August 2007	Note (i)	Note (ii)	1.00
23,864	20 August 2007	On issue	Note (ii)	1.43
18,842	20 August 2007	On issue	Note (ii)	1.50
17,901	20 August 2007	On issue	Note (ii)	2.00
16,958	20 August 2007	On issue	Note (ii)	2.50
16,958	20 August 2007	On issue	Note (ii)	2.75
42,096	20 August 2007	On issue	Note (ii)	3.75
<u>200,000</u>				
14,319	14 September 2007	On issue	Note (ii)	1.43
76,230	14 September 2007	On issue	Note (ii)	1.50
80,536	14 September 2007	On issue	Note (ii)	2.00
94,341	14 September 2007	On issue	Note (ii)	2.50
94,341	14 September 2007	On issue	Note (ii)	2.75
240,233	14 September 2007	On issue	Note (ii)	3.75
<u>600,000</u>				
<u>2,950,000</u>				

(i) Vesting date – These options will vest over the 5 years after issue, 20% of such options vesting each year.

(ii) Expiry date – The expiration date of an option is the earlier of:

- the date 10 years from the date on which the option is granted; or
- the date on which any condition relating to the exercise of the option can no longer be satisfied, and unless the option has already been exercised or lapsed the option will automatically lapse on the expiration date.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 27. SHARE BASED PAYMENTS (continued)

#### Management Performance Shares

The Group has a management performance share scheme (MPS) where performance shares in REDgroup Retail Pty Limited were granted to senior management and certain employees of the Group. The MPS shares are partly paid shares that convert to ordinary shares when fully paid following an exit event.

The following table summarises information about MPS held by the employees as at 28 August 2010:

	Price range \$	Number of MPS shares 2009	Number of MPS shares issued	Number of MPS shares cancelled	Number of MPS shares 2010
Series A	1.70 – 2.02	7,037,873	365,871	(1,985,367)	5,418,377
Series B	2.21 – 2.63	7,037,873	365,871	(1,985,367)	5,418,377
Series C	2.55	3,992,599	207,560	(1,126,303)	3,073,856
Series D	3.40	1,064,693	55,349	(300,347)	819,695
Series E	4.25	1,064,693	55,349	(300,347)	819,695
		<u>20,197,731</u>	<u>1,050,000</u>	<u>(5,697,731)</u>	<u>15,550,000</u>

Series A & B have a strike price of \$1.70 and \$2.21 respectively escalating at 6% per annum compounding for 3 years.

Until conversion to ordinary shares, the MPS shares do not confer any entitlement to participate in the profits or assets of the Company or any right to receive notice of, attend or vote at any meeting of REDgroup Retail Pty Limited.

For expense calculation purposes the following has been assumed:

Vesting date – The MPS shares vest over 3 years after issue.

Valuation – The fair value per share was determined by an independent expert.

#### Share Based Payments Expense

The effect of share-based payment transactions on the Group's loss for the period was a gain of \$48k (2009: gain of \$43k).

### 28. ACQUISITION OF BUSINESSES

During the financial year Angus & Robertson Pty Ltd acquired businesses to add to its existing store network. The total cost of acquisition amounted to \$153k paid in cash. On acquisition the fair value of the acquirees' identifiable assets, liabilities and contingent liabilities was assessed as the carrying value on date of acquisition.

Supanews Retail Pty Ltd acquired the business of a competing newsagency. The total cost of acquisition amounted to \$830k which was paid in cash. The identifiable assets, liabilities and contingent liabilities were assessed as nil with the cost of acquisition allocated to goodwill.

Goodwill arose through the business combinations because the cost of the combination included a premium paid. The consideration paid for the combination effectively included amounts in relation to the benefit of expected synergies, value of growth opportunities and the ability to provide improved products and services. These benefits are not recognised separately from goodwill as the future economic benefits arising from them cannot be reliably measured.

### 29. CONTINGENT LIABILITIES

	Consolidated	
	2010 \$'000	2009 \$'000
Bank guarantees	<u>3,672</u>	<u>3,554</u>

For the financial year ended 28 August 2010, the group was subject to financial covenants imposed by the lender of the debt facilities. If these covenants were not complied with the lender had the right to declare an event of default under the terms of the financial agreement.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 30. CONTROLLED ENTITIES

Name of Entity	Country of Incorporation	Ownership Interest 2010 %	Ownership Interest 2009 %
<b>Parent Entity</b>			
REDgroup Retail Pty Limited (i)	Australia		
<b>Controlled Entities</b>			
A&R Australia Holdings Pty Limited (ii) (iv)	Australia	100%	100%
Angus & Robertson (Travel) Pty Limited (a)	Australia	-	100%
Angus & Robertson Pty Ltd (ii) (iv)	Australia	100%	100%
Angus & Robertson Australia Pty Limited (a)	Australia	-	100%
Angus & Robertson Bookworld Calendar Club Pty Ltd (ii) (iv)	Australia	100%	100%
Calendarclub.com.au Pty Ltd (c)	Australia	-	100%
Borders Australia Pty Ltd (ii) (iv)	Australia	100%	100%
Eureka Newco Pty Ltd (b)	Australia	-	100%
REDgroup Online Pty Limited (ii) (iv)	Australia	100%	100%
REDgroup Retail Administrative Services Pty Limited (ii) (iv)	Australia	100%	100%
Spine Holdco Pty Limited (ii) (iv)	Australia	100%	100%
Spine Newco Pty Limited (ii) (iv)	Australia	100%	100%
Supanews Retail Pty Limited (iii)	Australia	100%	100%
Supanews Holdings Pty Limited (iii)	Australia	100%	100%
Whitcoulls Finance Pty Limited (a)	Australia	-	100%
Whitcoulls Group Holdings Pty Limited (ii) (iv)	Australia	100%	100%
Borders New Zealand Limited	New Zealand	100%	100%
Calendar Club New Zealand Limited	New Zealand	100%	100%
REDgroup Online Limited	New Zealand	100%	100%
WGL Retail Holdings Limited	New Zealand	100%	100%
Whitcoulls Group Limited	New Zealand	100%	100%
Borders Pte Limited	Singapore	100%	100%

(i) REDgroup Retail Pty Limited is the head entity within the Australian tax consolidated group.

(ii) These companies are members of the Australian tax consolidated group.

(iii) These companies are members of the Supanews tax consolidated group.

(iv) These wholly owned subsidiaries have entered into a deed of cross guarantee with REDgroup Retail Pty Limited pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge audited financial statements.

(a) Company deregistered 29 March 2010.

(b) Company deregistered 26 April 2010.

(c) Company deregistered 19 May 2010.

### 31. DIVIDENDS

There were no dividends declared or paid during or since the end of the financial period.

	Consolidated	
	2010 S'000	2009 S'000
Adjusted franking account balance (tax paid basis)	9,188	8,789
	<u>9,188</u>	<u>8,789</u>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 32. NOTES TO THE STATEMENT OF CASH FLOWS

#### (a) Reconciliation of cash and cash equivalents

For the purposes of the cash flow statement, cash and cash equivalents includes cash on hand and in banks, net of outstanding bank overdrafts. Cash and cash equivalents at the end of the financial period as shown in the cash flow statement is reconciled to the related items in the balance sheet as follows:

	Consolidated	
	2010	2009
	\$'000	\$'000
Cash and cash equivalents	15,191	8,764
Current borrowings - bank overdraft	(469)	(731)
Balances per statement of cash flows	<u>14,722</u>	<u>8,033</u>

#### (b) Reconciliation of profit for the period to net cash flows from operating activities

	Consolidated	
	2010	2009
	\$'000	\$'000
(Loss) for the period	(42,970)	(14,743)
Net foreign currency loss / (gain)	(1,155)	871
Depreciation of non-current assets	12,645	12,770
Amortisation of non-current assets	509	923
Amortisation of prepaid borrowing costs	1,537	777
Interest received	(283)	(660)
Impairment of trade receivables	402	435
Impairment of inventory	30,993	4,048
Impairment of assets	220	1,324
Impairment of goodwill	105	1,562
(Gain)/Loss on sales or disposal of non-current assets	432	-
(Gain) on sale of business	(471)	(1,957)
Capitalised interest costs	13,254	8,482
Other non-cash items	(92)	321
Changes in working capital, net of effects from acquisition of business:		
(Increase) / decrease in assets:		
Current receivables	5,299	(51)
Current inventories	3,226	5,220
Other current and non-current assets	536	784
Non current receivables		
(Increase) / decrease in tax balances	(2,755)	(543)
Increase / (decrease) in liabilities:		
Current payables	(2,110)	(7,257)
Current and non-current provisions	(3,088)	(2,057)
Other current and non-current liabilities	(3,944)	5,159
Net cash (used in) / provided by operating activities	<u>12,290</u>	<u>15,408</u>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 32. NOTES TO THE STATEMENT OF CASH FLOWS (continued)

#### (c) Financing facilities

	Consolidated	
	2010 S'000	2009 S'000
Secured loan facilities:		
<i>Amortising term facility</i>		
Amount used	7,444	20,042
Amount unused	-	-
<i>Commercial advance</i>		
Amount used	3,700	4,500
Amount unused	-	-
<i>Supanews capex facility</i>		
Amount used	2,500	2,500
Amount unused	-	-
<i>Borders capex facility</i>		
Amount used	4,178	4,178
Amount unused	822	822
<i>Retail note</i>		
Amount used	28,578	29,351
Amount unused	-	-
<i>Convertible note</i>		
Amount used	103,601	90,121
Amount unused	-	-
Letter of credit - other	-	2,384
<i>Working capital facility</i>		
Amount used – revolving facility	59,492	38,334
Amount used – letter of credit	3,671	3,554
Amount unused	1,837	23,112
Amount used	213,164	194,964
Amount unused	2,659	23,934

### 33. FINANCIAL INSTRUMENTS

#### (a) Significant accounting policies

Details of the significant accounting policies and methods adopted (including the criteria for recognition, the basis of measurement and the basis on which revenues and expenses are recognised) for each class of financial asset, financial liability and equity instrument are disclosed in note 3 to the financial statements.

#### (b) Financial risk management objectives and policies

The consolidated entity's activities expose it to a variety of financial risks, including foreign currency risk, interest rate risk, liquidity risk and credit risk.

The consolidated entity manages its exposure to key financial risks in accordance with the Group's financial risk management policy. This includes monitoring levels of exposure to foreign exchange risk and assessments of market forecasts for foreign exchange. Where appropriate, the Group uses derivative financial instruments such as forward exchange contracts and interest rate swaps in order to hedge foreign exchange and interest rate risk exposure. Ageing analysis and monitoring of specific credit allowances are undertaken on a monthly basis to manage credit risk, and cash flow is monitored on a daily basis for liquidity risk.

There have been no changes to the Group's exposure to financial risks or the manner in which it manages and measures these risks from the previous year.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 33. FINANCIAL INSTRUMENTS

The Group and the Company hold the following financial assets and liabilities at reporting date:

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Financial assets</b>		
Cash and cash equivalents	15,191	8,764
Trade and other receivables	6,428	13,188
Interest rate swap	10	-
Available for sale investments	1,041	-
<b>Financial liabilities</b>		
Trade and other payables	80,056	83,698
Interest rate swap	-	207
Foreign currency forward contract	43	731
Borrowings	209,962	189,757

#### (c) Capital risk policy

The Group manages its capital to ensure that companies within the Group are able to continue operating as a going concern while maximising the return to stakeholders through the optimisation of the debt and equity balance.

The Group's overall strategy remains unchanged from prior year, however the composition of its debt at the date of this report is being re-assessed to optimise the consolidated entities trading cash-flow into the future.

The capital structure of the Group consists of debt, which includes the borrowings disclosed in note 23, cash and cash equivalents and equity attributable to equity holders of the parent, comprising issued capital, reserves and retained earnings as disclosed in notes 24, 25 and 26 respectively.

For the year ended 28 August 2010 the Group was subject to interest cover, gearing and cash flow covenants through its financing facility with external financiers. At August 2010, the Group breached its interest cover and gearing covenants. The Group obtained a waiver for this breach of covenants from its financiers conditional on additional reporting requirements. At the date of this report the Group had met the additional requirements imposed.

The Board of Directors review the capital structure on an ongoing basis. As part of the review the Directors consider the cost of capital and the risks associated with each class of capital.

#### (d) Interest rate risk

The Group is exposed to interest rate risk as it borrows funds at floating as well as fixed interest rates. The risk is monitored periodically and managed by the Group by maintaining an appropriate mix between fixed and floating rate borrowings through the use of interest rate swap contracts.

The Group's exposure to interest rates on financial assets and financial liabilities is detailed in the liquidity risk management section of this note.

Interest rates are subject to review at six monthly intervals.

#### Interest rate sensitivity analysis

The following table details the Group sensitivity to a 100 basis point increase and 25 basis point decrease in interest rates. The Group is using a sensitivity of 100 basis points increase and 25 basis point decrease as management considers this to be reasonable having regard to the historic movements in interest rates.

A positive number represents an increase in profit or equity and a negative number a decrease in profit or equity.

	Profit after tax Consolidated	
	2010 \$'000	2009 \$'000
100 basis point increase in interest rates with all other variables held constant	(498)	(536)
25 basis point decrease in interest rates with all other variables held constant	124	134

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 33. FINANCIAL INSTRUMENTS

#### (e) Interest rate swap contract

The Company and the Group uses interest rate swap contracts in managing its interest rate exposure.

Under interest rate swap contracts, the Group agrees to exchange the difference between fixed and floating rate interest amounts calculated on agreed notional principal amounts. Such contracts enable the Group to mitigate the risk of changing interest rates on the fair value of issued fixed rate debt held and the cash flow exposures on the issued variable rate debt held.

The following table details the notional principle amounts and remaining terms of interest rate swap contracts outstanding as at the reporting date:

Outstanding contracts:	Average Interest Rate		Notional principle amount		Fair Value	
	2010 %	2009 %	2010 S'000	2009 S'000	2010 S'000	2009 S'000
<b>Consolidated</b>						
Less than 1 year	4.64	-	10,687	-	10	-
1 to 2 years	-	4.10	-	11,150	-	(207)

#### (f) Credit risk

Credit risk refers to the risk that the counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has adopted a policy of only dealing with creditworthy counterparties as a means of mitigating the risk of financial loss from defaults. It is the Company's policy that customers who wish to trade on credit terms are subject to credit verification procedures including an assessment of their independent credit rating, financial position, past experience and industry reputation.

The Group does not have any significant credit risk exposure to any single counterparty or any group of counterparties having similar characteristics.

The carrying amount of financial assets recorded in the financial statements, net of any allowance for impairment, represent the consolidated entity's maximum exposure to credit risk.

#### (g) Net fair value

Financial assets and financial liabilities are recorded in the financial statements with a carrying amount which approximates their net fair values.

#### (h) Foreign currency risk

The majority of the Group's operations are denominated in the functional currency of the country of operation and are therefore not exposed to foreign currency risk. That is, transactions and balances related to the Australian operations are denominated in Australian dollars, transactions and balances related to the New Zealand operations are denominated in New Zealand dollars and transactions and balances related to the Singapore operations are denominated in Singapore dollars.

The Group's exposure to foreign currency risk is New Zealand dollar borrowings and overseas purchases. A portion of the Group's exposure to foreign currency purchases is minimised through forward cover contracts. This cover usually extends for a maximum of 12 months. At reporting date the Group has forward exchange cover for USD\$2,584k (2009: USD\$3,097k) at forward rates ranging from 0.84 to 0.91, (2009: 0.56 to 0.84) maturing on or before December 2010 and GBPE150k (2009: Nil) at a forward rate of 0.57 (2009: Nil) maturing in September 2010.

The consolidated exposure to foreign currency risk at the reporting date was as follows:

	Consolidated	
	2010 S'000	2009 S'000
<b>Accounts payable at balance date:</b>		
United States Dollar Amounts Payable	2,955	1,602
Great Britain Pound Amounts Payable	153	72
<b>Borrowings:</b>		
Revolving working capital facility NZD	13,892	4,490
Retail Notes NZD	28,578	29,351
BOS Bullet Loan NZD	2,025	7,179

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 33. FINANCIAL INSTRUMENTS

#### *Foreign currency sensitivity analysis*

The following table details the entity's sensitivity to a 5% increase and 5% decrease in the Australia dollar against New Zealand dollar. The Group is using these sensitivities as management considers this to be reasonable having regards to historic movements of the exchange rate between the two currencies. The entity has no significant exposure to any other currencies.

	Profit after tax Consolidated	
	2010 \$'000	2009 \$'000
5% weakening of the AUD against the NZD with all other variables held constant	2,847	2,862
5% strengthening of the AUD against the NZD with all other variables held constant	(2,847)	(2,862)

The Group is exposed to USD and GBP cost inputs. Management hedge foreign currency payments at the inception of each individual contract for a period of up to 3 months which represents the working capital economic cycle, however foreign currency denominated purchases only represents approximately 5% of total group purchases.

#### (i) Liquidity risk

The Group manages liquidity risk by maintaining adequate reserves, banking facilities and reserve borrowing facilities by continuously monitoring forecast and actual cash flows and matching maturity profiles of financial assets and liabilities.

The following tables detail the consolidated entity's remaining contractual maturity for its financial liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the consolidated entity can be required to pay.

	Weighted Average Effective Interest Rates %	1 year or less \$'000	Over 1 to 5 years \$'000	More than 5 years \$'000	Total \$'000
<b>Consolidated</b>					
<b>28 August 2010</b>					
<b>Financial liabilities</b>					
Trade payables		56,488	-	-	56,488
Sundry creditors		2,861	-	-	2,861
Current tax payables		523	-	-	523
Bank loans	7.79%	79,324	-	-	79,324
Other loans	13.81%	29,370	-	285,915	315,285
Accruals		20,707	-	-	20,707
		<u>189,273</u>	<u>-</u>	<u>285,915</u>	<u>475,188</u>
<b>29 August 2009</b>					
<b>Financial liabilities</b>					
Trade payables		63,072	-	-	63,072
Sundry creditors		1,146	-	-	1,146
Current tax payables		2,010	-	-	2,010
Bank loans	6.16%	52,734	18,885	-	71,619
Other loans	13.65%	-	33,069	287,706	320,775
Accruals		19,480	-	-	19,480
		<u>138,442</u>	<u>51,954</u>	<u>287,706</u>	<u>478,102</u>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 33. FINANCIAL INSTRUMENTS

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into Levels 1 to 3 based on the degree to which the fair value is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices)
- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liabilities that are not based on observable market data (unobservable inputs).

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
<b>Financial assets at FVTPL</b>				
Interest rate swap	-	10		10
<b>Available-for-sale investments</b>				
Shares in Kobo	-	-	1,041	1,041
	-	10	1,041	1,051
<b>Financial assets at FVTPL</b>				
Foreign currency	-	43	-	43
	-	43	-	43

There were no transfers between Levels during the period.

### 34. CAPITAL COMMITMENTS

	Consolidated	
	2010 \$'000	2009 \$'000
<b>Plant &amp; equipment</b>		
Not later than 1 year	6,231	7,913

### 35. SEGMENT REPORTING

The Group has adopted AASB 8 Operating Segments with effect 30 August 2009.

AASB 8 requires operating segments to be identified on the basis of internal reports about components of the Group that are regularly reviewed by the chief operating decision makers in order to allocate resources to the segment and to assess its performance.

Information reported to the Group Executives for the purposes of resource allocation and assessment of performance is focused on the following segments:

- Books & entertainment media – Australia/Singapore
- Books & entertainment media – New Zealand
- Speciality retail – Australia / New Zealand

The Group has early adopted amendments to AASB 8 by AASB 2009-5 Further Amendments to Australian Accounting Standards arising from the Annual Improvements Project. The effect of this amendment is assets and liabilities are not disclosed on a segmental basis as that information is reported to the Group Executives on a consolidated basis.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 35. SEGMENT REPORTING (continued)

The following is an analysis of the Group's revenue by reportable operating segment for the periods under review:

Operating segment	Revenue from external customers	
	2010 \$'000	2009 \$'000
<b>Segment revenues</b>		
Books & entertainment media – Australia/Singapore	345,765	403,889
Books & entertainment media – New Zealand	166,037	186,561
Speciality retail	69,149	58,280
<b>Total operating segments</b>	<b>580,951</b>	<b>648,730</b>

The following is an analysis of the Group's revenue and result by reportable geographical location for the periods under review:

Geographical location	Revenue from external customers	Segment result
	\$'000	\$'000
<b>28 August 2010</b>		
Australia/Singapore	411,848	(16,556)
New Zealand	169,103	(3,486)
<b>Total geographical location</b>	<b>580,951</b>	<b>(20,042)</b>
<b>29 August 2009</b>		
Australia/Singapore	459,024	6,913
New Zealand	189,706	(1,672)
<b>Total geographical location</b>	<b>648,730</b>	<b>5,241</b>

The revenue reported above represents revenue generated from external customers. There were no inter-segment sales during the period.

The segment result adjusted for the stock impairment charge of \$30,317k was \$10,275 (\$8,505k for Australia/Singapore and \$1,770k for New Zealand).

Geographical segment results exclude the effect of interest revenue, finance costs and income tax. A reconciliation of segment results to profit before tax is provided as follows:

	28 August 2010 \$'000	29 August 2009 \$'000
<b>Segment results</b>	<b>(20,042)</b>	<b>5,241</b>
Interest revenue	509	1,299
Finance costs	(24,082)	(20,913)
<b>Loss before tax</b>	<b>(43,615)</b>	<b>(14,373)</b>

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 36. PARENT ENTITY

	28 August 2010	29 August 2009
	\$'000	\$'000
<b>Financial Position</b>		
<b>Assets</b>		
Current assets	245	987
Non-current assets	270,827	261,295
<b>Total assets</b>	<u>271,072</u>	<u>262,282</u>
<b>Liabilities</b>		
Current liabilities	109,101	60,101
Non-current liabilities	116,739	138,568
<b>Total liabilities</b>	<u>225,840</u>	<u>198,669</u>
<b>Equity</b>		
Issued capital	73,493	72,302
Retained earnings	(28,642)	(9,118)
Employee equity benefits reserve	381	429
<b>Total equity</b>	<u>45,232</u>	<u>63,613</u>
<b>Financial Performance</b>		
Loss for the year	(19,523)	23,670
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<u>(19,523)</u>	<u>23,670</u>

REDgroup Retail Pty Limited is part of a deed of cross guarantee with wholly-owned subsidiaries. Refer to note 30 for details.

	28 August 2010	29 August 2009
	\$'000	\$'000
<b>Contingent liabilities of the parent entity</b>		
Bank guarantees	3,672	3,554

The parent entity has no contractual capital commitments (2009: Nil).

### 37. RELATED PARTIES

#### (a) Equity interests in related parties

The parent entity of the Group is REDgroup Retail Pty Limited. Details of the percentage of ordinary shares held in controlled entities are disclosed in note 30 to the financial statements.

#### (b) Other transactions with key management personnel and their related parties

During the year, key management personnel purchased goods, which were domestic or trivial in nature, from the Group on the same terms and conditions available to other employees or customers. There are no other transactions with key management personnel during the year.

# REDgroup Retail Pty Limited

## NOTES TO THE FINANCIAL STATEMENTS

### 38. CLOSED GROUP

Financial Position	28 August 2010 S'000	29 August 2009 S'000
<b>Assets</b>		
Current assets	84,139	114,082
Non-current assets	228,470	276,903
<b>Total assets</b>	<b>312,609</b>	<b>390,985</b>
<b>Liabilities</b>		
Current liabilities	170,291	121,887
Non-current liabilities	121,547	213,500
<b>Total liabilities</b>	<b>291,838</b>	<b>335,387</b>
<b>Equity</b>		
Issued capital	73,493	72,302
Retained earnings	(53,103)	(17,132)
Reserves	381	429
<b>Total equity</b>	<b>20,771</b>	<b>55,599</b>
<b>Financial Performance</b>		
Loss for the year	(35,971)	(15,643)
Other comprehensive income	-	-
<b>Total comprehensive income</b>	<b>(35,971)</b>	<b>(15,643)</b>

Entities party to the deed of cross guarantee are detailed in note 30.

### 39. SUBSEQUENT EVENTS

The financial statements were authorised by the Board of Directors for the issue on 2<sup>nd</sup> December 2010. The subsequent events disclosed represent known facts as at that date.

The Group has successfully completed negotiations to refinance all external debt and a new senior facilities agreement with new lenders was signed prior to the approval of these financial statements. These new facilities have a term of two years and are sufficient to repay all existing external debts of the Group on or before the agreed repayment dates. In addition, these new facilities provide further additional funding in order to support the business plans of the Board and Management for the foreseeable future.

### 40. ADDITIONAL COMPANY INFORMATION

REDgroup Retail Pty Limited is a proprietary company, incorporated and operating in Australia.

*Principal registered office*

Level 19  
8 Exhibition Street  
Melbourne VIC 3000

Tel: (03) 9285 3400

*Principal place of business*

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