



26 September 2006

Company Announcements Office
Australian Stock Exchange Limited

By Electronic Lodgment

Dear Sir,

RE: 2006 ANNUAL REPORT

We enclose the Company's 2006 Annual Report which is being sent to the company's shareholders.

Yours faithfully,

Howard Knapp
Company Secretary

diversified | specialty | retail

Unit 7, 29 Bridge Road, Stanmore NSW 2048
Telephone: (02) 8594-9292 Facsimile: (02) 9550-3573

www.retailcube.com.au

ABN 85 108 096 251

Annual Report 2006



retail cube

diversified | specialty | retail

AR06

RETAIL CUBE LIMITED
ABN 85 108 096 251

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Directors

Julia King (appointed on 3 January 2006)
Eric Melman (resigned on 3 January 2006)
Robert Estcourt (resigned on 3 April 2006)
William Bartlett
Michael Hale (resigned on 7 July 2006)
Michael Cooper
Michael Hirschowitz (Alternate Director)

Chief Financial Officer

Suresh Kumar

Company Secretary

Howard Knapp

Registered and Administration Office

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Share Registry

Computershare Investor Services Pty Limited
GPO Box 2975
Melbourne VIC 3001
Telephone: 1300 850 505

Auditors

PKF
Level 10, 1 Margaret Street
Sydney
NSW 2000

Bankers

Westpac Banking Corporation

Stock Exchange Listing

Australian Stock Exchange
(ASX Code: RCG)

EXECUTIVE CHAIRMAN'S REVIEW

It seems that all previous Chairman's Reviews have started with: "the past year has been very challenging for Retail Cube" and I see no reason to change that opening sentence. I hope this is the last time you have to read it in the Retail Cube Annual Report.

During the financial year 2006, New South Wales and Victoria have had a decline in retail performance generally and a downturn in the housing and renovation markets. This has had a deleterious effect on the retail revenue for both Amazing Paints and King of Knives. Both these businesses needed substantial investment in systems and controls and structural changes have been put in place to position the business to take advantage of improved conditions, already observed in both the housing and renovation market.

The second half of 2006 has seen an extensive change in the structure of the total Retail Cube businesses. There has been a change in responsibilities of the Retail Cube senior management group. This is designed to strategically strengthen the business we have, and to fulfil the original ambitions of the Retail Cube Group.

Further to this we have invited Peter Thomas to join the board of Retail Cube from 15 September 2006. Peter is a former partner with KPMG and is now in private practice as a tax advisor.

Despite the general retail malaise, The Athlete's Foot has had a stellar year in terms of sales and profits. In addition, the license agreement with the US licensor has been renegotiated on terms beneficial to us.

King of Knives has had substantial investment in new financial and inventory control systems. Further the management team of King of Knives has been upgraded during the second half of 2006.

Management control at Amazing Paints has been reorganised and upgraded and investment has been made in financial and business control systems. Administration cost has been reined in. The continued losses at Amazing Paints have forced us to re-examine the strategic value of this company to the group and we are currently in negotiations with more than one possible purchaser of the business as a continuing business, but no longer part of Retail Cube.

As a result of this, and based on other expressions of interest and our own internal analysis, the board has appointed an independent consultant to assess the strategic relevance and value of each of the separate sections of the total Retail Cube business. It may be that we should divest of one or more of the companies; or it may be that it is no longer in the long term interests of all the shareholders for Retail Cube to remain a listed entity.

Whatever the developments, the next few months will be crucial to the future of your investment and the future of Retail Cube.

The board would like to thank all the team at Retail Cube for the dedication and commitment during this particularly difficult period. We are looking forward to seeing the rewards of this input in the future performance of the company.

Yours faithfully



Julia King
Executive Chairman



CORPORATE GOVERNANCE STATEMENT

This Corporate Governance Statement outlines the Company's main corporate governance practices as at 25 August 2006. Unless otherwise stated, they also reflect the practices in place throughout the financial year ended 30 June 2006.

This Corporate Governance Statement also indicates the Company's conformance with the "Principles of Good Corporate Governance" issued by the Australian Stock Exchange (ASX) on 31 March 2003.

The Company has posted copies of its corporate governance practices to its website in accordance with the ASX Corporate Governance Council's recommendations.

BOARD

1. Introduction

1.1 The role of the Board is to oversee the management of the Company as well as providing strategic guidance. We have adopted a Board Charter which formally sets out the functions and responsibilities of the Board, and enables it to perform its role more effectively. It creates a system of checks and balances to provide a balance of authority.

2. Directors

2.1 The names of the directors of the Company in office at the date of this statement are set out in the Directors' Report together with information regarding:

- (1) the directors' relevant skills and experience;
- (2) the names of the directors considered to be independent directors; and
- (3) the term of office held by each director.

2.2 The number of directors as specified in the Company's constitution is a minimum of three. At no relevant time has the Company had less than this number. The current number of directors is three.

2.3 Retirement and rotation of directors is governed by the Corporations Act 2001 and the Company's constitution. At each Annual General Meeting, any director who has held office for three years, and any director who is appointed by the directors in the preceding year, must retire and is then eligible for re-appointment.

2.4 In order to facilitate independent judgement in decision making each director has the right to seek independent professional advice at the Company's expense.

ASX Best Practice Recommendation 2.5

3. Responsibilities

3.1 The responsibilities of the Board include:

- (1) oversight of the Company, including its control and accountability systems;
- (2) appointing and removing the CEO (or equivalent) including approving remuneration of the CEO and remuneration policy and succession plans for the CEO;
- (3) approving the strategic direction and related objectives of the Company;
- (4) monitoring financial operations and solvency;
- (5) approving the annual business plan and budgets;
- (6) reviewing the appointment and removal, by the CEO, of senior executives reporting to the CEO;

- (7) setting senior executive managements' performance targets, remuneration levels and succession plans;
- (8) monitoring performance by executive management and the achievement of business objectives and financial performance;
- (9) ensuring business risks are identified, monitored and managed and that there is a robust system of internal controls to safeguard the assets of the Company;
- (10) ensuring the Company's Code of Conduct is implemented and observed by all employees, contractors and professionals who have a business association with the Company;
- (11) approving the operating and capital expenditure levels of authority granted to the CEO and the senior executives and authorising any expenditure in excess of these levels;
- (12) authorising the release to the ASX of interim and final results and dividend declarations and other information;
- (13) authorising any issue of the Company's securities including options;
- (14) reviewing safety and environment issues; and
- (15) reviewing industrial relations issues and quality assurance.

3.2 Management of the business of the Company is conducted by the CEO (or Executive Chairman) as designated by the Board and by officers and employees to whom the management function is delegated by the CEO (or Executive Chairman).

The responsibilities delegated by the Board to the Company's management include managing day-to-day operations, developing and implementing corporate strategies and making recommendations on significant corporate strategic initiatives.

ASX Best Practice Recommendation 1.1

4. Structure

4.1 The Board's current structure is that only one of the directors, being one-third, is an independent non-executive director. Up to 3 January 2006 three of the directors, being a majority of the then total of five directors, were independent non-executive directors. By "independent" we mean that they are independent of management and free of any business or other relationship that could materially interfere with the exercise of independent judgement (see further point 5 below).

Whilst the current mix does not comply with ASX Best Practice Recommendation 2.1, the appointment on 3 January 2006 of an Executive Chairman with strong retailing experience and expertise was identified as necessary to strengthen the Board and enhance the Company's management given the challenging retail environment. Whilst there remained a strong independent influence on the Board, the Board recognises the need for an additional independent non-executive director and is actively engaged in recruiting an appropriately qualified individual.

4.2 The current Chairman of the Board is not an independent director. Mr Eric Melman, an independent non-executive director, resigned as Chairman on 3 January 2006 and Julia King was appointed Executive Chairman in his place. Whilst

CORPORATE GOVERNANCE STATEMENT

the appointment did not comply with ASX Best Practice Recommendation 2.2, the appointment of an Executive Chairman was considered to be in the best interests of the Company given its size, the need to optimise its financial and human resources and the desire to strengthen its retailing skills at the Board and senior management levels. It is expected the present arrangement will continue for the immediate future.

- 4.3 The role of CEO is not currently filled. Hence the roles of Chairperson and CEO are not exercised by the same individual although, for the reasons outlined above, the Chairman is currently an Executive Chairman and therefore performs a number of functions that would normally be performed by a CEO.

ASX Best Practice Recommendations 2.1, 2.2, 2.3

5. Independent Directors

- 5.1 Directors' are deemed to be independent if they are non-executive directors and:

- (1) are not substantial shareholders;
- (2) have not been employed in an executive capacity in the Company in the last three years;
- (3) are not members of management of the Company or its related entities;
- (4) have not been material consultants to the Company in the last three years;
- (5) are not material suppliers or customers of the Company;
- (6) have no material contractual relationship with the Company;
- (7) are not executive directors of the Company or its related entities; and

- (8) are free from any interest which could materially interfere with their ability to act in the best interests of the Company.

- 5.2 We assess the materiality thresholds referred to above on a case-by-case basis. The independence of each director is reviewed regularly by the Board

- 5.3 Notwithstanding the existence of any director relationship defined above, the Board recognises that a non-executive director may still be considered by the Board to be independent.

- 5.4 When reviewing the independence of any non-executive director, the Board shall consider all relevant factors, including:

- (1) whether the director is independent of management and free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the exercise of their unfettered and independent judgement;
- (2) the experience, background and skills offered by the non-executive director to the Board;
- (3) the Company's strategy and the skills required for this strategy;
- (4) the skills of other directors and whether they are complementary to the non-executive director's skills;
- (5) personal qualities of the non-executive director;
- (6) the size of the Company;
- (7) likely tenure of the non-executive director; and
- (8) the requirement for diverse opinions, with balanced participation and commitment by directors.

- 5.5 Mr Eric Melman resigned as a director and Chairman on 3 January 2006.
- 5.6 Subject to 5.7, during the period to his resignation, Mr Eric Melman did not technically satisfy the test of independence listed above because he and his associate had previously provided corporate advisory services to the Company.
- 5.7 However, the Board considered Mr Melman to be an independent director because:
- (1) Mr Melman had over 25 years experience in merchant banking, investment banking and financial markets;
 - (2) he was independent of management and was likely to exercise unfettered and independent judgement;
 - (3) he had experience, background and skills required by the Board, including experience in finance, mergers and acquisitions and banking;
 - (4) his skills were complementary to the skills of the Company's other directors;
 - (5) he offered personal qualities which promoted a critical and objective review of the Company's performance; and
 - (6) having regard to the Company's medium size, the Board considered there was no capacity to appoint additional independent directors.

ASX Best Practice Recommendations 2.1 and 2.5

6. Establishment of Committees

- 6.1 The Board has established the following committees:
- (1) Audit, Risk and Compliance Committee – to protect the integrity of financial reports, (further details of which are discussed in point 9 below).

ASX Best Practice Recommendation 4.2

- (2) Remuneration Committee – to ensure that the Company remunerates fairly and responsibly (further details of which are discussed in point 17 below).

ASX Best Practice Recommendation 9.2

- 6.2 The Board has not established a Nomination Committee to make recommendations for the appointment and removal of directors. This role is usually fulfilled by the non-executive directors. The Board considers that this practice provides a more efficient and appropriate mechanism for the needs of the Company, having regard to its size.

ASX Best Practice Recommendation 2.4

7. Composition of Committees

- 7.1 The Directors' Report sets out:
- (1) the names of the members of the Audit, Risk and Compliance Committee and Remuneration Committee; and
 - (2) each member's record of attendance at the meetings of the Committees.

ASX Best Practice Recommendations 2.5, 4.5, 9.5

FINANCIAL REPORTING

8. CEO & CFO Assurances

- 8.1 As part of our structure of financial review and authorisation both the CEO (or Executive Chairman) and CFO are required to provide written assurances to the Board that the financial reports present a true and fair view of the Company's financial position in all material respects and are in accordance with relevant accounting standards. This is designed to raise the level of management accountability for financial reporting.

ASX Best Practice Recommendation 4.1

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9. Internal Auditing

9.1 An independent Audit, Risk and Compliance Committee has been established by the Board to protect the integrity of financial reports as well as to monitor and review the effectiveness of the Company's structures in the areas of operational risk and legal and regulatory compliance. The importance of an Audit, Risk and Compliance Committee is universally recognised in the practice of good corporate governance and plays a key role in focusing the Board on matters relevant to the integrity of financial reporting.

In order to give the Audit, Risk and Compliance Committee the ability to exercise independent judgement it is structured so that it consists of at least two independent non-executive directors. (see 9.2 for additional information). Further the Chairperson of the Audit, Risk and Compliance Committee cannot be the Chairperson of the Board.

9.2 The Audit, Risk and Compliance Committee had 2 members during the initial part of the financial year ended 30 June 2006, both being independent non-executive directors. For its meeting on 30 September 2005, to review and make recommendations regarding the tenders received for the appointment of auditors, the then third independent non-executive director was temporarily appointed to the Committee as the Board considered it important that his views be available to the Committee on a matter of such importance. On 30 January 2006 the Board considered it appropriate that, given the Company's trading performance and financial circumstances and the need for all directors to be totally and fully acquainted with the same, all members of the Board should constitute the Audit, Risk and Compliance Committee for the time

being. As a result the Board does not anticipate that the Company will comply with ASX Best Practice Recommendation 4.3 (in that the audit committee will not consist solely of non-executive directors and a majority of independent directors) for the year ending 30 June 2007.

9.3 The Board considers that the composition of the Audit, Risk and Compliance Committee is appropriate to properly and efficiently carry out the duties of the Audit, Risk and Compliance Committee having regard to the current need to closely monitor and scrutinise the financial performance of the Company.

ASX Best Practice Recommendation 4.3

9.4 During the financial year ended 30 June 2006 and prior to Mr Eric Melman's resignation on 3 January 2006, the Audit, Risk and Compliance Committee consisted of:

- (1) Mr William Bartlett as Chairman; and
- (2) Mr Eric Melman, being the only other member.

Mr Michael Hale was appointed a temporary member for its meeting on 30 September 2005 to review and make recommendations regarding the appointment of auditors.

Currently the Committee comprises all Board members with Mr. Bartlett continuing as Chairman.

ASX Best Practice Recommendation 4.5

9.5 Charter of the Audit, Risk and Compliance Committee

The charter of the Audit, Risk and Compliance Committee sets out its role and responsibilities, structure and membership requirements.

Responsibilities

The responsibilities of the Audit, Risk and Compliance Committee include:

- (1) reviewing the Company's financial reporting and accounting policies and processes to ensure their accuracy and usefulness;
- (2) reviewing the system of internal control and management of financial and business risks;
- (3) appointing and removing auditors, approving the audit plan and the audit process;
- (4) evaluating the audit report and recommend any appropriate consequent actions;
- (5) reviewing and reporting to the Board on the annual and half year reports and financial statements; and
- (6) reviewing the Company's process for monitoring compliance with laws and regulations.

Meetings

The Committee will meet as frequently as required and at least twice a year.

Expertise

Every member of the Committee is able to read and understand financial statements and is required to obtain an understanding of the responsibilities of the Committee as well as the Company's business, operations and risks and at least one member is a qualified accountant or other financial professional with experience of financial and accounting matters.

Reporting

The Committee reports to the Board at the first Board meeting subsequent to each Committee meeting. Each report contains all matters relevant to the Committee's role and responsibilities.

ASX Best Practice Recommendations 4.4, 4.5, 7.1

10. External Auditing

- 10.1 The Board, subject to approval by members, is responsible for the appointment of external auditors and the terms of their engagement. The Committee reviews the performance of the external auditors and annually reviews the Company's policy on maintaining the independence of the external auditor. The independent external auditor reports directly to this Committee and the Board.

ASX Best Practice Recommendation 4.5

RISK MANAGEMENT

11. CEO & CFO Assurances

- 11.1 In order to create an environment for identifying and capitalising on opportunities, the Board has established a sound system of risk oversight and management. To encourage management accountability in this area both the CEO (or Executive Chairman) and CFO are required to provide written assurances to the Board (together with their assurances under point 8.1 above) that the Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

ASX Best Practice Recommendations 7.2.1, 7.2.2

12. Risk Management Policy

- 12.1 In order to recognise and manage risk we have established an internal compliance system under which risk is identified, assessed, monitored and managed. This structure is designed and implemented by the Audit, Risk and Compliance Committee as one of their key responsibilities but the Board oversees the establishment and implementation of the risk management system.

CORPORATE GOVERNANCE STATEMENT

Risk Profile and Risk Management Process

All material risks affecting the Company, including both financial and non-financial matters, are compiled into a risk profile. Such a profile is regularly reviewed and updated and forms the basis for the risk management system.

The Company requires controls at the Company and operating Group levels that are designed to safeguard the Company's interests and ensure the integrity of its reporting. These include accounting, financial reporting, safety, health and environment and other internal policies and procedures, which are directed at ensuring the Company fully complies with all regulatory requirements and community standards.

Comprehensive practices are in place such that:

- (1) capital expenditure and revenue commitments above a certain size obtain the correct approval;
- (2) financial exposures are controlled;
- (3) safety, health and environment standards and management systems are monitored and reviewed to achieve high standards of performance and compliance; and
- (4) business transactions are properly authorised and executed.

Assessment of Effectiveness

The effectiveness of the risk management system is reviewed by the Audit, Risk and Compliance Committee at least once a year. The Committee is responsible for ensuring that the appropriate senior managers have established and implemented a risk management system throughout the organisation.

ASX Best Practice Recommendations 7.1, 7.3

REMUNERATION AND PERFORMANCE

13. Summary of Performance Evaluation

- 13.1 The performance of the Board and key executives are reviewed at least once a year against both quantitative and qualitative measures.
- 13.2 The non-executive directors are responsible for regularly evaluating the performance of the CEO (or Executive Chairman). The evaluation is based on specific criteria, including the Company's business performance, short and long term strategic objectives and the achievement of personal objectives by the CEO (or Executive Chairman).
- 13.3 As the Company has not established a nomination committee, the Remuneration Committee is responsible for evaluating the Board's performance. Performance criteria adopted by the Committee include attendance and participation at meetings and other contributions and achievement of financial objectives in the case of executive directors.
- 13.4 The Board is provided with the information it needs to efficiently discharge its responsibilities, including access to the Company Secretary. Management supplies the Board with information in a form, timeframe and quality that enables the Board to effectively discharge its duties. Directors are entitled to request additional information, when they consider the information supplied by management is insufficient for informed decision-making.

ASX Best Practice Recommendation 8.1

14. Remuneration Policy

- 14.1 The Company's Remuneration Policy in relation to its directors and key executives is disclosed in the Remuneration Report.

14.2 The Remuneration Policy is designed to ensure that the level and composition of remuneration is both competitive and reasonable. Remuneration is intimately connected to performance and is intended to be appropriate for the results delivered. Our policies are designed to attract and maintain talented and motivated directors and employees as well as raising the level of performance of the Company.

ASX Best Practice Recommendations 9.1, 9.5

14.3 The Board has the discretion to reward eligible employees with the payment of bonuses, stock options and other incentive payments. These incentive payments are designed to link reward to performance against budget and market and are determined by both financial and non-financial imperatives.

ASX Best Practice Recommendation 9.5

14.4 The amount of remuneration, including all monetary and non-monetary components, for the key management persons during the year are disclosed in the Remuneration Report.

ASX Best Practice Recommendation 9.5

15. Remuneration of Non-Executive Directors

15.1 It is recommended that the remuneration packages of non-executive directors are generally fee based. Non-executive directors do not participate in the schemes designed for the remuneration of executives, nor do they receive options, bonus payments, equity based incentives or any retirement benefits other than statutory superannuation.

ASX Best Practice Recommendation 9.3

15.2 There are no retirement benefits paid to non-executive directors.

ASX Best Practice Recommendation 9.5

16. Equity Based Remuneration

16.1 The Remuneration Committee is responsible for ensuring that any equity-based executive remuneration is made in accordance with the thresholds approved by shareholders. Since June 2005, all equity based incentives are subject to performance hurdles being the out performance of the S&P/ASX Small Ordinaries Accumulation Index.

ASX Best Practice Recommendation 9.4

17. Remuneration Committee

17.1 The role of the Remuneration Committee is to review the remuneration policies and practices of the Company to ensure that they remunerate fairly and responsibly and:

- (1) set the remuneration of the executive directors of the Company; and
- (2) Demonstrate that the remuneration of the executive directors and other senior executives is set by the Committee whose members have no personal interest in the outcome of the decisions of that Committee and who will have due regard to the interests of shareholders.

17.2 Composition

The Committee consisted of two members, both being independent non-executive directors, for the whole of the financial year ended 30 June 2006. The Chairman of the Committee was Mr Michael Hale and the other member Mr Bartlett. On 7 July 2006 Mr Hale resigned as a director.

CORPORATE GOVERNANCE STATEMENT

17.3 The Company has not complied with ASX Best Practice Recommendation 9.2 as the Remuneration Committee did not consist of at least 3 members.

17.4 The Board considered that having two members in the Remuneration Committee was sufficient to properly and effectively carry out the duties of the Committee, having regard to the size of the Company and the Board.

The members of the Committee have an appropriate understanding of the principles of corporate governance, the disclosure requirements under the Corporations Act 2001 and the complexities involved in negotiating and determining executive remuneration packages.

17.5 Responsibilities

The Committee's responsibilities include providing the Board with advice and recommendations relating to:

- (1) the basic salary paid to the executive directors of the Company and any recommendations made by the Executive Chairman or CEO for changes to that salary;
- (2) the remuneration and terms of employment of prospective executive directors of the Company;
- (3) any bonuses to be paid to the executive directors of the Company and in respect of any element of remuneration of an executive director which is performance-related, formulate suitable performance-related criteria and monitor their operation and consider any recommendations of the CEO (or Executive Chairman) regarding bonuses or performance-related remuneration; and

- (4) all performance-related remuneration to the directors of the Company, including the terms of their service contracts and changes to those contracts.

17.6 Meetings

The Committee will meet as frequently as required and no less than once a year.

ASX Best Practice Recommendation 9.2

CODE OF CONDUCT

18. Summary of Code of Conduct

18.1 The Company seeks to be recognised as an organisation committed to the highest ethical standards in business. The Code of Conduct provides an outline of the standards of ethical behaviour expected of company directors, executives and all staff and provides for the accountability of unethical practices.

18.2 The key elements of the Code address:

- (1) compliance with law and regulations;
- (2) honest and professional conduct;
- (3) appropriate use of office;
- (4) conflicts of interest;
- (5) protection of the Company's interests;
- (6) discrimination and harassment;
- (7) abuse of inside information;
- (8) share trading policy;
- (9) protection of information privacy;
- (10) confidentiality of Company information;
- (11) action within delegated authority;
- (12) improper benefits; and
- (13) misappropriation of funds or property.

As part of the active promotion of ethical behaviour any behaviour that does not comply with this code must be duly reported. Protection will be provided for those who report violations in good faith.

ASX Best Practice Recommendations 3.1, 3.3, 10.1

POLICIES

19. Summary of the Provisions of the Trading Policy

19.1 We have prepared a policy on the trading of Company securities by potential 'insiders' designed to promote ethical and responsible decision making. This policy is published on the Company's website in the spirit of transparency and it complements the laws prohibiting insider trading. It also complies with the disclosure provisions of the Australian Stock Exchange Listing Rules.

This policy applies constraints on a class of designated officers which include both directors and senior executives of the Company.

Notification

Designated officers are required to notify the Chairman (in the case of directors) or the CEO (in the case of management or other designated employees) of their intention to trade Company securities.

Communication

Designated officers are prohibited from communicating price sensitive information to a person who may deal in securities of the Company. External advisors must be bound by confidentiality agreements.

Black-Outs

Designated officers are not permitted to trade during the following black-outs:

- (1) until at least 1 business day after the release of relevant information to the ASX or after a shareholder meeting; and
- (2) within the period one month prior to the release of the annual or half-yearly report.

ASX Best Practice Recommendations 3.2, 3.3

20. Summary of ASX and Shareholder Communication Policy

20.1 The Company's communications strategy is designed to empower shareholders by giving them access to balanced and understandable information on the Company. The Company is required under the Corporations Act 2001 and the listing rules of the Australian Stock Exchange to keep the market fully informed of all information that could materially effect the value of its securities.

Regular Shareholder Communication

The Company is committed to maintaining direct, open and timely communications with all shareholders. The Board's policy is that shareholders are informed of all material developments that impact on the Company.

Information is communicated to shareholders by the Company through:

- (1) the annual and interim financial reports (for those shareholders who have requested a copy);
- (2) disclosures to the ASX and ASIC;
- (3) notices and explanatory memoranda of annual general meetings;
- (4) shareholder updates from the CEO and Chairman to specifically inform shareholders of key matters of interest issued on a needs basis;

CORPORATE GOVERNANCE STATEMENT

- (5) presentations to analysts and other major announcements are placed on the Company's website and released to ASX;
- (6) the annual general meeting.

Meetings

Part of the communication strategy involves making it easier for shareholders to participate in general meetings. All shareholders will be invited to attend the AGM and the Chairperson's report will be forwarded to all shareholders.

The Company will also request that the external auditor attend the AGM and be available to answer shareholder questions about the audit and the preparation and content of the audit reports.

ASX Best Practice Recommendations 6.1, 6.2

Continuous Disclosure Policy

The purpose of the continuous disclosure policy is to ensure that there are mechanisms in place to provide all investors with equal and timely access to material information concerning the Company. Such information must be presented in a clear and balanced way so as not to omit any material information.

These policies are designed to ensure that the Company meets its continuous disclosure obligations under the ASX Listing Rules.

The continuous disclosure process carried out by the Company are:

- (1) the Board requires all management to review their business on an ongoing basis and advise the Executive Chairman/CEO/CFO of any significant events;
- (2) management identify significant events from ongoing reviews of business and financial reports;

- (3) monthly review of operations from each division and Executive Chairman/CEO/CFO review of operations to the Board;
- (4) presentations to analysts are subject to the continuous disclosure policy, and must be released to the market prior to any presentation;
- (5) regular reviews of procedures are undertaken to ensure timely identification of disclosure material and materiality thresholds; and
- (6) all ASX releases are approved by either the Board or by the CEO (or Executive Chairman) in consultation with at least one non-executive director. The Company Secretary has standing authority to approve releases that deal with a change in director shareholdings, general meeting address and voting results and any DRP shares issued.

Accountability

Contravening the continuous disclosure obligations can result in a series of penalties under the Corporations Act 2001 ranging from civil penalties to criminal liability.

ASX Best Practice Recommendations 5.1, 5.2

DIRECTORS' REPORT

The directors submit their report together with the financial report of Retail Cube Limited ("the Company") and the consolidated financial report of the consolidated entity, being the Company and its controlled entities, for the year ended 30 June 2006, together with the auditors' report thereon.

Directors

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

JULIA KING

EXECUTIVE CHAIRMAN AND MEMBER OF THE AUDIT COMMITTEE

Appointed as Director and Executive Chairman on 3 January 2006.

Julia has had more than 30 years experience in strategic marketing, retailing and advertising. She was Chief Executive of the LVMH fashion group in Oceania and developed the business in this area. Prior to joining LVMH, Julia was Managing Director of Lintas Advertising, a multinational advertising agency.

Julia is currently a non-executive Director of John Fairfax Holdings Limited, Servcorp Limited, Carla Zampatti and Opera Australia. She has been on the Australian Government's Task Force for the restructure of the wool industry and a member of the Council of the National Library.

ERIC MELMAN

NON-EXECUTIVE CHAIRMAN

B Com (Honours)

Resigned as Chairman and Director on 3 January 2006.

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

ROBERT ESTCOURT

CHIEF EXECUTIVE OFFICER

BA (Hons.Econ), MA (Fin), GAICD

Resigned as Director on 3 April 2006.

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

WILLIAM BARTLETT

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE AUDIT COMMITTEE AND MEMBER OF THE REMUNERATION COMMITTEE

FCA, CPA, FCMA, CA (SA)

William sits on a number of boards including those of Suncorp Metway Limited (appointed July 2003), RGA Inc (appointed May 2004), Peptech Limited (appointed August 2004), Bradman Foundation and Bradman Museum and St James Ethics Centre. He has had 35 years experience in accounting public practice and was a Partner of Ernst and Young Australia for 23 years. Bill has extensive experience in the actuarial, insurance and financial services sectors through membership of many industry and regulatory advisory bodies including the Life Insurance Actuarial Standards Board since 1994.

MICHAEL HALE

NON-EXECUTIVE DIRECTOR, CHAIRMAN OF THE REMUNERATION COMMITTEE AND MEMBER OF THE AUDIT COMMITTEE

Resigned as Director on 7 July 2006.

Michael is a professional investor and Director of various listed and unlisted companies. He is the Chairman of EBet Limited (appointed as Director in August 1999) and was a Director of Knights Insolvency Ltd (appointed April 2003 and resigned June 2005). He was the founder of the Hale

DIRECTORS' REPORT

Agency, which was one of the most successful medium sized advertising agencies in Australia. He has also filled the positions of Chairman and CEO of Young and Rubicam Australia, a director of Saatchi and Saatchi London and a director of Foote Cone & Belding UK and Australia. He has extensive marketing and advertising industry expertise having been involved with leading international brands.

MICHAEL COOPER

EXECUTIVE DIRECTOR and MEMBER OF THE AUDIT COMMITTEE

MBA, GAICD

Michael has been with The Athlete's Foot since 1988, fulfilling a number of operational roles including management of store operations and the merchandising function. He is largely responsible for establishing the product direction of The Athlete's Foot and relationships with all major suppliers and was appointed Managing Director of The Athlete's Foot in March 2002. On 1 July 2006 he was appointed to the position of Operations Director for the group.

MICHAEL HIRSCHOWITZ

ALTERNATE DIRECTOR (TO MICHAEL COOPER)

B.Com, B Acc, GAICD

Michael joined The Athlete's Foot in 1996 and worked in various capacities becoming Commercial Director in 2002. On the formation of Retail Cube he became Chief Financial Officer. Early in 2005 he took over responsibility for Business Development and Franchising for the Group before assuming the role of Managing Director of King of Knives on 1 August 2005. From 1 July 2006 he occupies the position of Director of Development and Strategy for the Group.

Company Secretary

HOWARD KNAPP

LLB

Howard has over 20 years experience as a company secretary of both public and private companies in Australia and New Zealand. He also has extensive experience as a senior executive and legal counsel of property based companies with retail and commercial property interests. Howard was appointed company secretary on 1st March 2005.

Directors' Meetings

The number of directors' meetings (including meetings of committees of directors) held during the financial year were:

| Board or Committee | Number of meetings |
|---------------------------|---------------------------|
| Full Board | 13 |
| Audit Committee | 5 |
| Remuneration Committee | 1 |

The Audit Committee consists of all directors from 30/01/06. Before that date William Bartlett and Eric Melman (resigned on 03/01/06) were the members of the committee. The Company has a Remuneration Committee which, at 30 June 2006, included non-executive directors William Bartlett and Michael Hale. Full details of the responsibilities of these committees are set out in the Corporate Governance Statement.

The attendance of directors at meetings of the Board and its committees were:

| Name | Full Board | | Audit Committee | | Remuneration Committee | |
|---|--------------------|------------|--------------------|------------|------------------------|------------|
| | Eligible to attend | Attendance | Eligible to attend | Attendance | Eligible to attend | Attendance |
| Eric Melman (resigned on 03.01.06) | 7 | 7 | 3 | 3 | - | - |
| Robert Estcourt (resigned on 03.04.06) | 11 | 11 | 2 | 2 | - | - |
| Julia King (appointed on 03.01.06) | 6 | 6 | 2 | 2 | - | - |
| William Bartlett | 13 | 13 | 5 | 5 | 1 | 1 |
| Michael Cooper | 13 | 12 | 2 | 2 | - | - |
| Michael Hale (resigned on 07.07.06) | 13 | 12 | 3 | 1 | 1 | 1 |
| Michael Hirschowitz (Alternate – Director) | 13 | 12 | 2 | 2 | - | - |

Principal Activities

Retail Cube is an investment holding company investing in a portfolio of Specialist Retail Businesses. Currently it invests in three well established mid-sized specialty retailers; Amazing Paints, King of Knives and The Athlete's Foot. Each has their own distinctive market position and competitive advantages in their respective markets.

There were no significant changes in the nature of the activities of the consolidated entity during the year.

Operating Results

The net loss for the year ended 30 June 2006 of the consolidated entity after providing for income tax was \$20,063,000.

Review of Operations

Overview

By any measure the consolidated results for the 2006 financial year are disappointing. Despite this, there are good reasons to be optimistic about the future as management continues to execute an aggressive programme of restructure and reform designed to ensure maximum productivity and returns.

In this regard, the following major milestones have been achieved both during and since the end of the 2006 financial year:

- Reconstitution of the Board, with the resignations of both the former CEO and Chairman, who have been replaced by a single Executive Chairman with highly relevant retail, branding and management expertise.
- Relocation of King of Knives to Stanmore where it now synergistically shares centralised resources with The Athlete's Foot.
- A structured replacement of the senior management team of King of Knives took place over a period of six months during the financial year
- Implementation of a modern, integrated financial, inventory and point of sale computer system for King of Knives.
- Resignation of the former Managing Director of Amazing Paints as well as several other senior management personnel, who have subsequently been replaced (where appropriate) with qualified and experienced individuals.

DIRECTORS' REPORT

- Renegotiation and extension of the existing licence agreement between The Athlete's Foot and its US based licensor for a period of 50 years plus three 20 year options.
- Reorganisation of the group's bank facilities to provide it with the appropriate level of working capital requirements
- Reorganisation of the senior management team of the group (being Julia King, Michael Hirschowitz and Michael Cooper) in order to most efficiently utilise the individual skill set of each for the benefit of the entire group.
- A review of the ongoing strategic value of Amazing Paints to the group has been undertaken and steps are underway to mitigate the groups ongoing exposure to further losses from this operating company.

As a result of these structural changes and ongoing programmes, management is confident that it has been able to develop a cohesive, sensible and constructive operational plan for the 2007 financial year.

The following paragraphs provide a greater insight into the operations of each operating division. More comprehensive divisional financial information can be found per Note 29 of the financial statements.

The corporate office

The corporate office, represented by the Company, operates out of the same physical location as The Athlete's Foot and King of Knives (from September 2005). The corporate office continues to provide support services to the operating divisions including managerial, IT, financial, HR, property, leasing, administration and legal services. Throughout the 2006 financial year each of the operating divisions, but most particularly King of Knives and The Athlete's Foot, effectively operated independently drawing on the resources of the corporate office on a "as needs" basis. This has proved less than optimal in the particular

circumstances and, from 1 July 2006, Michael Hirschowitz and Michael Cooper, instead of concentrating exclusively on King of Knives and The Athlete's Foot respectively, each now have a broader, cross-organisational role. Michael Hirschowitz has become Director of Development and Strategy, responsible for all back-office and support functions, as well as business development and growth strategies for the group. Michael Cooper has become Director of Operations, responsible for all aspects of the business that directly touch the customer including sales, operations, training, inventory and marketing. This new organisational structure will provide the group with a greater level of focus and a more dynamic, responsive and better equipped management structure.

On 3 January 2006, Julia King became the group's Executive Chairman, bringing with her a wealth of relevant experience. Over the ensuing months she worked closely with former CEO, Robert Estcourt, to determine the group's major priorities and subsequently to assign the necessary resources to deal with each of these priorities. Towards the end of the financial year much of this work had been done and, having regard to the size and financial position of the group, it was agreed that it was not necessary to have both an Executive Chairman and a CEO. Consequently Mr Estcourt resigned as a director of the company on 3 April 2006 and as an employee on 10 July 2006. The costs associated with this transitional period are reflected in increased employment costs over the previous financial year.

Amazing Paints

| | FY2006 (\$000) | FY2005 (\$000) |
|----------|---------------------------|---------------------------|
| Turnover | 12,644 | 14,024 |
| EBIT | (1,701) | (110) |

Amazing Paints continues to operate in a very difficult market segment that, on all available evidence, has continued to contract during the 2006 financial year. With its stores located predominantly in NSW, Amazing Paints' performance is closely correlated to the depressed housing market in that state. Despite all this, it has still been a disappointing year for Amazing Paints. Many of the initiatives undertaken in the first 18 months of its ownership by Retail Cube have failed to deliver any marked improvement in the performance of the business. This culminated in the resignation of several managerial personnel including the former Managing Director. Since that time, Amazing Paints has been subjected to a rigorous review of its operating practices and significant cost saving measures and operational efficiencies have been implemented. In May 2006, Mike Sayers, a veteran of the retail paint industry with a proven track record, was appointed as the General Manager of Amazing Paints. Mike and his team have continued to improve organisational efficiency and working capital utilisation and are focussing their attention on delivering incremental revenue both through existing and new channels.

Given the difficult trading environment in which Amazing Paints continues to operate and the clear operational differences that exist between it and the group's other retail businesses, the long term strategic value of Amazing Paints to the group has come under review. Management and the Board are currently reviewing several scenarios in relation to this. For this reason the centralisation of core services described above has not yet been extended to Amazing Paints.

King of Knives

| | FY2006 (\$000) | FY2005 (\$000) |
|----------|---------------------------|---------------------------|
| Turnover | 27,285 | 27,353 |
| EBIT | (833) | 1,039 |

The ongoing deterioration in the comparative trading performance of King of Knives resulted in a change of management in August 2005 and a relocation of the corporate office in October 2005. The transition both to the new management team and the new corporate office took some months and were both completed by the end of January 2006. During this transitional period there were inevitable amounts of duplicated costs as the company effectively ran two complete corporate offices for a period of several months. These non-repeatable expenses contributed significantly to the disappointing financial result for the year. Several other major non-repeatable factors contributed further to this including the costs associated with the closure of several non-profitable stores. These stores were either closed in FY2006 or have been scheduled to close in the first few months of FY2007 at the end of their current lease terms. Any fixtures and fittings associated with these stores has been fully written off or provided for.

Despite the disappointing financial result, King of Knives achieved several major milestones during FY2006 that provide a solid platform for future growth. Most important amongst these was the smooth implementation of an integrated financial, inventory and point of sale computer system which was completed in May 2006. Management now has access to timely, reliable, relevant information on which to base both financial and operational decisions. Another significant initiative was the development of a new corporate identity and store design. These present King of Knives stores as exciting, relevant and contemporary shopping destinations. So far, three stores have been rolled out with the new design. This programme

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will continue progressively as appropriate upgrade works are required under each lease.

Since the completion of the relocation of KOK and the related change in management, the company has reversed the negative sales trend and delivered moderate sales growth in the last five months of the financial year. Management will continue to concentrate its efforts on ensuring that King of Knives is able to grow by delivering a unique and highly satisfying shopping experience to its customers.

The Athlete's Foot

| | FY2006 (\$000) | FY2005 (\$000) |
|---|-------------------|-------------------|
| Group turnover (including all corporate and franchise stores) | 109,646 | 97,449 |
| Corporate store sales | 10,814 | 12,298 |
| Revenue from franchisees | 6,111 | 5,541 |
| EBIT | 2,564 | 2,792 |

The reported turnover and EBIT figures for TAF belie an excellent year for the company which saw an increase in like-for-like sales in excess of 10%, and growth in total group sales by over 14%. The reason for the apparent decrease in corporate store sales was the sale of two corporate stores to franchisees early in the financial year and the closure of two poorly performing corporate stores in the second half of the financial year. With one additional corporate store being opened midway through the year, this reduced the number of corporate stores from 13 in FY2005 to 10 at the end of FY2006.

The closure of the two stores referred to above took place as a result of a management decision to aggressively pursue an exit strategy for these two poorly performing stores. As a result of the closure of these stores, the company incurred one-off costs of more than \$400,000. These costs have been reflected in the EBIT figures above.

As a result of its adherence to its core business principles and its continual reinforcement of its brand message, The Athlete's Foot has continued to grow both its market share and its brand awareness. The Athlete's Foot continues to open new stores in both New Zealand and Australia when opportunities to do so arise and several new stores have already been scheduled for opening in the first half of FY2007.

Dividends

The Company has not declared or paid a dividend during or since the end of the year.

Significant Changes in State of Affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Significant Events after Balance Sheet Date

There has not been any matter of consequence, other than that referred to in the financial statements or notes thereto, that have arisen in the interval between the end of the financial year and the date of this report which significantly affected or may significantly affect the operations of the consolidated entity, the results of those operations, or the state of affairs of the consolidated entity in subsequent financial years.

Environmental Issues

The consolidated entity operates primarily within the retail sector and conducts its business activities with respect for the environment while continuing to meet the expectations of shareholders, customers, employees and suppliers.

During the year under review, the directors are not aware of any particular or significant environmental issue which have been raised in relation to the consolidated entity's operations.

Likely Developments and Expected Results

The continued losses at Amazing Paints have forced us to re-examine the strategic value of this company to the group and we are currently in negotiations with more than one possible purchaser of the business as a continuing business, but no longer part of Retail Cube.

As a result of this, and based on other expressions of interest and our own internal analysis, the board has appointed an independent consultant to assess the strategic relevance and value of the separate sections of the total Retail Cube business. It may be that we should divest of one or more of the companies; or it may be that it is no longer in the long term interests of all the shareholders for Retail Cube to remain a listed entity.

Share Options

At the date of this report, the unissued ordinary shares of Retail Cube Ltd under option are as follows:

| No. of Options | Exercise Price \$ | Vesting Date No. of months after listing | Exercisable within number of months of Vesting |
|-----------------------|--------------------------|---|---|
| 180,000 | 0.550 | On listing | 30 months |

During or since the end of the financial year no other options have been issued.

Key Management Personnel Remuneration Report

1. Introduction

This report sets out the remuneration arrangements with the company's key management personnel.

The Remuneration Committee consisted of Michael Hale (Chairman) and William Bartlett as members during the financial year. Both the members of the Remuneration Committee were non-executive directors. Michael Hale resigned as a Director on 7 July 2006. The Remuneration Committee makes recommendations to the Board on matters relating to remuneration for the entities within the consolidated group. The Remuneration Committee considers recruitment, retention and termination policies and procedures; non executive director's remuneration; executive directors and senior management's remuneration and incentive policy and awards; and contractual arrangements with senior managers and executives.

The Company's remuneration reviews take place in July each year. Prior to this date, the remuneration committee meets to discuss the remuneration of directors and the Senior Group Executives. The Executive Chairman/CEO makes recommendations to the remuneration committee regarding the remuneration of each of his direct reports and the overall remuneration framework for all employees. The remuneration committee, while the Executive Chairman/CEO is absent, discusses the remuneration of the Executive Chairman/CEO.

2. Names and positions held of consolidated and parent entity key management personnel in office at any time during the financial year are:

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| Key Management Person | Position |
|---|---|
| Julia King (employed from 3 January 2006) | Chairman - Executive |
| Eric Melman (employed until 3 January 2006) | Chairman - Non-Executive |
| Robert Estcourt (employed until 10 July 2006) | Chief Executive Officer - Director |
| William Bartlett | Director - Non-Executive |
| Michael Hale (employed until 7 July 2006) | Director - Non-Executive |
| Michael Cooper | Director - Operations |
| Michael Hirschowitz | Director - Development & Strategy |
| Chris Zournazidis (employed until 24 February 2006) | Managing Director - Amazing Paints |
| Maurice Joffe (employed until 31 January 2006) | Director - King of Knives |
| Suresh Kumar | Chief Financial Officer - Retail Cube Limited |
| Mike Sayers (employed from 5 June 2006) | General Manager - Amazing Paints |
| Howard Knapp | Company Secretary - Retail Cube Limited |

3. Overview of the remuneration policy

(a) Aim of the Remuneration Policy

Retail Cube's remuneration policy is to attract, motivate and retain employees, while ensuring that the interests of employees are in line with the interests of shareholders.

Retail Cube's Board recognises that the success of the company hinges on the performance and abilities of its employees. Therefore, as a matter of policy, Retail Cube remunerates all employees on the following basis:

- Base remuneration which, in the main, is set at average remuneration for the industry, provides fixed remuneration on a total cost-to-company basis, which includes any fringe benefits tax to employee benefits and Superannuation at 9% of the base remuneration. Senior managers can nominate to have their base remuneration paid in cash or other benefits including superannuation and motor vehicles.
- Short Term Incentive (STI) arrangements that enable employees to be paid on a sliding scale based on performance up to 75th percentile. (ie. top performers will be paid up to the top 25% for like roles in similar companies)
- The Board has constructed the performance pay of all employees to reflect near term objectives aligned to the Company's business plan (Short Term Incentives – STI) and longer term shareholder wealth creation (Long Term Incentives – LTI). The STI's are set each year and if achieved are paid in cash. The employees can elect, if they wish to, receive it as a Superannuation benefit.
- The LTI's are in the form of performance shares. It is proposed these be awarded from time to time and vest based on a comparison of shareholder wealth creation against the out performance of the S&P/ASX Small Ordinaries Accumulation Index after a three year period. Details of the proposed LTI arrangements are described later in this report.
- The Board believes that the remuneration policies in place align the interests of all employees with those of the Company's shareholders while at the same time enabling the Company to retain a high quality team of executives.

4. The remuneration setting process

(a) Non-Executive Directors

The Remuneration Committee considers annually the fees payable to non-executive directors. When considering the level of fees the committee undertakes a survey of the market and accesses independent advice as well as drawing on their own knowledge and experience. The remuneration committee makes recommendations on non-executive director fees to the Board. Non-executive directors can choose, subject to certain restrictions, the amount of their fees allotted to Superannuation.

(b) Executive Chairman

The employment contract with the Executive Chairman has been extended for a further period of 6 months ending in January 2007. It is proposed that the Executive Chairman's remuneration would contain a Long Term Incentive (LTI) component. It is proposed that it would form a part of the Senior Executive Share Incentive Scheme which is currently in operation in the company. The proposal would be placed before the shareholders in the Annual General Meeting for their approval. The LTI was based on share price performance over a 3 year period and would be linked to outperforming the S&P/ASX Small Ordinaries Accumulation Index.

(c) Chief Executive Officer

Prior to the CEO entering into his three year contract on 1 July 2004, the remuneration committee obtained independent expert advice as to what would be an appropriate level of remuneration. It was felt that considering the nature of the appointment it was appropriate for the CEO's remuneration to include an equity based Long Term Incentive (LTI) component along with a Short Term Incentive (STI) component.

The Short Term Incentives (STIs) are set annually following the business planning cycle. The STI is linked to the corporate objectives as agreed to by the Board with profit growth being the major measure. The CEO's LTI was linked

to the share price performance over a 3 year period. In future the LTI would be linked to outperforming the S&P/ASX Small Ordinaries Accumulation Index. The CEO resigned on 3 April 2006 as a director.

(d) Executive Directors and other Senior Employees

The company's remuneration policy applies to remuneration arrangements for senior management and other key persons employed by the Group and its entities (other than non-executive directors and the CEO).

5. Short Term Incentives

STIs are based on individual and Company performance. Senior executives have a greater portion of their incentive based on the total company performance. The Board may grant discretionary bonuses to any employee for exceptional performance.

As indicated the major driver for the award of a Short Term Incentive Bonus is specific profit performance, although building long term wealth also plays a role. The company will review the success of the STI next year and if appropriate, refine it for future years.

6. Long Term Incentives

The Annual General Meeting held in 16 November 2005 approved an Executive Long Term Share Incentive Plan. The purpose of the plan is to encourage employees to share in the ownership of the company, in order to promote the long-term success of the company as a goal shared by the employees and to align employee's interest to that of shareholders.

The key features of the plan are:

- It is open to all employees at the discretion of the Board.
- Invitations will be made to the employees to apply for shares at the market price on a certain date.

- The price would be the weighted average traded price on 1 July 2005 and for the last 20 trading days of June 2005, which in this case is 19.5 cents per share. This price is for this award only.
- Financial assistance will be provided to the employees, if they accept, to apply for the shares.
- On the completion of 3 years of service, if the total return on the Retail Cube shares exceeds the return on the S&P/ASX Small Ordinaries Accumulation Index, the shares vest with the employees.
- On the occurrence of certain events like the employee resigning within 3 years or being terminated for a valid reason, the shares issued to the employee would lapse.

The Remuneration Committee adopted the scheme based on discussions with experts and their own experience.

Further to the approval of the shareholders shares were issued to Executive Directors and some employees of the company under this scheme.

7. Executive Service Agreements

(a) Chief Executive Officer & the Managing Directors of the Operating Entities

The Executive Chairman's contract expires in January 2007 and Managing Directors of the operating entities entered into three year employment contracts from 1 July 2004.

(b) Other Senior Executives

Other Senior Executives enter into a standard contract of employment, which is common for all employees in the Group. Their contracts do not have a finite term and do not contain any definite termination payment arrangements. The contracts can be terminated by either the employer or by the employee giving an appropriate notice period.

In practice, the termination of an executive, other than for misconduct, would include a severance payment of an amount determined and agreed by the Board of Directors with the reference to prevailing good practice. In the case of retrenchment of an executive resulting from that executive's role ceasing to exist, a redundancy payment appropriate for that executive's term of employment and seniority would be paid. This payment would be agreed by the Board of Directors. Remuneration of an executive (as for all salaried employees) is established on appointment having regard to market rates of remuneration and where appropriate, independent remuneration or recruitment advice. Thereafter any review of salary, the payment of performance bonus or the grant of LTI's is entirely at the discretion of the Board of Directors.

8. Remuneration of Key Management Personnel

The following table sets out the details of the remuneration of the Key Management Personnel of company:

| 2006 | Short-term benefits | | | Post-employment benefits | | Share based payment | Total |
|----------------------------------|-----------------------|---------------|-------------------------|--------------------------|---------------------|-----------------------|------------------|
| | Cash, salary and fees | Cash Bonus | Other Monetary Benefits | Super-annuation | Retirement Benefits | Issue of Shares (LTI) | |
| Key Management Person | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Julia King ^(a) | 105,857 | - | - | 9,527 | - | - | 115,384 |
| Eric Melman ^(b) | 29,615 | - | - | 2,665 | - | - | 32,280 |
| Robert Estcourt | 157,692 | - | - | 14,192 | - | 20,900 | 192,784 |
| William Bartlett | 41,284 | - | - | 3,716 | - | - | 45,000 |
| Michael Hale | 51,250 | - | - | - | - | - | 51,250 |
| Michael Cooper | 209,488 | 30,000 | 14,820 | 18,854 | - | 19,000 | 292,162 |
| Michael Hirschowitz | 211,201 | 30,000 | 15,029 | 21,708 | - | 19,000 | 296,938 |
| Chris Zournazidis ^(c) | 103,333 | - | - | 9,300 | - | 9,500 | 122,133 |
| Maurice Joffe ^(d) | 146,911 | - | 5,173 | 20,461 | - | - | 172,545 |
| Suresh Kumar | 134,703 | 10,000 | 14,820 | 12,123 | - | 9,500 | 181,146 |
| Mike Sayers ^(e) | 5,081 | - | - | 457 | - | - | 5,538 |
| Howard Knapp | 110,826 | - | 10,000 | 9,974 | - | 5,700 | 136,500 |
| Total | 1,307,241 | 70,000 | 59,842 | 122,977 | - | 83,600 | 1,643,660 |

(a) Julia King commenced her employment on 3 January 2006

(b) Eric Melman resigned on 3 January 2006.

(c) Chris Zournazidis was employed until 24 February 2006.

(d) Maurice Joffe was employed until 31 January 2006.

(e) Mike Sayers commenced his employment on 5 June 2006.

| 2005 | Short-term benefits | | | Post-employment benefits | | Share based payment | Total |
|-----------------------------|-----------------------|------------|-------------------------|--------------------------|---------------------|-----------------------|------------------|
| | Cash, salary and fees | Cash Bonus | Other Monetary Benefits | Super-annuation | Retirement Benefits | Issue of Shares (LTI) | |
| Key Management Person | \$ | \$ | \$ | \$ | \$ | \$ | \$ |
| Julia King ^(a) | - | - | - | - | - | - | - |
| Eric Melman | 56,551 | - | - | 5,090 | - | - | 61,641 |
| Robert Estcourt | 193,539 | - | - | 14,400 | - | - | 207,939 |
| William Bartlett | 40,014 | - | - | 3,601 | - | - | 43,615 |
| Michael Hale | 5,000 | - | - | - | - | - | 5,000 |
| Michael Cooper | 217,104 | - | 14,820 | 16,839 | - | - | 248,763 |
| Michael Hirschowitz | 200,564 | - | 14,250 | 15,351 | - | - | 230,165 |
| Chris Zournazidis | 121,224 | - | 14,267 | 10,910 | - | - | 146,401 |
| Maurice Joffe | 234,894 | - | 8,827 | 23,539 | - | - | 267,260 |
| Suresh Kumar | 113,410 | - | 10,830 | 9,235 | - | - | 133,475 |
| Mike Sayers ^(a) | - | - | - | - | - | - | - |
| Howard Knapp ^(b) | 29,485 | - | 3,076 | 2,654 | - | - | 35,215 |
| Total | 1,211,785 | - | 66,070 | 101,619 | - | - | 1,379,474 |

(a) Julia King and Mike Sayers joined the employment of the company in 2005-06

(b) Howard Knapp commenced his employment on 14 February 2005

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9. Shares held by Key Management Personnel

The number of shares in which the key management personnel of the company held a relevant interest on 30 June 2006, are set out in the following table.

| Key Management Person | Balance 1.7.2005 | Shares offered as LTI | Net Change Other | Balance 30.6.2006 |
|----------------------------------|------------------|-----------------------|------------------|-------------------|
| Julia King ^(a) | - | - | 250,000 | 250,000 |
| Eric Melman ^(b) | 2,251,002 | - | 127,500 | 2,378,502 |
| Robert Estcourt | 177,848 | 550,000 | 20,000 | 747,848 |
| William Bartlett | 291,189 | - | - | 291,189 |
| Michael Hale | 100,000 | - | 100,000 | 200,000 |
| Michael Cooper | 2,419,098 | 500,000 | - | 2,919,098 |
| Michael Hirschowitz | 2,419,098 | 500,000 | - | 2,919,098 |
| Chris Zournazidis ^(c) | 236,940 | 250,000 | (250,000) | 236,940 |
| Maurice Joffee ^(d) | 900,000 | - | - | 900,000 |
| Suresh Kumar | 16,000 | 250,000 | - | 266,000 |
| Mike Sayers ^(e) | - | - | - | - |
| Howard Knapp | - | 150,000 | - | 150,000 |
| Total | 8,811,175 | 2,200,000 | 247,500 | 11,258,675 |

(a) Julia King commenced her employment on 3 January 2006

(b) Eric Melman resigned on 3 January 2006 and the balance is at that date.

(c) Chris Zournazidis was employed until 24 February 2006 and the balance is at that date.

(d) Maurice Joffee was employed until 31 January 2006 and the balance is at that date.

(e) Mike Sayers commenced his employment on 5 June 2006.

10. Options held by Key Management Personnel

The number of options in which the key management personnel of the company held a relevant interest on 30 June 2006, are set out in the following table.

| Name | Vesting Date No. of months from listing | Exercise Date No. of months from vesting | Exercise Price \$ | Number of Options Outstanding | | Number of Options Vested | |
|---|---|--|-------------------|-------------------------------|-----------|--------------------------|------|
| | | | | 2006 | 2005 | 2006 | 2005 |
| Meltrust Pty Ltd ^(a) (Eric Melman – resigned on 03/01/06) | On listing | 30 months | 0.550 | - | 720,000 | - | - |
| Robert Estcourt ^(b) | 12 months | 24 months | 0.450 | - | 500,000 | 500,000 | - |
| Robert Estcourt ^(b) | 24 months | 24 months | 0.575 | 300,000 | 300,000 | - | - |
| Robert Estcourt ^(b) | 36 months | 24 months | 0.650 | 400,000 | 400,000 | - | - |
| | | | | 700,000 | 1,920,000 | 500,000 | - |

a) Meltrust's options were cancelled on 18 November 2005 for no consideration

b) Robert Estcourt left the company's employment on 10 July 2006 and all his outstanding and vested options lapsed.

As at the date of signing the report there are no options outstanding with any Key Management Personnel.

11. Other transactions with specified employees and personally related entities

Transactions if any with specified employees and their personally related entities are conducted on arm's length terms and conditions and are deemed trivial or domestic in nature. These transactions are in the nature of shopping in our company stores.

Directors' Interests and Options over Ordinary Shares

Particulars of shares and options over ordinary shares in the Company held by directors at the date of this report are set out in the Key Management Personnel Remuneration Report.

Directors', Officers' and Auditors' Indemnities and Insurance

During the financial year, the parent entity paid premiums of \$55,913 in respect of directors' and officers' liability insurance contracts for all directors of the Company named in this report, and other officers of the Company and its controlled entities.

These policies insure persons who are directors or officers of the Company and its controlled entities against certain liabilities incurred as such by an officer or director, while acting in that capacity. The premiums have not been determined on an individual entity, officer or director basis. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contracts, as such disclosure is prohibited under the terms of the contracts.

No other agreements to indemnify directors, officers or auditors have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial year, by the Company.

Proceedings on Behalf of Company

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

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

Non-audit Services

The board of directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services by PKF during the year is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The amounts paid or accrued for non-audit services during the year were \$51,601 in relation to tax and accounting advisory services. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence as set out in the Institute of Chartered Accountants in Australia and CPA Australia's Professional Statement F1: Professional Independence.

Corporate Governance

In recognising the need for the highest standards of corporate behaviour and accountability, the directors of Retail Cube Limited support and have adhered to the principles of corporate governance. The Company's Corporate Governance Statement is set out in page 2.

DIRECTORS' REPORT


Auditors' Independence Declaration

The auditors' independence declaration has been received and can be found on page 27 of the directors' report.

Rounding off of Amounts

The Company is a company of the kind referred to in ASIC, class order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the directors' report and in the financial report are rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

Signed in accordance with a resolution of the Board of directors for and on behalf of the directors by:



Julia King

Executive Chairman

30 August 2006

AUDITORS' INDEPENDENCE DECLARATION



Chartered Accountants
& Business Advisers

AUDITOR'S INDEPENDENCE DECLARATION

To: The Directors
Retail Cube Limited

As lead engagement partner for the audit of Retail Cube Limited for the year ended 30 June 2006, I declare that, to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirement of the Corporation Act in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

Tim Sydenham
Partner
Sydney Office

PKF Chartered Accountants and Business Advisers
Dated this 30th day of August 2006

Tel: 61 2 9251 4100 | Fax: 61 2 9240 9821 | www.pkf.com.au
New South Wales Partnership | ABN 83 236 985 726
Level 10, 1 Margaret Street | Sydney | New South Wales 2000 | Australia
DX 10173 | Sydney Stock Exchange | New South Wales

Liability limited by a scheme approved under Professional Standards Legislation

INCOME STATEMENT

FOR THE YEAR ENDED 30 JUNE 2006

| | Note | Consolidated | | The Company | |
|---|------|-----------------|----------------|-----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Revenue | 2 | 57,426 | 60,115 | 37 | 2,452 |
| Cost of goods sold | | (26,178) | (27,637) | - | - |
| Employee benefits expense | | (17,096) | (15,351) | (926) | (643) |
| Rental expenses on operating leases | | (7,986) | (7,670) | - | (4) |
| Advertising and promotion expenses | | (1,244) | (1,145) | - | |
| Depreciation and amortisation expense | | (1,224) | (1,003) | (13) | (1) |
| Provision for doubtful debts | | | | | |
| - wholly owned subsidiaries | | - | - | (6,206) | - |
| - others | | (112) | (55) | - | - |
| Finance costs | | (638) | (328) | (457) | (269) |
| Other expenses | | (5,336) | (4,699) | (877) | (526) |
| Profit/(Loss) before impairment and income tax expense | 3 | (2,388) | 2,227 | (8,442) | 1,009 |
| Impairment of assets | 3 | (18,728) | - | (17,980) | - |
| Profit/(Loss) before income tax expense | 3 | (21,116) | 2,227 | (26,422) | 1,009 |
| Income tax (expense) / benefit | 4 | 1,053 | (474) | 644 | 482 |
| Profit/(Loss) for the year | | (20,063) | 1,753 | (25,778) | 1,491 |
| Profit/(Loss) attributable to members of the parent entity | | (20,063) | 1,753 | (25,778) | 1,491 |
| Basic earnings per share (cents per share) | | (23.29) | 2.08 | | |
| Diluted earnings per share (cents per share) | 22 | (23.29) | 2.08 | | |

The accompanying notes form an integral part of these Financial Statements.

BALANCE SHEET

AS AT 30 JUNE 2006

| | Note | Consolidated | | The Company | |
|--------------------------------------|------|----------------|----------------|----------------|----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Current Assets | | | | | |
| Cash and cash equivalents | 5 | 36 | 49 | - | 12 |
| Trade and other receivables | 6 | 1,353 | 1,591 | 4,438 | 7,799 |
| Inventories | 7 | 9,996 | 10,228 | - | - |
| Other current assets | 8 | 252 | 214 | 54 | 30 |
| Total current assets | | 11,636 | 12,082 | 4,492 | 7,841 |
| Non-current Assets | | | | | |
| Financial assets | 9 | - | - | 19,642 | 37,623 |
| Property, plant and equipment | 10 | 7,968 | 7,475 | 35 | 9 |
| Intangible assets | 11 | 14,958 | 33,686 | - | - |
| Deferred tax assets | 12 | 1,371 | 584 | 279 | 488 |
| Other non-current assets | 13 | 82 | 258 | - | 179 |
| Total non-current assets | | 24,379 | 42,003 | 19,956 | 38,299 |
| TOTAL ASSETS | | 36,015 | 54,085 | 24,448 | 46,140 |
| Current Liabilities | | | | | |
| Trade and other payables | 14 | 7,741 | 7,498 | 3,161 | 764 |
| Short-term borrowings | 15 | 6,315 | 4,046 | 7,142 | 5,296 |
| Tax liabilities | 16 | 60 | 278 | - | - |
| Short-term provisions | 17 | 353 | 334 | - | 46 |
| Total current liabilities | | 14,469 | 12,156 | 10,303 | 6,106 |
| Non-current Liabilities | | | | | |
| Trade and other payables | 14 | - | 500 | - | 500 |
| Long-term borrowings | 15 | 1,539 | 1,546 | - | - |
| Long-term provisions | 17 | 153 | 211 | 31 | - |
| Total non-current liabilities | | 1,692 | 2,257 | 31 | 500 |
| TOTAL LIABILITIES | | 16,161 | 14,413 | 10,334 | 6,606 |
| NET ASSETS | | 19,854 | 39,672 | 14,114 | 39,534 |
| Equity | | | | | |
| Issued capital | 18 | 39,517 | 39,186 | 39,517 | 39,186 |
| Reserves | 19 | (86) | - | 27 | - |
| Retained earnings | | (19,578) | 486 | (25,430) | 348 |
| TOTAL EQUITY | | 19,854 | 39,672 | 14,114 | 39,534 |

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

| | Issued Capital | Issued Capital | Foreign Currency Reserves | Share Reserve | Retained Earnings | Total |
|--|----------------|----------------|---------------------------|---------------|-------------------|----------|
| Consolidated Entity | No. in '000 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2004 | 5,600 | 2,800 | - | - | (259) | 2,541 |
| Shares issued during the year | | | | | | |
| Prospectus equity raising | 41,000 | 20,500 | - | - | - | 20,500 |
| Equity issued to vendors | 37,400 | 18,700 | - | - | - | 18,700 |
| Dividend reinvestment plan | 217 | 62 | - | - | - | 62 |
| Transaction costs relating to issue of shares | - | (2,876) | - | - | - | (2,876) |
| Profit for the year | - | - | - | - | 1,753 | 1,753 |
| Sub-total | 84,217 | 39,186 | - | - | 1,494 | 40,680 |
| Dividends paid or provided for | - | - | - | - | (1,008) | (1,008) |
| Balance at 30 June 2005 | 84,217 | 39,186 | - | - | 486 | 39,672 |
| Balance at 1 July 2005 | 84,217 | 39,186 | - | - | 486 | 39,672 |
| Shares issued during the year | | | | | | |
| Executive Long Term Share Incentive Plan | 3,160 | - | - | 27 | - | 27 |
| Writeback of Transaction costs relating to issue of shares | - | 331 | - | - | - | 331 |
| Exchange differences on translation of foreign operations | | | (113) | - | - | (113) |
| Loss for the year | - | - | - | - | (20,063) | (20,063) |
| Sub-total | 87,377 | 39,517 | (113) | 27 | (19,577) | 19,854 |
| Dividends paid or provided for | - | - | - | - | - | - |
| Balance at 30 June 2006 | 87,377 | 39,517 | (113) | 27 | (19,577) | 19,854 |

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2006

| | Issued Capital | Issued Capital | Share Reserve | Retained Earnings | Total |
|--|-------------------|-------------------|------------------|----------------------|----------|
| The Company | No. in '000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Balance at 1 July 2004 | 5,600 | 2,800 | - | (135) | 2,665 |
| Shares issued during the year | | | | | |
| Prospectus equity raising | 41,000 | 20,500 | - | - | 20,500 |
| Equity issued to vendors | 37,400 | 18,700 | - | - | 18,700 |
| Dividend reinvestment plan | 217 | 62 | - | - | 62 |
| Transaction costs relating to issue of shares | - | (2,876) | - | - | (2,876) |
| Profit for the year | - | - | - | 1,491 | 1,491 |
| Sub-total | 84,217 | 39,186 | - | 1,356 | 40,542 |
| Dividends paid or provided for | - | - | - | (1,008) | (1,008) |
| Balance at 30 June 2005 | 84,217 | 39,186 | - | 348 | 39,534 |
| Balance at 1 July 2005 | 84,217 | 39,186 | - | 348 | 39,534 |
| Shares issued during the year | | | | | |
| Executive Long Term Share Incentive Plan | 3,160 | - | 27 | - | 27 |
| Writeback of Transaction costs relating to issue of shares | - | 331 | - | - | 331 |
| Loss for the year | - | - | - | (25,778) | (25,778) |
| Sub-total | 87,377 | 39,517 | 27 | (25,430) | 14,114 |
| Dividends paid or provided for | - | - | - | - | - |
| Balance at 30 June 2006 | 87,377 | 39,517 | 27 | (25,430) | 14,114 |

The accompanying notes form an integral part of these Financial Statements.

STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2006

| | Note | Consolidated | | The Company | |
|--|-------|----------------|-----------------|----------------|-----------------|
| | | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| CASH FLOWS FROM OPERATING ACTIVITIES | | | | | |
| Receipts from customers and franchisees | | 57,457 | 61,831 | 32 | - |
| Interest received | | 49 | 51 | - | - |
| Payments to suppliers and employees | | (49,777) | (52,100) | (1,541) | (1,095) |
| Payments for operating leases | | (7,986) | (7,670) | - | - |
| Income tax refund/(paid) | | 229 | (1,943) | 602 | - |
| Interest paid | | (512) | (328) | (458) | (269) |
| Net cash used in operating activities | 27(b) | (540) | (159) | (1,365) | (1,364) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | | | |
| Purchases of business and debt retirement | | - | (19,866) | - | (19,866) |
| Payment for property, plant and equipment | | (636) | (617) | (30) | - |
| Net cash used in investing activities | | (636) | (20,483) | (30) | (19,866) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | | | |
| Proceeds from Borrowings | | 1,800 | 1,950 | 1,800 | 1,950 |
| Lease payments | | (485) | (225) | - | - |
| Borrowing and Establishment costs | | - | (100) | - | (179) |
| Listing costs | | (460) | (2,043) | (460) | (2,043) |
| Intercompany loans | | - | - | (3) | (1,355) |
| Dividends paid | | - | (1,008) | - | (1,008) |
| Net cash provided by/(used in) financing activities | | 855 | (1,426) | 1,337 | (2,635) |
| Net decrease in cash held | | (321) | (22,068) | (58) | (23,865) |
| Cash at beginning of the year | | (1,537) | 20,531 | (3,334) | 20,531 |
| Cash at end of the financial year | 27(a) | (1,858) | (1,537) | (3,392) | (3,334) |

The accompanying notes form an integral part of these Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

1. Summary of Significant Accounting Policies

The financial report of Retail Cube Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Board of Directors on 30 August 2006.

Basis of Preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the Corporations Act 2001. The financial report complies with Australian equivalents to International Financial Reporting Standards (AIFRSs) in their entirety.

The financial report covers the consolidated entity of Retail Cube Limited and controlled entities, and Retail Cube Limited as an individual parent entity. Retail Cube Limited is a listed public company incorporated and domiciled in Australia.

In accordance with the requirements of AASB 1: First-time adoption of Australian equivalents to International Financial Reporting Standards, adjustments to the parent entity and the consolidated entity accounts resulting from the introduction of AIFRS have been applied retrospectively to 2005 comparative figures excluding cases where optional exemptions available under AASB 1 have been applied. These consolidated accounts are the first financial statements of Retail Cube Limited to be prepared in accordance with AIFRS.

The financial report has been prepared on an accrual basis and is based on historical costs modified by the revaluation of certain non-current assets, financial assets and financial liabilities for which the fair value basis of accounting has been applied.

Principles of Consolidation

A controlled entity is any entity controlled by the Company. Control exists where the Company has the capacity to dominate the decision-making in relation to the financial and operating policies of another entity so that the other entity operates with the Company to achieve the objectives of the Company. The consolidated entity comprises the Company and its controlled entities. A list of controlled entities is contained in Note 9 to the notes to the financial statements.

All intercompany balances and transactions between the entities in the consolidated entity, including any unrealised profits or losses have been eliminated on consolidation. Accounting policies of subsidiaries have been changed where necessary to ensure consistencies with those policies applied by the parent entity.

Financial Assets and Financial Liabilities

Financial assets and financial liabilities are recognised on the balance sheet when the Company becomes party to the contractual provisions of the financial instrument.

A financial asset is de-recognised when the contractual rights to the cash flows from the financial assets expire or are transferred and no longer controlled by the entity. A financial liability is removed from the balance sheet when the obligation specified in the contract is discharged or cancelled or expires.

Upon initial recognition a financial asset or financial liability is designated as at fair value through profit or loss except for investments in equity instruments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured.

A gain or loss arising from a change in the fair value of a financial asset or financial liability classified as at fair value through profit or loss is recognised in profit or loss.

Financial assets not measured at fair value comprise loans and receivables. These are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are measured at amortised cost using the effective interest method.

Available-for-sale financial assets include other financial assets, comprising investments in subsidiaries, not included in the above categories. Available-for-sale financial assets are reflected at fair value. Unrealised gains and losses arising from changes in fair value are taken directly to equity.

Financial liabilities comprise of trade and other payables, provisions and borrowings are measured at amortised cost using the effective interest method.

Trade accounts payable represent the principal amounts outstanding at balance date plus, where applicable, any accrued interest.

The amortised cost of a financial asset or a financial liability is the amount initially recognised minus principal repayments, plus or minus cumulative amortisation of any difference between the initial amount and maturity amount and minus any write-down for impairment or doubtful collections.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Inventories

Finished goods and raw materials are stated at lower of cost and net realisable value. Costs are calculated on “first-in first-out” or “weighted average” basis as appropriate for each business segment and include duty and other inward charges. The cost of manufactured stock includes direct labour, direct materials and an appropriate amount of fixed and variable overhead expenses, net of settlement discounts.

Property, plant and equipment

Property, plant and equipment are recorded at cost, less where applicable any accumulated depreciation or amortisation. The fair value of freehold land and building is the amount for which the asset could be exchanged between knowledgeable willing parties in an arms length transaction. It is the policy of the consolidated entity to have an independent valuation every three years, with annual appraisals being made by the directors. The revaluation of land and building has taken into account the potential capital gains tax.

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

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

Depreciation

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

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

Leases

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

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

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

Lease incentives under operating leases are recognised as a liability and amortised on a straight line basis over the life of the lease term.

Foreign Currency Translation

Functional and presentation currency

Items included in the financial statements of each of the group entities are measured using the currency of the primary economic environment in which the entity operates (‘the functional currency’). The consolidated financial statements are presented in Australian dollars, which is Retail Cube Limited’s functional and presentation currency.

Transaction and balances

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

Exchange differences arising on the translation of non-monetary items are recognised directly in equity to the extent that the gain or loss is directly recognised in equity, otherwise the exchange difference is recognised in the income statement.

Income Tax

Deferred tax is accounted for using the comprehensive balance sheet liability method whereby:

- the tax consequences of recovering (settling) all assets (liabilities) are reflected in the financial statements;
- current and deferred tax is recognised as income or expense except to the extent that the tax relates to equity items or to a business combination;
- a deferred tax asset is recognised to the extent that it is probable that future taxable profit will be available to realise the asset;
- deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realised or the liability settled.

The charge for current income tax expenses is based on the profit for the year adjusted for any non assessable or disallowed items. It is calculated using tax rates that have been enacted or are substantively enacted by the balance sheet date.

Deferred tax is accounted for using the balance sheet liability method in respect of temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

Deferred tax is calculated at the tax rates that are expected to apply to the period when the asset is realised or liability is settled. Deferred tax is credited in the income statement except where it relates to items that may be credited directly to equity, in which case the deferred tax is adjusted directly against equity.

Deferred income tax assets are recognised to the extent that it is probable that future tax profits will be available against which deductible temporary differences can be utilised.

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

Tax Consolidation

The company and its wholly owned Australian subsidiaries are part of a tax consolidated group under Australian taxation law. The tax consolidated group does not have a tax sharing and funding agreement in place.

Employee Entitlements

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

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

Impairment of assets

At each reporting date, the consolidated entity reviews the carrying values of its tangible and intangible assets to determine whether there is any indication that those assets have been impaired. If such indication exists, the recoverable amount of the asset, being the higher of asset's fair value less cost to sell and value in use, is compared to the asset's carrying value. Any excess of the asset's carrying value over its recoverable value is expensed to the income statement. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate.

Intangibles

Goodwill

Goodwill and goodwill on consolidation, representing the excess of the cost of acquisition over the fair value of the identifiable net assets acquired, is recognised as an asset and not amortised, but tested for impairment annually and wherever there is an indication that the goodwill may be impaired any impairment is recognised immediately in the income statement.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Trademarks

Trademarks are recognised at cost of acquisition. Trademarks have an infinite life and are carried at cost less any accumulated amortisation and any impairment loss. Trademarks are tested for impairment annually and wherever there is an indication that it may be impaired, any impairment is recognised immediately in the income statement.

Cash and Cash Equivalents

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

Dividends

A provision for dividend is only recognised at the reporting date where the dividends are declared, determined or publicly recommended prior to the reporting date.

Revenue

Sale of Goods

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

Franchise Royalty Income

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

Franchise Fees

Franchise fees are recognised upon exchange of the franchise agreement as all services are considered to be substantially performed.

Settlement Discount

Settlement discounts were previously recorded as other income from operating activities, and have now been disclosed as a reduction in inventory.

All revenue is stated net of the amount of goods and service tax (GST).

Contributed Equity

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

Receivables

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

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

Payables

Liabilities for trade creditors and other amounts are recognised at cost, which is the fair value of the consideration to be paid in the future for the inventories and other goods or services received, whether or not billed to the consolidated entity at balance date. Trade accounts payable are non-interest bearing and are normally settled on due dates.

Investments

Investments in controlled entities are measured on the cost basis. The carrying amounts of investments are reviewed annually by directors to ensure they are not in excess of the recoverable amounts of these assets. Dividend revenue is recognised on a receipt basis.

Earnings per share (EPS)

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

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

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

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

Share-Based Payments

Share-based compensation benefits are provided to employees via the Retail Cube Executive Long Term Incentive Plan.

The fair value of shares granted under the Retail Cube Executive Long Term Incentive Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the shares.

The fair value at grant date is independently determined using a Black-Scholes Binomial convergence pricing model that takes into account the exercise price, the term of the share, the vesting and performance criteria, the impact of dilution, the share price at grant date and expected price volatility of the underlying share and the risk-free interest rate for the term of the share.

Goods and Services Tax

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

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

The net amount of GST recoverable from, or payable to, the tax authorities are included as a current asset or a liability in the Balance Sheet.

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

Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of assets that necessarily take a substantial period of time to prepare for their intended use or sale, are added to the cost of those assets, until such a time as the assets are substantially ready for their intended use or sale. All other borrowing costs are recognised in income in the period in which they are incurred.

Interest Bearing Liabilities

Bank loans are recorded at an amount equal to the net proceeds received. Interest expense is recognised on an accrual basis. Ancillary costs incurred in connection with the arrangement of borrowings are deferred and amortised over the period of the borrowing.

Rounding of amounts

The Company is a company of the kind referred to in ASIC, class order 98/100, dated 10 July 1998, and in accordance with that class order amounts in the directors' report and in the financial report are rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

Comparative figures

When required by accounting standards comparative figures have been adjusted to confirm to changes in presentation for the current financial year.

Critical accounting estimates and judgements

The directors evaluate estimates and judgements incorporated into the financial report based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the group.

Key Estimates – Impairment

The group assesses impairment at each reporting date by evaluating conditions specific to the group that may lead to impairment of assets. Where an impairment trigger exists, the recoverable amount of the asset is determined. Value-in-use calculations performed in assessing recoverable amounts incorporate a number of key estimates.

New Australian Accounting Standards

As at the date of this report there are a number of new Australian Accounting Standards that have been issued but are not yet effective. The group has assessed the impact of these new Australian Accounting Standards and has concluded that they would have no impact on the accounting policies detailed above.

| | Consolidated | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 2. Revenue | | | | |
| Operating activities | | | | |
| Sale of goods | 49,533 | 52,765 | - | - |
| Royalties and other franchise related income | 6,371 | 5,645 | - | - |
| Profit from sale of operations to franchisees | 355 | 178 | - | - |
| Interest received | | | | |
| wholly owned subsidiaries | - | - | 24 | - |
| Other persons | 49 | 51 | - | 4 |
| Other revenue | 1,118 | 1,476 | 13 | 5 |
| Dividend received from wholly owned subsidiaries | - | - | - | 2,443 |
| Total Revenue | 57,426 | 60,115 | 37 | 2,452 |

| | Consolidated | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 3. Profit/(loss) for the year: | | | | |
| Expenses | | | | |
| Depreciation and amortisation expense | | | | |
| Property, plant and equipment | 986 | 847 | 4 | 1 |
| Depreciation of leased assets | 219 | 136 | - | - |
| Others | 19 | 20 | 9 | - |
| | 1,224 | 1,003 | 13 | 1 |
| Impairment in intangible assets | | | | |
| Goodwill | 8,404 | - | - | - |
| Trademarks | 10,324 | - | - | - |
| | 18,728 | - | - | - |
| Impairment in investment in subsidiaries | - | - | 17,980 | - |
| External Finance costs | | | | |
| Lease finance charges | 126 | 59 | - | - |
| Bank Borrowings | 512 | 269 | 457 | 269 |
| | 638 | 328 | 457 | 269 |
| Rental expense relating to operating leases | | | | |
| Minimum lease payments | 7,986 | 7,670 | - | 4 |
| Obsolescence of inventory | 240 | (14) | - | - |
| Doubtful debts - trade receivables | 112 | 55 | - | - |
| Advertising and promotion expenses | 1,244 | 1,145 | - | - |
| Net loss on disposal of plant and equipment | 323 | - | - | - |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 4. Income Tax | | | | |
| Major components of income tax expense | | | | |
| Current income tax expense/(benefit) | - | 788 | - | (482) |
| Deferred income tax expense/(benefit) | (787) | (314) | 208 | - |
| Overprovision in respect of prior years | (266) | - | (852) | - |
| | (1,053) | 474 | (644) | (482) |
| (a) Reconciliation between income tax expense and prima facie tax on accounting profit | | | | |
| Prima facie income tax payable on profit/(loss) before income tax at 30% (2005: 30%) | (6,335) | 668 | (7,927) | 302 |
| Add/ (less) income tax effect of: | | | | |
| Other members of the income tax consolidated group net of intercompany transactions | - | - | 770 | - |
| Allowable items | (179) | (194) | - | (49) |
| Rebatable Dividends | - | - | - | (735) |
| Non-deductible impairment writedown | 2,521 | - | - | - |
| Writedown to recoverable amounts | 3,097 | - | 7,256 | - |
| Over provision from previous year | (266) | - | (852) | - |
| Losses not tax effected | 109 | - | 109 | - |
| Income tax expense/(benefit) attributable to entity | (1,053) | 474 | (644) | (482) |
| | | % | % | % |
| Weighted Average Tax Rate | (5.0) | 21.3 | (2.4) | (47.9) |

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| (b) Deferred tax asset comprises: | | | | |
| Analysis of deferred tax assets: | | | | |
| Provision for doubtful accounts | 67 | 33 | - | - |
| Provision for shrinkage & stock obsolescence | 105 | 46 | - | - |
| Employee entitlements | 385 | 352 | 37 | 140 |
| Other Provisions | 52 | - | 15 | - |
| Accruals | 380 | 83 | (68) | 17 |
| Lease Liability | 525 | 413 | - | - |
| Difference in accounting and tax depreciation | 186 | 74 | - | - |
| Listing expenses | 295 | - | 295 | 339 |
| Landlord and Supplier contribution | 107 | - | - | - |
| | 2,102 | 1,001 | 279 | 496 |
| Analysis of deferred tax liabilities | | | | |
| WDV of Leased Assets | 707 | 387 | - | - |
| Establishment Cost | 24 | 22 | - | - |
| Borrowing Cost | - | 8 | - | 8 |
| | 731 | 417 | - | 8 |
| Net Deferred Tax Asset | 1,371 | 584 | 279 | 488 |

The movement in the above analysis in deferred tax assets and liabilities for each temporary difference during the year is debited/credited to the income statement

Deferred tax assets not brought to account, the benefits of which will only be realised if the conditions for deductibility set out in Note 1 occur

| | | | | |
|------------------|--------------|----------|--------------|----------|
| Tax losses: | | | | |
| operating losses | 109 | - | 109 | - |
| capital losses | 3,097 | - | 7,256 | - |
| | 3,206 | - | 7,365 | - |

5. Cash and Cash Equivalents

| | | | | |
|--------------|-----------|-----------|----------|-----------|
| Cash on hand | 35 | 16 | - | - |
| Cash in bank | - | 33 | - | 12 |
| | 35 | 49 | - | 12 |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 6. Trade and Other Receivables | | | | |
| Current | | | | |
| Trade receivables | 1,577 | 1,653 | 7 | 2 |
| Provision for doubtful debts | (224) | (62) | - | - |
| Tax receivable | - | - | 251 | - |
| | 1,353 | 1,591 | 258 | 2 |
| Amounts receivable from: | | | | |
| - wholly owned subsidiaries | - | - | 10,386 | 7,797 |
| Provision for doubtful debts ^(a) | - | - | (6,206) | - |
| | - | - | 4,180 | 7,797 |
| | 1,353 | 1,591 | 4,438 | 7,799 |

(a) Amazing Paints Discounts Pty Limited owes Retail Cube Limited \$8,155,540. A provision to the extent of \$6,205,540 has been provided in the books of the parent entity as recovery of this portion of debt is considered doubtful. This has no impact on the accounts of the consolidated entity as it has been eliminated on consolidation.

7. Inventories

| | | | | |
|--------------------------|--------------|--------|---|---|
| Current | | | | |
| Finished goods - at cost | 9,688 | 9,888 | - | - |
| Work in progress | - | - | - | - |
| Raw materials - at cost | 308 | 340 | - | - |
| | 9,996 | 10,228 | - | - |

8. Other Current Assets

| | | | | |
|-------------------|------------|-----|-----------|----|
| Security deposits | 24 | 81 | - | - |
| Prepayments | 92 | 40 | 36 | 24 |
| Others | 136 | 93 | 18 | 6 |
| | 252 | 241 | 54 | 30 |

| | Consolidated | | The Company | |
|----------------------------------|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 9. Financial Assets | | | | |
| Unlisted Investment - at cost | | | | |
| Shares in controlled entities | | | | |
| Investment in The Athlete's Foot | - | - | 10,642 | 10,642 |
| Impairment of investment | - | - | - | - |
| | - | - | 10,642 | 10,642 |
| Investment in King of Knives | - | - | 16,346 | 16,346 |
| Impairment of investment | - | - | (7,346) | - |
| | - | - | 9,000 | 16,346 |
| Investment in Amazing Paints | - | - | 10,635 | 10,635 |
| Impairment of investment | - | - | (10,635) | - |
| | - | - | - | 10,635 |
| | - | - | 19,642 | 37,623 |

The Cash Generating Units (CGU) of Retail Cube Limited are The Athlete's Foot (TAF), King of Knives (KOK) and Amazing Paints (AP). The valuation of the CGU were based on a discounted value of projected earnings over a 10 year time frame, which is considered acceptable considering the growth and expansion plans of the business. Other assumptions used for the valuation are as follows:

| | TAF | KOK | AP |
|----------------------|------|------|------|
| Annual growth rate | 5% | 3.5% | 3.5% |
| Economic growth rate | 2.5% | 2.5% | 2.5% |
| Discount rate | 12% | 16% | 16% |

Companies must assess at each reporting date whether there is any indication that the asset may be impaired and, if so, perform an impairment test. The performance of Amazing Paints and King of Knives were below expectations for the period ending June 2006 and this indicated that the carrying value of the investment was impaired and consequently necessitated an impairment write down.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

The ultimate parent entity is Retail Cube Limited.

Subsidiaries of Retail Cube Limited categorised by business segments

| | Ownership Interest | |
|--|--------------------|------|
| | 2006 | 2005 |
| The Athlete's Foot | | |
| The Athlete's Foot Australia Pty Limited | 100% | 100% |
| TAF Constructions Pty Limited | 100% | 100% |
| King of Knives | | |
| King of Knives Pty Limited | 100% | 100% |
| King of Knives Limited (New Zealand) | 100% | 100% |
| King of Knives Franchising Pty Limited | 100% | 100% |
| Amazing Paints | | |
| Amazing Paints Discounts Pty Limited | 100% | 100% |
| Robertson & Co Pty Limited | 100% | 100% |
| Barrojest Pty Limited | 100% | 100% |
| Toveken Pty Limited | 100% | 100% |
| Monto Pty Limited | 100% | 100% |
| Aymtold Pty Limited | 100% | 100% |
| Brynex Pty Limited | 100% | 100% |
| Heritage Paints Pty Limited | 100% | 100% |

Except for King of Knives (New Zealand), which was incorporated in New Zealand, all other entities were incorporated in Australia. All controlled entities were acquired during the 2004-05 financial year.

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 10. Property, Plant and Equipment | | | | |
| Property - at cost ^(a) | 1,866 | 1,866 | - | - |
| Less: Accumulated depreciation | (12) | - | - | - |
| | 1,854 | 1,866 | - | - |
| Plant and equipment - at cost | 9,345 | 9,790 | 40 | 14 |
| Less: Accumulated depreciation | (5,726) | (5,480) | (5) | (1) |
| | 3,619 | 4,310 | 35 | 13 |
| Plant and equipment under finance lease - at cost | 2,846 | 1,395 | - | - |
| Less: Accumulated depreciation | (488) | (106) | - | - |
| | 2,358 | 1,289 | - | - |
| Assets under construction | 137 | 10 | - | (4) |
| | 7,968 | 7,475 | 35 | 9 |

(a) The property represents the paint factory at St. Mary's, NSW. The company had independently valued the property in November 2005 at \$2,125,000. Capitalisation and comparison methods were the approaches adopted for valuing the property.

Movements in carrying amounts

Property, plant and equipment - at cost

At cost

| | | | | |
|--------------------------------|---------------|--------|-----------|----|
| Balance at beginning of period | 11,656 | - | 14 | 14 |
| Additions | 657 | 12,150 | 26 | - |
| Disposals | (1,102) | (494) | - | - |
| Balance at end of period | 11,211 | 11,656 | 40 | 14 |
| Accumulated depreciation | | | | |
| Balance at beginning of period | 5,479 | - | 1 | 1 |
| Additions | 824 | 5,800 | 5 | - |
| Disposals | (565) | (321) | (1) | - |
| Balance at end of period | 5,738 | 5,479 | 5 | 1 |
| | 5,473 | 6,177 | 35 | 13 |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Plant and equipment under finance lease | | | | |
| At cost | | | | |
| Balance at beginning of period | 1,395 | - | - | - |
| Additions | 1,475 | 1,395 | - | - |
| Disposals | (24) | - | - | - |
| | 2,846 | 1,395 | - | - |
| Accumulated depreciation | | | | |
| Balance at beginning of period | 106 | - | - | - |
| Additions | 382 | 106 | - | - |
| Disposals | 0 | - | - | - |
| Balance at end of period | 488 | 106 | - | - |
| | 2,358 | 1,289 | - | - |
| Assets under construction | 137 | 10 | - | (4) |
| Net book value | 7,968 | 7,475 | 35 | 9 |

11. Intangibles

Trademark

Trademarks at cost

| | | | | |
|-----------------------------------|----------------|--------|---|---|
| Trademark - The Athlete's Foot | 3,466 | 3,466 | - | - |
| Accumulated impairment write-down | - | - | - | - |
| | 3,466 | 3,466 | - | - |
| Trademark - King of Knives | 9,655 | 9,655 | - | - |
| Accumulated impairment write-down | (4,377) | - | - | - |
| | 5,278 | 9,655 | - | - |
| Trademark - Amazing Paints | 5,947 | 5,947 | - | - |
| Accumulated impairment write-down | (5,947) | - | - | - |
| | - | 5,947 | - | - |
| | 8,744 | 19,068 | - | - |

| | Consolidated | | The Company | |
|--------------------------------------|----------------------------|------------------------------|----------------------------|------------------------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| Goodwill | | | | |
| Purchased goodwill - at cost | 113 | 113 | - | - |
| Goodwill on consolidation | | | | |
| Goodwill - The Athlete's Foot | 6,101 | 6,101 | - | - |
| Accumulated impairment write-down | - | - | - | - |
| | 6,101 | 6,101 | - | - |
| | | | | |
| Goodwill - King of Knives | 2,330 | 2,330 | - | - |
| Accumulated impairment write-down | (2,330) | - | - | - |
| | - | 2,330 | - | - |
| | | | | |
| Goodwill - Amazing Paints | 6,074 | 6,074 | - | - |
| Accumulated impairment write-down | (6,074) | - | - | - |
| | - | 6,074 | - | - |
| | 6,214 | 14,618 | - | - |
| | 14,958 | 33,686 | - | - |
| | | | | |
| | 2006 Goodwill \$'000 | 2006 Trademarks \$'000 | 2005 Goodwill \$'000 | 2005 Trademarks \$'000 |
| Balance at the beginning of the year | 14,618 | 19,068 | - | - |
| Additions | - | - | 14,618 | 19,068 |
| Disposals | - | - | - | - |
| Amortisation charge | - | - | - | - |
| Impairment losses | (8,404) | (10,324) | - | - |
| Balance at the end of the year | 6,214 | 8,744 | 14,618 | 19,068 |

The Cash Generating Units (CGU) of Retail Cube Limited are The Athlete's Foot (TAF), King of Knives (KOK) and Amazing Paints (AP). The valuation of the CGU were based on a discounted value of projected earnings over a 10 year time frame, which is considered acceptable considering the growth and expansion plans of the business. Other assumptions used for the valuation are as follows:

| | TAF | KOK | AP |
|----------------------|------|------|------|
| Annual growth rate | 5% | 3.5% | 3.5% |
| Economic growth rate | 2.5% | 2.5% | 2.5% |
| Discount rate | 12% | 16% | 16% |

AASB 136 states that an Impairment testing must be performed annually for goodwill and other indefinite life intangible assets. Further companies must also assess at each reporting date whether there is any indication that the asset may be impaired and, if so, perform an impairment test. The performance of Amazing Paints and King of Knives were below expectations for the period ended June 2006 and this indicated that the carrying value of the investment was impaired and consequently necessitated an impairment write down.

The impairment testing pointed to the fact that the total of AP's goodwill of \$6,074,000 and trademarks of \$5,947,000 have been impaired and would have to be fully written down as an expense in the consolidated income statement. The impairment testing of KOK pointed to an impairment of KOK's trademarks by \$4,377,000 and goodwill by \$2,330,000. These have been written down as an expense in the consolidated income statement for the year ended 30 June 2006.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 12. Deferred Tax Assets | | | | |
| Future tax benefits (refer note 4(b)) | 1,371 | 584 | 279 | 488 |
| 13. Other Non-current Assets | | | | |
| Capitalised borrowing and establishment costs | 311 | 285 | 19 | 188 |
| Accumulated amortisation | (229) | (27) | (19) | (9) |
| | 82 | 258 | - | 179 |
| 14. Trade and Other Payables | | | | |
| Unsecured Liabilities | | | | |
| Current | | | | |
| Trade creditors | 4,427 | 4,687 | 78 | 12 |
| Other creditors and accruals | 3,314 | 2,811 | 497 | 752 |
| Amounts payable to: | | | | |
| - wholly owned subsidiaries | - | - | 2,586 | - |
| | 7,741 | 7,498 | 3,161 | 764 |
| Non-current | | | | |
| Payables - Other creditors | - | 500 | - | 500 |

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 15. Borrowings | | | | |
| Current | | | | |
| Bank bill facility (secured) | 3,750 | 1,950 | 3,750 | 1,950 |
| Hire purchase (secured) | 164 | 200 | - | - |
| Finance lease (secured) | 508 | 310 | - | - |
| Bank Overdraft (Secured) | 1,893 | 1,586 | 3,392 | 3,346 |
| | 6,315 | 4,046 | 7,142 | 5,296 |
| Non-current | | | | |
| Hire purchase (secured) | 296 | 478 | - | - |
| Finance lease (secured) | 1,243 | 1,068 | - | - |
| | 1,539 | 1,546 | - | - |
| Total current and non-current secured liabilities | 7,854 | 5,592 | 7,142 | 5,296 |
| (a) Total current and non-current secured liabilities | | | | |
| Bank bill facility | 3,750 | 1,950 | 3,750 | 1,950 |
| Hire purchase | 460 | 678 | - | - |
| Finance lease | 1,751 | 1,378 | - | - |
| Bank Overdraft | 1,893 | 1,586 | 3,392 | 3,346 |
| | 7,854 | 5,592 | 7,142 | 5,296 |
| (b) The carrying amounts of non-current assets pledged as security are: | | | | |
| First mortgage | | | | |
| Property | 1,854 | 1,866 | 1,854 | 1,866 |
| Floating charge over company's tangible assets | 34,161 | 52,219 | 22,594 | 44,274 |
| | 36,015 | 54,085 | 24,448 | 46,140 |

a) The company has 2 Bank bill facilities being \$1,950,000 secured by a registered mortgage over the property of a subsidiary company and \$1,800,000 secured by a fixed and floating charge over the company's assets.

b) The Bank overdraft is secured by a fixed and floating charge over the company's assets and interlocking joint and several guarantees by group companies.

c) The entity has access to bank overdraft of \$3,400,000 in Australia and NZ\$115,000 in New Zealand.

d) Hire Purchase and Finance Leases are secured over the assets under finance.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|--------------------------------|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 16. Tax Liabilities | | | | |
| Current | | | | |
| GST payable | 327 | 500 | - | - |
| Income tax | (249) | (207) | - | - |
| Others | (18) | (15) | - | - |
| | 60 | 278 | - | - |
| 17. Provisions | | | | |
| Current | | | | |
| Employee benefits | 353 | 334 | - | 46 |
| Non-current | | | | |
| Employee benefits | 153 | 211 | 31 | - |
| Aggregate employee benefits | 506 | 545 | 31 | 46 |
| Long Service Leave Movement | | | | |
| Balance at beginning of period | 545 | - | - | - |
| Additional provision | 98 | 545 | 31 | - |
| Amounts used | (137) | - | - | - |
| Balance at end of period | 506 | 545 | 31 | - |

A provision has been recognised for employee entitlements relating to long service leave. In calculating the present value of future cash flows in respect of long service leave being taken is based on historical data. The measurement and recognition criteria relating to employee benefits have been included in Note 1 to this report.

| | The Company | |
|--|----------------------------|----------------|
| | 2006 \$'000 | 2005 \$'000 |
| 18. Issued Capital | | |
| Balance at beginning of period | 39,186 | 2,800 |
| Issuance during the year: | | |
| Prospectus equity raising | - | 20,500 |
| Equity issued to vendors | - | 18,700 |
| Dividend reinvestment plan | - | 62 |
| Other Issues | - | - |
| Transaction costs relating to the issue of shares | - | (2,876) |
| Writeback of transaction costs relating to the issue of shares | 331 | - |
| Balance at end of period | 39,517 | 39,186 |
| | No. of Shares (Fully Paid) | |
| | ('000) | ('000) |
| Balance at beginning of period | 84,217 | 5,600 |
| Issuance during the year: | | |
| Prospectus equity raising | - | 41,000 |
| Equity issued to vendors | - | 37,400 |
| Dividend reinvestment plan | - | 217 |
| Executive Long Term Share Incentive Plan | 3,160 | - |
| Balance at end of period | 87,377 | 84,217 |

(a) The Company's authorised share capital amounted to 87,377,000 ordinary shares of no par value. Ordinary shares participate in dividends and the proceeds on winding up of the parent entity in proportion to the number of shares held. At the shareholders meetings each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

(b) The Annual General Meeting held on 16 November 2005 approved an issue of 3,160,000 shares under the Executive Long Term Share Incentive Plan. The purpose of the plan is to encourage employees to share in the ownership of the company, in order to promote the long-term success of the company as a goal shared by the employees and to align employee's interest to that of shareholders.

The key features of the plan are:

- It is open to all employees at the discretion of the Board.
- Invitations made to the employees to apply for shares at the market price on a certain date.
- The price would be the weighted average traded price on 1 July 2005 and for the last 20 trading days of June 2005, which in this case is 19.5 cents per share. This price is for this award only.
- Financial assistance provided to the employees, if they accept, to apply for the shares.
- On the completion of 3 years of service, if the total return on the Retail Cube shares exceeds the return on the S&P/ASX Small Ordinaries Accumulation Index, the shares vest with the employees.
- On the occurrence of certain events like the employee resigning within 3 years or being terminated for a valid reason, the shares issued to the employee would lapse.

Using the Black-Scholes option pricing model the outstanding and vested options were valued at 3.8 cents each.

The price was calculated by using Black Scholes option pricing model applying the following inputs:

| | |
|-------------------------------------|-----------|
| Weighted average life of the option | 36 months |
| Expected share price volatility | 15 % |
| Risk free interest rate | 6.00 % |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

19. Reserve

Foreign Currency Translation Reserve

The foreign currency translation reserve records exchange differences arising on translation of a foreign controlled subsidiary.

Share Reserve

The option reserve records items recognised as expenses on valuation of employee share options.

| | Consolidated | | The Company | |
|--|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 20. Dividends | | | | |
| Dividends paid by the Company, or declared are: | | | | |
| A fully franked final dividend of 1.2 cents per share relating to the half-year ended 31 December 2004, was paid on 29 April 2005. | - | 1,008 | - | 1,008 |

All of the dividends paid or declared by the Company are fully franked (at 30%) and were available as part of the Dividend Reinvestment Plan.

Dividend Franking Account

The amount of franking credits available for the subsequent financial year are:

| | | | | |
|--|--------------|-------|--------------|-------|
| | 5,106 | 8,070 | 5,106 | 8,070 |
|--|--------------|-------|--------------|-------|

| | Consolidated | | The Company | |
|---|----------------|------------|---------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| 21. Auditors' Remuneration | | | | |
| Amount received or due and receivable by the company auditors | | | | |
| PKF | | | | |
| Audit and review of the financial reports | 140,525 | - | - | - |
| Tax compliance services | 49,676 | - | 49,676 | - |
| Accounting advice | 1,975 | - | - | - |
| | 192,176 | - | 49,676 | - |
| Haines Norton | | | | |
| Audit and review of the financial reports | - | 150,000 | - | 150,000 |
| Tax compliance services | - | 13,000 | - | 13,000 |
| Accounting advice | 16,652 | - | - | - |
| | 16,652 | 163,000 | - | 163,000 |
| | 208,828 | 163,000 | 49,676 | 163,000 |

22. Earnings Per Share

| | | | | |
|---|----------------|--------|------|------|
| Earnings used in calculating basic and diluted earnings per share | (20,063) | 1,753 | - | - |
| Number of Shares | | | | |
| | '000 | '000 | '000 | '000 |
| Weighted average number of shares used in the calculation: | 86,174 | 84,217 | - | - |
| Cents Per Share | | | | |
| Basic earnings per share | (23.29) | 2.08 | - | - |
| Diluted earnings per share | (23.29) | 2.08 | - | - |

During the year 3,160,000 shares were issued on 16 November 2005. The shares have been weighted accordingly.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2005 \$'000 |
| 23. Employee Benefits | | | | |
| <i>Aggregate Employee Benefits, Including On-costs</i> | | | | |
| Provision for employee benefits | | | | |
| - Current | 353 | 334 | 24 | - |
| - Non-current | 153 | 211 | 7 | - |
| Accruals for wages, salaries and bonuses included in "other payables" | 508 | 346 | 34 | 23 |
| | 1,014 | 891 | 65 | 23 |
| <i>Number of Employees</i> | No. | No. | No. | No. |
| Number of full-time equivalent employees at balance sheet date | 356 | 373 | 19 | 5 |

24. Share Options

(a) Directors

At balance sheet date, the following options over unissued ordinary shares were outstanding and vested (or able to be exercised) by directors:

| Name | Vesting Date | No. of months from listing | Exercise Date | No. of months from vesting | Exercise Price \$ | Number of Options Outstanding | | Number of Options Vested | |
|--|--------------|----------------------------|---------------|----------------------------|-------------------|-------------------------------|----------------|--------------------------|------|
| | | | | | | 2006 | 2005 | 2006 | 2005 |
| Meltrust Pty Ltd ^(a) <i>(Eric Melman - resigned on 03/01/06)</i> | On listing | 30 months | 0.550 | | - | 720,000 | - | - | |
| Robert Estcourt ^(b) | 12 months | 24 months | 0.450 | | - | 500,000 | 500,000 | - | |
| Robert Estcourt ^(b) | 24 months | 24 months | 0.575 | | 300,000 | 300,000 | - | - | |
| Robert Estcourt ^(b) | 36 months | 24 months | 0.650 | | 400,000 | 400,000 | - | - | |
| | | | | | 700,000 | 1,920,000 | 500,000 | - | |

The following share-based payment arrangements existed during 2006:

(a) On 1 July 2004, Meltrust Pty Limited held 720,000 options in the company. The options hold no voting or dividends rights and are not transferable. They were exercisable at 0.55 cents 30 months from the date of listing. On 18 November 2005 these options were cancelled for no consideration.

(b) On 7 July 2004, share options were granted to Robert Estcourt on listing of Retail Cube Limited. The options were issued and were exercisable 24 months from the vesting date at prices ranging between 0.45 cents and 0.65 cents. The options hold no voting or dividends rights and are not transferable. Robert Estcourt left the company's employment on 10 July 2006 and all his outstanding and vested options have lapsed on the reporting date.

Using the Black-Scholes option pricing model the outstanding and vested options were valued at 15 cents each.

The price was calculated by using Black Scholes option pricing model applying the following inputs:

| | |
|-------------------------------------|--------------|
| Weighted average exercise price | 0.55 cents |
| Weighted average life of the option | 26.25 months |
| Expected share price volatility | 12.50 % |
| Risk free interest rate | 5.00 % |

(b) Others

At the date of this report, the unissued ordinary shares of Retail Cube Ltd under option are as follows:

| No. of Options | Exercise Price \$ | Vesting Date No. of months after listing | Exercisable within number No. of months Vesting |
|-----------------------|------------------------------|---|--|
| 180,000 | 0.550 | On listing | 30 months |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2006 \$'000 | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 |
| 25. Commitments | | | | |
| a. Capital Expenditure Commitments | | | | |
| Estimated capital expenditure contracted for at reporting date, but not provided for in the financial statements and payable pertaining to plant and equipment expenditure | | | | |
| - not later than one year | 1,227 | 1,030 | - | - |
| b. Operating Lease Commitments | | | | |
| Future operating lease rentals (minimum lease payments) of premises, plant and equipment not provided for in the financial statements and payable under non-cancellable operating leases. | | | | |
| - not later than one year | 6,595 | 6,752 | - | - |
| - later than one year but not later than five years | 15,220 | 15,334 | - | - |
| - later than five years | - | - | - | - |
| | 21,815 | 22,086 | - | - |
| c. Finance Lease Commitments | | | | |
| Finance lease rentals are payable as follows: | | | | |
| - not later than one year | 812 | 384 | - | - |
| - later than one year but not later than five years | 1,758 | 1,264 | - | - |
| - later than five years | - | - | - | - |
| Minimum finance lease payments | 2,570 | 1,648 | - | - |
| Deduct future finance charges | (359) | (270) | - | - |
| | 2,211 | 1,378 | - | - |
| Finance leases on plant and equipment are generally over a 4 year period. | | | | |
| Disclosed as follows: | | | | |
| Current (Note 15) | 672 | 310 | - | - |
| Non-current (Note 15) | 1,539 | 1,068 | - | - |
| | 2,211 | 1,378 | - | - |

26. Related Party Disclosures

a. Parent entity

The parent entity and ultimate parent entity of the group is Retail Cube Limited.

b. Subsidiaries

Subsidiaries are detailed in Note 9 to the financial statements.

c. Key management personnel

Disclosures relating to key management personnel are set out in the remuneration report contained in the Director's report.

d. Transactions with related parties

The following transactions occurred with related parties:

| | Consolidated | | The Company | |
|--|--------------|------------|-------------|------------|
| | 2006 \$ | 2005 \$ | 2006 \$ | 2005 \$ |
| Shared Services charged back to the subsidiaries | - | - | 606,640 | - |
| | - | - | 606,640 | - |

e. Loans to related parties

The following loan transactions occurred with related parties:

Loans to subsidiaries

| | | | | |
|-------------------------|---|---|-------------|-----------|
| Beginning of the year | - | - | 7,162,537 | - |
| Loans advanced | - | - | 5,061,609 | 7,162,537 |
| Loan repayment received | - | - | (1,838,191) | - |
| Transfer of loan | - | - | - | - |
| Interest charged | - | - | 24,000 | - |
| Interest received | - | - | (24,000) | - |
| End of year | - | - | 10,385,955 | 7,162,537 |

Intercompany loans amounting to \$6,205,542 to Amazing Paints by the parent entity have been provided for in the parent entity

Loans from subsidiaries

| | | | | |
|---------------------------------|---|---|-------------|---------|
| Beginning of the year | - | - | 633,571 | - |
| Loans advanced | - | - | - | 633,571 |
| Loan received from subsidiaries | - | - | (3,219,195) | - |
| Interest charged | - | - | - | - |
| Interest received | - | - | - | - |
| End of year | - | - | (2,585,624) | 633,571 |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

f. Terms and conditions

Loans to/from subsidiaries are not on commercial terms and normally do not attract interest. Outstanding balances on this account are unsecured and repayable in cash. The balances except from Amazing Paints are current and have repayments during the year.

A nominal interest charge is levied on Amazing Paints of \$2,000 per month totalling to \$24,000 during the year, being around 0.3% per annum.

| | Consolidated | | The Company | |
|---|----------------|----------------|----------------|----------------|
| | 2005 \$'000 | 2006 \$'000 | 2005 \$'000 | 2005 \$'000 |
| 27. Cash Flow Information | | | | |
| (a) Reconciliation of cash at the end of the year | | | | |
| Cash at the end of the financial year as shown in the cash flow statement is reconciled to items in the balance sheet as follows: | | | | |
| Cash and cash equivalents (refer note 5) | 35 | 49 | - | 12 |
| Bank overdrafts (refer note 15) | (1,893) | (1,586) | (3,392) | (3,346) |
| | (1,858) | (1,537) | (3,392) | (3,334) |

(b) Reconciliation of cash flow from operations with Profit/(Loss) after income tax

| | | | | |
|-----------------------------------|--------------|--------------|----------------|----------------|
| Profit/(Loss) after income tax | (21,222) | 1,753 | (26,422) | 1,497 |
| Non-cash flows in profit | | | | |
| Depreciation and amortisation | 1,224 | 1,747 | 4 | - |
| Impairment of intangible assets | 18,728 | - | - | - |
| Impairment in investments | - | - | 17,980 | - |
| Changes in assets and liabilities | | | | |
| Receivables | 238 | 1,767 | 6,202 | (2,452) |
| Inventories | 232 | 2,416 | - | - |
| Prepayments and other assets | (571) | (349) | 126 | (30) |
| Trade creditors and provisions | 573 | (6,702) | 144 | 109 |
| Tax assets and liabilities | 258 | (791) | 601 | (488) |
| Net cash flow from operations | (540) | (159) | (1,365) | (1,364) |

28. Financial Instruments

The consolidated entity does not engage in any significant transactions that are speculative in nature.

a. Interest rate risk

The consolidated entity's exposure to interest rate risk and the effective weighted average interest rate for classes of financial assets and financial liabilities is set out below:

| Financial Assets | Note | Weighted Average Interest Rate | Fixed Interest Maturing in: | | | Non- Interest Bearing \$'000 | Total \$'000 |
|------------------------------|------|---|--|----------------------------------|-----------------------------------|---------------------------------------|-----------------|
| | | | Floating Interest Rate \$'000 | One Year or Less \$'000 | One to Five Years \$'000 | | |
| As at 30 June 2006 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 5 | 0% | 35 | - | - | - | 35 |
| Receivables | 6,8 | 0% | - | - | - | 1,489 | 1,489 |
| | | | 35 | - | - | 1,489 | 1,524 |
| As at 30 June 2005 | | | | | | | |
| Financial Assets | | | | | | | |
| Cash and cash equivalents | 5 | 0% | 49 | - | - | - | 49 |
| Receivables | 6,8 | 0% | - | - | - | 1,609 | 1,609 |
| | | | 49 | - | - | 1,609 | 1,658 |
| Financial Liabilities | | | | | | | |
| As at 30 June 2006 | | | | | | | |
| Bank Bill facility | 15 | 7.35% | - | 3,750 | - | - | 3,750 |
| Bank Overdraft | 15 | 8.75% | - | 1,893 | - | - | 1,893 |
| Payables | 14 | 0% | - | - | - | 7,741 | 7,741 |
| Finance Lease Liabilities | 15 | 8.20% | - | 672 | 1,539 | - | 2,211 |
| | | | - | 6,315 | 1,539 | 7,741 | 15,595 |
| As at 30 June 2005 | | | | | | | |
| Bank Bill facility | 15 | 7.10% | - | 1,950 | - | - | 1,950 |
| Bank Overdraft | 15 | 8.45% | - | 1,586 | - | - | 1,586 |
| Payables | 14 | 0% | - | - | - | 7,998 | 7,998 |
| Finance Lease Liabilities | 15 | 8.20% | - | 310 | 1,068 | - | 1,378 |
| | | | - | 3,846 | 1,068 | 7,998 | 12,912 |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

b. Credit Risk Exposures

Credit risk represents the loss that would be recognised if counter-parties failed to perform as contracted.

The credit risk on financial assets, excluding investments, of the consolidated entity which have been recognised on the Balance Sheet are the carrying amount, net of provisions for doubtful debts.

The consolidated entity minimises concentration of credit risk by undertaking relatively small value transactions with a large number of customers in Australia and the majority of transactions are cash, cheque or credit card based. The consolidated entity is not materially exposed to any individual customer.

c. Net Fair Values of Financial Assets and Liabilities

The carrying amount of the consolidated entity's identified financial assets and liabilities represents materially their net fair value.

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

29. Segment Information

a. Accounting policies

Segment revenues and expenses are those directly attributable to the segments and include any joint revenue and expenses where a reasonable basis of allocation exists. Segment assets include all assets used by a segment and consist principally of cash, receivables, inventories, intangibles and property, plant and equipment, net of allowances and accumulated depreciation and amortisation. While most such assets can be directly attributed to individual segments, the carrying amount of certain assets used jointly by two or more segments is allocated to the segments on a reasonable basis. Segment liabilities consist principally of accounts payable, employee entitlements, accrued expenses, provisions and borrowings. Segment assets and liabilities do not include deferred income taxes.

b. Business Segments

The consolidated entity is organised into the following business units:

King of Knives

Retailers of cutting and sharpening instruments.

The Athlete's Foot

Retailers of general sports footwear.

Amazing Paints

Manufacturers and retailers of paint and related accessories.

Corporate

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

c. Geographical Segments

The consolidated entity operates in two identified geographical areas.

Australia

The home of the parent entity and its material subsidiaries.

New Zealand

The entities trade as branch operations in New Zealand.

d. Primary Reporting – Business Segments

| | KOK | TAF | APD | The Company | Consolidated Entity |
|--|----------------|---------------|-----------------|----------------|---------------------|
| Year ended 30 June 2006 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Sales to external customers | 26,586 | 10,814 | 12,132 | - | 49,532 |
| Other revenue | 699 | 6,644 | 512 | 39 | 7,894 |
| Total segment revenue | 27,285 | 17,458 | 12,644 | 39 | 57,426 |
| Direct costs and overheads | (27,390) | (14,636) | (14,121) | (1,805) | (57,952) |
| Segment profit before interest, impairment, tax, depreciation and amortisation | (105) | 2,822 | (1,477) | (1,766) | (526) |
| Depreciation and amortisation | 728 | 258 | 224 | 14 | 1,224 |
| Segment result before interest and impairment | (833) | 2,564 | (1,701) | (1,780) | (1,750) |
| Finance costs | (75) | (30) | (76) | (457) | (638) |
| Segment result before impairment | (908) | 2,534 | (1,777) | (2,237) | (2,388) |
| Impairment of intangibles | (6,707) | - | (12,021) | - | (18,728) |
| Profit/(Loss) before income tax | (7,615) | 2,534 | (13,798) | (2,237) | (21,116) |
| Income tax (expense)/benefit | - | - | - | 1,053 | 1,053 |
| Profit/(Loss) after income tax expense | (7,615) | 2,534 | (13,798) | (1,184) | (20,063) |
| Segment assets | 9,710 | 3,551 | 6,903 | 15,851 | 36,015 |
| Segment liabilities | 3,599 | 1,729 | 2,162 | 8,671 | 16,161 |

| | KOK | TAF | APD | The Company | Consolidated Entity |
|--|---------------|---------------|---------------|----------------|---------------------|
| Year ended 30 June 2005 | \$'000 | \$'000 | \$'000 | \$'000 | \$'000 |
| Sales to external customers | 27,032 | 12,298 | 13,435 | - | 52,765 |
| Other revenue | 321 | 6,431 | 589 | 9 | 7,350 |
| Total segment revenue | 27,353 | 18,729 | 14,024 | 9 | 60,115 |
| Direct costs and overheads | (25,714) | (15,639) | (14,040) | (1,165) | (56,558) |
| Segment profit before interest, impairment, tax, depreciation and amortisation | 1,639 | 3,090 | (16) | (1,156) | 3,557 |
| Depreciation and amortisation | (600) | (298) | (94) | (10) | (1,002) |
| Segment result before interest and impairment | 1,039 | 2,792 | (110) | (1,166) | 2,555 |
| Finance costs | - | (26) | (33) | (269) | (328) |
| Segment result before impairment | 1,039 | 2,766 | (143) | (1,435) | 2,227 |
| Impairment of intangibles | - | - | - | - | - |
| Profit/(Loss) before income tax | 1,039 | 2,766 | (143) | (1,435) | 2,227 |
| Income tax (expense)/benefit | - | - | - | (474) | (474) |
| Profit/(Loss) after income tax expense | 1,039 | 2,766 | (143) | (1,909) | 1,753 |
| Segment assets | 8,700 | 4,179 | 7,258 | 33,948 | 54,085 |
| Segment liabilities | 2,772 | 1,575 | 3,078 | 6,988 | 14,413 |

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

e. Secondary Reporting – Geographical Segments

| | Australia | New Zealand | Consolidated Entity |
|--|-----------------|--------------|---------------------|
| Year ended 30 June 2006 | \$'000 | \$'000 | \$'000 |
| Sales to external customers | 45,006 | 4,528 | 49,534 |
| Other revenue | 7,920 | (28) | 7,892 |
| Total segment revenue | 52,926 | 4,500 | 57,426 |
| Direct costs and overheads | (53,246) | (4,706) | (57,952) |
| Segment profit before interest, impairment, tax, depreciation and amortisation | (320) | (206) | (526) |
| Depreciation and amortisation | (1,075) | (149) | (1,224) |
| Segment result before interest and impairment | (1,395) | (355) | (1,750) |
| Finance costs | (633) | (5) | (638) |
| Segment result before impairment | (2,028) | (360) | (2,388) |
| Impairment of intangibles | (18,728) | - | (18,728) |
| Profit/(Loss) before income tax | (20,756) | (360) | (21,116) |
| Income tax (expense) / benefit | 1,053 | - | 1,053 |
| Profit/(Loss) after income tax expense | (19,703) | (360) | (20,063) |
| Segment assets | 34,258 | 1,758 | 36,016 |
| Segment liabilities | 15,838 | 323 | 16,161 |

| | Australia | New Zealand | Consolidated Entity |
|--|---------------|--------------|---------------------|
| Year ended 30 June 2005 | \$'000 | \$'000 | \$'000 |
| Sales to external customers | 47,344 | 5,421 | 52,765 |
| Other revenue | 7,255 | 95 | 7,350 |
| Total segment revenue | 54,599 | 5,516 | 60,115 |
| Direct costs and overheads | (51,209) | (5,349) | (56,558) |
| Segment profit before interest, impairment, tax, depreciation and amortisation | 3,390 | 167 | 3,557 |
| Depreciation and amortisation | (874) | (128) | (1,002) |
| Segment result before interest and impairment | 2,516 | 39 | 2,555 |
| Finance costs | (323) | (5) | (328) |
| Segment result before impairment | 2,193 | 34 | 2,227 |
| Impairment of intangibles | - | - | - |
| Profit/(Loss) before income tax | 2,193 | 34 | 2,227 |
| Income tax (expense) / benefit | (474) | - | (474) |
| Profit/(Loss) after income tax expense | 1,719 | 34 | 1,753 |
| Segment assets | 52,236 | 1,849 | 54,085 |
| Segment liabilities | 12,338 | 2,075 | 14,413 |

30. First time adoption of Australian Equivalents to International Financial Reporting Standards

The following reconciliations explain the transition from previous GAAP to AIFRS affected reported financial position and performance.

| | Consolidated Entity |
|-------------------------------------|----------------------------|
| | Year ended |
| | 30 June 2005 |
| | \$000 |
| Reconciliation of Net Profit | |
| Net profit under previous GAAP | 1,009 |
| Key transitional adjustments | |
| Amortisation of goodwill | 744 |
| Total transitional adjustments | 744 |
| Net Profit under AIFRS | 1,753 |

| | Consolidated Entity | |
|----------------------------------|----------------------------|---------------------|
| | As at | As at |
| | 1 July 2004 | 30 June 2005 |
| | \$000 | \$000 |
| Reconciliation of Equity | | |
| Total equity under previous GAAP | 2,541 | 38,928 |
| Amortisation of goodwill | - | 744 |
| Total equity under AIFRS | 2,541 | 39,672 |

Notes:

(a) Goodwill is capitalised to the Balance Sheet and subjected to an annual impairment test. Amorisiation of goodwill is prohibited.

Previously goodwill was being amortised on a straight line basis over a period of 20 years. The previously amortised goodwill of \$744,000 as at June 2005 was accordingly reversed resulting in a corresponding increase of \$744,000 in retained earnings and goodwill at 1 July 2005.

NOTES TO THE FINANCIAL STATEMENTS

FORMING PART OF THE FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2006

31. Contingent Liabilities

- a) The bank guarantees outstanding as of 30 June 2006 amounted to approximately \$583,185 (\$447,000 in 2005)
- b) The subsidiaries of the company have entered into operating lease commitments with landlords in their capacity as head lessors for stores operated by the franchisees. However, the franchisees have simultaneously undertaken to meet the rental commitments through back-to-back licence agreements. In addition, some franchisees have provided bank guarantees (generally for a maximum period of 3 months rent) and in some instances personal guarantees to the landlords of the properties. The company and its subsidiaries would become liable in the event of a default by any franchisee. The maximum possible exposure would be \$29.6 million (less than one year \$9.6 million; between one and two years \$8.6 million and between 2 and 5 years \$11.4 million). This would arise only in the event that all franchisees defaulted at the same time.

32. Company Details

The registered office and principal place of business is:

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

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Retail Cube Limited, we state that:

In the opinion of the directors:

- (a) the financial statements and notes of the Company and the consolidated entity are in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2006 and of their performance for the financial year ended on that date; and
 - (ii) complying with Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- (c) the audited remuneration disclosures set out on pages 19 to 25 of the Director's report comply with Accounting Standard AASB 124 Related Party Disclosures and the Corporations Regulations 2001.

The Directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the Corporations Act 2001.

This declaration is made in accordance with a resolution of the directors.



Julia King

Chairman

Sydney, 30 August 2006

INDEPENDENT AUDIT REPORT



Chartered Accountants
& Business Advisers

Independent Audit Report to the Members of Retail Cube Limited

Scope

The financial report, remuneration disclosures and directors' responsibility

The financial report comprises the balance sheet, income statement, statement of changes in equity, cash flows statement, accompanying notes to the financial statements, and the directors' declaration for both Retail Cube Limited (the company) and Retail Cube Limited (the economic entity), for the year ended 30 June 2006. The economic entity comprises both the company and the entities it controlled during the year.

The company has disclosed information about the remuneration of key management personnel ("remuneration disclosures"), as required by Accounting Standard AASB 124 *Related Party Disclosures*, under the heading "Key Management Personnel Remuneration Report" in pages 19 to 25 of the directors report, as permitted by the Corporations Regulations 2001.

The directors of the company are responsible for the preparation and true and fair presentation of the financial report in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report. The directors are also responsible for the remuneration disclosures contained in the directors' report.

Audit approach

We conducted an independent audit in order to express an opinion to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement and the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been identified.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the economic entity's financial position, and of their performance as represented by the results of their operations and cash flows and whether the remuneration disclosures comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

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New South Wales Partnership | ABN 83 236 985 726
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DX 10173 | Sydney Stock Exchange | New South Wales

Liability limited by a scheme approved under Professional Standards Legislation



Chartered Accountants
& Business Advisers

**Independent Audit Report to the Members
of Retail Cube Limited (cont'd)**

We formed our audit opinion on the basis of these procedures, which included:

- a. examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report and remuneration disclosures, and
- b. assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

Independence

In conducting our audit, we followed applicable Independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001.

In accordance with ASIC Class Order 05/83, we declare to the best of our knowledge and belief that the auditor's independence declaration set out on page 27 of the financial report has not changed as at the date of providing our audit opinion.

Audit opinion

In our opinion:

1. the financial report of Retail Cube Limited and its controlled entities is in accordance with:
 - (a) The Corporations Act 2001, including:
 - (i) giving a true and fair view of the company's and economic entity's financial position as at 30 June 2006 and of their performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
 - (b) other mandatory financial reporting requirements in Australia.
2. the remuneration disclosures that are contained in pages 19 to 25 of the directors' report comply with Accounting Standard AASB 124 and the Corporations Regulations 2001.

PKF
Chartered Accountants and Business Advisers

Tim Sydenham
Partner

Dated at Sydney this 4th day of September 2006

ADDITIONAL INFORMATION

SHAREHOLDER INFORMATION AS AT 24 AUGUST 2006

TOP 20 HOLDERS OF ORDINARY SHARES

| Rank | Name | Shares | % |
|--------------|-------------------------------|-------------------|--------------|
| 1 | Citicorp Nominees Pty Limited | 11,975,489 | 13.71 |
| 2 | Rosedale Road Pty Ltd | 11,076,266 | 12.68 |
| 3 | John Westwood | 3,346,090 | 3.83 |
| 4 | James Toland | 2,748,087 | 3.15 |
| 5 | Omniday Pty Ltd | 2,419,098 | 2.77 |
| 6 | Vamico Pty Ltd | 2,419,098 | 2.77 |
| 7 | Meltrust Pty Ltd | 2,165,002 | 2.48 |
| 8 | Cartoon Castle Pty Ltd | 2,130,000 | 2.44 |
| 9 | David Toland | 1,890,153 | 2.16 |
| 10 | Roycam Investments Pty Ltd | 1,741,620 | 1.99 |
| 11 | Dandara Pty Ltd | 1,612,731 | 1.85 |
| 12 | Gemi Pty Ltd | 1,612,731 | 1.85 |
| 13 | Lyons and Roses Pty Ltd | 1,520,465 | 1.74 |
| 14 | Andask Pty Ltd | 1,200,000 | 1.37 |
| 15 | Christopher Hext | 1,132,010 | 1.30 |
| 16 | R & R Super Pty Ltd | 1,105,300 | 1.26 |
| 17 | Damor Investments Pty Ltd | 1,000,000 | 1.14 |
| 18 | Carver Holdings Pty Ltd | 802,083 | 0.92 |
| 19 | Heather Baskin | 800,000 | 0.92 |
| 20 | Bradley Baskin | 712,000 | 0.81 |
| TOTAL | | 53,408,223 | 61.14 |

DISTRIBUTION SCHEDULE OF ORDINARY SHARES

| RANGE | TOTAL HOLDERS | SHARES | % |
|------------------|---------------|-------------------|---------------|
| 1 -1,000 | 20 | 9,503 | 0.01 |
| 1,001 – 5,000 | 462 | 1,816,911 | 2.08 |
| 5,001 – 10,000 | 171 | 1,360,467 | 1.56 |
| 10,001 – 100,000 | 299 | 10,049,996 | 11.50 |
| 100,001 and over | 98 | 74,140,136 | 84.85 |
| TOTAL | 1,050 | 87,377,013 | 100.00 |

UNMARKETABLE PARCELS

The number of shareholders holding less than a marketable parcel of shares is 72

SUBSTANTIAL SHAREHOLDERS

| NAME | NUMBER OF SHARES | % |
|---------------------------------------|-------------------------|----------|
| Rosedale Road Pty Limited | 13,500,266 | 16.07 |
| John R Westwood & Associates | 12,236,200 | 14.00 |
| Hunter Hall Investment Management Ltd | 11,081,201 | 13.19 |

VOTING RIGHTS

All ordinary shares carry one vote per share without restriction

RESTRICTED SECURITIES

42,812,500 ordinary shares that had been held in escrow since the listing of the company were released from escrow on 7 July 2006.

ON-MARKET BUY-BACK

There is not a current on-market buy-back

LISTING RULE 4.10.19 STATEMENT

For the year ended 30 June 2006, the company used the cash and assets in a form readily convertible to cash that it had at the time of admission in a way consistent with its business objectives



retail cube

diversified | specialty | retail