# COUNTRY ROAD LIMITED

**14 FEBRUARY 2013**

**STATEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE**

## RESULTS FOR THE HALF YEAR ENDED 31 DECEMBER 2012

Country Road today announced a consolidated profit before tax of $29.0 million for the half year ended 31 December 2012, up 112.3% from $13.7 million in the corresponding period last year. Earnings per share for the half year ended 31 December 2012 increased by 68.7% on the corresponding period last year to 25.7 cents per share. These results include the Witchery and Mimco brands from 30 September 2012 (inclusive) after completion of the acquisition of the Witchery Group.

Total consolidated sales increased by 50.5% on the corresponding period last year to $331.3 million. Total Australasian sales for the half increased by 55.6% on the corresponding period last year and comparable store sales increased by 10.7%.

Total sales in South Africa for the half increased by 19.8% on the corresponding period last year in Australian dollar terms, with comparable store sales up by 2.3%. In constant currency terms total sales in South Africa increased by 32.5% against the corresponding period last year and comparable store sales increased by 13.1%.

| Financial summary in AUD | 1H13 | 1H12 | ▲% |
|---|---|---|---|
| Total sales ($m) | **331.3** | 220.1 | +50.5% |
| Total sales - Australasia ($m) | **294.0** | 189.0 | +55.6% |
| Total sales - South Africa ($m) | **37.3** | 31.1 | +19.8% |
| Profit before interest and tax ($m) | **30.8** | 14.0 | +120.0% |
| Profit before tax ($m) | **29.0** | 13.7 | +112.3% |
| Profit after tax ($m) | **22.1** | 10.5 | +110.0% |
| Earnings per share (cents per share) | **25.7** | 15.2 | +68.7% |

“We are in the early stages of our objective of creating one of Australia’s most prominent specialty fashion groups with complementary brands in the mid to upper tier of the market” said Group Chief Executive Officer, Iain Nairn. “The market segments in which we operate are highly competitive and customers continue to be discerning in their search for value as evidenced by the recent slow growth in the specialty fashion sector. We have commenced leveraging Country Road’s existing scalable information systems and business processes across the Group with a measured and considered approach.”

“We are encouraged by our recent trading performance but we remain cautious given the continuing volatility in consumer confidence, new market entrants and ongoing global economic uncertainty. We will continue to prioritise the focus on growing our brands and customers as well as optimising costs and inventory levels.”

**For further information please contact:**
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Chief Executive Officer
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COUNTRY ROAD LIMITED A.C.N. 006 759 182

# Appendix 4D Half-Year Report

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

## Country Road Limited

| ABN | Half Year Ended |
|---|---|
| **78 006 759 182** | **31 December 2012** |

## Results for Announcement to the Market

| **Operating Results** | | | **$'000** |
|---|---|---|---|
| Revenues from sale of goods | up | 50.5% to | 331,302 |
| Total revenues | up | 50.3% to | 334,075 |
| Profit before interest and tax | up | 120.0% to | 30,837 |
| Profit before tax attributable to members | up | 112.3% to | 29,042 |
| Profit after tax attributable to members | up | 110.0% to | 22,105 |

| **Dividends and Distributions** | Amount per security | Franked amount per security |
|---|---|---|
| Interim dividend | Nil | n/a |
| Previous corresponding period | 7.58c | Fully franked |
| Record date for determining entitlements to the dividend | n/a | |

| **Other Disclosures** | Consolidated Current Period | Consolidated Previous Corresponding Period |
|---|---|---|
| Net tangible asset backing per ordinary security (dollars per share) | 0.49 | 1.22 |
| Total number of ordinary shares outstanding | 103,585,233 | 69,056,822 |
| Basic earnings per share (cents per share) | 25.72 | 15.24 |
| Weighted average number of ordinary shares outstanding | 85,945,719 | 69,056,822 |

On 2 October 2012 Country Road Limited acquired all of the ordinary shares of unlisted Australian company Witchery Australia Holdings Pty Ltd from funds associated with Gresham Private Equity and management vendors for a total value of $180,850,000 under a Share Sale Agreement. Witchery Australia Holdings Pty Ltd and its subsidiaries comprise both the Witchery and Mimco brands. Economic ownership commenced on 30 September 2012 for reporting purposes.

No interest is held in any joint ventures or entities over which the consolidated entity has significant influence.

**This half year report should be read in conjunction with the most recent annual financial report.**

# Directors' Report

Your Directors submit their report for the half-year ended 31 December 2012.

**DIRECTORS**

The Directors of Country Road Limited in office during the half-year and until the date of this report are set out below. Directors were in office for the duration of the half-year unless otherwise stated.

Ian Moir (Non-Executive Chairman)
Iain Nairn (Group Chief Executive Officer appointed 2 October 2012)
Norman Thomson (Non-Executive Director)
Sophie Holt (Managing Director – Country Road)
David Thomas (Group Chief Operating Officer)
Oliver Kysela (Group Chief Financial Officer appointed 2 October 2012)
Paula Disberry (Non-Executive Director)
Zyda Rylands (Non-Executive Director appointed 2 October 2012)
Howard Goldberg (Chief Executive Officer resigned 2 October 2012)

**REVIEW OF OPERATIONS & CHANGES IN STATE OF AFFAIRS**

On 2 October 2012 Country Road Limited ("Country Road") acquired all of the ordinary shares of unlisted Australian company Witchery Australia Holdings Pty Ltd for a total value of $180,850,000. Witchery Australia Holdings Pty Ltd and its subsidiaries ("Witchery Group") comprise both the Witchery and Mimco brands. Economic ownership of the Witchery Group commenced on 30 September 2012 and the financial performance of the Witchery Group is included in the Income Statement from this date.

The primary purpose of the acquisition is to create one of Australia's largest specialty fashion groups with leading complementary brands and a market leading position in the mid to upper tier of the specialty fashion market segment. A key enabler of this objective is leveraging Country Road's existing scalable information systems and business process infrastructure.

The acquisition was funded in part by cash raised from a 1 for 2 renounceable rights issue by Country Road on 31 August 2012 whereby Country Road issued 34,528,411 new shares for a total consideration of $91,845,572. The balance of the purchase consideration was funded by a 5 year term amortising syndicated debt facility of $92,000,000. Further information regarding the acquisition of the Witchery Group is included in Note 9 to the Half-Year Financial Statements.

Consolidated profit before tax of $29,042,760 for the half year ended 31 December 2012 was up 112.3% from $13,678,008 in the corresponding period last year. This includes the Witchery Group from 30 September 2012. Earnings per share for the half year ended 31 December 2012 increased by 68.7% on the corresponding period last year to 25.7 cents per share. From the date of acquisition the Witchery Group contributed profit before tax of approximately $11,500,000 to total consolidated profit before tax for the half year (refer Note 9). Because the Witchery Group's financial results are not included in the prior year corresponding period, and to assist the market in analysing potential consolidated profit before tax for the full year, the Board's best estimate at the date of this report is that the profit before tax contribution of the Witchery Group in the second half of the current financial year is likely to be of a similar quantum to that contributed in the first half. This estimate is subject to volatility in retail trading conditions and the broader macroeconomic environment, and potential further impacts of accounting for the acquisition that are unknown at the date of this report.

# Directors' Report

**REVIEW OF OPERATIONS & CHANGES IN STATE OF AFFAIRS (continued)**

Total consolidated sales of goods for the half-year ended 31 December 2012 increased by 50.5% on the corresponding period last year to $331,302,665 in Australian dollar terms. This includes sales for the Witchery and Mimco brands from 30 September 2012. Total Australasian sales of goods for the half increased by 55.6% on the corresponding period last year with sales in comparable stores increasing by 10.7%. The Board is targeting to maintain this rate of growth in comparable store sales in the second half.

Total sales in South Africa for the half increased by 19.8% on the corresponding period last year in Australian dollar terms, with sales in comparable stores increasing by 2.3%. In constant currency terms total sales in South Africa increased by 32.5% against the corresponding period last year and sales in comparable stores increased by 13.1%.

Country Road has commenced leveraging its scalable information systems and business processes across the broader group with a measured and considered approach. The Board is encouraged by the recent trading performance but remains cautious given the continuing volatility in consumer confidence, new market entrants and ongoing global economic uncertainty. The focus on growing our brands and customers will continue to be prioritised, as well as optimising costs and inventory levels. Underlying cash flow and the cash position at 31 December 2012 was strong with all financial covenants associated with the new syndicated debt facilities achieved during the half year.

With the recent completion of the Witchery Group acquisition and the subsequent launch of the integration program, the Directors have decided not to pay an interim dividend.

**ROUNDING**

The amounts contained in the half-year financial report have been rounded to the nearest thousand (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

**AUDITOR'S INDEPENDENCE DECLARATION**

An independence declaration from our auditors Ernst & Young is attached to this report

Signed in accordance with a resolution of the Directors.

IAIN NAIRN
Director
13 February 2013

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## Auditor's Independence Declaration to the Directors of Country Road Limited

In relation to our review of the financial report of Country Road Limited for the half-year ended 31 December 2012, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
13 February 2013

# Directors' Declaration

In accordance with a resolution of the Directors of Country Road Limited, I state that:

In the opinion of the Directors:

(a) the financial statements and notes of the consolidated entity are in accordance with the Corporations Act 2001, and:

(i) give a true and fair view of the financial position as at 31 December 2012 and the performance for the half-year ended on that date of the consolidated entity; and

(ii) comply with Accounting Standard AASB 134: 'Interim Financial Reporting' and the Corporations Regulations 2001; and

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

On behalf of the Board

IAIN NAIRN
Director
Melbourne, 13 February 2013

# Income Statement

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | Note | Consolidated 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Total revenues** | 2 | **334,075** | 222,297 |
| Cost of sales | | **(128,194)** | (92,535) |
| **Gross profit** | | **205,881** | 129,762 |
| Employment expenses | | **(77,942)** | (49,925) |
| Occupancy expenses | | **(58,431)** | (41,834) |
| Depreciation and impairment expenses | 2 | **(9,223)** | (7,024) |
| Marketing expenses | | **(7,959)** | (6,711) |
| Transaction costs associated with acquisition of subsidiaries | 9 | **(5,306)** | - |
| Other expenses | | **(16,183)** | (10,252) |
| | | **(175,044)** | (115,746) |
| **Profit before finance expenses and income tax expense** | | **30,837** | 14,016 |
| Finance expenses | 2 | **(1,795)** | (338) |
| **Profit before income tax expense** | | **29,042** | 13,678 |
| Income tax expense | | **(6,937)** | (3,153) |
| **Net profit for the period** | | **22,105** | 10,525 |
| | | | |
| Basic earnings per share (cents per share) | | **25.72c** | 15.24c |
| Diluted earnings per share (cents per share) | | **25.72c** | 15.24c |

# Statement of Other Comprehensive Income

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | Consolidated | |
|---|---|---|
| | **2012** | 2011 |
| | **$'000** | $'000 |
| Net profit for the period | **22,105** | 10,525 |
| **Other comprehensive income** | | |
| *Items that may be reclassified subsequently to profit or loss* | | |
| Effective portion of changes in fair value of cash flow hedges | **(445)** | 3,390 |
| Foreign currency translation differences for foreign operations | **(753)** | (1,074) |
| **Other comprehensive income for the period, net of income tax** | **(1,198)** | 2,316 |
| **Total comprehensive income for the period** | **20,907** | 12,841 |

# Statement of Financial Position

**AS AT 31 DECEMBER 2012**

| | Note | Consolidated<br>As at<br>31 December<br>2012<br>$'000 | <br>As at<br>30 June<br>2012<br>$'000 |
|---|---|---|---|
| **ASSETS** | | | |
| **CURRENT ASSETS** | | | |
| Cash and cash equivalents | | **70,423** | 24,417 |
| Trade and other receivables | | **12,424** | 3,555 |
| Related party receivable | | **94** | - |
| Inventories | | **72,567** | 45,396 |
| Prepayments | | **2,964** | 1,425 |
| Derivative financial instruments | | **159** | 495 |
| **Total current assets** | | **158,631** | 75,288 |
| **NON-CURRENT ASSETS** | | | |
| Plant and equipment | | **70,116** | 51,189 |
| Intangible assets | | **76,801** | 11,417 |
| Deferred tax assets | | **11,709** | 8,258 |
| Prepayments | | **98** | 130 |
| Goodwill | 9 | **78,948** | - |
| **Total non-current assets** | | **237,672** | 70,994 |
| **TOTAL ASSETS** | | **396,303** | 146,282 |
| **LIABILITIES** | | | |
| **CURRENT LIABILITIES** | | | |
| Trade and other payables | | **76,373** | 32,951 |
| Interest bearing liabilities | 3 | **11,438** | - |
| Related party payables | | **-** | 2,213 |
| Income tax payable | | **4,538** | 2,383 |
| Provisions | | **14,703** | 6,305 |
| Derivative financial instruments | | **2,195** | 1,789 |
| **Total current liabilities** | | **109,247** | 45,641 |
| **NON-CURRENT LIABILITIES** | | | |
| Interest bearing liabilities | 4 | **72,364** | - |
| Provisions | | **7,914** | 6,012 |
| **Total non-current liabilities** | | **80,278** | 6,012 |
| **TOTAL LIABILITIES** | | **189,525** | 51,653 |
| **NET ASSETS** | | **206,778** | 94,629 |
| **EQUITY** | | | |
| Issued capital | 7 | **165,329** | 74,087 |
| Reserves | 6 | **(5,319)** | (4,121) |
| Retained profits | | **46,768** | 24,663 |
| **Total equity** | | **206,778** | 94,629 |

# Statement of Cash Flow

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | Note | Consolidated 2012 $'000 | 2011 $'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers | | **358,666** | 244,349 |
| Payments to suppliers and employees | | **(298,589)** | (217,495) |
| Rental income receipts | | **326** | 233 |
| Other revenue | | **564** | 268 |
| Interest received | | **765** | 153 |
| Insurance recoveries | | **25** | 1,030 |
| Interest and other costs of financing paid | | **(132)** | (338) |
| Income taxes and withholding taxes paid | | **(4,562)** | (1,879) |
| **Net cash flows from operating activities** | | **57,063** | 26,321 |
| **Cash flows from investing activities** | | | |
| Purchase of plant and equipment | | **(5,956)** | (5,152) |
| Acquisition of subsidiary net of cash acquired | | **(173,330)** | - |
| Transaction costs associated with acquisition of subsidiary | | **(6,602)** | - |
| **Net cash flows used in investing activities** | | **(185,888)** | (5,152) |
| **Cash flows from financing activities** | | | |
| Proceeds from issue of ordinary shares | | **91,846** | - |
| Proceeds from borrowings | | **92,000** | 15,000 |
| Repayment of borrowings | | **(5,474)** | (15,000) |
| Transaction costs associated with debt and equity raising | | **(3,327)** | - |
| Dividends paid | | **(1)** | (8,928) |
| **Net cash flows from (used in) financing activities** | | **175,044** | (8,928) |
| Net increase in cash and cash equivalents | | **46,219** | 12,241 |
| **Add cash and cash equivalents at 30 June 2012** | | **24,417** | 14,899 |
| Effect of exchange rate changes on opening balance | | **(213)** | (444) |
| **Cash and cash equivalents at end of period** | | **70,423** | 26,696 |

# Statement of Changes in Equity

**FOR THE HALF YEAR ENDED 31 DECEMBER 2012**

| | Ordinary Shares $000's | Hedge Reserve $000's | Translation Reserve $000's | Retained Earnings $000's | Total $000's |
|---|---|---|---|---|---|
| **At 1 July 2012** | 74,087 | (980) | (3,141) | 24,663 | 94,629 |
| Profit for the period | - | - | - | 22,105 | 22,105 |
| Other comprehensive income | - | (445) | (753) | - | (1,198) |
| **Total comprehensive income for the period** | **-** | **(445)** | **(753)** | **22,105** | **20,907** |
| **Transactions with owners in their capacity as owners** | | | | | |
| Shares issued | 91,846 | - | - | - | 91,846 |
| Costs directly attributable to share issue | (604) | - | - | - | (604) |
| Dividends paid | - | - | - | - | - |
| **At 31 December 2012** | **165,329** | **(1,425)** | **(3,894)** | **46,768** | **206,778** |
| At 1 July 2011 | 74,087 | (3,751) | (1,336) | 22,724 | 91,724 |
| Profit for the period | - | - | - | 10,525 | 10,525 |
| Other comprehensive income | - | 3,390 | (1,074) | - | 2,316 |
| Total comprehensive income for the period | - | 3,390 | (1,074) | 10,525 | 12,841 |
| Transactions with owners in their capacity as owners | | | | | |
| Dividends paid | - | - | - | (8,928) | (8,928) |
| At 31 December 2011 | 74,087 | (361) | (2,410) | 24,321 | 95,637 |

## 1 BASIS OF PREPARATION AND CHANGES TO THE GROUP'S ACCOUNTING POLICIES

The interim condensed consolidated financial statements for the six months ended 31 December 2012 relates to the consolidated entity comprising Country Road Limited and its subsidiaries (the "Group").

The interim financial report was authorised for issue in accordance with a resolution of the Directors on 13 February 2013.

### Basis of preparation

The interim condensed consolidated financial statements for the six months ended 31 December 2012 have been prepared in accordance with AASB 134: 'Interim Financial Reporting'. These consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements for the year ended 30 June 2012.

### New standards, interpretations and amendments thereof, adopted by the Group

The accounting policies adopted in the preparation of the interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended 30 June 2012, except for the adoption of new standards and interpretations as of 1 July 2012 as noted below. Adoption of these standards and interpretations did not have any effect on the financial position or performance of the group.

AASB 2011-9: 'Amendments to Australian Accounting Standards - Presentation of Other Comprehensive Income'

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

# Notes to the Half-Year Financial Statements (continued)

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | | Consolidated | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **$'000** | $'000 |
| **2 REVENUES AND EXPENSES** | | | |
| **(a) Revenue** | | | |
| *Sales revenue* | | | |
| Sale of goods | | **331,302** | 220,068 |
| Royalties | | **1,055** | 458 |
| | | **332,357** | 220,526 |
| *Other revenue* | | | |
| Tender forfeits | | **564** | 268 |
| Rent revenue | | **326** | 233 |
| Interest revenue | | **765** | 153 |
| Insurance recoveries | | **25** | 1,030 |
| Other | | **38** | 87 |
| | | **334,075** | 222,297 |
| **(b) Expenses** | | | |
| Depreciation expense | | **9,223** | 6,556 |
| Impairment expense | (i) | **-** | 468 |
| Total depreciation and impairment expenses | | **9,223** | 7,024 |
| | | | |
| Interest expense | | **1,414** | 168 |
| Facility fees | | **381** | 170 |
| Total financing expenses | | **1,795** | 338 |

*Impairment Expense*

(i) The recoverable amount was estimated for all assets within the individual retail store cash-generating units. The recoverable amount estimation was based on a 'value in use' calculation and was determined at the cash-generating unit level, over its remaining lease term. Based on this methodology, the Directors are satisfied the carrying value of assets within each cash-generating unit are not valued in excess of their recoverable amount as at 31 December 2012 (2011: impairment expense of $468,917). The calculation of 'value in use' assumes a pre-tax discount rate of 15% (2011: 15%) and a growth rate of 3% (2011: between 3% and 4%).

# Notes to the Half-Year Financial Statements (continued)

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | | Consolidated | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **$'000** | $'000 |
| **3 INTEREST BEARING LIABILITIES (Current)** | | | |
| Syndicated facility | (i) | **12,121** | - |
| Borrowing costs associated with facility | (ii) | **(683)** | - |
| | | **11,438** | - |
| During the period the Group had access to the following external financing facilities: | | | |
| Working capital facility | (iii) | **40,000** | 20,000 |
| Capital expenditure facility | (iii) | **20,000** | - |
| Trade finance facility | (iii) | **-** | 4,500 |
| Bank overdraft | (iii) | **-** | 500 |
| **Total facilities available** | | **60,000** | 25,000 |
| Facilities used at reporting date: | | **-** | - |
| **Total unutilised facilities** | | **60,000** | 25,000 |

(i) The syndicated financing facility is an amortising loan over a five year term, denominated in Australian dollars. Interest is payable at market rates, plus a variable margin. After reporting date, an interest rate swap facility was entered into to lock in a base rate of 3.292%. The loan is secured by a first charge over the Group's assets.

(ii) The borrowing costs associated with the syndicated financing facility will be recognised over the five year term of the loan.

(iii) Bank facilities are denominated in Australian dollars, with interest payable at market rates plus a variable margin. Bank facilities are secured by a first charge over the Group's assets.

| | | | |
|---|---|---|---|
| **4 INTEREST BEARING LIABILITIES (Non Current)** | | | |
| Syndicated facility | (i) | **74,405** | - |
| Borrowing costs associated with facility | | **(2,041)** | |
| | | **72,364** | - |

(i) Refer to Note 3 for details of the syndicated facility.

## 5 DIVIDENDS

### (a) Dividends paid

| | | |
|---|---|---|
| No dividends were paid during the period (2011: 12.93 cents) | **-** | 8,928 |

## Notes to the Half-Year Financial Statements (continued)

**FOR THE HALF-YEAR ENDED 31 DECEMBER 2012**

| | | Consolidated | |
|---|---|---|---|
| | | **2012** | 2011 |
| | | **$'000** | $'000 |
| **6** | **RESERVES** | | |
| | Exchange differences on translation of foreign operations | **(3,894)** | (2,410) |
| | Hedging reserve - cash flow hedges | **(1,425)** | (361) |
| | | **(5,319)** | (2,771) |
| | Exchange differences on translation of foreign operations | | |
| | Balance at beginning of period | **(3,141)** | (1,336) |
| | Exchange differences on translation of foreign operations during period | **(753)** | (1,074) |
| | Balance at end of period | **(3,894)** | (2,410) |
| | Hedging reserve - cash flow hedges | | |
| | Balance at beginning of period | **(980)** | (3,751) |
| | Revaluation - net of tax | **(445)** | 3,390 |
| | Balance at end of period | **(1,425)** | (361) |
| **7** | **ISSUED CAPITAL** | | |
| | *Ordinary shares* | | |
| | Issued and fully paid | **165,329** | 74,087 |

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

| | No. shares | |
|---|---|---|
| Movement in ordinary shares on issue | **Thousands** | $'000 |
| Balance at beginning of period | **69,057** | 74,087 |
| Share issue | **34,528** | 91,846 |
| Costs directly attributable to share issue | **-** | (604) |
| Balance at end of period | **103,585** | **165,329** |

**8 SUBSEQUENT EVENTS**

There are no subsequent events after balance date that affect the operating results or financial position of the Group.

### 9 BUSINESS COMBINATION

**Acquisition of Witchery Australia Holdings Pty Ltd**

On 2 October 2012, Country Road Limited (“Country Road”) acquired all of the ordinary shares of unlisted Australian company Witchery Australia Holdings Pty Ltd ("WAH") from funds associated with Gresham Private Equity and management vendors (together “Gresham”) for a total value of $180,850,000 under a Share Sale Agreement. WAH and its subsidiaries ("Witchery Group") comprise both the Witchery and Mimco brands. Economic ownership of the Witchery Group commenced on 30 September 2012 for reporting purposes.

The primary purpose of the acquisition is to create one of Australia’s largest specialty fashion retailers with complementary brands and a leading position in the mid to upper tier of the specialty fashion market, enabled through leveraging Country Road’s scalable information systems and business process infrastructure.

The acquisition was funded in part by cash raised from a 1 for 2 renounceable rights issue by Country Road on 31 August 2012. On acceptance of the rights issue Country Road issued 34,528,411 new shares for a consideration of $91,845,572. The balance of the purchase consideration was funded by a new 5 year term amortising debt facility of $92,000,000 through a Senior Syndicated Facility Agreement.

*Assets acquired and liabilities assumed*

Country Road is required to measure the Witchery Group’s identifiable assets acquired and liabilities assumed at their acquisition-date fair values. The consolidated provisional fair values are presented below:

| | Consolidated Provisional Fair Values $'000 |
|---|---|
| **Assets** | |
| Cash and cash equivalents | **7,520** |
| Trade and other receivables | **4,918** |
| Inventories | **32,429** |
| Other assets | **919** |
| Plant and equipment | **23,459** |
| Intangibles | **65,500** |
| Deferred tax assets | **3,708** |
| **Liabilities** | |
| Trade and other payables | **(29,255)** |
| Provisions | **(7,296)** |
| Total identifiable net assets at fair value (provisional) | **101,902** |
| Goodwill arising from acquisition (provisional) | **78,948** |
| Purchase consideration transferred | **180,850** |

**9 BUSINESS COMBINATION (continued)**

**Acquisition of Witchery Australia Holdings Pty Ltd (continued)**

The gross amount of trade and other receivables is equal to the fair value. No impairment has been recognised and it is expected the full contractual amounts will be recovered. Goodwill arising on acquisition represents the value paid for Witchery Group in excess of the provisional fair value fair value of its net assets at balance date. Goodwill consists largely of the synergies and economies of scale expected from combining the operations of Country Road and Witchery Group. Expected synergies include supply chain efficiencies, systems integration, administration and shared service efficiencies, and optimisation of sourcing arrangements, product categories and sales channels. Goodwill recognised is not expected to be deductible for income tax purposes. There was no goodwill recognised in the consolidated balance sheet at the start of the period.

Due to the limited time between the acquisition date and balance date, the fair values currently presented are provisional and are subject to further review until the period ended 31 December 2013 as prescribed by Australian Accounting Standards. At the date of this report it is not practicable to reliably estimate the income tax consequences of the acquisition of the Witchery Group on goodwill, deferred tax and the income tax provision at balance date.

In the event of a disposal of the Mimco business prior to 2 April 2014, Country Road is obliged under the Share Sale Agreement to share with Gresham any gain in the value of the Mimco business. At the date of this report the Directors have no intention to dispose of the Mimco business and hence no value has been ascribed to this contingent consideration.

From the date of acquisition the Witchery Group has contributed $87,202,000 of revenue from the sale of goods to total group revenue from the sale of goods of $331,302,000 for the period ended 31 December 2012. The operating profit before tax contribution from the Witchery Group since the acquisition date is approximately $11,500,000 after allocating shared group overheads and inclusive of financing expenses of $1,702,000 attributable to the debt facility established to fund the acquisition.

If the acquisition had occurred on 1 July 2012 the Witchery Group would have contributed approximately $148,537,000 to total revenue from the sale of goods for the period ended 31 December 2012. It is not practicable to reliably determine the net profit contribution of the Witchery Group from the beginning of the financial year due to the differences in accounting policies applied by the Witchery Group before the acquisition date.

Transaction costs directly associated with the acquisition of the Witchery Group totalling $5,306,000 have been expensed and are disclosed separately in the Income Statement. $1,296,000 of transaction costs were incurred in the previous financial year, resulting in total transaction costs paid of $6,602,000 during the reporting period and disclosed separately in the Statement of Cash Flow. Costs attributable to the issuance of shares totalling $604,000 have been recognised in equity. Costs associated with the establishment of the amortising syndicated debt facilities totalling $2,724,000 have been recognised in borrowings and will be amortised to the income statement over the term of the facility.

At balance date management were not aware of any contingent liabilities that would necessitate measurement or disclosure in this report.

### 10 OPERATING SEGMENTS

**Segment Information**

The Group has identified its operating segments based on the internal management reports that are reviewed by the Chief Executive Officer. Management are in the process of determining the operating segments of the business business post the acquisition of the Witchery Group. As such, segment information is reported consistently with 30 June 2012.

The operating segments are identified by management based on the manner in which the product is sold and the nature of the services provided. Discrete financial information about these operating businesses is reported to the Chief Executive Officer on a monthly basis.

The reportable segments are based on aggregated operating segments determined by the similarity of the products sold and the method used to distribute the products.

The Group operates in one reportable segment, being the design and retail sale of apparel, homewares and related accessories.

The accounting policies used by the Group in reporting segments are the same as those contained in Note 1 to the half year financial statements and in the prior period. Information regarding the results of each reportable segment is included below. Performance is measured based on segment profit before finance expenses and income tax as included in the internal management reports that are reviewed by the Chief Executive Officer. Segment profit is used to measure performance as management believe that such information is the most relevant in evaluating the results of certain segments relative to other entities that operate within these industries.

| | Consolidated | | | |
|---|---|---|---|---|
| | **Retail** | **Other** | **Unallocated** | **Total** |
| | **$000's** | **$000's** | **$000's** | **$000's** |
| **31 December 2012** | | | | |
| Sales to external customers | **331,302** | **-** | **-** | **331,302** |
| Other revenue from external customers | **564** | **1,055** | **-** | **1,619** |
| Total segment revenue | **331,866** | **1,055** | **-** | **332,921** |
| Reportable segment profit before tax | **69,008** | **742** | **-** | **69,750** |
| Interest revenue | **-** | **-** | **765** | **765** |
| Finance costs | **-** | **-** | **(1,795)** | **(1,795)** |
| Depreciation and impairment | **7,158** | **119** | **1,946** | **9,223** |
| Reportable segment assets | **143,025** | **622** | **-** | **143,647** |
| Capital expenditure | **1,705** | **-** | **4,251** | **5,956** |
| **31 December 2011** | | | | |
| Sales to external customers | 219,896 | 172 | - | 220,068 |
| Other revenue from external customers | 268 | 458 | - | 726 |
| Total segment revenue | 220,164 | 630 | - | 220,794 |
| Reportable segment profit before tax | 32,823 | 253 | - | 33,076 |
| Interest revenue | - | - | 153 | 153 |
| Finance costs | - | - | (338) | (338) |
| Depreciation and impairment | 5,778 | 119 | 1,127 | 7,024 |
| Reportable segment assets | 85,524 | 977 | - | 86,501 |
| Capital expenditure | 3,979 | - | 1,072 | 5,051 |

| | Note | Consolidated 2012 $000's | 2011 $000's |
|---|---|---|---|
| **10 OPERATING SEGMENTS (continued)** | | | |
| **Reconciliation of reportable segment information** | | | |
| Total segment revenue | | **332,921** | 220,794 |
| Other revenue | | **1,154** | 1,503 |
| Total revenue per income statement | **2(a)** | **334,075** | 222,297 |

Revenue from external customers by geographical location is detailed below.
Revenue is attributed to geographic locations based on the location of the customers.
The company does not have external revenue from external customers that are attributable to any foreign country other than as shown below:

| | Note | 2012 $000's | 2011 $000's |
|---|---|---|---|
| Australia | | **272,015** | 179,221 |
| New Zealand | | **25,138** | 16,344 |
| South Africa | | **36,251** | 26,732 |
| Singapore | | **671** | - |
| Total revenue | **2(a)** | **334,075** | 222,297 |

**Reconciliation of reportable segment net profit before income tax**

| | 2012 $000's | 2011 $000's |
|---|---|---|
| Segment net profit before income tax | **69,750** | 33,076 |
| Other revenue | **1,154** | 1,503 |
| Unallocated amounts - other corporate expenses | **(41,862)** | (20,901) |
| Net profit before income tax | **29,042** | 13,678 |

| | As at 31 December 2012 | As at 30 June 2012 |
|---|---|---|
| **Reconciliation of reportable segment assets** | | |
| Segment assets | **143,647** | 88,321 |
| Derivative assets | **159** | 495 |
| Deferred tax assets | **14,048** | 10,650 |
| Unallocated assets | **238,449** | 46,816 |
| Total assets | **396,303** | 146,282 |

The analysis of the location of non-current assets other than financial instruments and deferred tax assets is as follows:

| | As at 31 December 2012 | As at 30 June 2012 |
|---|---|---|
| Australia | **213,406** | 55,700 |
| New Zealand | **9,166** | 4,201 |
| South Africa | **3,391** | 2,835 |
| Total assets | **225,963** | 62,736 |

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## To the members of Country Road Limited

## Report on the Condensed Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Country Road Limited, which comprises the condensed statement of financial position as at 31 December 2012, the condensed income statement, the condensed statement of other comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the half-year end or from time to time during the half-year.

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

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Country Road Limited and the entities it controlled during the half-year, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

### Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

### Conclusion

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

a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2012 and of its performance for the half-year ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Ernst & Young

Glenn Carmody
Partner
Melbourne
13 February 2013