

COUNTRY
ROAD
2006
ANNUAL
REPORT



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“THE COMPANY IS COMMITTED TO THE ONGOING EXPANSION OF OUR RETAIL STORES, AND TO ENSURING THE COUNTRY ROAD BRAND IS MORE CONVENIENT AND ACCESSIBLE TO MORE CUSTOMERS.”

Simon Susman Chairman

The Year in Review Chairman's Report

2006 has been an important year in Country Road's journey toward once again becoming Australia's premier fashion retail brand. While the Company's profit was only marginally higher than the prior year, the final foundations were laid for the long term success of the Company – the decision to exit wholesale and move to a retail only business.

The retail business had a very good year. Sales were 8.2% above last year and great progress was made in delivering customers fashionable merchandise that represents great quality and outstanding value. Apparel sales volumes increased by 27% during the year, following an increase of more than 30% in the prior year.

Wholesale sales were adversely affected by the decision to pursue a concession arrangement with Myer. Margins were, however, considerably better and the business is well placed to move to a concession basis of operations in February 2007.

Becoming a retail only business is critical to the future success of Country Road. This strategy delivers the following benefits:

- Allows the Company to manage the retail presence of the brand in all locations;
- Control over all decisions in relation to the selection of product and the ranging of product to stores;
- Ensures a consistent experience for all customers regardless of the location in which they shop;
- Improves customer service;
- Improves margins and reduces the level of discounting of the brand;
- Employment opportunities for Country Road's existing staff, and a further 150 new staff that will join the Company to service customers in Myer stores; and
- Increases the overall profitability of the Company.

The Company's relationship with Myer is, and continues to be, an important and meaningful part of its strategy. Our relationship will change over the next 12 months which will benefit both companies, and most importantly, our customers.


Of course, the Company will continue to open new retail stores as opportunities arise. Four new stores were opened during 2005/06, and at least a further four stores will open in the first half of 2006/07. Despite the concession strategy, the Company is committed to the ongoing expansion of our retail stores, and to ensuring the Country Road brand is more convenient and accessible to more customers.

During the year a number of changes were made to the Board of Country Road. Mac Drysdale, who had been a Director of the Company for 12 years, and Chairman for the past 6 years, retired from the Board. Mac's leadership during some very difficult periods has allowed the Company to not only survive, but emerge stronger. On behalf of the Board, I thank Mac for his commitment and leadership of this business and wish him well for the future.

Kevin Hayes, Anna Hynes and Michael Terry also retired from the Board. Nelson Mair resigned in December 2005 after serving the Company for 5 years as Chief Operating Officer. The Board would like to thank each of these outgoing Directors for their stewardship during what has been an important period in the Company's history.

Mr Ashley Gardner, the Company's Chief Financial Officer and Company Secretary, and Ms Cherrie Lowe, Company Secretary of Woolworths Holdings Limited were appointed to the Board.

The Company is now well placed to materially improve its performance and profitability over the coming years as a retail only business, and the Board has confidence in the strategy and management's ability to implement the strategy for the benefit of all shareholders.



Simon Susman
Chairman



**“THIS YEAR SAW STRONG
PERFORMANCE OF OUR
RETAIL BUSINESS AND
THE FIRST STEP TOWARDS
EXITING WHOLESALE.
IT WAS THE LAST OF OUR
TRANSITIONING YEARS
AND THE COMPANY IS
NOW SET TO BE A STRONG,
PROFITABLE RETAIL
ONLY BUSINESS.”**

Ian Moir Chief Executive Officer

The Year in Review Chief Executive Officer's Review of Operations

This year saw strong performance of our retail business and the first step towards exiting wholesale. It was the last of our transitioning years and the Company is now set to be a strong, profitable retail only business.

YEAR IN REVIEW

Our retail business performed well with sales increasing by 8.2% on last year. We continued to reduce prices (by around 10 to 15%) and offer exceptional value and we saw our apparel unit sales increase by 27%. This follows a unit increase of more than 30% in the prior year. This is confirmation that our strategy of providing significantly improved value is working.

Our wholesale sales declined significantly during the year (28% down on last year) and particularly in the second half. This was driven principally by our decision to move to a concession agreement with Myer and to reduce stock holdings in that environment. A change in ownership in Myer facilitated the move to concession and contributed to the joint decision to materially reduce stock levels.

Overall sales declined by 1.7% on the previous year.

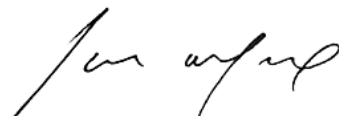
Margins however improved considerably and despite the significant reduction in wholesale sales, we were able to improve profitability. Net profit after tax for the year was \$3.2 million, an improvement of 9.2% on last year. Excluding one off benefits included in last year's result, profit improved by \$1.5 million or 85%.

STRATEGIC FOCUS

We achieved the key strategic changes we set out to during the year. Our ranges were more fashionable and better balanced, our prices were reduced yet further providing even better value to our customers. We became quicker to market, improved stock availability and we increased replenishment on performing key lines. We opened more stores (Darwin, Penrith, Parramatta and Queenstown) and most importantly we moved the balance of our wholesale retail mix predominately to retail and going forward we will be a retail only business.

LOOKING FORWARD

- Next year we will open 39 Country Road concession outlets in Myer and bring to an end all wholesale operations.
- This move to a retail only business model is the first exciting chapter in transforming this business into a meaningful, profitable and dynamic retailer.
- We will continue our drive to provide better value to our customers and seek to further increase the competitiveness of our prices.
- We will open four new stand alone Country Road retail stores in addition to the concession outlets.
- We will seek to further shorten our lead times and in particular we will seek to ensure our distribution of product is both cost effective and efficient.



Ian Moir
Chief Executive Officer



The Organisation Board Of Directors

COUNTRY ROAD LIMITED A.C.N 006 759 182

Ashley Gardner

Chief Financial Officer
& Company Secretary

Mr Gardner was appointed to the Board on 31 January 2006. He joined the Company in 2000, has been Company Secretary since 2002 and has been the Company's Chief Financial Officer since 2003. He holds a Bachelor of Commerce (Honours) and is a qualified Chartered Accountant.

Cherrie Lowe

Non-Executive Director

Ms Lowe was appointed to the Board on 31 January 2006. She joined Woolworths in 1997 as Company Secretary just prior to the re-listing of the group on the Johannesburg Stock Exchange, and currently holds the position of Head of Corporate Governance and Group Secretary. She is responsible for all aspects of corporate governance, risk and audit, legal and corporate affairs, and is a member of Woolworth's executive team. She is a fellow of the Institute of Chartered Secretaries.

Ian Moir

Chief Executive Officer

Mr Moir was appointed to the Board on 23 October 1998. He was formerly Chief Operating Officer of Country Road, before being appointed Chief Executive Officer in November 2000. He was previously Executive Director and Chief Operating Officer of the Woolmark Company. He has a Masters Degree in Business Administration, a Masters Degree in Economics and is a qualified Chartered Accountant.

Simon Susman

Non-Executive Director

Mr Susman was appointed to the Board on 6 December 2000. He is currently the Chief Executive Officer and an Executive Director of Woolworths Holdings Limited (listed in South Africa) and Chairman of Woolworths Pty Ltd. He has held numerous management positions with Woolworths Pty Ltd during his 24 years with the company, and was previously with Marks & Spencer in London for 11 years.

Norman Thomson

Non-Executive Director

Mr Thomson was appointed to the Board on 5 February 2003. He is currently the Director of Finance and an Executive Director of Woolworths Holdings Limited (listed in South Africa). He has been with Woolworths since 1991 and has held various positions in Logistics, Foods, Operations and Supply Chain. He holds a Bachelor of Commerce and is a qualified accountant.

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

The Board of Directors of Country Road Limited is responsible for the corporate governance of the Company and the consolidated entity. The Board guides and monitors the business and affairs of Country Road Limited on behalf of the shareholders by whom they are elected and to whom they are accountable.

The Board has considered the Best Practice Recommendations of the ASX Corporate Governance Council, and specific information as required by these recommendations have been disclosed in the annual report. In general, the Board has complied with the recommendations of the Council, however, where a recommendation has not been followed, that fact has been disclosed, together with an explanation as to the reasons for the departure.

To ensure the Board is well equipped to discharge its responsibilities it has established guidelines for the operation of the Board and has adopted a formal charter. In addition, formal charters for the Remuneration Committee and the Audit Committee have also been established to ensure the respective committees can discharge their responsibilities to the Board and other stakeholders.

COMPOSITION OF THE BOARD

The composition of the Board is determined in accordance with the following principles and guidelines:

- The Board shall maintain at least 50% representation by Non-Executive Directors;
- The roles of Chairman and Chief Executive Officer shall be separated;
- The Chairman shall be a Non-Executive Director;
- The Board, as a group, shall have a variety of professional skills and industry experience, relevant to the Company's activities;
- The Board should meet at least four times per year and follow meeting guidelines set down to ensure all Directors are made aware of, and have available all necessary information, to participate in an informed discussion of all agenda items;
- All Directors are expected to act in an independent and responsible manner for the benefit of all shareholders;
- The full Board is involved in the process of identifying candidates with appropriate expertise and experience to fill vacancies, or for additional appointments. External professional advice is sought where considered appropriate. The appointment of a new Director is a matter for consideration by the full Board;

- In accordance with the Company's constitution at least one third of the Directors retire from office at the annual general meeting each year. Retiring Directors may be eligible for re-election; and
- Directors appointed during the year are required to stand for election at the next annual general meeting.

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

The Board places significant emphasis on the independent decision making of the Directors. The Board does not believe the absence of independent Directors compromises the effective functioning of the Board because each Director contributes individually in the decision-making process, and Non-Executive Directors are not involved in the day-to-day management of the Company or its controlled entities.

Mr Susman has been appointed Chairman of the Board. The Board does not believe Mr Susman's position as Chief Executive Officer of the Company's major shareholder, Woolworths Holdings Limited, in any way prevents him from carrying out the responsibilities as Chairman and effectively leading the Board.

The Directors in office at the date of this statement are:

Non-Executive Directors

S. Susman
N. Thomson
C. Lowe

Executive Directors

I. Moir (Chief Executive Officer)
A. Gardner (Chief Financial Officer)

Further details regarding individual Directors and their qualifications are set out in the profiles of the Board of Directors which forms part of the Annual Report.

BOARD INDEPENDENCE

A Director would qualify as independent if the Director is independent of management and free of any business or other relationship that could materially interfere – or could reasonably be perceived to materially interfere – with the exercise of their unfettered and independent judgment.

Assessment of Independence

It is not possible to draft a list of criteria that are appropriate to characterise, in all circumstances, whether a Non-Executive Director is independent. It is the approach and attitude of each Non-Executive Director that is critical and this must be considered in relation to each Director, whilst taking into account all other relevant factors.

A Non-Executive Director is considered to be independent when that Director is not a member of management and:

- Is not a substantial shareholder of the Company, or an Officer of, or otherwise associated directly with, a substantial shareholder of the Company;
- Within the last three years has not been employed in an executive capacity by the Company or another group member, or been a Director after ceasing to hold any such appointment;
- Within the last three years has not been a principal of a material professional adviser or a material consultant to the Company or another group member, or an employee materially associated with the service provided;
- Is not a material supplier or customer of the Company or other group member, or an Officer of or otherwise associated directly or indirectly with a material supplier or customer;

- Has no material contractual relationship with the Company or another group member other than as a Director of the Company;
- Has not served on the Board for a period which could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company; and
- Is free from any interest and any business or other relationship that could, or could reasonably be perceived to, materially interfere with the Director's ability to act in the best interests of the Company.

Materiality considerations will be assessed in the context of each Director's circumstances.

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

Periodic Assessment of Independence

The Board formally assess the independence of each Non-Executive Director on at least an annual basis when considering the composition of the Board and the Board Committees.

Directors' Responsibilities

Each Non-Executive Director is obliged to provide the Board with all information necessary to allow the Board to assess the independence of the Director. Information relevant to the actual or perceived independence of a Non-Executive Director is communicated to the Chairman (via the Company Secretary) immediately.

A Director is expected to excuse themselves from discussion and consideration of issues in which their independence may be compromised by virtue of a personal or commercial interest in the matter.

When necessary, the Board obtains independent professional advice in relation to matters brought before the Board which may give rise to an actual or perceived conflict of interest affecting one or more of the Directors.

BOARD RESPONSIBILITIES

The Board acts on behalf of and is accountable to all shareholders, and seeks to identify the expectations of the shareholders as well as other regulatory and ethical expectations and obligations. The Board is ultimately responsible for identifying areas of business risk and ensuring processes are implemented to adequately manage those risks. More specifically, these responsibilities include:

- Establishing strategic direction in accordance with the Company's goals and objectives;
- Approval of corporate and business plans;
- Monitoring of senior management's performance and implementation of strategy;
- Appointment and removal of the Chief Executive Officer, including appropriate succession planning;
- Approval of major capital expenditure projects;
- Monitoring of performance against budgets and forecasts;
- Identifying areas of business risk and ensuring processes are implemented to adequately manage those risks;
- Ensuring the Company conducts its business in an ethical manner and complies with all regulatory requirements;

- Maintaining the highest levels of corporate governance;
- Nomination and appointment of new Directors; and
- Approval of the Code of Conduct to protect and maintain the Company's integrity.

The Board delegates responsibility for the development, implementation and administration of operations within the strategic policy framework to the Chief Executive Officer and his senior management team. The Board ensures this team is appropriately qualified and experienced to discharge their responsibilities, and has in place procedures to assess their performance periodically.

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

COMMITTEES

The Board has established an Audit Committee and a Remuneration Committee that each operate under Board-approved charters to assist the Board in fulfilling its corporate governance objectives. The responsibilities of a Nomination Committee are fulfilled by the full Board.

Committee	Chairperson	Members	Functions & Responsibilities
Audit	N. Thomson*	C. Lowe S. Susman	<p>The Audit Committee provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to the Company's:</p> <ul style="list-style-type: none">• Financial reporting;• Internal control structure;• Risk management systems; and• External audit functions. <p>The Audit Committee shall be comprised of Non-Executive Directors.</p> <p>The Audit Committee operates under a Charter approved by the Board and is responsible for:</p> <ul style="list-style-type: none">• Overseeing the financial reporting process;• Approving the accounting policies and procedures used in the preparation of financial reports;• Review and approval of all ASX press releases and other information released by the Company that relate to the Company's financial performance;• Ensuring that management has in place an effective internal control system over financial reporting;• Reviewing and recommending approval of the annual financial statements and any interim financial reports;• Ensuring that financial reports are prepared in accordance with generally accepted accounting principles and other relevant regulatory requirements;• The appointment, remuneration, monitoring and independence of the external auditor;• Approving the external audit scope and satisfying itself that remuneration and timeframes established are appropriate to enable the external auditor to conduct an effective audit; and• Establishing guidelines for the provision of non-audit related services by the external auditor, and pre-approval of all services to be provided by the external auditor that fall outside these guidelines. <p>To fulfil these responsibilities, the Committee meets at least two times per year and receives reports from both senior management and the external auditor.</p>

* *Mr Thomson is a Non-Executive Director. He has been appointed Chairperson of the Audit Committee because he is considered to be the most qualified and appropriate Director for this role. The Board do not believe his role as Finance Director of a major shareholder adversely affects his ability to discharge his responsibilities as Chairperson of the Audit Committee in an objective and impartial manner.*

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

COMMITTEES (continued)

Committee	Chairperson	Members	Functions & Responsibilities
Remuneration	S. Susman	N. Thomson C. Lowe	<p>The Remuneration Committee assists the Board to discharge its responsibilities in relation to the remuneration of Executives and Directors of the Company.</p> <p>The Remuneration Committee shall consist only of Non-Executive Directors. It is responsible for:</p> <ul style="list-style-type: none">• Ensuring the remuneration strategy is consistent with market requirements and appropriate to attract and retain personnel;• Recommending the appropriate remuneration level for Non-Executive Directors within the aggregate limits approved by shareholders*;• Recommending appropriate levels of remuneration for Executive Directors;• Recommending for approval the remuneration of members of the Executive Management Committee;• Developing and monitoring variable remuneration policies for senior management;• Ensuring appropriate succession planning strategies are in place for key Executives within the business;• Approval of recruitment, retention and termination policies and procedures for senior management; and• Ensuring all necessary disclosures of Director and Executive remuneration is made in accordance with regulatory requirements. <p>Further information on Directors' and Executives' remuneration is set out in the Directors' Report and Note 20 to the financial statements.</p> <p><i>* Maximum aggregate remuneration for Non-Executive Directors approved by shareholders at the 1995 Annual General Meeting amounts to \$400,000.</i></p>

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

The Executive Management Committee

The Executive Management Committee leads the implementation of the Company's vision, values and corporate strategies, as well as the day-to-day management of the business. The composition of the Executive Management Committee is determined by the Chief Executive Officer, and comprises representation of the business' key functions.

Ashley Gardner Chief Financial Officer & Company Secretary

Glenn Gilzean Group General Manager – Retail Operations

Sophie Holt Group General Manager – Product Design & Development

Matthew Keogh Group General Manager – Human Resources

Ian Moir Chief Executive Officer

Derek Muirhead Group General Manager – Merchandise

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

CORPORATE REPORTING

The Chief Executive Officer and Chief Financial Officer have made the following certifications to the Board:

- That the Company's financial reports are complete and present a true and fair view, in all material respects, of the financial condition and operational results of the Company and its controlled entities; and
- That the above statement is founded on a sound system of internal control and risk management which implements the policies adopted by the Board, and that the Company's risk management and internal controls are operating efficiently and effectively in all material respects.

MONITORING OF THE BOARD'S PERFORMANCE

In order to ensure that the Board continues to discharge its responsibilities in an appropriate manner, the Chairperson reviews the performance of all Directors at least annually. Directors whose performance is unsatisfactory are managed appropriately.

COMMUNICATIONS AND CONTINUOUS DISCLOSURE TO SHAREHOLDERS

The Company Secretary has been nominated as the person responsible for communication with the Australian Stock Exchange (ASX). This role includes responsibility for ensuring compliance with the continuous disclosure requirements in the ASX Listing Rules.

The Board aims to ensure that the shareholders, on behalf of whom they act, are informed of all matters necessary to assess the performance of the Company and its Directors.

Information is communicated to shareholders through:

- The Annual Report;
- The Half-Year Report;
- The Annual General Meeting;
- Regular announcements to the ASX in relation to key initiatives and trading; and
- Our website: www.countryroad.com.au

The Organisation Corporate Governance Statement

COUNTRY ROAD LIMITED A.C.N 006 759 182

RISK ASSESSMENT AND MANAGEMENT

The Board is responsible for ensuring there are adequate policies in relation to risk management and internal control systems. The Company and its controlled entities have policies designed to ensure strategic, operational, brand, financial and knowledge/systems risks are identified, assessed, addressed and monitored to ensure strategic objectives are achieved.

The Company has a formal risk management program that is managed by the Chief Financial Officer. The Audit Committee receives reports in relation to risk management activities at each meeting.

The Company has in place comprehensive insurance policies and arrangements to reduce the potential financial impact of significant losses across the consolidated entity.

CODE OF CONDUCT

The Board recognises the need for officers and employees to observe the highest standards of behaviour and business ethics when representing the Company. The Country Road Code of Conduct, which has been fully endorsed by the Board, sets out the principles and standards to be met to achieve these objectives. A key element of the Code is that all Officers and employees are expected to act in accordance with the law and the highest standards of propriety.

REMUNERATION

It is the Company's objective to attract and retain a high quality Board and executive management team by remunerating Directors and key Executives fairly and appropriately with reference to the relevant employment market conditions. To assist in achieving this, the remuneration of key Executives is linked to the financial and operational performance of the Company.

Details of remuneration policies are provided in the Remuneration Report, which forms part of the Directors' Report.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Your Directors submit their report on the consolidated entity consisting of Country Road Limited and the entities it controlled at the end of, or during, the year ended 30 June 2006.

DIRECTORS

The names of the Directors of Country Road Limited in office during the year and at the date of this report are as follows:

Kenneth Macmillan Drysdale (retired 31 January 2006)
Ashley Gardner (appointed 31 January 2006)
Kevin Hayes (retired 31 January 2006)
Annamaria Hynes (retired 31 January 2006)
Cherrie Lowe (appointed 31 January 2006)
Nelson Mair (resigned 31 December 2005)
Ian Moir
Simon Susman
Norman Thomson
Michael Terry (retired 31 January 2006)

Particulars of Directors' qualifications and experience are set out in the profile of the Board of Directors which forms part of this report.

PRINCIPAL ACTIVITIES

The principal activities of the Group are designing, wholesaling, licensing and retailing of apparel, homeware and related accessories. There has been no change in these activities during the year.

REVIEW OF RESULTS OF OPERATIONS AND LIKELY DEVELOPMENTS

The consolidated operating profit after income tax of the economic entity for the financial year ended 30 June 2006 was \$3,223,000 (2005: \$2,945,000). A detailed review of operations and likely developments is included in the Chief Executive Officer's Review of Operations and the Chairman's Report.

EARNINGS PER SHARE

Basic earnings (cents per share)	4.67
Diluted earnings per share (cents per share)	4.67

DIVIDENDS

The Directors of the Company have not paid, declared or recommended any dividends since the end of the previous financial year. No dividends are recommended in the current year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no significant changes in the state of affairs of the economic entity that occurred during the financial year ended 30 June 2006 not otherwise disclosed in this report or in the financial statements.

SIGNIFICANT EVENTS AFTER BALANCE DATE

As detailed in the Chairman's Report and the Chief Executive Officer's Review of Operations, since the end of the financial year the Company has entered into an agreement with Myer Limited which will result in the Company operating on a concession basis in Myer and therefore ceasing to supply stock to Myer on a wholesale basis from February 2007. The Directors have taken this decision into account when assessing the carrying values of assets and have determined that no adjustment to the carrying values is necessary at 30 June 2006.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors and of each Board Committee held during the year ended 30 June 2006, and the number of meetings attended by each Director was:

	Board of Directors		Committees of the Board of Directors			
	Attended	Held*	Audit		Remuneration	
	Attended	Held*	Attended	Held*	Attended	Held*
Kenneth Macmillan Drysdale	4	4	2	2	-	-
Ashley Gardner	1	1	-	-	-	-
Annamaria Hynes	4	4	2	2	2	2
Kevin Hayes	4	4	2	2	2	2
Cherrie Lowe	1	1	-	-	-	-
Nelson Mair	2	3	-	-	-	-
Ian Moir	5	5	-	-	-	-
Simon Susman	5	5	2	2	2	2
Michael Terry	3	4	-	-	-	-
Norman Thomson	5	5	2	2	-	-

* Number of meetings held during the time the Director held office during financial year or was a member of the committee during the year.

DIRECTORS' INTERESTS

No Director owns any shares or options in the Company. Directors are eligible to be granted options in Woolworths Holdings Limited, the ultimate controlling entity, as part of the Woolworths Executive Share Option Plan. These options are granted at the discretion of Woolworths Holdings Limited and do not form part of the remuneration payable by Country Road Limited. Mr Ian Moir holds options in Woolworths Holdings Limited under the Share Option Plan of which details are included in the remuneration report below, and in Note 20 to the financial statements.

INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has provided to the Directors and Officers of the economic entity an indemnity, as far as is allowable by law, against any liability arising as a result of work performed in their respective capacities as Directors and Officers.

No monetary restriction has been placed on this indemnity. The Company has paid an insurance premium of \$6,960 to cover the Group against any loss incurred as a result of the indemnity provided to the Directors and Officers. No amounts have been claimed or paid in respect of this indemnity and insurance other than the premium disclosed above.

REMUNERATION REPORT

This report outlines the remuneration arrangements for Directors and Executives of Country Road Limited.

Remuneration Philosophy

The performance of the Company depends upon the quality of its Directors and Executives. To be successful, the Company must attract, motivate and retain highly skilled Directors and Executives.

To this end, the Company adopts the following principles in its remuneration framework:

- Provide competitive rewards to attract high calibre executives;
- Link executive rewards to the performance of the Company and the creation of shareholder value; and
- Establish appropriate, demanding performance hurdles in relation to variable executive remuneration.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Remuneration Committee

The Remuneration Committee of the Board of Directors of the Company is responsible for determining and reviewing compensation arrangements for Directors, the Chief Executive Officer and the senior management team.

The Remuneration Committee assesses the appropriateness of the nature and amount of remuneration of Directors and senior managers on a periodic basis by reference to relevant market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

Remuneration Structure

In accordance with best practice corporate governance, the structure of Non-Executive Director and senior manager remuneration is separate and distinct.

Non-Executive Director Remuneration

Objective

The Board seeks to set aggregate remuneration at a level which provides the Company with the ability to attract and retain Directors of the highest calibre, whilst incurring a cost which is acceptable to shareholders.

Structure

The Company's Constitution and the ASX Listing Rules specify the aggregate remuneration of Non-Executive Directors shall be determined from time to time by a general meeting. An amount not exceeding the amount determined is then divided between the Directors as agreed. The most recent determination was at the Annual General Meeting held in November 1995 when shareholders approved an aggregate remuneration of \$400,000 per year.

The amount of aggregate remuneration sought to be approved by shareholders and the manner in which it is apportioned amongst Directors is reviewed annually. The Board considers advice from external consultants as well as fees paid to Non-Executive Directors of comparable companies when undertaking the annual review process.

The remuneration of Non-Executive Directors for the year ended 30 June 2006 is detailed in the remuneration table below.

Senior Manager and Executive Director Remuneration

Objective

The Company aims to reward executives with a level and mix of remuneration commensurate with their position and responsibilities within the Company and so as to:

- Reward executives for company, business unit and individual performance against targets set by reference to appropriate benchmarks;
- Align the interests of executives with those of shareholders;
- Link reward with the strategic goals and performance of the Company; and
- Ensure total remuneration is competitive by market standards.

Structure

In determining the level and make-up of executive remuneration, the Remuneration Committee seeks advice from external consultants detailing market levels of remuneration for comparable executive roles.

Remuneration consists of the following key elements:

- Fixed remuneration; and
- Variable remuneration – short term incentive (STI) and long term incentive (LTI).

The proportion of fixed remuneration and variable remuneration is established for each senior manager by the Remuneration Committee. The variable portion consists of a cash bonus which is performance-based, and is disclosed separately in the remuneration tables below.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Fixed Remuneration

Objective

The level of the fixed remuneration is set so as to provide a base level of remuneration which is both appropriate to the position and is competitive in the market.

Fixed remuneration is reviewed annually by the Remuneration Committee and the process consists of a review of company-wide, business unit and individual performance, relevant comparative remuneration in the market and internal and, where appropriate, external advice on policies and practices. The Committee seeks external advice where necessary.

Structure

Senior managers are given the opportunity to receive their fixed remuneration in a variety of forms including cash and fringe benefits such as motor vehicles, company merchandise and other eligible benefits. It is intended that the manner of payment chosen will be optimal for the recipient without creating undue cost for the Company. Fringe benefits tax applicable to the benefits taken by the employee is included in determining the employee's total remuneration.

Variable Remuneration – Short Term Incentive

Objective

The objective of the STI program is to link the achievement of the Company's operational targets with the remuneration received by the executives charged with meeting these targets. The total potential STI available is set at a level so as to provide sufficient incentive to the senior manager to achieve the operational targets and such that the cost to the Company is reasonable in the circumstances.

Structure

Actual STI payments made to each senior manager depend on the extent to which the Company has met or exceeded the targets set by the Board. The key performance indicators consist of:

- Earnings before interest and tax;
- Net cash flow from operations; and
- Capital expenditure.

In order for a senior executive to receive a payment under the short term incentive plan, all targets must be achieved or exceeded. The targets are determined by reference to the Company's financial budgets and 3 year financial objectives. The maximum incentive payments to participants range between 30% and 50% of fixed remuneration, depending on the senior executive's position within the business.

Variable Remuneration – Long Term Incentive

Objective

The objective of the LTI is to reward senior managers in a manner which aligns this element of remuneration with the creation of long term shareholder wealth. As such, participation in the LTI is limited to members of the Company's Executive Management Committee.

Structure

On an annual basis, the number and value of units allocated to eligible participants is determined by the Remuneration Committee based on the extent to which the Company's profitability has increased relative to the long term profit targets determined by the Board.

The reward for the participant is determined based on the extent by which the value of the units allocated increases over time from the date of allocation, relative to the required rate of increase as determined by the Company's 3 year strategic plan. Units are only valid for 3 years, after which time they expire.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Employment Arrangements

Chief Executive Officer

The Chief Executive Officer, Mr Ian Moir, is employed under a standard employment contract with no defined length of tenure. Under the terms of the employment contract:

- Mr Moir may resign from his position by providing the Company with 6 months written notice;
- The Company may terminate this contract by providing 12 months written notice or provide payment in lieu of the notice period, based on the fixed component of Mr Moir's remuneration;
- The Company may terminate Mr Moir's contract at any time without notice if serious misconduct has occurred; and
- Mr Moir is a participant in the long term and short term executive incentive schemes of the Company.

Mr Moir is also a participant in the Woolworths Holdings Limited Executive Share Option Plan. This benefit has been provided to Mr Moir by the Company's principal shareholder, Woolworths Holdings Limited and does not form part of the remuneration payable by Country Road Limited. On 14 June 2002 Mr Moir was granted 1,424,623 options at an exercise price of R3.98, at a fair value in Australian dollars of \$316,833. 20% of the options vest each year and become available to be exercised. At the beginning of the period, 854,775 were held. During the period 284,925 options were exercised at R11.63. At the date of this report, he has 569,850 options remaining to be exercised.

Group General Manager – Merchandise

The Group General Manager – Merchandise, Mr Derek Muirhead, is a member of the Executive Management Committee employed under a standard employment contract with no defined length of tenure. Under the terms of the employment contract:

- Mr Muirhead may resign from his position by providing the Company with 3 months written notice;
- The Company may terminate this contract by providing 3 months written notice or provide payment in lieu of the notice period, based on the fixed component of Mr Muirhead's remuneration;
- The Company may terminate this contract at any time without notice if serious misconduct has occurred;
- Mr Muirhead is entitled to a retention bonus of \$200,000, payable in two instalments of \$100,000 after 9 months (30 September 2006) and 21 months (30 September 2007) continuous service respectively, subject to Mr Muirhead being actively employed by the Company in the capacity as Group General Manager – Merchandise, and not being the subject of any disciplinary action during the period; and
- Mr Muirhead is a participant in the long term and short term executive incentive schemes of the Company.

Mr Muirhead is also a participant in the Woolworths Holdings Limited Executive Share Option Plan. This benefit has been provided to Mr Muirhead by the Company's principal shareholder, Woolworths Holdings Limited and does not form part of the remuneration payable by Country Road Limited. On 3 January 2006, Mr Muirhead was granted 264,025 options at an exercise price of R14.11, at a fair value in Australian dollars of \$267,066. 20% of the options vest each year and become available to be exercised. No options were exercised during the period, and all remain outstanding at the end of the period.

Members of the Executive Management Committee

The remaining members of the Executive Management Committee are employed on standard employment contracts. The terms of employment for members of the Executive Management Committee are:

- The executive may resign from their position by providing the Company with between 3 and 6 months written notice depending on their specific contract;
- The Company may terminate the employment of the executive by providing 3 months written notice or payment in lieu of the notice period, based on the fixed component of the executive's remuneration;
- The Company may terminate the executive's employment at any time without notice if serious misconduct has occurred; and
- Each executive is a participant in the long term and short term executive incentive schemes.

Group Performance

The relationship of rewards to performance of Directors and Key Management Personnel is discussed above. Group performance is also reflected in the movement of the Company's earnings per share (EPS) over time. Basic EPS history over the last five years (for continuing operations) is presented below for the financial year ending 30 June:

	2002	2003	2004	2005	2006
Basic earnings per share (cents)	3.02	3.44	3.61	4.26	4.67

Remuneration of Directors and Executives

The Company has applied the exemption under Corporations Amendments Regulation 2006 (No.4) which exempts listed companies from providing remuneration disclosures for their key management personnel in their annual financial reports by Accounting Standard AASB 124 'Related Party Disclosures' on the condition that those disclosures are included in the Directors' Report under the heading 'Remuneration Report', and are audited. The remuneration tables below have been subjected to audit.

All remuneration paid to Directors and Executives during the period was fixed, and no performance-related payments were made.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Compensation of Key Management Personnel (Audited)

		Short-term			Post Employment	Termination Benefits	Share Based Payments (ii)	Total
		Salary & Fees	Cash Bonus	Non Monetary Benefits (i)	Super-annuation			
Directors								
Mark Canning (4)	2006	-	-	-	-	-	-	-
Non-Executive Director	2005	-	-	507	-	-	-	507
Kenneth Macmillan Drysdale (1)	2006	45,514	-	22,957	4,096	77,973	-	150,540
Non-Executive Director	2005	73,530	-	31,675	6,618	-	-	111,823
Ashley Gardner (2)	2006	147,022	-	51,990	13,250	-	-	212,262
Executive Director, CFO	2005	143,455	-	48,260	12,911	-	-	204,626
Kevin Hayes (1)	2006	25,433	-	5,611	-	-	-	31,044
Non-Executive Director	2005	43,600	-	9,304	-	-	-	52,904
Annamaria Hynes (1)	2006	18,722	-	5,663	6,711	4,612	-	35,708
Non-Executive Director	2005	40,000	-	9,962	3,600	-	-	53,562
Cherrie Lowe (2)	2006	-	-	2,083	-	-	-	2,083
Non-Executive Director	2005	-	-	-	-	-	-	-
Nelson Mair (3)	2006	125,606	-	21,994	37,134	217,576	16,691	419,001
Executive Director, COO	2005	256,071	-	35,019	13,934	-	16,834	321,858
Ian Moir	2006	414,872	-	132,449	39,221	-	61,116	647,658
Executive Director, CEO	2005	422,756	-	101,375	37,387	-	62,578	624,096
Simon Susman	2006	30,000	-	1,651	-	-	-	31,651
Non-Executive Director	2005	30,000	-	6,203	-	-	-	36,203
Michael Terry (1)	2006	23,333	-	2,956	-	-	-	26,289
Non-Executive Director	2005	40,000	-	5,787	-	-	-	45,787
Norman Thomson	2006	30,000	-	6,837	-	-	-	36,837
Non-Executive Director	2005	30,000	-	4,455	-	-	-	34,455
Total Remuneration	2006	860,502	-	254,191	100,412	300,161	77,807	1,593,073
	2005	1,079,412	-	252,547	74,450	-	79,412	1,485,821

(i) Non-monetary benefits include relocation allowances, salary packaging benefits such as motor vehicles, Country Road merchandise and any related fringe benefits tax.

(ii) Mr Moir is, and Mr Mair was until his resignation, a participant in the Woolworths Executive Share Option Plan. The value of the options issued by Woolworths Holdings Limited are included in share based payments in accordance with the requirements of AASB124 Related Party Disclosures.

(1) Retired 31 January 2006.

(2) Appointed 31 January 2006.

(3) Resigned 31 December 2005.

(4) Resigned 30 July 2004.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Compensation of Key Management Personnel (Audited) (continued)

		Short-term			Post Employment	Termination Benefits	Share Based Payments (ii)	Total
		Salary & Fees	Cash Bonus	Non Monetary Benefits (i)	Super- annuation			
Executives								
Anthony Beggs (1)	2006	31,097	–	–	2,054	50,000	–	83,151
GGM – Brand & Marketing	2005	75,748	–	528	7,262	–	–	83,538
Derek Muirhead (2)	2006	159,458	–	5,404	14,381	–	50,925	230,168
GGM – Merchandise	2005	–	–	–	–	–	–	–
Glenn Gilzean	2006	170,281	–	26,407	22,720	–	–	219,408
GGM – Retail Operations	2005	163,691	–	32,975	15,327	–	–	211,993
Sophie Holt	2006	262,145	–	49,593	23,543	–	–	335,281
GGM – Product Design & Development	2005	266,907	15,000	31,856	25,439	–	–	339,202
Matt Keogh	2006	115,555	–	4,013	10,412	–	–	129,980
GGM – Human Resources	2005	12,610	–	2,698	1,895	–	–	17,203
Charlotte Riley (3)	2006	35,886	–	13,655	3,493	220,600	–	273,634
GGM – Wholesale	2005	168,723	–	13,527	15,185	–	–	197,435
Total Remuneration	2006	774,422	–	99,072	76,603	270,600	50,925	1,271,622
	2005	687,679	15,000	81,584	65,108	–	–	849,371

(i) Non-monetary benefits includes relocation allowances, salary packaging benefits such as motor vehicles, Country Road merchandise and any related fringe benefits tax.

(ii) Mr Muirhead is a participant in the Woolworths Executive Share Option Plan. The value of the options issued by Woolworths Holdings Limited are included as share based payments in accordance with the requirements of AASB124 Related Party Disclosures.

(1) Resigned 26 August 2005.

(2) Commenced 9 January 2006.

(3) Resigned 31 August 2005.

Directors' Report

COUNTRY ROAD LIMITED A.C.N 006 759 182

Auditor Independence and Non-Audit Services

The Directors have received an Independence Declaration from its auditor, Ernst & Young, in accordance with section 307C of the Corporations Act 2001. A copy of this Declaration follows the Directors Report.

The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.


Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

- Accounting and risk management advice \$10,000

Rounding

The amounts contained in this report and in the financial statements have been rounded to the nearest \$1,000 under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

This report has been made in accordance with a resolution of the Directors.



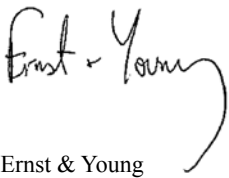
Simon Susman
Director
Chairman

Ian Moir
Director
Chief Executive Officer

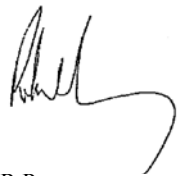
22 August 2006
Melbourne, Victoria

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

In relation to our audit of the financial report of Country Road Limited and the consolidated entity for the financial year ended 30 June 2006, 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



R Perry
Partner
22 August 2006

Directors' Declaration

COUNTRY ROAD LIMITED A.C.N 006 759 182

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

1. In the opinion of the Directors:
 - (a) the financial report, and the additional disclosures included in the Directors' Report designated as audited, of the Company and of 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 year ended on that date; and
 - (ii) complying with Accounting Standards and 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.
2. This declaration has been made after receiving declarations from the Chief Executive Officer and Chief Financial Officer of the Company in accordance with the requirements of section 295A of the Corporations Act 2001.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 19 will be able to meet any obligations or liabilities to which they are or may become subject to, by virtue of the Deed of Cross Guarantee.

On behalf of the Board



Simon Susman
Director
Chairman

Ian Moir
Director
Chief Executive Officer

22 August 2006
Melbourne, Victoria

Income Statement For The Year Ended 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Note	Consolidated		Country Road Ltd	
		2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
Sale of goods		205,095	208,553	–	–
Royalties		1,110	1,421	–	–
Rent revenue		1,267	1,076	–	–
Interest revenue		194	180	6,260	5,644
Revenue	2(a)	207,666	211,230	6,260	5,644
Cost of sales	2(b)	(99,921)	(104,773)	–	–
Gross profit		107,745	106,457	6,260	5,644
Employment expenses		(44,175)	(42,037)	–	–
Occupancy expenses	2(c)	(29,938)	(28,817)	–	–
Depreciation expenses	2(c)	(7,248)	(6,715)	–	–
Marketing expenses		(8,160)	(8,927)	–	–
Other expenses		(14,086)	(16,233)	(499)	(515)
		(103,607)	(102,729)	(499)	(515)
Profit before finance expenses and income tax expense		4,138	3,728	5,761	5,129
Finance expenses	2(d)	(867)	(788)	–	–
Profit before income tax expense		3,271	2,940	5,761	5,129
Income tax (expense) or benefit	3(a)	(48)	5	(1)	–
Net profit for the period		3,223	2,945	5,760	5,129
Basic earnings per share (cents per share)	1(t)	4.67	4.26		
Diluted earnings per share (cents per share)	1(t)	4.67	4.26		

Balance Sheet As At 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Note	Consolidated		Country Road Ltd	
		2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
Current assets					
Cash and cash equivalents	4	14,328	11,917	-	-
Trade and other receivables	5	4,193	9,957	-	-
Inventories	6	24,538	23,071	-	-
Income tax receivable		12	90	-	-
Prepayments		1,175	1,370	1	1
Derivative financial instruments	25(c)	1,176	147	-	-
Total current assets		45,422	46,552	1	1
Non-current assets					
Plant and equipment	7	27,833	27,238	-	-
Intangible assets	8	11,189	11,189	-	-
Deferred tax assets	3(c)	92	79	-	-
Prepayments		150	126	-	-
Other financial assets	9	-	-	66,867	61,107
Total non-current assets		39,264	38,632	66,867	61,107
Total assets		84,686	85,184	66,868	61,108
Current liabilities					
Trade and other payables	10	14,662	17,875	3	3
Provisions	11	3,041	3,226	-	-
Derivative financial instruments	25(c)	31	137	-	-
Total current liabilities		17,734	21,238	3	3
Non-current liabilities					
Interest-bearing loans and borrowings	12	7,000	7,000	-	-
Provisions	13	6,035	6,369	-	-
Total non-current liabilities		13,035	13,369	-	-
Total liabilities		30,769	34,607	3	3
Net assets		53,917	50,577	66,865	61,105
Equity					
Contributed equity	14	80,907	80,907	80,907	80,907
Reserves	15	127	10	-	-
Accumulated losses	15	(27,117)	(30,340)	(14,042)	(19,802)
Total equity		53,917	50,577	66,865	61,105

Statement Of Changes In Equity For The Year Ended 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Note	Consolidated		Country Road Ltd	
		2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
Total equity at beginning of period		50,577	47,622	61,105	55,976
Changes in the fair value recognition of cash flow hedges net of tax	15	744	10	-	-
Exchange differences on translation of foreign operations net of tax	15	(627)	-	-	-
Net income recognised directly in equity		117	10	-	-
Net profit for the period		3,223	2,945	5,760	5,129
Total recognised income and (expense) for the period		3,340	2,955	5,760	5,129
Total equity at end of period		53,917	50,577	66,865	61,105

Cash Flow Statement For The Year Ended 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Note	Consolidated		Country Road Ltd	
		2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
Cash flows from operating activities					
Receipts from customers		233,240	230,755	-	-
Payments to suppliers and employees		(223,604)	(219,816)	-	-
Interest received		194	180	-	-
Interest and other costs of finance paid		(872)	(828)	-	-
Rental income receipts		1,267	1,076	-	-
Income taxes and withholding taxes refunded (paid)		(1)	21	-	-
Net cash flows from (used in) operating activities	23	10,224	11,388	-	-
Cash flows from investing activities					
Proceeds from the sale of plant and equipment		4	189	-	-
Payments for the acquisition of plant and equipment		(7,803)	(7,920)	-	-
Net cash flows from (used in) investing activities		(7,799)	(7,731)	-	-
Cash flows from financing activities					
Repayment of related party borrowings		-	(3,000)	-	-
Net cash flows from (used in) financing activities		-	(3,000)	-	-
Net increase in cash and cash equivalents		2,425	657	-	-
Cash and cash equivalents at beginning of period		11,917	11,260	-	-
Exchange rate effect on opening balance		(14)	-	-	-
Cash and cash equivalents at end of period		14,328	11,917	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to Country Road Limited ("the Company") under ASIC Class Order 98/100. The Company is an entity to which the class order applies.

(b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards (AIFRS). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards (IFRS). This is the first financial report prepared based on AIFRS, and comparatives for the year ended 30 June 2005 have been restated accordingly.

Reconciliations of AIFRS equity and profit for the year ended 30 June 2005 to the balances reported in the 30 June 2005 financial report and at transition to AIFRS are detailed in Note 26.

The financial report of Country Road Limited for the year ended 30 June 2006 was authorised for issue in accordance with a resolution of the Directors on 22 August 2006.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of Country Road Limited and its subsidiaries ("the Group") as at 30 June 2006.

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions, have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered. Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Where there is loss of control of a subsidiary, the consolidated financial statements include the results for the part of the reporting period during which the Company has control.

(d) Foreign currency translation

Both the functional and presentation currency of the Company and its Australian subsidiaries are Australian dollars.

Transactions in foreign currencies are initially recorded in the functional currency at the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date. All differences in the consolidated financial report are taken to the income statement.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The functional currency of Country Road Clothing (NZ) Limited is New Zealand Dollars. As at the reporting date, assets and liabilities are translated into the presentation currency of the Company, being Australian dollars. Exchange differences arising on the retranslation are taken directly to equity.

(e) Cash and cash equivalents

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(f) Trade and other receivables

Trade receivables, which generally have 30 day terms or less, are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

An allowance for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

(g) Inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs of completion and the estimated costs necessary to make the sale.

Finished goods are measured at their weighted-average cost paid for the goods determined on a first-in-first-out basis.

Indirect costs incurred in the handling and distribution of finished goods from the Group's distribution centre are included in the measurement of inventories in accordance with guidance provided by the Australian Tax Office in Practice Statement LA2003/13.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(h) Plant and equipment

Plant and equipment is stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis over the estimated useful lives of assets as follows:

- Fixtures, fittings & equipment – 3 to 10 years; and
- Leasehold improvements – the shorter of the duration of the leases or their estimated useful lives ranging from 4 to 19 years.

Refer Note 1(i) for policy on assessing impairment of plant & equipment.

(i) Impairment of assets

At each reporting date, the Group assesses whether there is any indication that an asset may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount.

Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount.

Recoverable amount is the greater of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(j) Finance expenses

Finance expenses comprise interest expense and facility fees, and are recognised as an expense when incurred.

(k) Intangible assets

Intangible assets acquired separately are capitalised at cost and from a business combination are capitalised at fair value as at the date of acquisition. Following initial recognition, the cost model is applied to the class of intangible assets.

The useful lives of these intangible assets are assessed to be either finite or indefinite.

Where amortisation is charged on assets with finite lives, this expense is taken to the income statement.

Intangible assets created within the business are not capitalised and expenditure is charged against profits in the period in which the expenditure is incurred. Intangible assets are tested for impairment where an indicator of impairment exists, and in the case of indefinite lived intangibles annually, either individually or at the cash generating unit level. Useful lives are also examined on an annual basis and adjustments, where applicable, are made on a prospective basis.

The Group's intangible assets consist of Trade Names, which are deemed to have an indefinite life, are not amortised, are acquired, and are subject to impairment testing annually, or where an indicator of impairment exists.

Refer Note 1(i) for policy on assessing impairment of intangible assets.

(l) Leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term where such leases contain annual fixed escalation rates, and the value of the future lease payments can be determined.

Lessor contributions to the construction and fit-out of premises where the lessor retains ownership of the assets are accounted for as a reduction of the cost of the construction and fit-out. Where ownership of the assets is retained by the Company, lessor contributions are accounted for as a lease incentive liability and is reduced on a straight-line basis over the remaining term of the lease.

The Group sub-leases out space in leased premises to sub-tenants. Revenue comprises the minimum lease payments from these sub-leases, which are recognised on a straight-line basis over the term of the lease.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(m) Taxes

Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences:

- except where the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of taxable temporary differences associated with investments in subsidiaries except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised:

- except where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- in respect of deductible temporary differences associated with investments in subsidiaries, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the income statement.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except:

- where the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet. Commitments and contingencies are disclosed net of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority are classified as operating cash flows.

(n) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Group.

(o) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs. After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method.

(p) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(q) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, long-service leave and any other employee benefits expected to be settled within twelve months of the reporting date are measured at their nominal amounts based on remuneration rates which are expected to be paid when the liability is settled. All other employee benefit liabilities are measured at the present value of the estimated future cash outflow to be made in respect of services provided by employees up to the reporting date. In determining the present value of future cash outflows, the market yield as at the reporting date on national government bonds, which have terms to maturity approximating the terms of the related liability, are used.

The Group, through a number of Funds, provides superannuation benefits for various categories of employees. All Funds are administered externally and provide benefits for death, total disability, retirement and resignation.

All benefits are provided on an accumulation of contributions basis and accordingly no actuarial assessment is required. Contributions vary from employee to employee as determined by various Awards and negotiated conditions of employment. Future company contributions required to meet the Superannuation Guarantee Charge in Australia and contributions under Awards are legally enforceable.

(r) Issued capital

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

(s) Comparative figures and AASB 1 transitional exemptions

Where necessary, comparatives have been adjusted for consistency with current year disclosures, and in consideration of updated guidance and developments on AIFRS convergence since prior reporting periods.

Exemption from the requirement to restate comparative information for AASB 132 and AASB 139

The Group has not elected to adopt this exemption and has applied AASB 132 'Financial Instruments: Presentation and Disclosure' and AASB 139 'Financial Instruments: Recognition and Measurement' to its comparative information.

(t) Earnings per share (EPS)

Basic EPS is calculated as net profit for the period as presented in the Income Statement, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares as presented in Note 14, adjusted for any bonus element.

Diluted EPS is calculated as net profit for the period adjusted for:

- costs of servicing equity (other than dividends) and preference share 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 the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element. No adjustments for dilutive securities are required.

(u) Revenue

Revenue is recognised to the extent that it is probable that the economic benefit will flow to the entity and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

- Sale of goods in retail stores - at point of sale;
- Sale of goods to wholesale customers - at time of delivery;
- Interest - from the time the right to receive interest revenue has been attained;
- Royalties and licence fees - from the time a right to receive consideration for the provision of, or investment in, assets or the use of a Country Road trademark, has been attained; and
- Operating sub-lease revenue - from the time a right is attained to receive consideration for the provision of leased premises to a sub-tenant, is recognised progressively over the term of the sub-leasing contract, inclusive of early exit penalties.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(v) Derivative financial instruments

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a highly probable forecast commitment is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that are attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the income statement when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the income statement. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the income statement.

Hedges of a net investment

Hedges of a net investment in a foreign operation, including a hedge of a monetary item that is accounted for as part of the net investment, are accounted for in a similar way to cash flow hedges. Gains or losses on the hedging instrument relating to the effective portion of the hedge are recognised directly in equity while any gains or losses relating to the ineffective portion are recognised in profit or loss. On disposal of the foreign operation, the cumulative value of any such gains or losses recognised directly in equity is transferred to profit or loss.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Accounting standards issued or amended but not yet effective

Australian Accounting Standards that have recently been issued or amended but are not yet effective have not been adopted for the annual reporting period ending 30 June 2006, and are summarised as follows:

Amendments and new standards applicable to the Group

Amendment/ New	Affected Standards	Application Date of Standard	Application Date for Group	Accounting Policy Impact
New	AASB 7 Financial Instruments: Disclosures	1 January 2007	1 July 2007	Additional disclosures in Financial Instruments note and accounting policies anticipated, but no impact on results expected.

Amendments and new standards not applicable to the Group

Amendment/ New	Affected Standards
2004-3	AASB 1 First-time adoption of AIFRS AASB 101 Presentation of Financial Statements AASB 124 Related Party Disclosures
2005-1	AASB 139 Financial Instruments: Recognition and Measurement
2005-4	AASB 139 Financial Instruments: Recognition and Measurement AASB 132 Financial Instruments: Disclosure and Presentation AASB 1 First-time adoption of AIFRS AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts
2005-5	AASB 1 First-time adoption of AIFRS AASB 139 Financial Instruments: Recognition and Measurement
2005-6	AASB 3 Business Combinations
2005-9	AASB 4 Insurance Contracts AASB 1023 General Insurance Contracts AASB 139 Financial Instruments: Recognition and Measurement AASB 132 Financial Instruments: Disclosure and Presentation
2005-10	AASB 132 Financial Instruments: Disclosure and Presentation AASB 101 Presentation of Financial Statements AASB 114 Segment Reporting AASB 117 Leases AASB 133 Earnings per Share AASB 139 Financial Instruments: Recognition and Measurement AASB 1 First-time adoption of AIFRS AASB 4 Insurance Contracts AASB 1023 General Insurance Contracts AASB 1038 Life Insurance Contracts
2006-1	AASB 121 The Effects of Change in Foreign Currency Rates
New	AASB 119 Employee Benefits
New	UIG 4 Determining whether an arrangement contains a lease
New	UIG 5 Rights to Interests in Decommissioning, Restoration and Environmental Rehabilitation Funds
New	UIG 7 Applying the Restatement Approach under AASB 129 Financial Reporting in Hyperinflationary Economies
New	UIG 8 Scope of AASB 2
New	UIG 9 Reassessment of Embedded Derivatives

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
2 REVENUES AND EXPENSES				
(a) Revenue				
Sale of goods	205,095	208,553	-	-
Royalties	1,110	1,421	-	-
Rent revenue	1,267	1,076	-	-
Interest revenue	194	180	6,260	5,644
	207,666	211,230	6,260	5,644
<i>Interest revenue comprises:</i>				
Interest received from banks and other financial institutions	194	180	-	-
Controlled entities – wholly owned	-	-	6,260	5,644
	194	180	6,260	5,644
(b) Cost of sales				
Costs of inventories recognised as an expense	99,910	104,663	-	-
Adjustments to net realisable value of inventories	11	110	-	-
	99,921	104,773	-	-
(c) Depreciation and other expenses				
Depreciation of plant & equipment	7,248	6,715	-	-
Operating lease expenses				
Minimum lease payments	24,059	23,361	-	-
Contingent rentals	246	93	-	-
	24,305	23,454	-	-
Net loss on disposal of plant and equipment	65	59	-	-
Significant items				
Inventory costing adjustment (1)	-	(943)	-	-
Recovery of prior years' occupancy costs (2)	-	(485)	-	-
Settlement of legal claim (3)	-	221	-	-
	-	(1,207)	-	-
<p>(1) During the prior year the Company modified its policy of recognising indirect costs associated with the handling and distribution of stock from its distribution centres as a component of inventory. Previously these indirect costs were expensed as incurred. The modification was made to improve the relevance and reliability of information presented in the financial report and to further comply with AASB1019 'Inventories' and guidance provided by the Australian Tax Office in Practice Statement LA2003/13.</p> <p>(2) During the prior year an agreement was reached with a principal landlord for reimbursement of maintenance and other costs incurred by the Company associated with the occupancy and sub-letting of premises. The majority of the costs subject to the reimbursement had been incurred and expensed in prior years.</p> <p>(3) In June 2005, the Company settled an ongoing legal dispute with a former supplier on grounds that were commercially acceptable to the Company.</p>				
(d) Finance expenses				
Interest paid to ultimate parent entity	458	583	-	-
Interest paid to banks and other financial institutions	324	141	-	-
Facility fees	85	64	-	-
	867	788	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
3 INCOME TAX EXPENSE				
(a) Income tax expense				
Current Tax	(27)	2	(1)	-
Deferred Tax	(21)	3	-	-
Income tax (expense) or benefit	(48)	5	(1)	-
Income tax expense is attributable to:				
Profit before income tax expense	(48)	5	(1)	-
Deferred income tax revenue (expense) included in income tax expense comprises:				
(Decrease) increase in deferred tax assets	(9)	11	-	-
Decrease (increase) in deferred tax liabilities	(12)	(8)	-	-
	(21)	3	-	-
(b) Reconciliation of income tax expense to prima facie tax payable				
Profit before income tax expense	3,271	2,940	5,761	5,129
Prima facie tax thereon at 30% (2005: 30%)	(981)	(882)	(1,728)	(1,539)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Non-allowable expenses	(39)	(26)	-	-
Non-assessable capital items	22	51	-	-
Timing differences not recognised	955	(7,421)	-	-
Tax losses recouped	-	8,294	-	-
Effect of different rates of tax on overseas income	(4)	-	-	-
Adjustment to prior period provision	(1)	(11)	(1)	-
Transfer of net tax to consolidated group	-	-	1,728	1,539
Income tax (expense) or benefit	(48)	5	(1)	-
(c) Deferred taxes				
Deferred tax assets				
The balance comprises temporary differences attributable to:				
Amounts recognised directly in profit & loss				
Provision for shrink	1	6	-	-
Depreciation	118	95	-	-
Employee benefits	20	17	-	-
	139	118	-	-
Movements:				
Opening balance at beginning of period	118	107	-	-
Credited (charged) to the income statement	(9)	7	-	-
Adjustment to prior period provision	30	4	-	-
	139	118	-	-
Deferred tax liabilities				
The balance comprises temporary differences attributable to:				
Amounts recognised directly in profit & loss				
Lay-by sales	12	18	-	-
Provision for unexpired gift vouchers	35	21	-	-
	47	39	-	-
Movements:				
Opening balance at beginning of period	39	31	-	-
(Credited) charged to the income statement	12	18	-	-
Adjustment to prior period provision	(4)	(10)	-	-
	47	39	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
3 INCOME TAX EXPENSE (continued)				
(d) Unrecognised temporary differences				
Temporary differences for which no deferred net tax assets are recognised in the balance sheet, tax effected at 30% (2005: 30%)	11,694	10,989	–	–
Temporary differences relating to investments in subsidiaries for which deferred tax assets (liabilities) have not been recognised, tax-effected at 30% (2005: 30%)				
Foreign currency translation	188	–	–	–
Undistributed earnings	(201)	11	–	–
	(13)	11	–	–
<p>A deferred tax asset has not been recognised in respect of the temporary differences arising as a result of the translation of the financial statements of the Group's New Zealand subsidiary, Country Road Clothing (NZ) Ltd. The deferred tax asset will only arise in the event of disposal of the subsidiary, and no such disposal is expected in the foreseeable future.</p> <p>Country Road Clothing (NZ) Ltd has undistributed earnings of \$670,000 which, if paid out as dividends, would be subject to tax in the hands of the recipient. An assessable temporary difference exists, however no deferred tax liability has been recognised as the parent entity is able to control the timing of distributions from this subsidiary and is not expected to distribute these profits in the foreseeable future.</p>				
(e) Tax consolidation legislation				
<p>Effective 1 July 2003, Country Road Limited and its wholly-owned Australian subsidiaries formed a tax consolidated group. The head entity of the tax consolidated group is Country Road Limited.</p> <p>Members of the tax consolidated group have entered into a tax funding agreement. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with the "separate taxpayer within group" approach as prescribed by UIG 1052 'Tax Consolidation Accounting', while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes. Allocations under the tax funding agreement are made at the end of bi-annual reporting period.</p> <p>The allocation of taxes under the tax funding agreement is recognised in the subsidiaries' intercompany accounts with the tax consolidated group head company, Country Road Limited. Funding is based on amounts recognised in the financial statements of wholly owned subsidiaries in the tax consolidated group.</p>				
4 CASH AND CASH EQUIVALENTS				
Cash at bank	952	1,113	–	–
Cash on hand	89	84	–	–
Short term deposits	13,287	10,720	–	–
	14,328	11,917	–	–

Cash includes deposits with financial institutions, attracting floating interest rates. The average yield at balance date was 5.25% (2005: 5.00%) per annum. Short term deposits are at call and earn interest at 5.65% (2005: 5.40%) per annum.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
5 TRADE AND OTHER RECEIVABLES				
Trade receivables	4,139	9,876	-	-
Allowance for doubtful debts	(27)	(95)	-	-
	4,112	9,781	-	-
Other receivables	81	176	-	-
	4,193	9,957	-	-
6 INVENTORIES				
Total inventories at the lower of cost and net realisable value				
Finished goods	24,538	23,071	-	-
	24,538	23,071	-	-
7 PLANT AND EQUIPMENT				
Leasehold improvements				
At cost	14,271	11,979	-	-
Accumulated depreciation	(7,981)	(5,535)	-	-
	6,290	6,444	-	-
Fixtures, fittings and equipment				
At cost	59,812	55,348	-	-
Accumulated depreciation	(41,748)	(36,314)	-	-
	18,064	19,034	-	-
Capital works in progress	3,479	1,760	-	-
	27,833	27,238	-	-
Reconciliations				
Leasehold improvements				
Carrying amount at the beginning of the year	6,444	5,795	-	-
Foreign currency translation impact on opening balance	(90)	11	-	-
Additions during the year	1,381	2,160	-	-
Disposals during the year	(63)	(326)	-	-
Depreciation expense	(1,382)	(1,196)	-	-
Carrying amount at the end of the year	6,290	6,444	-	-
Fixtures, fittings and equipment				
Carrying amount at the beginning of the year	19,034	17,625	-	-
Foreign currency translation impact on opening balance	(130)	14	-	-
Additions during the year	5,032	6,908	-	-
Disposals during the year	(6)	(23)	-	-
Depreciation expense	(5,866)	(5,490)	-	-
Carrying amount at the end of the year	18,064	19,034	-	-
Capital works in progress				
Carrying amount at the beginning of the year	1,760	2,262	-	-
Foreign currency translation impact on opening balance	(127)	2	-	-
Additions during the year	2,165	802	-	-
Transfers to other categories	(319)	(1,306)	-	-
Carrying amount at the end of the year	3,479	1,760	-	-

All plant and equipment balances are pledged as security for facilities provided by external financiers, and related party borrowings which are sub-ordinated to external facilities. Refer Note 18 for details of the Group's financing arrangements.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
8 INTANGIBLE ASSETS				
Trade names				
At cost	12,266	12,266	-	-
Accumulated amortisation	(1,077)	(1,077)	-	-
	11,189	11,189	-	-
Reconciliations				
Trade names				
Carrying amount at the beginning of the year	11,189	11,189	-	-
Additions during the year	-	-	-	-
	11,189	11,189	-	-
9 OTHER FINANCIAL ASSETS (NON-CURRENT)				
Shares in controlled entities				
Unlisted at cost	-	-	54,801	54,801
Allowance for diminution in value	-	-	(43,455)	(43,455)
	-	-	11,346	11,346
Loans and other debtors				
Loans to controlled entities	-	-	97,852	92,092
Allowance for doubtful debts	-	-	(42,331)	(42,331)
	-	-	55,521	49,761
	-	-	66,867	61,107
10 TRADE AND OTHER PAYABLES (CURRENT)				
Trade payables	8,836	11,299	-	-
Other payables	5,826	6,576	3	3
	14,662	17,875	3	3
11 PROVISIONS (CURRENT)				
Lease incentives	183	157	-	-
Leases expensed on straight line basis	410	413	-	-
Employee entitlements	2,448	2,656	-	-
	3,041	3,226	-	-
12 INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT)				
Secured loan from related party – ultimate controlling entity	7,000	7,000	-	-
	7,000	7,000	-	-
13 PROVISIONS (NON-CURRENT)				
Lease incentives	631	654	-	-
Leases expensed on straight line basis	4,968	5,164	-	-
Employee entitlements	436	551	-	-
	6,035	6,369	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
14 CONTRIBUTED EQUITY AND DIVIDENDS				
Ordinary shares	80,907	80,907	80,907	80,907
	80,907	80,907	80,907	80,907
Ordinary shares:				
Number of ordinary shares on issue at balance date (not rounded)	69,056,822	69,056,822	69,056,822	69,056,822
Shares issued during the financial year	-	-	-	-
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends.				
Dividends:				
Dividends on ordinary shares declared and paid during the year	-	-	-	-
Franking credits available for future reporting periods	13,354	13,354	13,354	13,354
The franking account is based on a tax rate of 30%.				
15 ACCUMULATED LOSSES AND RESERVES				
Accumulated losses	(27,117)	(30,340)	(14,042)	(19,802)
Reserves				
Exchange differences on translation of foreign operations	(627)	-	-	-
Hedging reserve - cash flow hedges	754	10	-	-
	127	10	-	-
Movements:				
Accumulated losses				
Balance at beginning of financial year	(30,340)	(33,285)	(19,802)	(24,931)
Net profit for the year	3,223	2,945	5,760	5,129
Balance at end of financial year	(27,117)	(30,340)	(14,042)	(19,802)
Exchange differences on translation of foreign operations				
Balance at beginning of financial year	-	-	-	-
Exchange differences on translation of foreign operations during period	(627)	-	-	-
Balance at end of financial year	(627)	-	-	-
Hedging reserve – cash flow hedges				
Balance at beginning of financial year	10	-	-	-
Changes in the fair value recognition of cash flow hedges	744	10	-	-
Balance at end of financial year	754	10	-	-
16 COMMITMENTS				
Capital commitments				
At reporting date the Group has commitments principally relating to the opening of new stores, the refurbishment of existing stores, and investment in/upgrades to information technology systems.				
Commitments contracted for at reporting date but not recognised as liabilities are:				
Within one year	833	1,678	-	-
	833	1,678	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

	Consolidated		Country Road Ltd		
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's	
16 COMMITMENTS (continued)					
Operating lease commitments – Group as lessee					
The Group has entered into lease agreements for its stores, administration offices and office equipment. Certain store leases contain contingent rental terms which are triggered if predetermined sales levels are achieved.					
Commitments contracted for at reporting date but not recognised as liabilities are:					
not later than one year	22,990	21,803	–	–	
later than one year but not later than five years	68,437	72,017	–	–	
later than five years	18,417	28,674	–	–	
	109,844	122,494	–	–	
Operating lease commitments – Group as lessor					
The Group enters into arrangements to sub-lease premises to maximise productivity of available space, or as part of outsourcing arrangements to third parties.					
Commitments contracted for at reporting date but not recognised as assets are:					
not later than one year	911	1,105	–	–	
later than one year but not later than five years	1,135	2,047	–	–	
	2,046	3,152	–	–	
17 REMUNERATION OF AUDITORS					
Amounts received or due and receivable by Ernst & Young Australia (in whole dollars) for:					
– an audit or review of the financial report of the entity and any other entity in the Group	\$150,000	\$145,000	–	–	
– other services in relation to the entity and any other entity in the Group	\$10,000	\$15,000	–	–	
	\$160,000	\$160,000	–	–	
18 FINANCING ARRANGEMENTS					
The Group had access to the following financing arrangements:					
External financial institutions:					
Cash advance facility	(i)	10,000	10,000	–	–
Bank overdraft	(i)	500	500	–	–
		10,500	10,500	–	–
Loan from related party – ultimate controlling entity	(ii)	7,000	7,000	–	–
Total facilities available		17,500	17,500	–	–
Loan from related party – ultimate controlling entity		7,000	7,000	–	–
Total drawn facilities		7,000	7,000	–	–
Total undrawn facilities		10,500	10,500	–	–
Terms and conditions					
(i) Bank facilities are denominated in Australian dollars and are subject to annual review. Interest is payable at market rates (refer Note 25(b)). Facilities are secured by a Registered Mortgage Debenture over all assets of the Group, and are subject to various quarterly covenants which relate to the financial performance of the Group.					
(ii) The related party loan is denominated in Australian dollars. Interest is charged at appropriate market rates (refer Note 25(b)). The loan is subject to annual review by virtue of the requirement for Woolworths Holdings Limited to obtain annual approval from the South African Reserve Bank to continue the provision of the loan. The South African Reserve Bank has provided consent for the facilities to be available to the Group until 31 December 2006. The loan is secured by a second Registered Mortgage Debenture over all assets of the Group, but subordinated to the facilities provided by external financial institutions.					

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

19 RELATED PARTY DISCLOSURES

	Place of incorporation	Note	Total Equity Interest		Investment	
			2006	2005	2006	2005
			%	%	\$000's	\$000's
Country Road Limited	Australia	(a)				
Country Road Clothing Pty Ltd	Australia	(a)	100	100	54,800	54,800
Country Road Clothing (N.Z.) Ltd	New Zealand		100	100	–	–
Country Road Properties Pty Ltd	Australia	(a)	100	100	–	–
Country Road Ventures Pty Ltd	Australia	(a)	100	100	–	–
Country Road Ltd	UK		100	100	–	–
Country Road International Pty Ltd	Australia	(a)	100	100	1	1
Country Road (Hong Kong) Ltd	Hong Kong		100	100	–	–
					54,801	54,801

Names inset indicate that shares are held by the entity immediately above the inset.

(a) Entities subject to class order

These entities (the "Closed Group") have entered into a Deed of Cross Guarantee dated 12 May 1993 which provides that all parties to the deed will guarantee to each creditor payment in full of any debt of each entity participating in the deed on winding-up of that entity. Class Order 98/1418 issued by the Australian Securities and Investment Commission relieves these entities from the requirement to prepare, audit and lodgement of their financial reports.

	2006	2005
	\$000's	\$000's
(i) Income Statement		
Profit before income tax expense	3,133	2,906
Income tax expense	(1)	–
Net profit for the period	3,132	2,906
Accumulated losses at beginning of period	(9,560)	(12,466)
Accumulated losses at end of period	(6,428)	(9,560)
(ii) Balance Sheet		
Current assets		
Cash and cash equivalents	14,074	11,722
Trade and other receivables	2,822	9,167
Inventories	22,919	19,479
Other assets	1,160	1,350
Total current assets	40,975	41,718
Non-current assets		
Investments	2,979	2,979
Plant and equipment	25,668	24,796
Intangible assets	11,189	10,948
Other	150	126
Total non-current assets	39,986	38,849
Total assets	80,961	80,567
Current liabilities		
Trade and other payables	18,318	20,474
Provisions	2,379	2,603
Total current liabilities	20,697	23,077
Non-current liabilities		
Other payables	185	169
Interest-bearing loans and borrowings	7,000	7,000
Provisions	5,141	6,269
Total non-current liabilities	12,326	13,438
Total liabilities	33,023	36,515
Net assets	47,938	44,052
Equity		
Contributed equity	54,366	53,612
Accumulated losses	(6,428)	(9,560)
Total equity	47,938	44,052

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

19 RELATED PARTY DISCLOSURES (continued)

Ultimate parent

Country Road Limited is the ultimate parent entity in the consolidated Group.

The ultimate controlling entity of the consolidated Group in Australia is Woolworths International (Australia) Pty Ltd.

The consolidated Group is ultimately controlled by Woolworths Holdings Limited, a company incorporated in South Africa.

Wholly-owned group transactions

- (a) The parent entity charges interest on loans to wholly-owned subsidiaries on normal commercial terms and conditions. Amounts charged during the year were \$6,168,686 to Country Road Clothing Pty Ltd (2005: \$5,562,755) and \$90,927 to Country Road International Pty Ltd (2005: \$81,725).
- (b) All expenses incurred by the parent entity during the period as disclosed in the Income Statement were paid by Country Road Clothing Pty Ltd.
- (c) During the year inventory was bought and sold between controlled entities within the Group on normal commercial terms and conditions. Interest is charged on intercompany loans, and management fees are charged between wholly-owned controlled entities, on commercial terms and conditions.

Transactions with Director-related entities

- (a) During the year the consolidated Group engaged consulting services to the value of \$34,623 (2005: \$11,466) from Michael Terry up until his retirement on 31 January 2006.

Other related party transactions

- (a) The consolidated Group continues to have borrowings amounting to \$7 million Australian dollars from the ultimate controlling entity, Woolworths Holdings Limited. The loan is subject to normal commercial terms and conditions. Refer Note 18.
- (b) During the year the consolidated Group engaged consulting services to the value of \$0 (2005: \$33,750) from Woolworths Pty Ltd, a related company. These transactions were on normal commercial terms.

20 DIRECTOR AND EXECUTIVE DISCLOSURES

The Company has applied the exemption under Corporations Amendments Regulation 2006 (No. 4) which exempts listed companies from providing remuneration disclosures for their key management personnel in their annual financial reports by Accounting Standard AASB 124 'Related Party Disclosures' on the condition that those disclosures are included in the Directors' Report under the heading 'Remuneration Report', and are audited.

Option holdings of Key Management Personnel

Certain key management personnel have been granted options in Woolworths Holdings Limited, the ultimate controlling entity, as part of the Woolworths Executive Share Option Plan. These options were granted by Woolworths and do not form part of the remuneration payable by Country Road Limited. The value of the options has been determined in accordance with the requirements of AASB 124 'Related Party Disclosures' and included in the remuneration table which forms part of Directors Report. At balance date, options provided in South African Rand (R) were:

- On 14 June 2002 Mr Moir was granted 1,424,623 options at an exercise price of R3.98, at a fair value in Australian dollars of \$316,833. 20% of the options vest each year and become available to be exercised. At the beginning of the period, 854,775 were held. During the period 284,925 options were exercised at R11.63. At the date of this report, he has 569,850 options remaining to be exercised.
- On 3 January 2006, Mr Muirhead was granted 264,025 options at an exercise price of R14.11, at a fair value in Australian dollars of \$267,066. 20% of the options vest each year and become available to be exercised. No options were exercised during the period, and all remain outstanding at the end of the period.

21 CONTINGENT LIABILITIES

Cross Guarantees

Country Road Limited has entered a Deed of Cross Guarantee in accordance with Class Order 98/1418 issued by the Australian Securities and Investment Commission. Country Road Limited and its controlled entities who are a party to the deed, as presented in Note 19, have guaranteed repayment of all current and future creditors should any of these companies be wound up.

Litigation

From time to time the Company and its subsidiaries are involved in litigation relating to unfair dismissal and other employment related matters. These matters, both individually and in total, are not considered material, and where appropriate, adequate provision has been made in the accounts.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

22 SUBSEQUENT EVENTS

2006

Since the end of the financial year the Company has entered into an agreement with Myer Limited which will result in the Company operating on a concession basis in Myer and therefore ceasing to supply stock to Myer on a wholesale basis from February 2007. The Directors have taken this decision into account when assessing the carrying values of assets and have determined that no adjustment to the carrying values is necessary at 30 June 2006.

2005

On 1 August 2005, the Company acquired the Country Road franchise store in Queenstown New Zealand. The cost of this acquisition amounted to \$300,000 Australian dollars, being for the purchase of property, plant and equipment, and goodwill. The accounting impact of the acquisition on the Income Statement is not considered material, and will be recognised in next year's financial report.

	Consolidated		Country Road Ltd	
	2006 \$000's	2005 \$000's	2006 \$000's	2005 \$000's
23 RECONCILIATION OF PROFIT AFTER TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES				
Reconciliation of operating profit or (loss) after income tax to net cash flows from operating activities				
Operating profit or (loss) after income tax	3,223	2,945	5,760	5,129
Add non-cash items				
Depreciation and amortisation	7,248	6,715	-	-
Market valuation of non-effective cash flow hedges	(379)	(13)	-	-
Lease incentive contributions - amortisation	(23)	(254)	-	-
Adjustments to net realisable value of inventories	13	110	-	-
Disposal of plant and equipment	69	59	-	-
Capital works in progress accruals	(324)	(289)	-	-
Net foreign currency translation (gains) or losses	-	(62)	-	-
Change in accounting policy	-	(943)	-	-
Allowance for doubtful debts	(68)	3	-	-
Changes in:				
Trade and other receivables	5,832	(1,047)	-	-
Inventories	(1,480)	636	-	-
Other assets	(858)	1,208	(5,760)	(5,129)
Deferred tax assets	(13)	(3)	-	-
Trade and other payables	(3,213)	1,790	-	-
Provision for income tax	78	18	-	-
Other provisions	(519)	515	-	-
Other liabilities	(106)	-	-	-
Hedging reserve	744	-	-	-
Net cash flows from (used in) operating activities	10,224	11,388	-	-

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

24 SEGMENT INFORMATION

(a) Geographical segments

The Group's primary segment reporting format is geographical segments as the Group's risks and rates of return are affected predominantly by external economic factors and consumer behaviours exclusive to those segments.

	Note	Consolidated			Consolidated		
		2006	2006	2006	2005	2005	2005
		Australia	New Zealand	Total	Australia	New Zealand	Total
		\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Revenue							
Sales to external customers		185,731	19,364	205,095	190,404	18,149	208,553
Inter-segment sales		7,912	–	7,912	2,424	–	2,424
Other revenues		2,377	–	2,377	2,430	67	2,497
Total segment revenue		196,020	19,364	215,384	195,258	18,216	213,474
Inter-segment elimination				(7,912)			(2,424)
Non-segment revenues							
Interest revenue				194			180
Total consolidated revenue				207,666			211,230
Result							
Segment result		4,426	211	4,637	3,071	(35)	3,036
Unallocated expenses				(499)			(515)
Significant one-off items	2(c)			–			1,207
Profit before tax and finance expenses				4,138			3,728
Finance expenses				(867)			(788)
Profit before tax				3,271			2,940
Income tax (expense) benefit				(48)			5
Net profit for the year				3,223			2,945
Assets and liabilities							
Segment assets		68,030	4,291	72,321	68,443	5,405	73,848
Unallocated assets				12,365			11,336
Total assets				84,686			85,184
Segment liabilities		22,289	1,449	23,738	26,604	866	27,470
Unallocated liabilities				7,031			7,137
Total liabilities				30,769			34,607
Other segment information							
Capital expenditure		7,751	391	8,142	7,820	551	8,371
Depreciation and amortisation		6,708	540	7,248	6,192	523	6,715
Significant non-cash items other than depreciation and amortisation		65	–	65	59	–	59

(b) Business segments

The Group's business segments are determined based on the size, nature and other unique characteristics associated with the direct customer.

	Consolidated			Consolidated		
	2006	2006	2006	2005	2005	2005
	Retail Stores	Wholesale	Total	Retail Stores	Wholesale	Total
	\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
Revenue						
Sales to external customers	163,969	41,126	205,095	151,554	56,999	208,553
Segment revenue	163,969	41,126	205,095	151,554	56,999	208,553
Other segment information						
Segment assets	20,145	3,279	23,424	17,624	8,653	26,277
Unallocated assets			61,262			58,907
Total assets			84,686			85,184
Capital expenditure	6,205	–	6,205	4,847	–	4,847

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

25 FINANCIAL INSTRUMENTS

(a) Fair values

The carrying value of all financial assets and liabilities reflect their fair values. All borrowings are subject to floating rates of interest. Revaluation of hedge contracts to market value are presented in Note 25(c) below.

The fair values of derivatives have been calculated by discounting the expected future cash flows at prevailing interest rates.

(b) Interest rate risk

The following table sets out the consolidated carrying amount, by maturity, of the financial instruments exposed to interest rate risk:

	Interest Rate %	Floating Rate \$000's	Non-interest Bearing \$000's	Total \$000's
Consolidated				
Financial assets				
Cash	5.25%	952	89	1,041
Short term deposits	5.40%	13,287	–	13,287
		<u>14,239</u>	<u>89</u>	<u>14,328</u>
Financial liabilities				
Borrowings – related corporations	6.86%	7,000	–	7,000
		<u>7,000</u>	<u>–</u>	<u>7,000</u>
Country Road Limited				
Financial assets				
Loans to wholly owned subsidiaries	6.50%	97,852	–	97,852
		<u>97,852</u>	<u>–</u>	<u>97,852</u>

(c) Foreign currency hedging activities

Effective cash flow hedges

The Group holds foreign exchange contracts designated by range month as hedges of purchases of inventories in foreign currencies that are deemed highly probable at the time of designation, and which historically have proven to become firm commitments thereafter.

The parent entity itself does not conduct hedging activities. At reporting date, the Group's contracts hedging future inventory purchases were:

	Buy US Dollars \$000's	Buy Euro \$000's	Sell NZD \$000's	Total \$000's
Aggregate foreign currency value of contracts	18,666	249	5,200	
Weighted average foreign exchange rate	0.7542	0.6104	1.1177	
Aggregate value of contracts in Australian dollars	24,749	408	4,652	
Fair value at reporting date	25,482	429	4,261	
Net gain/(loss) on revaluation taken to reserves	733	21	–	754
Net gain/(loss) on revaluation taken to the income statement	–	–	391	391
	<u>733</u>	<u>21</u>	<u>391</u>	<u>1,145</u>

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

25 FINANCIAL INSTRUMENTS (continued)

(d) Terms and conditions of financial assets and liabilities

Trade and other receivables

- (i) Trade debtors are non-interest bearing and generally on terms of 30 days or less.
- (ii) Other debtors are non-interest bearing and have repayment terms between 1 day and 45 days.
- (iii) Details of the terms and conditions of related party receivables are set out in Note 19.

Other assets

- (i) Refer Note 25(c) for details of foreign currency derivatives.
- (ii) Prepayments are carried at their nominal amounts.

Trade and other payables

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have average repayment terms of between 30 and 90 days.
- (iii) Refer Note 25(c) for details of foreign currency derivatives.
- (iv) Details of the terms and conditions of related party receivables are set out in Note 19.

(e) Financial risk management objectives and policies

The Group's principal financial instruments, other than derivatives, comprise bank loans and overdrafts, and cash and short-term deposits. The Group is provided with financing arrangements as disclosed in Note 18.

The main purpose of these financial instruments is to finance the Group's working capital and investment requirements. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations. The Group also enters into derivative transactions, including principally forward currency contracts. The purpose is to manage currency risks arising from the Group's operations. It is, and has been throughout the period under review, the Group's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Group's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk. The Board reviews and agrees policies for managing each of these risks and they are summarised below. Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in Note 1 to the financial statements.

Cash flow interest rate risk and liquidity risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's long-term related party borrowings with a floating interest rate.

The Group's policy is to manage its interest cost by minimising externally sourced debt and maximising returns on surplus cash through intensive daily working capital management and cashflow forecasting. The Group's policy is to ensure the use of cash advance and overdraft facilities are minimised, and that operations are conducted within the facilities provided.

Foreign currency risk

As inventories are predominantly imported and denominated in United States dollars (USD), the Group's financial results can be affected significantly by movements in the AUD/USD exchange rate. The Group's policy is to hedge at least 80% of probable forecast inventory commitments using predominantly forward currency contracts. It is the Group's policy to negotiate the terms of the hedge derivatives to match the terms of the hedged item to maximise hedge effectiveness. At balance date, the Group had hedged 95% of its highly probable forecast foreign currency purchases extending to 14 November 2006.

The Group also has transactional currency exposures arising from transacting with its New Zealand operations in its functional currency of New Zealand dollars (NZD). These exposures are not material to the Group and are not required to be hedged.

The Group's consolidated results are exposed to fluctuations in the AUD/NZD exchange rate. Although exchange differences arising from translation of these operations into the Group's presentation currency (Australian dollars) are taken to equity, translated sales and profits of the New Zealand operations are impacted by fluctuations in the AUD/NZD exchange rate. It is the Group's policy not to hedge exchange differences arising on the translation of foreign operations.

Credit risk

The Group takes steps to ensure it trades only with recognised, creditworthy third parties.

It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures, and amounts owing by smaller third parties are secured through the provision of bank or personal guarantees. In addition, receivable balances are monitored intensely on an ongoing basis, with the Group's exposure to, and history of, bad debts minimal. Credit risk is largely concentrated with one customer, being Myer Limited.

With respect to credit risk arising from the other financial assets of the Group, which comprise cash and cash equivalents, available-for-sale financial assets and certain derivative instruments, the Group's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

Where the Group trades with recognised third parties, there is no requirement for collateral.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

26 TRANSITION TO AIFRS

For all periods up to and including the year ended 30 June 2005, the Group prepared its financial statements in accordance with Australian generally accepted accounting principles (AGAAP). These financial statements for the year ended 30 June 2006 are the first the Group is required to prepare in accordance with Australian equivalents to International Financial Reporting Standards (AIFRS).

Accordingly, the Group has prepared financial statements that comply with AIFRS applicable for periods beginning on or after 1 January 2005 and the significant accounting policies meeting those requirements are described in Note 1. In preparing these financial statements, the Group has started from an opening balance sheet as at 1 July 2004, the Group's date of transition to AIFRS, and made those changes in accounting policies and other restatements required by AASB 1 'First-time adoption of AIFRS'. This note explains the principal adjustments made by the Group in restating its AGAAP balance sheet as at 1 July 2004 and its previously published AGAAP financial statements for the year ended 30 June 2005.

There are no differences to the AGAAP financial statements of the parent entity, Country Road Limited, arising from transition to AIFRS. Therefore only consolidated information for the Group is presented below.

Exemptions Applied

AASB 1 allows first-time adopters certain exemptions from the general requirement to apply AIFRS retrospectively.

The Group has taken the following exemptions:

- Cumulative currency translation differences for all foreign operations were deemed to be zero as at 1 July 2004.

Impacts on the Cash Flow Statement

There are no material differences between the cash flow statement presented under AIFRS and the cash flow statement presented under previous AGAAP.

(a) Restated Income Statement for the Year Ended 30 June 2005

	Note	Consolidated		AIFRS
		AGAAP	Adjustment	\$000's
		\$000's	\$000's	\$000's
Sale of goods		208,553	–	208,553
Royalties		1,421	–	1,421
Rent revenue		1,076	–	1,076
Interest revenue		180	–	180
Revenue		211,230	–	211,230
Cost of sales		(104,773)	–	(104,773)
Gross profit		106,457	–	106,457
Employment expenses		(42,037)	–	(42,037)
Occupancy expenses	(i)	(28,319)	(498)	(28,817)
Depreciation expenses	(iv)	(6,956)	241	(6,715)
Marketing expenses		(8,927)	–	(8,927)
Other expenses		(16,233)	–	(16,233)
		(102,472)	(257)	(102,729)
Profit before finance expenses and income tax expense		3,985	(257)	3,728
Finance expenses		(788)	–	(788)
Profit before income tax expense		3,197	(257)	2,940
Income tax (expense) or benefit		5	–	5
Net profit for the period		3,202	(257)	2,945
Basic earnings per share (cents per share)		4.64	(0.38)	4.26
Diluted earnings per share (cents per share)		4.64	(0.38)	4.26

(i), (iv): Refer to page 53 for explanations.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

26 TRANSITION TO AIFRS (continued)

(b) Restated Balance Sheet as at 30 June 2005

	Note	Consolidated		AIFRS \$000's
		AGAAP \$000's	Adjustment \$000's	
Current assets				
Cash and cash equivalents		11,917	–	11,917
Trade and other receivables		9,957	–	9,957
Inventories	(iii)	23,061	10	23,071
Income tax receivable		90	–	90
Prepayments		1,370	–	1,370
Derivative financial instruments		147	–	147
Total current assets		46,542	10	46,552
Non-current assets				
Plant and equipment		27,238	–	27,238
Intangible assets	(iv)	10,948	241	11,189
Deferred tax assets		79	–	79
Prepayments		126	–	126
Total non-current assets		38,391	241	38,632
Total assets		84,933	251	85,184
Current liabilities				
Trade and other payables		17,875	–	17,875
Provisions	(i)	2,813	413	3,226
Derivative financial instruments		137	–	137
Total current liabilities		20,825	413	21,238
Non-current liabilities				
Interest-bearing loans and borrowings		7,000	–	7,000
Provisions	(i)	1,205	5,164	6,369
Total non-current liabilities		8,205	5,164	13,369
Total liabilities		29,030	5,577	34,607
Net assets		55,903	(5,326)	50,577
Equity				
Contributed equity		80,907	–	80,907
Reserves				
Transfer of foreign currency translation reserve to retained losses	(ii)	1,196	(1,196)	–
Recognition of fair value of cash flow hedge derivatives	(iii)	–	10	10
Accumulated losses				
Straight-line measurement of lease expense with fixed annual escalation	(i)		(5,577)	
Transfer of balance from foreign currency translation reserve	(ii)		1,196	
Amortisation of trade names	(iv)		241	
Accumulated losses at 30 June 2005		(26,200)	(4,140)	(30,340)
Total equity		55,903	(5,326)	50,577

(i), (ii), (iii), (iv): Refer to page 53 for explanations.

Notes To The Financial Statements 30 June 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

26 TRANSITION TO AIFRS (continued)

(c) Restated Balance Sheet as at 1 July 2004

	Note	Consolidated		AIFRS
		AGAAP	Adjustment	\$000's
		\$000's	\$000's	\$000's
Current assets				
Cash and cash equivalents		11,260	–	11,260
Trade and other receivables		8,910	–	8,910
Inventories		22,830	–	23,830
Income tax receivable		108	–	108
Prepayments		1,961	–	1,961
Derivative financial instruments		715	–	715
Total current assets		45,784	–	45,784
Non-current assets				
Plant and equipment		25,682	–	25,682
Intangible assets		11,218	–	11,218
Deferred tax assets		76	–	76
Prepayments		175	–	175
Total non-current assets		37,151	–	37,151
Total assets		82,935	–	82,935
Current liabilities				
Trade and other payables		16,230	–	16,230
Provisions	(i)	2,602	481	3,083
Derivative financial instruments		160	–	160
Total current liabilities		18,992	481	19,473
Non-current liabilities				
Interest-bearing loans and borrowings		10,000	–	10,000
Provisions	(i)	1,242	4,598	5,840
Total non-current liabilities		11,242	4,598	15,840
Total liabilities		30,234	5,079	35,313
Net assets		52,701	(5,079)	47,622
Equity				
Contributed equity		80,907	–	80,907
Reserves				
Transfer of foreign currency translation reserve to retained losses	(ii)	1,196	(1,196)	–
Accumulated losses				
Straight-line measurement of lease expense with fixed annual escalation	(i)		(5,079)	
Transfer of balance from foreign currency translation reserve	(ii)		1,196	
Accumulated losses at 1 July 2004		(29,402)	(3,883)	(33,285)
Total equity		52,701	(5,079)	47,622

Notes

- (i) AGAAP allowed operating lease payments to be recognised as an expense in accordance with the payment cycle defined in the lease. AASB 117 'Leases' requires lease payments be expensed on a straight line basis when the value of the future lease payments can be determined. Leases with fixed annual escalations are now recognised as an expense on a straight line basis over the life of the lease. This adjustment represents the retrospective application of AASB 117.
- (ii) AASB 1 'First-Time Adoption of Australian Equivalents to International Financial Reporting Standards' allows accumulated translation differences balances to be deemed zero at the date of transition to AIFRS, and transferred to accumulated losses.
- (iii) The Group complies with the hedge-effectiveness criteria for cash flow hedges as defined by AASB 139 'Financial Instruments: Recognition and Measurement'. Changes in the fair value of the cash flow hedges that are deemed 'effective' as prescribed by the standard are now recorded in Equity. Previously under AGAAP these changes in fair values were recorded in Inventories.
- (iv) AGAAP required intangible assets deemed to have a finite life to be amortised over the expected useful life. Consequently trade names were amortised from June 1998 over an estimated useful life of 50 years. AASB 138 'Intangible Assets' no longer requires intangible assets with an indefinite life to be amortised, but rather to be subjected to periodic impairment assessment based on a discounted cash flow methodology. Trade names ceased being amortised on the date of transition with the carrying value at that date forming the basis of impairment assessment.

Independent audit report to members of Country Road Limited

Matters relating to the Electronic Presentation of the Audited Financial Report

This audit report relates to the financial report of Country Road Limited (the company) for the year ended 30 June 2006 included on the company's web site. The company's directors are responsible for the integrity of the company's web site. We have not been engaged to report on the integrity of the company's web site. The audit report refers only to the statements named below. It does not provide an opinion on any other information which may have been hyperlinked to/from these statements. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report to confirm the information included in the audited financial report presented on this website.

Scope

The financial report, remuneration disclosures and directors' responsibility

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

The company has disclosed information as required by paragraphs Aus 25.4 to Aus 25.7.2 of Accounting Standard 124 *Related Party Disclosures* ("remuneration disclosures"), under the heading "Remuneration Report" on pages 19 to 24 of the directors' report, as permitted by Corporations Regulations 2M.6.04.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company and the consolidated entity, and that complies with Accounting Standards in Australia, 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 of the financial report 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 *Related Party Disclosures*. 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 detected.

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 in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's and the consolidated 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 *Related Party Disclosures*.

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

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

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report and the remuneration disclosures. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

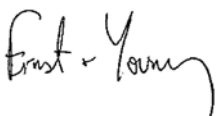
Independence

We are independent of the company and the consolidated entity and have met the independence requirements of Australian professional ethical pronouncements and 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.

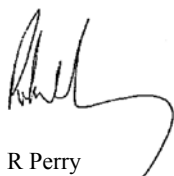
Audit opinion

In our opinion:

1. the financial report of Country Road Limited is in accordance with:
 - (a) the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the financial position of Country Road Limited and the consolidated entity 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 on pages 19 to 24 of the directors' report comply with Accounting Standard AASB 124 *Related Party Disclosures*.



Ernst & Young



R Perry
Partner
Melbourne
22 August 2006

ASX Additional Information As At 31 August 2006

COUNTRY ROAD LIMITED A.C.N 006 759 182

Additional information required by the Australian Stock Exchange (ASX) and not shown elsewhere in this report is as follows.

A SUBSTANTIAL SHAREHOLDERS

The names of substantial shareholders who have notified the Company in accordance with Section 671B of the Corporations Act 2001 are:

Name	Number of shares	% Held to total shares
Woolworths International (Australia) Pty Limited	60,688,384	87.88
Australian Retail Investments Pty Limited	8,173,690	11.84
	<u>68,862,074</u>	<u>99.72</u>

B DISTRIBUTION OF EQUITY SECURITIES

	Number of Ordinary Shareholders	Number of Ordinary Shares
1 – 1,000	155	48,959
1,001 – 5,000	34	69,488
5,001 – 10,000	2	14,681
10,001 – 100,000	4	61,622
>100,000	2	68,862,072
Total	<u>197</u>	<u>69,056,822</u>
Holding less than a marketable parcel:	81	8,421

C VOTING RIGHTS

All issued ordinary shares carry one vote per share and carry the rights to dividends.

D TWENTY LARGEST SHAREHOLDERS

	Number of shares	% Held to total shares
1 Woolworths International (Australia) Pty Limited	60,688,384	87.88
2 Australian Retail Investments Pty Limited	8,173,688	11.84
3 Zandane Pty Ltd	29,897	0.04
4 Ms Kerri Louise Summers	17,643	0.03
5 Super John Pty Ltd	14,082	0.02
6 Ms Monica Vinson	7,400	0.01
7 Mr Ian Edward Morton	7,281	0.01
8 UBS Private Clients Australia Nominees Pty Ltd	5,000	0.01
9 Ms Deanne Gaye Watts + Mr Agostino Mario Stati (Deanne Watts Super Fund)	5,000	0.01
10 Mrs Anastasios Atgiaras & Mrs Ifigenia Atgiaras	4,579	0.01
11 Mr Brad Cumming (The B&L Cumming Super Fund)	3,900	<0.01
12 Mr James Bramwell Hudson	2,950	<0.01
13 Miss Mary Graham Nield	2,553	<0.01
14 Cool Cats Sports Entertainment & Investments Pty Limited	2,356	<0.01
15 Mr John Armit	2,300	<0.01
16 Mrs Mary Rosa Wilson	2,241	<0.01
17 Mr Brad Cumming (Emily & Georgie Cumming A/C)	2,211	<0.01
18 Mr Robert John Charles Catto (Raglan Super Fund A/C)	2,125	<0.01
19 Mrs Christine Manos	2,115	<0.01
20 Dimarca Pty Ltd The Robel Superfund A/C	2,000	<0.01
	<u>68,977,705</u>	<u>99.87</u>

Investor Information

REGISTERED OFFICE

Country Road Limited
658 Church Street
Richmond, Victoria 3121
Australia

Telephone: +61 3 9267 1400
Facsimile: +61 3 9267 1300
Email: admin@countryroad.com.au
Website: www.countryroad.com.au

CORPORATE INFORMATION

Country Road Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

The principal activities of the Company and its controlled entities are the designing, retailing, wholesaling and licensing of apparel, homewares and related accessories. There has been no change in these activities during the year.

AUSTRALIAN STOCK EXCHANGE

Country Road Limited shares are quoted on the Australian Stock Exchange under ASX code CTY. Quotes can be accessed at www.asx.com.au.

SHARE REGISTRY

Computershare Investor Services
Pty Limited

Location:
Yarra Falls
452 Johnston Street
Abbotsford, Victoria 3067
Australia

Mail:
The Registrar
Computershare Investor Services
Pty Limited
GPO Box 242
Melbourne, Victoria 3001
Australia

Telephone (Aust): 1300 85 05 05
Telephone (Intnl): +61 3 9415 4000
Facsimile (Aust): 1300 137 341
Facsimile (Intnl): +61 3 9473 2555
Email: essential.registry@computershare.com.au
Website: www.computershare.com.au

CR STORES

NSW

BONDI
CASTLE HILL
CHATSWOOD
ERINA
MACQUARIE
MIRANDA
MOSMAN
OXFORD STREET
PARRAMATTA
PENRITH
QVB
SYDNEY CITY
WARRINGAH MALL

ACT

CANBERRA CITY

NT

DARWIN

QLD

BRISBANE CITY
CAIRNS
CARINDALE
INDOOROOPILLY
PACIFIC FAIR

SA

ADELAIDE CITY
MARION
NORWOOD
UNLEY

TAS

HOBART

VIC

AUSTRALIA ON COLLINS
BRIGHTON
CAMBERWELL
CARLTON MENS
CARLTON WOMENS
CHADSTONE
DONCASTER
GEELONG
MELBOURNE CENTRAL
NORTHLAND
SOUTH YARRA

WA

BOORAGOON
CLAREMONT
KARRINYUP
PERTH CITY

NZ

CHRISTCHURCH
NEWMARKET
QUEEN STREET
QUEENSTOWN
SHORE TOWN
SYLVIA PARK
WELLINGTON

WAREHOUSE STORES

BIRKENHEAD POINT
HOMEBUSH
DFO BRISBANE
RICHMOND PLAZA
MOORABBIN
DFO ESSENDON