

# COUNTRY ROAD

ANNUAL REPORT 2007

*4 NEW RETAIL STORES.  
74 NEW CONCESSION STORES.  
1 NEW WAREHOUSE STORE.  
A STRONG, PROFITABLE  
RETAIL ONLY BUSINESS.*

## RETAIL

ACT Canberra Civic.

NSW Bondi, Burwood\*, Castle Hill, Chatswood, Erina, Hornsby\*, Kotara\*, Macquarie, Miranda, Mosman, Oxford Street, Parramatta, Penrith, Pitt Street, QVB, Warringah Mall.

NT Darwin

QLD Brisbane City; Cairns, Carindale, Chermside, Indooroopilly; Pacific Fair.

SA Adelaide City; Marion, Norwood, Unley.

TAS Hobart.

VICTORIA Australia on Collins, Brighton, Camberwell, Carlton Men's, Carlton Women's, Chadstone, Doncaster, Geelong, Highpoint\*, Melbourne Central, Northland, South Yarra, Southland, The Glen.

WA Booragoon, Claremont, Karrinyup, Perth City.

## MYER

ACT Canberra City.

NSW Bondi, Castle Hill, Charlestown, Chatswood, Erina, Macquarie, Miranda, Parramatta, Penrith, Sydney, Warringah.

QLD Brisbane, Cairns, Carindale, Chermside, Indooroopilly; Maroochydore, Pacific Fair.

SA Adelaide City; Marion.

TAS Hobart, Launceston.

VIC Ballarat, Bendigo, Chadstone, Doncaster, Eastland, Frankston, Geelong, Highpoint, Knox, Melbourne, Northland, Southland.

WA Garden City; Karrinyup, Morley; Perth City.

## DAVID JONES

ACT Canberra City; Woden.

NSW Bankstown, Bondi Junction, Castle Towers, Chatswood Chase, East Gardens, Elizabeth Street, Hornsby; Kotara, Macarthur Square, Market Street, Miranda, Newcastle, Parramatta, Tuggerah, Warringah Mall, Wollongong.

QLD Carindale, Garden City; Robina Town Centre, Toombul, Toowong Village.

SA Rundle Mall, Marion, West Lakes.

VIC Bourke Street, Chadstone, Glen Waverley; Southland.

WA Claremont, Garden City; Hay Street, Karrinyup.

## WAREHOUSE

NSW Birkenhead Point, Homebush.

QLD DFO Brisbane.

VIC DFO Essendon, DFO Moorabbin, DFO Spencer Street, Richmond Plaza.

\*Highpoint open 20 September 2007; Kotara open 27 September 2007, Burwood Open 4 October 2007; Hornsby open 15 November 2007.

DARWIN



4 ★

8 ○

PERTH

# AUSTRALIA

- ★ RETAIL STORES
- CONCESSION STORES
- ▲ WAREHOUSE STORES



*RETAIL*

*Albany\**  
*Christchurch*  
*Newmarket*  
*Queens Street*  
*Queenstown*  
*Takapuna Shore City*  
*Sylvia Park*  
*Wellington*

*\*Albany opening 1 November 2007*



*NEW ZEALAND*

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*“WE NOW ARE BEGINNING  
TO REALISE THE BENEFITS  
OF OUR LONG-TERM VISION  
OF BECOMING A MORE  
SIMPLIFIED, FOCUSED  
AND ACCESSIBLE RETAIL  
BUSINESS, WITH MORE  
CONTROL OVER OUR  
DESTINY.”*

SIMON SUSMAN  
Chairman

This year delivered the final stage of Country Road's journey in becoming a retail-focused business. We closed all wholesale supply arrangements and launched 39 Country Road stores within Myer, and 35 stores within David Jones. The \$5.9 million (181%) improvement in Profit Before Tax on last year to \$9.2 million this year is a most pleasing outcome and was underpinned by strong like-for-like sales growth in our stand alone retail stores.

We now are beginning to realise the benefits of our long-term vision of becoming a more simplified, focused and accessible retail business, with more control over our destiny.

The performance in stand alone Country Road retail stores for the full year was very strong, with sales increasing by 15.1% on last year, and by 16.6% excluding seconds outlets. Significantly, this growth was achieved over both seasons, and delivered substantially improved margins on reduced promotional activity. Total sales increased by 15.9% on last year, with sales from our retail outlets in the department stores in the second half of the year replacing the decline in wholesale sales.

The journey to improve our value proposition continued during the year. Further improvements in our pricing architecture, combined with enhanced fashionability and depth of our ranges, were well received by our existing customers, and helped to extend our reach to many new customers.

During this year of significant transition, we grew our stand alone store base by introducing new stores at The Glen (Vic), Southland (Vic), Chermside (Qld) and Sylvia Park (NZ). All stores traded above expectations and contributed to net profit for the period. We will continue to open new retail stores, as well as refurbish and grow existing stores, as opportunities arise. We will open at least five additional stores before Christmas, and combined with our planned refurbishments of existing stores and substantial investment in our retail outlets in Myer and David Jones, we are anticipating capital expenditure for the year to be in the vicinity of \$20 million. This is unprecedented in the history of our business, and we expect to have funded this investment with operating cash flow by the end of the financial year.

With the improvement in the operating performance and underlying cash flow of the Company achieved during the year, the Directors of the Company determined that a fully franked dividend of 7.24 cents per fully paid ordinary share be payable out of profits earned in the year ending 30 June 2007.

The year also involved some changes to the Company's officeholders. Mr Ashley Gardner, Director, Chief Financial Officer and Company Secretary, left Country Road in December 2006 after more than six years with the Company.

The Board expresses its gratitude to Ashley for his contribution to the business and wishes him well for the future. Ms Cherrie Lowe retired from the Board in October 2006, and the Board thanks Ms Lowe for her contribution during her tenure.

In December 2006 the Board welcomed the appointment of Mr Glenn Gilzean, GGM Retail Operations, as a Director. Glenn has been with the Company for over nine years, and is an experienced and widely respected retailer and leader within the business. I congratulate Glenn on his appointment. Also in December 2006, Mr Oliver Kysela, Chief Financial Officer and an employee of Country Road for more than six years, was appointed as Company Secretary.

The Company is now well placed to achieve further growth and improvement in its performance from a much stronger base. The Board has confidence in the Company's vision and strategy, and in management's ability to execute the strategy for the benefit of all shareholders.



SIMON SUSMAN  
Chairman



*“THIS YEAR SAW A MUCH IMPROVED COUNTRY ROAD. WE OPENED 74 CONCESSION OUTLETS IN MYER AND DAVID JONES, BECAME A RETAIL ONLY BUSINESS AND MATERIALLY GREW SALES AND PROFITABILITY.”*

IAN MOIR  
Chief Executive Officer

This year saw a much improved Country Road. We opened 74 concession outlets in Myer and David Jones, became a retail only business and materially grew sales and profitability.

#### YEAR IN REVIEW

During the course of the year we made the migration from a wholesale/retail business to a retail only business with 74 concession outlets in the department store environment and 57 stand alone stores. We now have full control of our brand and the customer interface.

Sales grew strongly and the business performed well above market. Total sales were 15.9% up on last year with the second half 28.6% up on the equivalent period. Our stand alone retail stores were 15.1% up against last year (16.4% up in the second half).

Our continued drive to provide better value and improved fashionability was well received by our customers, and our womenswear ranges in particular performed strongly.

Profit grew materially on last year driven by stronger sales at improved margins. The margin improvement was achieved despite significantly lower prices and was largely attributable to less promotional activity and better input prices through higher volumes.

Profit before tax was \$9.2m, an improvement of 181% on last year. Profit after tax was \$17.0m following the initial recognition of deferred tax assets, resulting in a net tax credit of \$7.8m.

#### STRATEGIC FOCUS

The cessation of wholesale and the creation of a retail only business model was a significant strategic move for the business. It simplified our systems and processes and allowed us to regain complete control of our brand. It saw us open 39 concessions in Myer and 35 in David Jones. It was encouraging to see our brand return to David Jones after being absent for 3 years.

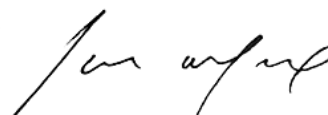
We again lowered prices, particularly in womenswear, and provided excellent value to our customers. We have progressed this strategy for two years now and have seen significant increases in units sold.

We opened four new stores at The Glen (Vic), Southland (Vic), Chermside (Qld) and Sylvia Park (NZ), and refurbished Warringah Mall (NSW) and Karrinyup (WA).

We also introduced distribution of our product from an outsourced China-based distribution centre, with product picked and packed by store and distributed direct. This has reduced our lead times and our operating costs.

#### LOOKING FORWARD

- We will continue our drive to provide better value to our customers and to further increase the competitiveness of our prices;
- We will open 5 new stand alone stores, refurbish 4 of our existing stores and fit out a further 18 concept areas in department stores; and
- We will seek to expand the categories of product sold, and further intensify the merchandising of product within our retail stores.



IAN MOIR  
Chief Executive Officer





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

The Board periodically considers the current and proposed principles and recommendations of the ASX Corporate Governance Council. Where a current principle or recommendation has not been applied, that fact has been disclosed together with an explanation as to the reasons for the departure.

The Company's Corporate Governance Statement is structured with reference to the Corporate Governance Council's principles and recommendations, which are as follows:

- Principle 1 Lay solid foundations for management and oversight
- Principle 2 Structure the Board to add value
- Principle 3 Promote ethical and responsible decision making
- Principle 4 Safeguard integrity in financial reporting
- Principle 5 Make timely and balanced disclosure
- Principle 6 Respect the rights of shareholders
- Principle 7 Recognise and manage risk
- Principle 8 Encourage enhanced performance
- Principle 9 Remunerate fairly and responsibly
- Principle 10 Recognise the legitimate interests of stakeholders

## STRUCTURE OF THE BOARD

The skills, experience and expertise of each Director in office at the date of the annual report is included in the Directors' Report.

The Company's shareholders approved the revised Constitution in October 2006. The structure of the Board does not comply with the Council's principles and recommendations on the basis that the Company's share register is unusually highly concentrated. The costs of compliance are highly unlikely to exceed the benefits, provided that proper mitigating processes are in place to address independence in decision-making, and the management of conflicts of interests. The Board has confidence that the Company's Constitution allows Directors to extinguish their responsibilities and duties in acting in the best interests of all shareholders.

All Directors are expected to conduct all business and affairs in an independent and responsible manner for the benefit of all shareholders. 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 as 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 and the Group.

Mr Simon Susman is 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 report, and the term in office with respect to full months completed are:

### *Non-Executive Directors*

S. Susman, Chairman, 6 years, 6 months  
N. Thomson, 4 years, 4 months

### *Executive Directors*

I. Moir, Chief Executive Officer, 8 years, 8 months  
G. Gilzean, Group General Manager – Retail Operations, 6 months

## BOARD INDEPENDENCE

A Director is considered independent if the Director is not involved in the day-to-day management of the Company and the Group, and is 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.

It is not possible to draft an exhaustive and general list of criteria that are appropriate to characterise in all circumstances whether a Non-Executive Director is independent. It is the behaviours and skills of each Non-Executive Director that is fundamental to each individual and periodic assessment, whilst considering all other relevant factors, including but not limited to:

- any interests in the shares of the Company or any other related party;
- the capacity of any previous strategic relationships with the Company or Group, and the nature of any contractual or other arrangements governing it;
- the competitive landscape; and
- any other factors that may compromise the Director's capacity to act in the best interests of the Company and its shareholders.

## 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. These responsibilities include but are not limited to:

- establishing strategic direction in accordance with the Company's goals and objectives, including approval and communication of corporate and business plans;
- monitoring senior management's performance and implementation of strategy;
- approval of the Code of Conduct to protect and maintain the Company's integrity and to promote ethical and responsible behaviours and considerations at all levels and in all aspects of decision-making;
- 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;
- identification and monitoring of key business risks;
- compliance with all regulatory requirements;
- maintaining the highest levels of corporate governance; and
- nomination and appointment of new Directors.

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

## COMMITTEES

The Board has established Committees that operate under its approved charters to assist it in fulfilling its corporate governance objectives. The responsibilities of a Nomination Committee are fulfilled by the full Board.

<i>Committee</i>	<i>Chairperson</i>	<i>Members</i>	<i>Functions &amp; Responsibilities</i>
Audit	N. Thomson*	S. Susman	<p>The Audit Committee comprises only Non-Executive Directors and provides assistance to the Board in fulfilling its corporate governance and oversight responsibilities in relation to:</p> <ul style="list-style-type: none"> <li>• Financial reporting;</li> <li>• Internal control structure;</li> <li>• Risk management systems, and</li> <li>• External audit functions.</li> </ul> <p>The Audit Committee is responsible for:</p> <ul style="list-style-type: none"> <li>• Overseeing the financial reporting process;</li> <li>• Approving accounting policies and procedures used in the preparation of financial reports;</li> <li>• Review and approval of all ASX market releases that relate to the Company's financial performance;</li> <li>• Ensuring that management has in place an effective internal control system underlying financial processes and reporting;</li> <li>• Reviewing and recommending approval of the annual financial statements and any interim financial reports prepared in accordance with Accounting Standards and other relevant regulatory requirements;</li> <li>• The appointment, remuneration, monitoring and independence of the external auditor, including approval of the external auditor's annual audit plan; and</li> <li>• Establishing guidelines and approvals for the provision of non-audit related services by the external auditor.</li> </ul> <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> <p><small>* Mr Thomson is a Non-Executive Director. He has been appointed Chairperson of the Audit Committee as 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 the ultimate parent entity adversely affects his ability to discharge his responsibilities as Chairperson of the Audit Committee in an objective and impartial manner.</small></p>

# THE ORGANISATION Corporate Governance Statement

Country Road Limited ACN 006 759 182

## COMMITTEES (continued)

<i>Committee</i>	<i>Chairperson</i>	<i>Members</i>	<i>Functions &amp; Responsibilities</i>
Remuneration	N. Thomson	S. Susman	<p>The Remuneration Committee comprises only Non-Executive Directors and assists the Board with respect to the remuneration of Executives and Directors of the Company. It is responsible for:</p> <ul style="list-style-type: none"><li>• Ensuring the remuneration strategy is consistent with market competition and is appropriate to attract and retain personnel;</li><li>• Recommending the appropriate remuneration level for Non-Executive Directors within the aggregate limits approved by shareholders<sup>1</sup>;</li><li>• Recommending appropriate levels of remuneration for Executive Directors;</li><li>• Recommending for approval the remuneration of members of the Executive Management Committee;</li><li>• Developing and monitoring both short and long term variable remuneration policies and schemes for senior management;</li><li>• Ensuring appropriate succession planning strategies are in place for key Executives within the business;</li><li>• Approval of recruitment, retention and termination policies and procedures for senior management; and</li><li>• Ensuring all necessary disclosures of Director and Executive remuneration are made in accordance with regulatory requirements.</li></ul>

Further information on Directors' and Executives' remuneration is set out in the Directors' Report and Note 21 to the financial statements.

<sup>1</sup> Maximum aggregate remuneration for Non-Executive Directors approved by shareholders at the 1995 Annual General Meeting amounts to \$400,000.

*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.

Ian Moir, Chief Executive Officer

Glenn Gilzean, Group General Manager – Retail Operations

Sophie Holt, Group General Manager – Product Design & Development

Derek Muirhead, Group General Manager – Merchandise

Matt Keogh, Group General Manager – Human Resources

Oliver Kysela, Chief Financial Officer & Company Secretary

Steven Binns, Group General Manager – Information Technology

## PERFORMANCE

The performance of the Board and the Executive Management Committee is reviewed regularly with respect to operating performance targets and individual behaviours. During the reporting period, the Remuneration Committee conducted performance evaluations that involved an assessment of each Director and Executive's performance against specific and measurable qualitative and quantitative performance criteria. The performance criteria against which they are assessed are aligned with the financial and non-financial strategic objectives of the Company. Directors and Executives whose performance is consistently unsatisfactory are managed appropriately.

## BUSINESS RISK MANAGEMENT

The Board is responsible for ensuring there are adequate policies in relation to risk management and internal control systems of the Company and the Group. The Company and the Group have policies and processes designed to ensure strategic and operational business risks are identified, assessed, addressed and monitored to ensure risks are managed and mitigated.

The Company has a formal risk management program that is managed by the Chief Financial Officer. The Board 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 group.

## REMUNERATION

It is the Company's objective to attract and retain a high quality Board and executive management team by remunerating Directors and Executives fairly and appropriately with reference to the relevant employment market conditions. To assist in achieving this, remuneration is linked to a combination of the financial and operational performance of the Company, and the behaviours of the individual. The expected outcomes of the remuneration structure are the retention and motivation of Directors and Executives, attraction of high quality management to the Group, and an incentive to share in the success of the Company.

Details of remuneration policies are provided in the Remuneration Report, which forms part of the Directors' Report. For details on the number of meetings of the Remuneration Committee held during the year and the attendees at those meetings, refer to the Directors' Report.

## CODE OF CONDUCT

The Board recognises the need for officers and employees to observe the highest standards of behaviour, ethics and responsibility when representing the Company. The Country Road Code of Conduct sets out the principles and standards to be met to achieve these objectives. The Code has been endorsed by the Board and forms the foundation of behavioural objectives in the Group's individual performance management framework.

# DIRECTORS' REPORT

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Country Road Limited ACN 006 759 182

Your Directors submit their report for the year ended 30 June 2007.

## DIRECTORS

The names and details of Directors of the Company in office at the date of this report are as follows:

### *Ian Moir* Executive Director & Chief Executive Officer

Mr Moir was appointed to the Board on 23 October 1998. He was formerly Chief Operating Officer of the Company 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 & Chairman

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 on the Johannesburg Stock Exchange), and is a Director of the Consumer Goods Council of South Africa and the Intercontinental Group of Departmental Stores. He has held numerous management positions with Woolworths during his 25 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 on the Johannesburg Stock Exchange). 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.

### *Glenn Gilzean* Executive Director & Group General Manager – Retail Operations

Mr Gilzean was appointed to the Board on 8 December 2006. He is currently the Group General Manager of Retail Operations and has held this position since 2001. He joined the Company in August 1998 having previously held a number of senior management positions with Woolworths Pty Ltd in South Africa.

The names and details of Directors during the financial year but no longer in office at the date of this report are as follows:

### *Asbley Gardner* Executive Director & Chief Financial Officer

Mr Gardner resigned from the Board on 8 December 2006. He joined the Company in May 2000, was appointed Company Secretary in 2002, and was the Company's Chief Financial Officer since 2003 until his resignation. He was appointed to the Board on 31 January 2006. He holds a Bachelor of Commerce (Honours) and is a qualified Chartered Accountant.

### *Cherrie Lowe* Non-Executive Director

Ms Lowe retired from the Board on 18 October 2006. 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 in South Africa.

## COMPANY SECRETARY

### *Oliver Kysela*

Mr Kysela was appointed Company Secretary on 8 December 2006. He joined the Company in April 2001 and held the position of Financial Controller from November 2001 before being appointed Chief Financial Officer in December 2006. He holds a Bachelor of Business (Accounting), a Graduate Diploma in Applied Finance & Investment, and is a qualified Chartered Accountant.

# DIRECTORS' REPORT

Country Road Limited ACN 006 759 182

## PRINCIPAL ACTIVITIES

The principal activities of the Group are the designing and retailing of apparel, homeware and related accessories. During the year the Group exited its wholesale arrangements.

## OPERATING AND FINANCIAL REVIEW, AND LIKELY DEVELOPMENTS

The consolidated operating profit before tax for the financial year ended 30 June 2007 was \$9,194,000 (2006: \$3,271,000). A tax benefit of \$7,785,000 (2006: tax expense of \$48,000) arose from the initial recognition of deferred tax assets, resulting in profit after tax for the consolidated entity of \$16,979,000 (2006: \$3,223,000).

A detailed review of operations and likely developments is included in the Chief Executive Officer's Review of Operations, and in the Chairman's Report.

## DIVIDENDS AND EARNINGS PER SHARE (EPS)

Since year end the Directors have recommended the payment of a fully-franked final dividend of 7.24 cents per fully paid ordinary share (2006: Nil), to be paid on 10 October 2007 out of profits earned in respect of the financial year ending 30 June 2007.

	Year Ending 30 June 2007	Year Ending 30 June 2006
Basic earnings per share (cents per share)	24.59	4.67
Dividend per share (cents per share)	7.24	–

Earnings per share this year has been accentuated by the tax benefit arising from the initial recognition of the deferred tax assets during the financial year, which the Directors have considered in arriving at their recommendation of the final dividend. No adjustments are required to calculate Diluted EPS.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

## SIGNIFICANT EVENTS AFTER BALANCE DATE

There were no significant events after balance date requiring adjustment or disclosure in the Directors' Report or the financial statements.

# DIRECTORS' REPORT

Country Road Limited ACN 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 2007, and the number of meetings attended by each Director was:

	Board of Directors		Committees of the Board of Directors			
	Attended	Held*	<i>Audit</i>		<i>Remuneration</i>	
Attended			Held*	Attended	Held*	
Ian Moir	3	3	-	-	-	-
Simon Susman	3	3	2	2	2	2
Norman Thomson	3	3	2	2	2	2
Glenn Gilzean	1	1	-	-	-	-
Ashley Gardner	2	2	-	-	-	-
Cherrie Lowe	1	1	1	1	1	1

\*Number of meetings held during the time the Director held office during the 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 21 to the financial statements.

## INDEMNIFICATION AND INSURANCE OF DIRECTORS AND OFFICERS

The Company has provided to the Directors and Officers of the Company and its controlled entities 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 insurance premiums of \$30,980 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 (AUDITED)

This report outlines the remuneration arrangements for Directors and Executives of the Company and its controlled entities in accordance with the Corporations Act 2001 and its Regulations. It also provides the remuneration disclosures required by paragraphs Aus 25.4 to Aus 25.7.2 of AASB 124 'Related Party Disclosures' which have been transferred to the Remuneration Report in accordance with Corporations Regulation 2M.6.04.

For the purposes of this report, the term 'Executive' encompasses all members of the Executive Management Committee, and Key Management Personnel (KMP) comprise the Directors and members of the Executive Management Committee. The Remuneration Report has been audited by the Company's external auditors, Ernst & Young.

### *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

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Country Road Limited ACN 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 other Executives. The Committee assesses the appropriateness of the nature and amount of remuneration of Directors and Executives on a periodic basis by reference to relevant market conditions, as well as whether performance targets have been met, 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 Executive 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 2007 is detailed below.

### *Executive 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, comprising the Short-Term Incentive Program (STIP) and the Executive Long-Term Incentive Scheme (ELTIS).

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

## *Fixed Remuneration*

### *Objective*

The level of fixed remuneration is set to provide an appropriate and market-competitive base level of remuneration. Fixed remuneration is reviewed annually by the Remuneration Committee, consisting of a review of company wide, business unit and individual performance, relevant comparative remuneration in the market and internal and external advice on policies and practices. The Committee seeks external advice where necessary.

### *Structure*

Executives are given the opportunity to receive their fixed remuneration in a variety of forms, including cash and fringe benefits such as motor vehicles, Country Road 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 Program (STIP)*

### *Objective*

The objective of the STIP is to link the achievement of the Company's operational targets with the remuneration received by Executives charged with meeting these targets, through a combination of both Company and individual performance targets. The total benefits available are set at a level so as to provide sufficient incentive to Executives to achieve operational targets at a cost to the Company that is reasonable and proportionate.

### *Structure*

Actual STIP payments made to each Executive depend on a weighting of the extent to which the Company has met or exceeded the targets set by the Board (70%), and individual performance (30%) as assessed through the Company's Individual Performance Management (IPM) process. The key performance indicators consist of:

- Profit before interest and tax; and
- Individual targets and objectives, and achievement of Country Road's behaviours and values.

Financial targets are determined by reference to the Company's financial budgets and its strategic plan financial objectives. The incentive payments to participants range between 6% and 100% of fixed remuneration, depending on the Executive's position within the business.

Executives became entitled to payments under the STIP for the first time with respect to the financial performance of the Company for the year ending 30 June 2007. Entitlements have been disclosed in the remuneration tables below in the Short-term Cash Bonus category.

## *Variable Remuneration – Executive Long Term Incentive Scheme (ELTIS)*

### *Objective*

The objective of the ELTIS is to reward Executives in a meaningful manner which aligns this element of remuneration with the creation of long term shareholder wealth. It aims to also support the retention of members of the Executive Management Committee through a market-competitive long-term scheme in the absence of a share-based scheme.

### *Structure*

The current ELTIS is in place for the period 1 July 2006 (grant date) to 30 June 2010, and is a cash-based scheme based on cumulative Company profitability performance benchmarks being achieved. The number of units in the available pool is allocated to eligible participants by the Remuneration Committee based on each participant's remuneration share at the date the units are granted. On an annual basis in August, the Remuneration Committee will ascertain whether the cumulative performance benchmarks for each offer under the plan have been achieved, at which time units will be revalued and a portion of the units may vest depending on whether the performance benchmarks have been achieved, and to the extent to which the benchmarks have been achieved. Participants must apply in writing to the Remuneration Committee and obtain approval before being able to access vesting entitlements.

The opportunity for entitlements to vest under the current ELTIS arise in years 2, 3 and 4 of the scheme. Hence the earliest time at which participants may become entitled to any vesting units will be 30 June 2008. Entitlements commence vesting upon 70% of the cumulative performance benchmarks being achieved, and range annually from a minimum of 11.1% to a maximum of 33.3% if 117% of the performance benchmarks are achieved. New plans will be introduced annually to ensure a rolling long-term horizon is maintained, and that any new Executive appointments are provided with the opportunity to participate.

# DIRECTORS' REPORT

Country Road Limited ACN 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 contract:

- Mr Moir may resign from his position by providing the Company with 6 months written notice;
- The Company may terminate this agreement 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 short-term and long-term executive incentive schemes of the Company.

Mr Moir is also a participant in the Woolworths Holdings Limited Executive Share Option Plan. This Plan provides participants with equity options to purchase ordinary shares in the Company's principal shareholder, Woolworths Holdings Limited. Participation in this Plan is service based and does not form part of the remuneration payable by the Company. On 4 April 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 annually for the first five years after grant date. At the beginning of the period, 569,850 options were held. During the period 131,618 options were exercised at R13.00 per share and 153,307 options were exercised at R12.95 per share. At the date of this report, he has 284,925 options remaining to be exercised with an expiry date of 4 April 2012.

### 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 contract:

- Mr Muirhead may resign from his position by providing the Company with 3 months written notice;
- The Company may terminate this agreement by providing 3 months written notice or provide payment in lieu of the notice period, based on the fixed base salary at the time of termination;
- 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 Plan provides participants with equity options to purchase ordinary shares in the Company's principal shareholder, Woolworths Holdings Limited. Participation in this Plan is service based and does not form part of the remuneration payable by the Company. 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 annually for the first five years after grant date. No options were exercised during the period, and all remain outstanding at the end of the period, with an expiry date of 3 January 2016.

### Members of the Executive Management Committee

The remaining members of the Executive Management Committee are employed on standard employment contracts. The terms of employment 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 Executives 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 four years (for continuing operations) is presented below for financial years ending 30 June, exclusive of interest and tax expense/benefits for consistency with the parameters of the short-term and long-term schemes:

	2007	2006	2005	2004	2003
Reported basic earnings per share (cents per share)	24.59	4.67	4.26	3.61	3.43
Basic earnings per share excluding interest and tax (cents per share)	13.31	6.00	5.40	4.94	5.57

# DIRECTORS' REPORT

Country Road Limited ACN 006 759 182

## COMPENSATION OF KEY MANAGEMENT PERSONNEL

DIRECTORS		Short-Term			Post	Termination	Share Based	Total	% Performance Related
		Salary & Fees	Cash Bonus	Non Monetary Benefits (i)	Employment		Payments (ii)		
Ian Moir <i>Executive Director</i> & <i>Chief Executive Officer</i>	2007 2006	<b>412,806</b> 414,872	<b>359,185</b> –	<b>131,489</b> 132,449	<b>50,477</b> 39,221	– –	<b>61,116</b> 61,116	<b>1,015,073</b> 647,658	<b>35%</b> –
Simon Susman <i>Non-Executive Director</i> & <i>Chairman</i>	2007 2006	<b>30,000</b> 30,000	– –	<b>5,039</b> 1,651	– –	– –	– –	<b>35,039</b> 31,651	– –
Norman Thomson <i>Non-Executive Director</i>	2007 2006	<b>30,000</b> 30,000	– –	<b>5,000</b> 6,837	– –	– –	– –	<b>35,000</b> 36,837	– –
Glenn Gilzean (1) <i>Executive Director</i> & <i>GGM Retail Operations</i>	2007	<b>115,846</b>	<b>135,963</b>	<b>20,699</b>	<b>31,887</b>	–	–	<b>304,395</b>	<b>45%</b>
Ashley Gardner (2) <i>Executive Director</i> & <i>Chief Financial Officer</i>	2007 2006	<b>142,871</b> 147,022	– –	<b>36,703</b> 51,990	<b>11,784</b> 13,250	– –	– –	<b>191,358</b> 212,262	– –
Cherrie Lowe (3) <i>Non-Executive Director</i>	2007 2006	– –	– –	<b>5,000</b> 2,083	– –	– –	– –	<b>5,000</b> 2,083	– –
Kenneth Macmillan Drysdale <i>Non-Executive Director</i>	2006	45,514	–	22,957	4,096	77,973	–	150,540	–
Kevin Hayes (4) <i>Non-Executive Director</i>	2006	25,433	–	5,611	–	–	–	31,044	–
Annamaria Hynes (4) <i>Non-Executive Director</i>	2006	18,722	–	5,663	6,711	4,612	–	35,708	–
Michael Terry (4) <i>Non-Executive Director</i>	2006	23,333	–	2,956	–	–	–	26,289	–
Nelson Mair (5) <i>Executive Director</i> & <i>Chief Operating Officer</i>	2006	125,606	–	21,994	37,134	217,576	16,691	419,001	–
<b>Total Remuneration</b>	<b>2007</b> <b>2006</b>	<b>731,523</b> 860,502	<b>495,148</b> –	<b>203,930</b> 254,191	<b>94,148</b> 100,412	– 300,161	<b>61,116</b> 77,807	<b>1,585,865</b> 1,593,073	<b>31%</b> –

(i) Non-monetary benefits include salary packaging benefits including motor vehicles, Country Road merchandise and related fringe benefits tax.

(ii) 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 AASB 124 'Related Party Disclosures'.

(1) Appointed 8 December 2006

(2) Resigned 8 December 2006

(3) Retired 18 October 2006

(4) Retired 31 January 2006

(5) Resigned 31 December 2005

# DIRECTORS' REPORT

Country Road Limited ACN 006 759 182

## COMPENSATION OF KEY MANAGEMENT PERSONNEL

EXECUTIVES		Short-Term			Post	Termination	Share Based	Total	% Performance Related
		Salary & Fees	Cash Bonus	Non Monetary Benefits (i)	Employment		Payments (ii)		
Sophie Holt									
<i>GGM Product Design &amp; Development</i>	<b>2007</b>	<b>287,666</b>	<b>198,716</b>	<b>42,302</b>	<b>43,990</b>	–	–	<b>572,674</b>	<b>35%</b>
	2006	262,145	–	49,593	23,543	–	–	335,281	–
Derek Muirhead (1)	<b>2007</b>	<b>312,175</b>	<b>274,240</b>	<b>20,187</b>	<b>59,328</b>	–	<b>50,925</b>	<b>716,855</b>	<b>26%</b>
<i>GGM Merchandise</i>	2006	159,458	–	5,404	14,381	–	50,925	230,168	–
Glenn Gilzean (2)	<b>2007</b>	<b>87,623</b>	–	<b>10,986</b>	<b>12,903</b>	–	–	<b>111,512</b>	–
<i>GGM Retail Operations</i>	2006	170,281	–	26,407	22,720	–	–	219,408	–
Matt Keogh	<b>2007</b>	<b>142,340</b>	<b>94,128</b>	<b>21,695</b>	<b>21,428</b>	–	–	<b>279,591</b>	<b>34%</b>
<i>GGM Human Resources</i>	2006	115,555	–	4,013	10,412	–	–	129,980	–
Oliver Kysela (3)	<b>2007</b>	<b>82,066</b>	<b>60,287</b>	<b>10,117</b>	<b>13,954</b>	–	–	<b>166,424</b>	<b>36%</b>
<i>Chief Financial Officer</i>									
Steven Binns (4)	<b>2007</b>	<b>40,473</b>	<b>52,954</b>	<b>20,932</b>	<b>10,078</b>	–	–	<b>124,438</b>	<b>43%</b>
<i>GGM Information Technology</i>									
Charlotte Riley (5)	2006	35,886	–	13,655	3,493	220,600	–	273,634	–
<i>GGM Wholesale</i>									
Anthony Beggs (6)	2006	31,097	–	–	2,054	50,000	–	83,151	–
<i>GGM Brand &amp; Marketing</i>									
Total Remuneration	<b>2007</b>	<b>952,343</b>	<b>680,325</b>	<b>126,220</b>	<b>161,681</b>	–	<b>50,925</b>	<b>1,971,494</b>	<b>35%</b>
	2006	774,422	–	99,072	76,603	270,600	50,925	1,271,622	–

(i) Non-monetary benefits include salary packaging benefits including motor vehicles, Country Road merchandise and related fringe benefits tax.

(ii) Participant in the Woolworths Executive Share Option Plan. The value of the options issues by Woolworths Holdings Limited are included in share-based payments in accordance with AASB 124 'Related Party Disclosures'.

(1) Commenced 9 January 2006

(2) Appointed as Director on 8 December 2006

(3) Appointed 1 December 2006

(4) Appointed 1 January 2007

(5) Resigned 31 August 2005

(6) Resigned 26 August 2005

# *DIRECTORS' REPORT*

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Country Road Limited ACN 006 759 182

## AUDITOR INDEPENDENCE AND NON-AUDIT SERVICES

The Directors have received an Independence Declaration from the external auditor, Ernst & Young. 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 did not provide any non-audit services during the period.

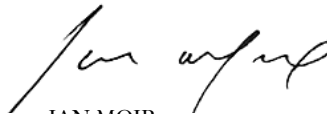
## ROUNDING

The amounts contained in this report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Signed in accordance with a resolution of the Directors.



SIMON SUSMAN  
Director  
Chairman

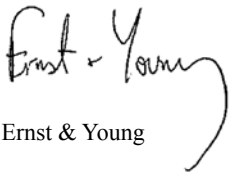


IAN MOIR  
Director  
Chief Executive Officer

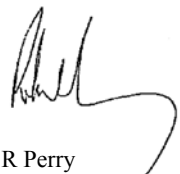
22 August 2007  
Melbourne, Victoria

**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 entities for the financial year ended 30 June 2007, 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 2007

# DIRECTORS' DECLARATION

Country Road Limited ACN 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 statements, notes 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 2007 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 section 295A of the Corporations Act 2001 for the financial year ending 30 June 2007.
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 20 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 2007  
Melbourne, Victoria

# INCOME STATEMENT For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	Note	<i>Consolidated</i>		<i>Country Road Ltd</i>	
		2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>Revenue</b>	2(a)	240,819	207,812	7,383	6,260
Cost of sales	2(b)	(104,831)	(99,921)	–	–
<b>Gross profit</b>		135,988	107,891	7,383	6,260
Employment expenses		(53,937)	(44,175)	–	–
Occupancy expenses	2(c)	(39,121)	(29,938)	–	–
Depreciation expenses	2(c)	(8,112)	(7,248)	–	–
Marketing expenses		(9,890)	(8,160)	–	–
Other expenses		(15,409)	(14,232)	(231)	(499)
		(126,469)	(103,753)	(231)	(499)
<b>Profit before finance expenses and income tax expense</b>		9,519	4,138	7,152	5,761
Finance expenses	2(d)	(325)	(867)	–	–
<b>Profit before income tax expense</b>		9,194	3,271	7,152	5,761
Income tax (expense) or benefit	3(a)	7,785	(48)	70	(1)
<b>Net profit for the period</b>		16,979	3,223	7,222	5,760
Basic earnings per share (cents per share)	15	24.59	4.67		
Diluted earnings per share (cents per share)	15	24.59	4.67		

# BALANCE SHEET As at 30 June 2007

Country Road Limited ACN 006 759 182

	Note	<i>Consolidated</i>		<i>Country Road Ltd</i>	
		2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<i>Current Assets</i>					
Cash and cash equivalents	4	19,250	14,328	–	–
Trade and other receivables	5	3,019	4,193	–	–
Inventories	6	29,395	24,538	–	–
Income tax receivable		–	12	2	–
Prepayments		1,297	1,175	25	1
Derivative financial instruments	26(c)	–	1,176	–	–
<b>Total current assets</b>		<b>52,961</b>	<b>45,422</b>	<b>27</b>	<b>1</b>
<i>Non-current Assets</i>					
Receivables	7	32	–	–	–
Plant and equipment	8	30,125	27,833	–	–
Intangible assets	9	11,189	11,189	–	–
Deferred tax assets (net)	3(c)	8,681	92	–	–
Prepayments		120	150	–	–
Other financial assets	10	–	–	74,063	66,867
<b>Total non-current assets</b>		<b>50,147</b>	<b>39,264</b>	<b>74,063</b>	<b>66,867</b>
<b>Total assets</b>		<b>103,108</b>	<b>84,686</b>	<b>74,090</b>	<b>66,868</b>
<i>Current Liabilities</i>					
Trade and other payables	11	22,758	14,662	3	3
Current tax liabilities		94	–	–	–
Provisions	12	4,439	3,041	–	–
Derivative financial instruments	26(c)	2,212	31	–	–
<b>Total current liabilities</b>		<b>29,503</b>	<b>17,734</b>	<b>3</b>	<b>3</b>
<i>Non-current Liabilities</i>					
Interest-bearing loans and borrowings	13	–	7,000	–	–
Provisions	14	4,602	6,035	–	–
<b>Total non-current liabilities</b>		<b>4,602</b>	<b>13,035</b>	<b>–</b>	<b>–</b>
<b>Total liabilities</b>		<b>34,105</b>	<b>30,769</b>	<b>3</b>	<b>3</b>
<b>Net assets</b>		<b>69,003</b>	<b>53,917</b>	<b>74,087</b>	<b>66,865</b>
<i>Equity</i>					
Contributed equity	15	80,907	80,907	80,907	80,907
Reserves	16	(1,766)	127	–	–
Accumulated losses	16	(10,138)	(27,117)	(6,820)	(14,042)
<b>Total equity</b>		<b>69,003</b>	<b>53,917</b>	<b>74,087</b>	<b>66,865</b>

## *STATEMENT OF CHANGES IN EQUITY For the Year Ended 30 June 2007*

Country Road Limited ACN 006 759 182

	Note	<i>Consolidated</i>		<i>Country Road Ltd</i>	
		2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>Total equity at beginning of period</b>		53,917	50,577	66,865	61,105
Changes in the fair value recognition of cash flow hedges net of tax	16	(2,302)	744	–	–
Exchange differences on translation of foreign operations net of tax	16	409	(627)	–	–
<b>Net income (expense) recognised directly in equity</b>		(1,893)	117	–	–
Net profit for the period		16,979	3,223	7,222	5,760
<b>Total recognised income (expense) for the period</b>		15,086	3,340	7,222	5,760
<b>Total equity at end of period</b>		69,003	53,917	74,087	66,865

## CASH FLOW STATEMENT As at 30 June 2007

Country Road Limited ACN 006 759 182

	Note	<i>Consolidated</i>		<i>Country Road Ltd</i>	
		2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<i>Cash Flows From Operating Activities</i>					
Receipts from customers		266,350	233,240	–	–
Payments to suppliers and employees		(245,415)	(223,750)	–	–
Interest received		350	194	–	–
Other revenue		391	146	–	–
Interest and other costs of finance paid		(427)	(872)	–	–
Rental income receipts		1,388	1,267	–	–
Income taxes and withholding taxes paid		(25)	(1)	–	–
<b>Net cash flows from (used in) operating activities</b>	24	22,612	10,224	–	–
<i>Cash Flows From Investing Activities</i>					
Proceeds from the sale of plant and equipment		3	4	–	–
Payments for the acquisition of plant and equipment		(10,713)	(7,803)	–	–
<b>Net cash flows from (used in) investing activities</b>		(10,710)	(7,799)	–	–
<i>Cash Flows From Financing Activities</i>					
Repayment of loan from ultimate parent entity		(7,000)	–	–	–
<b>Net cash flows from (used in) financing activities</b>		(7,000)	–	–	–
Net increase in cash and cash equivalents		4,902	2,425	–	–
Cash and cash equivalents at beginning of period		14,328	11,917	–	–
Exchange rate effect on opening balance		20	(14)	–	–
<b>Cash and cash equivalents at end of period</b>		19,250	14,328	–	–

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 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 statements have 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). The financial report complies with International Financial Reporting Standards (IFRS).

### (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 2007.

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 Country Road Limited has control.

### (d) Foreign currency translation

Both the functional and presentation currency of Country Road Limited 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.

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 the assets and liabilities of these overseas subsidiaries are translated into the presentation currency of Country Road Limited, 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 transit, cash on 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 estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written off when identified.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(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.

*(b) 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. Non-financial assets other than goodwill that suffered an impairment are tested for possible reversal of the impairment whenever events or changes in circumstances indicate the impairment may have reversed.

*(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, intangible assets are carried at cost, less any accumulated amortisation and any accumulated impairment losses. 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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, and is recognised on a straight-line basis over the lease term where such leases contain annual fixed escalation rates.

(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 based on the current period's taxable income.

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 goodwill or 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, 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 unused tax credits 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.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

*(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. These amounts are unsecured and are usually paid within 30 days of recognition.

*(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.

*(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*

Where necessary, comparatives have been adjusted for consistency with current year disclosures.

*(t) Earnings per share (EPS)*

Basic EPS is calculated as net profit for the period, adjusted to exclude costs of servicing equity (other than dividends) and preference share dividends, divided by the weighted average number of ordinary shares, 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.

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(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;
- 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; and
- Tender forfeits – from the time the obligation to honour a tender expires.

(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. The Group does not hedge its net investments in foreign operations.

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 the income statement.

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.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### (w) *New standards and interpretations not yet adopted*

The following standards, amendments to standards or interpretations have been identified as those which may impact the entity in the period of initial application. They are available for early adoption at 30 June 2007, but have not been applied in preparing this financial report:

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	AASB 7 is a disclosure standard so will have no direct impact on the amounts included in the Group's financial statements. However, the amendments will result in changes to the financial instrument disclosures included in the Group's financial report.
New	AASB 8 Operating Segments	1 January 2009	1 July 2009	AASB 8 is a disclosure standard and will have no direct impact on the amounts included in the Group's financial statements. However, the standard may result in changes to the segment reporting disclosures included in the Group's financial report.
New	AASB Interpretation 10: Interim Financial Reporting and Impairment	1 November 2006	1 July 2007	The prohibitions on reversing impairment losses in AASB 136 and AASB 139, which are to take precedence over the more general statement in AASB 134, are not expected to impact on the Group's financial report.
Amendment	Amendments to Australian Accounting Standards arising from ED 151 and Other Amendments  [AASB 1, 2, 3, 4, 5, 6, 7, 102, 107, 108, 110, 112, 114, 116, 117, 118, 119, 120, 121, 127, 128, 129, 130, 131, 132, 133, 134, 136, 137, 138, 139, 141, 1023 & 1038]	1 July 2007	1 July 2007	These amendments are expected to reduce the extent of some disclosures in the Group's financial report.
New	IFRIC Interpretation 13	1 July 2008	1 July 2008	The Group does not have any customer loyalty programmes under which the customer can redeem credits for awards such as free or discounted goods and services. As such this interpretation is not expected to have any impact on the Group's financial report.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>2 REVENUES AND EXPENSES</b>				
<i>(a) Revenue</i>				
<i>Sales revenue</i>				
Sale of goods	237,611	205,095	–	–
Royalties	1,015	1,110	–	–
	238,626	206,205	–	–
<i>Other revenue</i>				
Tender forfeits	249	146	–	–
Rent revenue	1,388	1,267	–	–
Interest revenue	350	194	7,383	6,260
Other	206	–	–	–
	240,819	207,812	7,383	6,260
<i>Interest revenue comprises:</i>				
Interest received from banks and other financial institutions	350	194	–	–
Controlled entities – wholly owned	–	–	7,383	6,260
	350	194	7,383	6,260
<i>(b) Cost of sales</i>				
Costs of inventories recognised as an expense	104,757	99,910	–	–
Adjustments to net realisable value of inventories	74	11	–	–
	104,831	99,921	–	–
<i>(c) Depreciation and other expenses</i>				
Depreciation of plant & equipment	8,112	7,248	–	–
Operating lease expenses				
Minimum rental payments	32,962	24,546	–	–
Contingent rentals	464	246	–	–
	33,426	24,792	–	–
Net loss on disposal of plant and equipment	33	65	–	–
<i>(d) Finance expenses</i>				
Interest paid to ultimate parent entity	144	458	–	–
Interest paid to banks and other financial institutions	67	324	–	–
Facility fees	114	85	–	–
	325	867	–	–

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>3 INCOME TAX EXPENSE</b>				
<i>(a) Income tax expense</i>				
Current tax	(132)	(27)	70	(1)
Deferred tax	7,917	(21)	–	–
Income tax (expense) or benefit	7,785	(48)	70	(1)
Income tax expense is attributable to:				
Profit before income tax expense	7,785	(48)	70	(1)
Deferred income tax revenue (expense) included in income tax expense comprises:				
(Decrease) increase in deferred tax assets	8,491	(9)	–	–
Decrease (increase) in deferred tax liabilities	(574)	(12)	–	–
	7,917	(21)	–	–
<i>(b) Numerical reconciliation of income tax expense to prima facie tax payable</i>				
Profit before income tax expense	9,194	3,271	7,151	5,761
Prima facie tax thereon at 30% (2005: 30%)	(2,758)	(981)	(2,145)	(1,728)
Tax effect of amounts which are not deductible (taxable) in calculating taxable income				
Non-allowable expenses	(134)	(39)	–	–
Timing differences not recognised	–	977	–	–
Effect of different rates of tax on overseas taxable income	(11)	(4)	–	–
Initial recognition of temporary differences	10,552	–	–	–
Adjustment to prior period provision	–	(1)	–	(1)
Current year movement in temporary differences	136	–	–	–
Transfer of net tax to consolidated group	–	–	2,215	1,728
Income tax (expense) or benefit	7,785	(48)	70	(1)
<i>(c) Deferred taxes</i>				
<b>Deferred tax assets</b>				
The balance comprises temporary differences attributable to:				
Amounts recognised directly in income statement				
Depreciation	2,817	118	–	–
Employee benefits	1,110	20	–	–
Lease incentives	144	–	–	–
Lease liabilities	1,389	–	–	–
Inventories	2,602	1	–	–
Cash flow hedges	664	–	–	–
Other	581	–	–	–
	9,307	139	–	–
Movements:				
Opening balance at beginning of period	139	118	–	–
Credited (charged) to the income statement	8,491	(9)	–	–
Credited (charged) directly to equity	664	–	–	–
Adjustment to prior period provision	13	30	–	–
	9,307	139	–	–
<b>Deferred tax liabilities</b>				
The balance comprises temporary differences attributable to:				
Amounts recognised directly in income statement				
Lay-by sales	118	12	–	–
Provision for unexpired gift vouchers	–	35	–	–
Intangible assets	180	–	–	–
Lease assets	21	–	–	–
Other	307	–	–	–
	626	47	–	–
Movements:				
Opening balance at beginning of period	47	39	–	–
(Credited) charged to the income statement	574	12	–	–
Adjustment to prior period provision	5	(4)	–	–
	626	47	–	–

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
3 INCOME TAX EXPENSE (continued)				
<i>(d) Unrecognised temporary differences</i>				
Temporary differences for which no deferred net tax assets are recognised in the balance sheet, tax effected at 30% (2006: 30%)	–	11,694	–	–
Temporary differences relating to investments in subsidiaries for which deferred tax assets (liabilities) have not been recognised, tax-effected at 30% (2006: 30%)				
Foreign currency translation	176	188	–	–
Undistributed earnings	(378)	(215)	–	–
	(202)	(27)	–	–

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.

Country Road Clothing (NZ) Ltd has undistributed earnings of \$2,518,529 (2006: \$2,149,735) 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.

### *(e) Tax consolidation legislation*

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.

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 in line with half-yearly reporting periods.

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.

### 4 CASH AND CASH EQUIVALENTS

Cash at bank and in transit	1,384	952	–	–
Cash on hand	97	89	–	–
Short term deposits	17,769	13,287	–	–
	19,250	14,328	–	–

Cash includes deposits with financial institutions, attracting floating interest rates. The average yield at balance date was 5.75% (2006: 5.25%) per annum. Short term deposits are at call and earn interest at 6.15% (2006: 5.65%) per annum.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>5 TRADE AND OTHER RECEIVABLES</b>				
Trade receivables	2,937	4,139	–	–
Allowance for doubtful debts	–	(27)	–	–
	2,937	4,112	–	–
Other receivables	82	81	–	–
	3,019	4,193	–	–
<b>6 INVENTORIES</b>				
Total inventories at the lower of cost and net realisable value				
Finished goods	29,395	24,538	–	–
	29,395	24,538	–	–
<b>7 RECEIVABLES (NON-CURRENT)</b>				
Other receivables	32	–	–	–
	32	–	–	–
<b>8 PLANT AND EQUIPMENT</b>				
Leasehold improvements				
At cost	17,223	14,271	–	–
Accumulated depreciation	(9,562)	(7,981)	–	–
	7,661	6,290	–	–
Fixtures, fittings and equipment				
At cost	68,123	59,812	–	–
Accumulated depreciation	(48,213)	(41,748)	–	–
	19,910	18,064	–	–
Capital works in progress	2,554	3,479	–	–
	30,125	27,833	–	–
Reconciliations				
Leasehold improvements				
Carrying amount at the beginning of the year	6,290	6,444	–	–
Foreign currency translation impact on opening balance	81	(90)	–	–
Additions during the year	2,778	1,381	–	–
Disposals during the year	–	(63)	–	–
Depreciation expense	(1,488)	(1,382)	–	–
Carrying amount at the end of the year	7,661	6,290	–	–
Fixtures, fittings and equipment				
Carrying amount at the beginning of the year	18,064	19,034	–	–
Foreign currency translation impact on opening balance	120	(130)	–	–
Additions during the year	8,387	5,032	–	–
Disposals during the year	(37)	(6)	–	–
Depreciation expense	(6,624)	(5,866)	–	–
Carrying amount at the end of the year	19,910	18,064	–	–
Capital works in progress				
Carrying amount at the beginning of the year	3,479	1,760	–	–
Foreign currency translation impact on opening balance	9	(127)	–	–
Additions during the year	2,732	2,165	–	–
Transfers to other categories	(3,666)	(319)	–	–
Carrying amount at the end of the year	2,554	3,479	–	–

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 19 for details on the Group's financing arrangements.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>9 INTANGIBLE ASSETS</b>				
Trade names				
At deemed cost	11,189	11,189	–	–
	11,189	11,189	–	–
Reconciliations				
<i>Trade names</i>				
Carrying amount at the beginning of the year	11,189	11,189	–	–
Additions during the year	11,189	11,189	–	–
Description of the Group's intangible assets				
Trade names acquired by the Group are carried at deemed cost and are deemed to have an indefinite useful life as they are expected to contribute net cash inflows indefinitely. Therefore the trade names will not be amortised until its useful lives are determined to be finite. The trade names are tested for impairment at least annually, or whenever there is an indication they may be impaired. The trade names have been allocated to the Group as an individual cash generating unit.				
Impairment tests for intangibles with indefinite useful lives.				
The calculation of value in use for trade names is based on a royalties earned methodology. Based on this methodology, the Directors are satisfied the carrying value of the trade names are not valued in excess of their recoverable amount. The calculation of value in use is most sensitive to the following assumptions:				
<ul style="list-style-type: none"> <li>royalty percentage applied – based on a conservative view of franchise industry rates, the royalty percentage used is 2.5% (2006: 2.5%);</li> <li>discount rates – the pre-tax discount rate applied to the cash flow projection is 13.1% (2006: 13.2%); and</li> <li>growth rates used to extrapolate cash flows – the growth rate used to extrapolate cash flows from royalties, based on the Australian Bureau of Statistics annualised growth rates for the retail clothing sector for the five year period is 7.5% (2006: 6.0%).</li> </ul>				
<b>10 OTHER FINANCIAL ASSETS (NON-CURRENT)</b>				
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	–	–	105,048	97,852
Allowance for doubtful debts	–	–	(42,331)	(42,331)
	–	–	62,717	55,521
	–	–	74,063	66,867
<b>11 TRADE AND OTHER PAYABLES (CURRENT)</b>				
Trade payables	13,384	8,836	–	–
Other payables	9,374	5,826	3	3
	22,758	14,662	3	3
<b>12 PROVISIONS (CURRENT)</b>				
Lease incentives	190	183	–	–
Leases expensed on straight line basis	793	410	–	–
Employee benefits	3,456	2,448	–	–
	4,439	3,041	–	–

Movements:

Refer to note 14 for details.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>13 INTEREST BEARING LOANS AND BORROWINGS (NON-CURRENT)</b>				
Secured loan from ultimate parent entity	–	7,000	–	–
	–	7,000	–	–
<b>14 PROVISIONS (NON-CURRENT)</b>				
Lease incentives	461	631	–	–
Leases expensed on straight line basis	3,789	4,968	–	–
Employee benefits	352	436	–	–
	4,602	6,035	–	–

### Lease incentives

A provision is recognised for lessor contributions to the construction of a premises where the ownership of the assets is retained by the Company. These contributions are reduced on a straight-line basis over the remaining term of the lease.

### Leases expensed on straight-line basis

Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the term of the lease where such leases contain fixed escalation rates. A provision is recognised for the difference between the operating lease payments and the straight-line expense, which will unwind at the end of the lease term.

### Movements in provisions:

Movements in each class of provision, other than employee benefits, are set out below:

	Lease incentives \$000's	Leases expensed on straight line basis \$000's	Total \$000's
<b>Consolidated</b>			
Balance at beginning of financial year	814	5,378	6,192
Provision raised during the period	10	–	10
Provision used during the period	(185)	(839)	(1,024)
Provisions reversed during the period	–	(32)	(32)
Foreign currency adjustment on opening balance	12	75	87
Balance at end of financial year	651	4,582	5,233
Non-current	461	3,789	4,250
Current	190	793	983
	651	4,582	5,233
<b>Company</b>			
Balance at beginning of financial year	–	–	–
Balance at end of financial year	–	–	–

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>15 CONTRIBUTED EQUITY, DIVIDENDS AND EARNINGS PER SHARE</b>				
Ordinary shares	80,907	80,907	80,907	80,907
	80,907	80,907	80,907	80,907
<b>Ordinary shares:</b>				
Number of ordinary shares on issue at balance date (not rounded)	69,056,822	69,056,822	69,056,822	69,056,822
No shares were issued during the financial year.				
Fully paid ordinary shares carry one vote per share and carry the right to receive dividends.				
<b>Dividends paid</b>				
No dividends on ordinary shares were paid during the year.				
<b>Dividends not recognised at year end</b>				
Since year end the Directors have determined the payment of a final dividend of 7.24 cents per fully paid ordinary share, (2006: Nil) fully franked based on tax paid at 30%. The aggregate amount of the dividend scheduled to be paid on 10 October 2007 out of profits earned in respect of the financial year ending 30 June 2007, but not recognised as a liability at year end, is	5,000	–	5,000	–
<b>Franked dividends</b>				
Franking credits available for future reporting periods based on a tax rate of 30%	13,354	13,354	13,354	13,354
The impact on the franking account of the dividend determined by the Directors since year end, but not recognised as a liability at year end, will be a reduction in the franking account of \$2,143,000 (2006: Nil).				
<b>Basic earnings per share</b>				
Profit attributable to the equity holders of the Company (cents per share)	24.59	4.67		
Profit attributable to the equity holders of the Company used in calculating basic earnings per share	16,979	3,223		
Weighted average number of shares used in calculating earnings per share (not rounded)	69,056,822	69,056,822		
<b>Diluted earnings per share</b>				
No adjustments for dilutive securities are required.				

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>16 ACCUMULATED LOSSES AND RESERVES</b>				
Accumulated losses	(10,138)	(27,117)	(6,820)	(14,042)
<b>Reserves</b>				
Exchange differences on translation of foreign operations	(218)	(627)	–	–
Hedging reserve - cash flow hedges	(1,548)	754	–	–
	(1,766)	127	–	–
<b>Movements:</b>				
Accumulated losses				
Balance at beginning of financial year	(27,117)	(30,340)	(14,042)	(19,802)
Net profit for the year	16,979	3,223	7,222	5,760
Balance at end of financial year	(10,138)	(27,117)	(6,820)	(14,042)
Exchange differences on translation of foreign operations				
Balance at beginning of financial year	(627)	–	–	–
Exchange differences on translation of foreign operations during period	409	(627)	–	–
Balance at end of financial year	(218)	(627)	–	–
Hedging reserve - cash flow hedges				
Balance at beginning of financial year	754	10	–	–
Revaluation - gross	(2,966)	744	–	–
Deferred tax	664	–	–	–
Balance at end of financial year	(1,548)	754	–	–
<b>Nature and purpose of reserves</b>				
Foreign currency translation reserve:				
The foreign currency translation reserve is used to record exchange differences arising from the translation of the financial statements of foreign subsidiaries.				
Cash flow hedge reserve:				
This reserve records the portion of the gain or loss on a hedging instrument that is deemed to be an effective hedge.				
<b>17 COMMITMENTS</b>				
<b>Capital commitments</b>				
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	1,914	833	–	–
	1,914	833	–	–
<b>Operating lease commitments – Group as lessee</b>				
The Group has entered into lease agreements for its stores, administration offices, office equipment and information technology systems. 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	28,256	22,990	–	–
later than one year but not later than five years	82,165	68,437	–	–
later than five years	20,610	18,417	–	–
	131,031	109,844	–	–
<b>Operating lease commitments – Group as lessor</b>				
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	1,152	911	–	–
later than one year but not later than five years	1,582	1,135	–	–
	2,734	2,046	–	–

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>18 REMUNERATION OF AUDITORS</b>				
Amounts received or due and receivable by Ernst & Young Australia for:				
- an audit or review of the financial report of the entity and any other entity in the Group (not rounded)	\$175,000	\$150,000	-	-
- other services in relation to the entity and any other entity in the Group (not rounded)	-	\$10,000	-	-
	<b>\$175,000</b>	<b>\$160,000</b>	<b>-</b>	<b>-</b>
<b>19 FINANCING ARRANGEMENTS</b>				
The Group had access to the following financing arrangements:				
External financial institutions:				
Cash advance facility	(i) 17,000	10,000	-	-
Bank overdraft	(i) 500	500	-	-
	17,500	10,500	-	-
Loan from ultimate parent entity	(ii) -	7,000	-	-
<b>Total facilities available</b>	<b>17,500</b>	<b>17,500</b>	<b>-</b>	<b>-</b>
Facilities used at reporting date:				
Bank overdrafts – secured	-	-	-	-
Loan from ultimate parent entity	-	7,000	-	-
Total drawn facilities	-	7,000	-	-
<b>Total undrawn facilities</b>	<b>17,500</b>	<b>10,500</b>	<b>-</b>	<b>-</b>

## 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 26). 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 from the ultimate parent entity, Woolworths Holdings Limited (South Africa) is denominated in Australian dollars. Security is subordinated to external facilities. Interest is charged at appropriate market rates (refer Note 26).

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 20 RELATED PARTY DISCLOSURES

	Place of incorporation	Note	Total Equity Interest		Investment	
			2007 %	2006 %	2007 \$000's	2006 \$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.

	2007 \$000's	2006 \$000's
<b>(i) Income Statement</b>		
<b>Profit before income tax expense</b>	8,623	3,133
Income tax expense	7,668	(1)
<b>Net profit (loss) for the period</b>	16,291	3,132
Accumulated losses at beginning of period	(6,428)	(9,560)
<b>Accumulated profit (loss) at end of period</b>	9,863	(6,428)
<b>(ii) Balance Sheet</b>		
<b>Current assets</b>		
Cash and cash equivalents	18,647	14,074
Trade and other receivables	457	2,822
Inventories	25,828	22,919
Other assets	1,275	1,160
<b>Total current assets</b>	46,207	40,975
<b>Non-current assets</b>		
Investments	2,979	2,979
Plant and equipment	27,874	25,668
Intangible assets	11,189	11,189
Other	9,096	150
<b>Total non-current assets</b>	51,138	39,986
<b>Total assets</b>	97,345	80,961
<b>Current liabilities</b>		
Trade and other payables	27,372	18,318
Provisions	3,316	2,379
<b>Total current liabilities</b>	30,688	20,697
<b>Non-current liabilities</b>		
Other payables	167	185
Interest-bearing loans and borrowings	–	7,000
Provisions	4,708	5,141
<b>Total non-current liabilities</b>	4,875	12,326
<b>Total liabilities</b>	35,563	33,023
<b>Net assets</b>	61,782	47,938
<b>Equity</b>		
Contributed equity	51,919	54,366
Accumulated losses	9,863	(6,428)
<b>Total equity</b>	61,782	47,938

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 20 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 \$7,274,719 to Country Road Clothing Pty Ltd (2006: \$6,168,616) and \$107,927 to Country Road International Pty Ltd (2006: \$90,927).

(b) 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.

### Other related party transactions

(a) The consolidated Group repaid borrowings of \$7 million Australian dollars to the ultimate controlling entity, Woolworths Holdings Limited. There were no related party loans at balance date. Refer Note 19.

## 21 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.

### Details of Key Management Personnel

#### Directors

- Ian Moir (Executive Director & Chief Executive Officer)
- Simon Susman (Non-Executive Director & Chairman)
- Norman Thomson (Non-Executive Director)
- Glenn Gilzean (Executive Director & GGM Retail Operations – appointed 8 December 2006)
- Ashley Gardner (Executive Director & Chief Financial Officer – resigned 8 December 2006)
- Cherrie Lowe (Non-Executive Director – retired 18 October 2006)

#### Executives

- Sophie Holt (GGM Product Design & Development)
- Derek Muirhead (GGM Merchandise)
- Matt Keogh (GGM Human Resources)
- Oliver Kysela (Chief Financial Officer – appointed 1 December 2006)
- Steven Binns (GGM Information Technology – appointed 1 January 2007)

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>Compensation of Key Management Personnel</b>				
Short-term employee benefits	\$3,189,489	\$1,988,187	\$75,039	\$220,760
Post-employment benefits	\$255,829	\$177,015	–	\$10,807
Termination benefits	–	\$570,761	–	\$82,585
Share-based payments	\$112,041	\$128,732	–	–
	<b>\$3,557,359</b>	<b>\$2,864,695</b>	<b>\$75,039</b>	<b>\$314,152</b>

### 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. This Plan provides participants with equity options to purchase ordinary shares in the Company's principal shareholder, Woolworths Holdings Limited. Participation in this Plan is service based and does not form part of the remuneration payable by the Company. The value of the options has been determined in accordance with the requirements of AASB 2 'Share Based Payments' and included in the remuneration table which forms part of Directors Report. At balance date, options provided in South African Rand (R) were:

- On 4 April 2002 Mr Ian 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 annually for the first five years after grant date. At the beginning of the period, 569,850 were held. During the period 131,618 options were exercised at R13.00 per share, and 153,307 options were exercised at R12.95 per share. 284,925 options remain with an expiry date of 4 April 2012.
- On 3 January 2006 Mr Derek 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 annually for the first five years after grant date. No options were exercised during the period, and all remain at the end of the period with an expiry date of 3 January 2016.

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 22 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 controlled entities who are a party to the deed as presented in Note 20 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 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.

## 23 SUBSEQUENT EVENTS

2007

There are no subsequent events after balance date that affect the operating results or financial position of the Company and its controlled entities.

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.

	<i>Consolidated</i>		<i>Country Road Ltd</i>	
	2007 \$000's	2006 \$000's	2007 \$000's	2006 \$000's
<b>24 RECONCILIATION OF PROFIT AFTER TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES</b>				
<b>Operating profit after income tax</b>	16,979	3,223	7,222	5,760
<b>Add non-cash items</b>				
Depreciation	8,112	7,248	–	–
Market valuation of non-effective cash flow hedges	392	(379)	–	–
Lease incentive amortisation	(170)	(23)	–	–
Adjustments to net realisable value of inventories	(74)	13	–	–
Disposal of plant and equipment	36	69	–	–
Capital works in progress accruals	522	(324)	–	–
Net foreign currency translation (gains)/losses	(85)	–	–	–
Allowance for doubtful debts	(27)	(68)	–	–
<b>Changes in:</b>				
Trade and other receivables	1,201	5,832	–	–
Inventories	(4,783)	(1,480)	–	–
Other assets	1,052	(858)	(7,222)	(5,760)
Deferred tax assets	(8,589)	(13)	–	–
Trade and other payables	8,096	(3,213)	–	–
Provision for income tax	106	78	–	–
Other provisions	(35)	(519)	–	–
Other liabilities	2,181	(106)	–	–
Hedging reserve	(2,302)	744	–	–
<b>Net cash flows from (used in) operating activities</b>	<b>22,612</b>	<b>10,224</b>	<b>–</b>	<b>–</b>

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 25 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		
		2007	2007	2007	2006	2006	2006
		Australia	New Zealand	Total	Australia	New Zealand	Total
		\$000's	\$000's	\$000's	\$000's	\$000's	\$000's
<b>Revenue</b>							
Sales to external customers		215,500	22,111	237,611	185,731	19,364	205,095
Inter-segment sales		9,246	–	9,246	7,912	–	7,912
Other revenues		2,811	47	2,858	2,523	–	2,523
Total segment revenue		<u>227,557</u>	<u>22,158</u>	<u>249,715</u>	<u>196,166</u>	<u>19,364</u>	<u>215,530</u>
Inter-segment elimination				(9,246)			(7,912)
Non-segment revenues							
Interest revenue				350			194
Total consolidated revenue				<u>240,819</u>			<u>207,812</u>
<b>Result</b>							
Segment result		9,099	652	9,751	4,426	211	4,637
Unallocated expenses				(232)			(499)
Profit before tax and finance expenses				<u>9,519</u>			<u>4,138</u>
Finance expenses				(325)			(867)
Profit before tax				<u>9,194</u>			<u>3,271</u>
Income tax (expense) benefit				7,785			(48)
Net profit for the year				<u>16,979</u>			<u>3,223</u>
<b>Assets and liabilities</b>							
Segment assets		89,240	2,679	91,919	68,030	4,291	72,321
Unallocated assets				11,189			12,365
Total assets				<u>103,108</u>			<u>84,686</u>
Segment liabilities		30,313	1,580	31,893	22,289	1,449	23,738
Unallocated liabilities				2,212			7,031
Total liabilities				<u>34,105</u>			<u>30,769</u>
<b>Other segment information</b>							
Capital expenditure		9,746	466	10,212	7,751	391	8,142
Depreciation and amortisation		7,536	576	8,112	6,708	540	7,248
Significant non-cash items other than depreciation and amortisation		33	–	33	65	–	65

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 25 SEGMENT INFORMATION (continued)

### (b) Business segments

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

	<i>Consolidated</i>			
	Retail Stand-alone Stores \$000's	Retail Department Stores \$000's	Wholesale \$000's	Total \$000's
<b>2007</b>				
Revenue				
Sales to external customers	188,651	29,990	18,970	237,611
Tender forfeits	249	–	–	249
Segment revenue	<u>188,900</u>	<u>29,990</u>	<u>18,970</u>	<u>237,860</u>
Other segment information				
Segment assets	39,928	10,177	364	50,469
Unallocated assets				52,639
Total assets				<u>103,108</u>
Capital expenditure	5,457	2,068	–	7,525
<b>2006</b>				
Revenue				
Sales to external customers	163,969	–	41,126	205,095
Tender forfeits	146	–	–	146
Segment revenue	<u>164,115</u>	<u>–</u>	<u>41,126</u>	<u>205,241</u>
Other segment information				
Segment assets	37,437	–	4,792	42,229
Unallocated assets				42,457
Total assets				<u>84,686</u>
Capital expenditure	6,205	–	–	6,205

# NOTES TO THE FINANCIAL STATEMENTS For the Year Ended 30 June 2007

Country Road Limited ACN 006 759 182

## 26 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 26(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
<b>Consolidated</b>				
<b>Financial assets</b>				
Cash	5.75%	1,384	97	1,481
Short term deposits	6.15%	17,769	–	17,769
		19,153	97	19,250
<b>Country Road Limited</b>				
<b>Financial assets</b>				
Loans to wholly owned subsidiaries	7.21%	105,048	–	105,048
		105,048	–	105,048

### (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 forward currency contracts are considered to be fully effective as they are matched against inventory purchases and any gain or loss is taken directly to equity. The cash flows are expected to occur between 1-12 months from 1 July 2007 and the profit and loss within cost of sales will be effected over the next few years as the inventory is sold. 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	Total \$000's
Aggregate foreign currency value of contracts	39,727	376	
Weighted average foreign exchange rate	0.8061	0.6263	
Aggregate value of contracts in Australian dollars	49,283	600	
Fair value at reporting date	47,072	599	
Net gain/(loss) on revaluation taken to reserves	(2,211)	(1)	(2,212)
Net gain/(loss) on revaluation taken to the income statement	–	–	–
	(2,211)	(1)	(2,212)

### (d) Terms and conditions of financial assets and liabilities

#### Trade and other receivables

- Trade debtors are non-interest bearing and generally on terms of 30 days or less.
- Other debtors are non-interest bearing and have repayment terms between 1 day and 45 days.
- Details of the terms and conditions of related party receivables are set out in Note 20.

#### Other assets

- Refer Note 26(c) for details of foreign currency derivatives.
- Prepayments are carried at their nominal amounts.

#### Trade and other payables

- Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- Other creditors are non-interest bearing and have average repayment terms of between 30 and 90 days.
- Refer Note 26(c) for details of foreign currency derivatives.
- Details of the terms and conditions of related party receivables are set out in Note 20.

26 FINANCIAL INSTRUMENTS (continued)

*(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 19. 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 96% of its highly probable forecast foreign currency purchases extending to 8 April 2008.

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 Myer Limited and David Jones 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.

## Independent auditor's report to members of Country Road Limited

We have audited the accompanying financial report of Country Road Limited and the entities it controlled during the year ended, which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

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 Regulation 2M.6.04.

### *Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. The directors are also responsible for the remuneration disclosures contained in the directors' report.

### *Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement and that the remuneration disclosures comply with Accounting Standard AASB 124 *Related Party Disclosures*.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

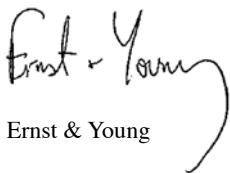
### *Independence*

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

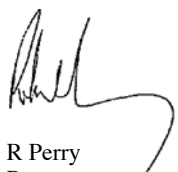
### *Auditor's Opinion*

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 2007 and of their performance for the year ended on that date; and
    - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); 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 2007

## ASX ADDITIONAL INFORMATION As at 31 August 2007

Country Road Limited ACN 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

Name	Number of shares	% Held to total shares
Woolworths International (Australia) Pty Limited	60,688,384	87.88
Australian Retail Investments Pty Limited	8,173,688	11.84
	68,862,072	99.72

### B DISTRIBUTION OF EQUITY SECURITIES

	Number of Ordinary Shareholders	Number of Ordinary Shares
1 – 1,000	159	51,441
1,001 – 5,000	36	74,288
5,001 – 10,000	3	19,921
10,001 – 100,000	3	49,100
> 100,000	2	68,862,072
Total ordinary shares	203	69,056,822
Holding less than a marketable parcel:	64	4,531

### 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	31,547	0.05
4 Ms Kerri Louise Summers	17,643	0.03
5 Ms Monica Vinson	7,400	0.01
6 Mr David Osborne + Mrs Lynette Osborne (Osborne Family Super Fund)	7,271	0.01
7 Ms Deanne Gaye Watts	5,250	0.01
8 Ms Deanne Gaye Watts + Mr Agostino Mario Stati (Deanne Watts Super Fund)	5,000	0.01
9 Mrs Anastasios Atgiaris & Mrs Ifigenia Atgiaris	4,579	0.01
10 Cool Cats Sports Entertainment & Investments Pty Limited	4,556	0.01
11 Mr Brad Cumming (The B&L Cumming Super Fund)	3,900	<0.01
12 Mrs Diana Mary Nettlefold	3,000	<0.01
13 Mr Rodney Rafter	3,000	<0.01
14 Mrs Barbara McNally	2,950	<0.01
15 Miss Mary Graham Neild	2,553	<0.01
16 Mr John Armit	2,300	<0.01
17 Mrs Mary Rosa Wilson	2,241	<0.01
18 Mr Brad Cumming (Emily & Georgie Cumming A/C)	2,211	<0.01
19 Mr Robert John Charles (Catto Raglan Super Fund)	2,115	<0.01
20 Mrs Christine Manos	2,125	<0.01
	68,971,623	99.87

## INVESTOR INFORMATION

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### 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](mailto:admin@countryroad.com.au)  
Website: [www.countryroad.com.au](http://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 Group are the designing and retailing of apparel, homeware and related accessories. During the year the Group exited its wholesale arrangements.

### 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](http://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 (Intl): +61 3 9415 4000  
Facsimile (Aust): 1300 137 341  
Facsimile (Intl): +61 3 9473 2555  
Email: [essential.registry@computershare.com.au](mailto:essential.registry@computershare.com.au)  
Website: [www.computershare.com.au](http://www.computershare.com.au)

**CR CLOTHING  
AUSTRALIA**

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RICHMOND VICTORIA 3121  
AUSTRALIA

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