

# COUNTRY ROAD

4 MAY 2011

## STATEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE

### CHAIRMAN'S ADDRESS TO SHAREHOLDERS

The reason the Board has convened this meeting of shareholders is to seek shareholder approval for the provision of certain benefits by the Company and its subsidiaries to Mr John Cheston in connection with the termination of his employment as Managing Director of the Company and Chief Executive Officer of the Country Road Group.

I would first like to explain why we need shareholder approval. Under section 200B of the Corporations Act, a person must not be given a benefit in connection with that person's retirement from an office or position of employment in a company (or a related body corporate of that company) if the person holds, or has in the three years prior to retirement held, a managerial or executive office. There are some exemptions to this rule under the Corporations Act, including where there is shareholder approval for the giving of the benefit under section 200E of the Corporations Act. For this reason, we are seeking shareholder approval for the proposed settlement payment to Mr Cheston.

Mr Cheston was appointed CEO of the Country Road Group with effect from 1 July 2010 pursuant to an Employment Agreement with Country Road Clothing Pty Ltd. Country Road Clothing is a wholly-owned subsidiary of the Company. He was dismissed from the CEO position on 13 September 2010.

On 25 October 2010, proceedings were issued in the Federal Court of Australia on behalf of Mr Cheston against Country Road Clothing, the Company and Mr Ian Moir (Mr Cheston's predecessor as CEO of the Country Road Group, and currently the CEO of Woolworths Holdings Limited).

In summary, the proceedings alleged:

- that there were certain material representations made to Mr Cheston which induced him to accept the position with Country Road, leave his previous position as CEO of Robinsons & Co Ltd in Singapore and move with his family to Australia;
- that these representations were misleading; and
- that Country Road Clothing breached the Employment Agreement by breaching the trust and confidence term and by dismissing him without notice.

Mr Cheston sought various declarations and unspecified damages.

In their Defence filed on 7 February 2011, the Company, Country Road Clothing and Mr Moir in summary:

- admitted that Mr Cheston had been dismissed as CEO on 13 September 2010;
- denied that Mr Cheston had been induced to accept the position with Country Road, leave his previous position and move with his family to Australia by any such material representations, and also denied that he had relied on any such representations;
- denied that any misrepresentations had been made;
- said that the employment was subject to the express terms of the Employment Agreement;

- stated that Country Road Clothing was entitled to terminate Mr Cheston's employment without notice because Mr Cheston was guilty of misconduct, and
- acted in a way which may injure or be likely to injure the business or reputation of Country Road; and (or in the alternative)
- committed a material breach of Country Road's policies and procedures; and
- stated that Mr Cheston's employment was terminated whilst he was still subject to an initial probationary period of 6 months, so that, in any event, Country Road Clothing was entitled to terminate his employment without cause on giving one month's notice in writing.

Copies of the full pleadings are publicly available through the courts.

As ordered by the Federal Court, mediation took place on 23 March 2011. At that time, the Company and Mr Cheston agreed to settle the proceedings for a sum of \$1.1 million. It is that settlement that we are asking shareholders to approve at this meeting.

Despite the Board's strong view on the merits of the defence, it considers that it is in the best interests of the shareholders to approve the above settlement, for the following key reasons:

- In total, Mr Cheston sought damages exceeding \$7 million. The settlement agreed, subject to this approval, is for the substantially lower amount of \$1.1 million.
- A court process may last a long time and the trial itself may last many days (particularly as Mr Cheston has made a wide range of allegations), and so would disrupt the business of the Country Road Group.
- A court trial would be costly.
- As with any court trial, the outcome could not be predicted with certainty.

It is recognised that the focus of this business should be trading and putting this litigation behind us has allowed us to do that. Howard Goldberg, our new CEO, has settled in well and is already making a difference in the business. We are trading to expectation and we continue to manage costs and inventory appropriately and well.

Resolution 1 in the notice of this meeting proposes that shareholders approve the settlement with Mr Cheston.

Woolworths International (Australia) Pty Limited, the Company's majority shareholder, has represented to the Company that it intends to vote in favour of the resolution.

The Board recommends that shareholders vote in favour of the resolution.

**For further information, please contact:**

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