

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Appendix 4E
Preliminary final report

1. Company details

Name of entity:	City Chic Collective Limited
ABN:	43 057 569 169
Reporting period:	For the 52 week period ended 30 June 2019
Previous period:	For the 52 week period ended 1 July 2018

2. Results for announcement to the market

				\$'000
Revenue from ordinary activities	down	80.2%	to	149,273
Profit after tax from continuing operations attributable to the owners of City Chic Collective Limited	down	4.6%	to	14,265
Profit after tax for the period from continuing and discontinued operations attributable to the owners of City Chic Collective Limited	up	271.7%	to	15,978

Comments

Reconciliation of operating profit before income tax to underlying EBITDA (Earnings before interest, taxation, depreciation, amortisation and impairment, and other adjustments) from continuing operations is provided as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Net profit after tax from continuing operations	14,265	14,959
Net interest (income)/expense	(373)	1,576
Tax expense/(benefit)	4,980	(3,482)
Depreciation, amortisation and impairment expense	3,942	3,862
Release of store exit costs ¹	(289)	(1,109)
Gain on hedging contract ²	-	(1,715)
Restructuring costs ³	-	1,872
Provision for onerous lease and contract ⁴	(272)	3,910
Transition costs ⁵	2,625	-
Underlying EBITDA from continuing operations	<u>24,878</u>	<u>19,873</u>

3. Net tangible assets

	Reporting period	Previous period
	Cents	Cents
Net tangible assets per ordinary security	<u>15.1</u>	<u>14.0</u>

¹ Writeback of USA provision for onerous lease.

² Related to close out of cash flow hedges following the divestment of 5 brands to Noni B Limited (NBL).

³ Restructuring cost includes redundancies and retention payments to employees in relation to divestment of 5 brands to NBL and renewal of corporate bank facility and associated fees.

⁴ FY2018 related to provision for head office unutilised space and onerous contract from the Transition Service Agreement (divestment of brands) - agreement whereby provision of transition service from NBL to the Group is indicated. FY2019 related to partial release of head office onerous lease.

⁵ Transition costs related to costs incurred to implement the separation of the divested brands and the organisational transformation.

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4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

			Amount per security	Franked amount per
			Cents	security
				Cents
Final ordinary dividend	Record date	16 September 2019	1.5	1.5
Interim ordinary dividend	Paid	19 March 2019	2.5	2.5
Special dividend	Paid	19 March 2019	2.5	2.5

Previous period

There were no dividends paid, recommended or declared during the previous financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit qualification or review

Details of audit/review dispute or qualification (if any):

The financial statements have been audited and an unqualified opinion has been issued.

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11. Attachments

Details of attachments (if any):

The Annual Report of City Chic Collective Limited for the 52 week period ended 30 June 2019 is attached.

12. Signed

A handwritten signature in black ink, appearing to be 'PR', with a long horizontal flourish extending to the right.

Phil Ryan
Chief Executive Officer and Managing Director

27 August 2019
Sydney

City Chic Collective Limited

(Formerly known as Specialty Fashion Group Limited)

ABN 43 057 569 169

Annual Report – 52 week period ended 30 June 2019

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Corporate directory
30 June 2019

Directors	Michael Kay Michael Hardwick Megan Quinn Phil Ryan Anne McDonald Ashley Hardwick Daniel Bracken	Chairman (appointed 9 November 2018) Chief Executive Officer (appointed 1 October 2018) Former Chairperson Former Chief Executive Officer	Non-executive director (appointed 1 October 2018) Non-executive director Non-executive director Managing Director (appointed 12 February 2019) Former non-executive director (resigned 9 November 2018) Former non-executive director (resigned 9 November 2018) Former Managing Director (resigned 30 September 2018)
Company secretary	Mark Ohlsson (appointed 10 May 2019) Claudine Tarabay (resigned 10 May 2019)		
Notice of annual general meeting	The Annual General Meeting of City Chic Collective Limited will be held at: Museum of Sydney Corner Phillip and Bridge Street Level 2, AGL Theatre Room Sydney, NSW 2000 Time: 10:00 am Date: Thursday, 21 November 2019		
Registered office	151-163 Wyndham Street Alexandria, NSW 2015 Telephone: (02) 9059 4300		
Principal place of business	151-163 Wyndham Street Alexandria, NSW 2015		
Share register	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 Telephone: (02) 8280 7111 Facsimile: (02) 9287 0303		
Auditor	Deloitte Touche Tohmatsu Chartered Accountants 60 Station Street Parramatta, NSW 2150		
Solicitors	Arnold Bloch Leibler Level 24, Chifley Tower 2 Chifley Square Sydney, NSW 2000		
Bankers	National Australia Bank 255 George Street Sydney, NSW 2000		
Stock exchange listing	City Chic Collective Limited shares are listed on the Australian Securities Exchange (ASX code: CCX)		
Website	http://www.citychiccollective.com.au/		
Corporate Governance Statement	https://www.citychiccollective.com.au/corporate-governance		
ABN	43 057 569 169		

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Directors' report
30 June 2019

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'consolidated entity') consisting of City Chic Collective Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the 52 week period ended 30 June 2019.

Directors

The following persons were directors of City Chic Collective Limited during the whole of the financial period and up to the date of this report, unless otherwise stated:

Michael Kay (appointed 1 October 2018)
Michael Hardwick
Megan Quinn
Phil Ryan (appointed 12 February 2019)
Anne McDonald (resigned 9 November 2018)
Ashley Hardwick (resigned 9 November 2018)
Daniel Bracken (resigned 30 September 2018)

Principal activities

City Chic Collective Limited operates within the women's fashion retail sector in Australia, New Zealand, USA, Germany and the UK. The Southern Hemisphere, which comprises Australia and New Zealand, represented 80% of revenue with the balance in the Northern Hemisphere markets of USA, UK and Germany.

Dividends

Dividends paid during the financial period were as follows:

	Consolidated	
	2019 \$'000	2018 \$'000
Interim ordinary dividend for the period ended 30 June 2019 (2019: 2.5 cents per ordinary share (2018: nil))	4,806	-
Special dividend for the period ended 30 June 2019 (2019: 2.5 cents per ordinary share (2018: nil))	4,806	-
	<u>9,612</u>	<u>-</u>

Since the end of the period, the directors have declared the payment of a fully franked final ordinary dividend of 1.5 cents per ordinary share (2018: nil). Record date is 16 September 2019 and payment date is 30 September 2019 for the final ordinary dividend. The aggregate amount of the dividends expected to be paid on 30 September 2019 out of retained earnings at 30 June 2019, but not recognised as a liability at the end of the period is \$2.9 m.

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30 June 2019

Operating and financial review

City Chic continues to be a market leader in the plus size women's apparel market with 385,000 active customers globally. The Group has a strong multi-channel offering including 104 stores in Australia and New Zealand, a market leading online platform with sales penetration of 44%, and a growing partner business in North America and Europe. At the annual general meeting (AGM) on 9 November 2018, the Company changed its name from Specialty Fashion Group Limited to City Chic Collective Limited.

The net profit after tax for continuing operations was \$14.3 m (1 July 2018: \$15.0 m) and for the Group was \$16.0 m (1 July 2018: \$9.3 m loss). The Group achieved sales revenue from continuing operations of \$148.4 m (1 July 2018: \$131.9 m) and Underlying EBITDA from continuing operations of \$24.9 m (1 July 2018: \$19.9 m).

The Group ended the year with net cash of \$23.2 m at 30 June 2019 (1 July 2018: \$16.1 m). The Group had a \$15.0 m debt facility to February 2021, which was unutilised as at 30 June 2019.

In August 2019, the Group amended its external finance facilities from a working capital facility of \$15.0 m to a general corporate purpose facility of \$5.0 m.

The reported operating cash flow used for the year was \$(3.8 m) (1 July 2018: \$18.9 m). The normalised operating cash flow was \$21.5 m, adjusted for outflows associated with the divested brands, the transaction and the transition, as well as the impact of earlier settlement for select suppliers on more favourable pricing terms. Divestment related outflows include settlement of select retained supplier and employee liabilities, GST related balances, advisor fees and redundancies, which were provided for at 1 July 2018 or underlying adjustments in FY2019.

Due to adoption of a retail trading weeks calendar, results in prior period comparatives have two additional trading days.

Outlook

During FY2020, the Group's focus will be on the execution of various initiatives to drive growth including:

- Ongoing store roll-out across Australia and New Zealand;
- Conversion of existing high performing stores to larger format;
- Ongoing expansion of lifestyles and categories;
- Expansion into new segments within plus-size;
- Growing the customer base in the USA;
- Adding new partners in the Northern Hemisphere;
- Ongoing investment to enhance customer touchpoints.

Material business risks

City Chic Collective Limited operates in an environment of change and uncertainty. There are a range of factors, both specific to the Group and general in nature which may impact the operating and financial performance of the Group. The impact of these risks are regularly reviewed for their possible impact.

Competition and consumer discretionary spending

The Group operates in a retail environment where quality and value for money are critical to the customers it services. The retail fashion market continues to consolidate and feel the effects of globalisation. City Chic is in a unique situation of having high Online penetration, a global outlook and a nimble and fast supply chain that adapts to changes within customer buying patterns.

Exchange rates and duties

The Group relies significantly on imported products and as a result the cost of the product may be subject to movements in the exchange rate of the Australian dollar and/or duties on imported goods in respective markets. The Group's operations in the USA provide a natural hedge against currency movements.

Workplace Health and Safety (WHS)

The continuing business has over 700 employees as well as the customers who visit its stores. The Group has a high focus on WHS with investment in training and development of its employees a high priority.

**City Chic Collective Limited
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Significant changes in the state of affairs

On 2 July 2018, the Group divested five of its brands to Noni B Limited (ASX:NBL) for cash consideration of \$31.0 m (before post completion adjustments, transaction and separation costs). The Group retained ownership of the brand City Chic.

There were no other significant changes in the state of affairs of the Group during the financial period.

Matters subsequent to the end of the financial period

During the financial period on 2 July 2018, the Group completed the sale of the businesses associated with the operations and brands of Millers, Katies, Rivers, Autograph and Crossroads to Noni B Limited. The agreement was to sell these brands for consideration of \$31.0 m (plus or minus post completion adjustment). Independent experts were appointed to determine the outcome of the completion adjustment and other aspects of the Business Sale Agreement. As announced by the Group to the ASX on 24 June 2019, those disputes were determined by independent experts in the Group's favour. On 31 July 2019, Noni B Limited filed proceedings in the Supreme Court of New South Wales seeking orders setting aside the independent experts' determination. Notwithstanding that City Chic received a favourable expert determination, given the subsequent proceedings filed by Noni B, the Group has been prudent and provisioned accordingly.

In August 2019, the Group amended its external finance facilities from a working capital facility of \$15.0 m to a general corporate purpose facility of \$5.0 m.

Other than the above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Certain likely developments in the operations of the consolidated entity and the expected results of operations in financial years subsequent to the period ended 30 June 2019 are referred to in the preceding operating and financial review and outlook.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Michael Kay (appointed 1 October 2018)

Title:	Chairman and non-executive director
Qualifications:	B.LL.B
Experience and expertise:	Michael Kay joined the City Chic Collective Limited Board on 1 October 2018 as an independent non-executive director and was subsequently appointed Chairman on 9 November 2018. A qualified lawyer, Mr. Kay brings a broad range of commercial experience to the Board. Mr. Kay was Chief Executive Officer and Managing Director of McMillan Shakespeare Limited (ASX:MMS) for six years and previously held a number of senior executive roles at AAMI including Chief Executive Officer. He also spent 12 years in private legal practice specialising in commercial law during his executive career.
Other current directorships:	Mr. Kay is currently Chairman of IMF Bentham Limited (ASX:IMF) and a non-executive director of Royal Automobile Club Insurance (WA).
Former directorships (last 3 years):	Mr. Kay was Chairman of Lovisa Holdings Limited (ASX:LOV) until his retirement on 30 October 2018, where he led the Board during a period of substantial growth. He was previously a non-executive director of Quintis Ltd (ASX:QIN) until 18 June 2018 and Chairman and non-executive director of ApplyDirect Limited (ASX: AD1) until 19 March 2019.
Special responsibilities:	Chairman of the Board (appointed 9 November 2019); Member of the Audit and Risk Committee (ARC) (appointed 1 October 2018); Member of the Nomination and Remuneration Committee (NRC) (appointed 1 October 2018)
Interests in shares:	509,914 ordinary shares
Interests in options:	None
Interests in rights:	None

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Michael Hardwick

Title:	Non-executive director
Qualifications:	B.Comm
Experience and expertise:	Michael Hardwick joined the City Chic Collective Limited Board in May 2012. He is an independent, non-executive director. Mr. Hardwick is a director and the Chief Financial Officer of the Cotton On Group, and a director of the Cotton On Foundation. Mr. Hardwick is also a non-executive director of the Grill'd Group of Companies which includes Australia's largest privately-owned chain of Burger Restaurants and also Koko Black, a premium branded Australian chocolatier. Mr. Hardwick is also a member of the Finance and Risk Committee of the Geelong Football Club. Mr. Hardwick is a Chartered Accountant by training and has previously worked at PricewaterhouseCoopers in both Melbourne and New York in the transaction advisory practice. He also spent 10 years as a partner with the New York-based private equity firm Hudson Valley Capital Partners.
Other current directorships:	Mr. Hardwick does not hold any other listed company directorships.
Former directorships (last 3 years):	Mr. Hardwick has not held any other listed company directorships in the last three years.
Special responsibilities:	Chairman of the ARC; Member of the NRC
Interests in shares:	495,000 ordinary shares
Interests in options:	None
Interests in rights:	None

Megan Quinn

Title:	Non-executive director
Qualifications:	GAICD
Experience and expertise:	Megan Quinn joined the City Chic Collective Limited Board in October 2012 as an independent non-executive director. She is a specialist consultant working across a broad range of industries including financial and professional services, healthcare, consumer and digital, and is an international speaker. Ms. Quinn has more than 25 years' experience working internationally with organisations including Harrods, Dell, Westpac and UNICEF. Her strong strategic, operational, supply chain and financial expertise is complemented by her capabilities around brand, marketing, innovation, transformation, digital, and customer service and experience across all channels. She is recognised as a global brand expert for her game-changing role as a co-founder of NET-A-PORTER. Known for her creative, energetic and disruptive thinking, Ms. Quinn has the unique ability to define gaps in the market and develop market-leading business strategies for commercial and creative outcomes.
Other current directorships:	Ms. Quinn is currently a non-executive director at Reece Limited (ASX:REH) and InvoCare Limited (ASX:IVC) (appointed 1 September 2018).
Former directorships (last 3 years):	Ms. Quinn retired as non-executive director at zipMoney Limited (ASX:ZIP) on 1 November 2017 and was a former Board and National Committee member of UNICEF Australia.
Special responsibilities:	Chair of the NRC; Member of the ARC
Interests in shares:	None
Interests in options:	None
Interests in rights:	None

Phil Ryan (appointed 12 February 2019)

Title:	Chief Executive Officer and Managing Director
Qualifications:	MBA, B.Bus
Experience and expertise:	Phil Ryan is the original Brand Director of City Chic. In 2006 Mr. Ryan led a team of six people that created the brand. He is responsible for the strategic direction and operational leadership that has seen City Chic take a market leading position in the global plus size industry. Under Mr. Ryan's leadership City Chic has opened more than 100 stores in Australia and New Zealand. The digital footprint is now over 40% of the turnover globally and in the UK and Europe City Chic trades in a digital capacity. He has driven successful partnerships with Nordstrom, Macy's and Bloomingdale's in the USA; ASOS in the UK and Zalando in Germany. Mr. Ryan is a global authority in the plus size consumer. He has over 25 years' experience in senior and strategic retail apparel management. Mr. Ryan's family had a fashion manufacturing, wholesale and retail business called Ambition in the 1980's and 1990's and from this he knows all areas of a ragtrade business; from the cutting table to the retail shop floor. Mr. Ryan does not hold any other listed company directorships.
Other current directorships:	Mr. Ryan does not hold any other listed company directorships.
Former directorships (last 3 years):	Mr. Ryan has not held any other listed company directorships in the last three years.
Special responsibilities:	Chief Executive Officer (appointed 1 October 2018); Managing Director (appointed 12 February 2019)
Interests in shares:	124,000 ordinary shares
Interests in options:	None
Interests in rights:	2,640,740 performance rights over ordinary shares

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Anne McDonald (resigned 9 November 2018)

Title:	Former Chairperson and non-executive director
Qualifications:	B.Ec, FCA, GAICD
Experience and expertise:	Anne McDonald joined the Specialty Fashion Group Board in April 2007 as an independent non-executive director. An experienced non-executive director, Ms. McDonald brings business, finance, accounting, risk management and governance skills. A Chartered Accountant by training, Ms. McDonald was a partner with Ernst & Young for 15 years until 2005, working with large multinational and domestic companies. During that time she served as a member of the Board of Ernst & Young Australia for seven years.
Other current directorships:	Ms. McDonald is a non-executive director of the following listed and unlisted entities: Spark Infrastructure Group and its associated entity, Victoria Power Networks (2009 - present), WaterNSW (2016 - present, also Chairperson), Link Administration Holdings Ltd (2016 - present) and St Vincent's Healthcare (2017 - present).
Former directorships (last 3 years):	Ms. McDonald stepped down from the Board of The GPT Group on 4 May 2016 and Sydney Water Corporation on 24 March 2016. Ms McDonald also stepped down from the Board of Westpac's Life and General Insurance Businesses in May 2015.
Special responsibilities:	Former Chairperson of the Board; Former member of the ARC; Former member of the NRC
Interests in shares:	Not applicable as no longer a director
Interests in options:	Not applicable as no longer a director
Interests in rights:	Not applicable as no longer a director

Ashley Hardwick (resigned 9 November 2018)

Title:	Former non-executive director
Experience and expertise:	Ashley Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. Mr. Hardwick is a director and shareholder of the Cotton On Group and has over 20 years of retail experience. He also oversees the property function of the Cotton On Group.
Other current directorships:	Mr. Hardwick does not hold any other listed company directorships.
Former directorships (last 3 years):	Mr. Hardwick has not held any other listed company directorships in the last three years.
Special responsibilities:	Former member of the ARC; Former member of the NRC
Interests in shares:	Not applicable as no longer a director
Interests in options:	Not applicable as no longer a director
Interests in rights:	Not applicable as no longer a director

Daniel Bracken (resigned 30 September 2018)

Title:	Former Chief Executive Officer and Managing Director
Qualifications:	B.Comm
Experience and expertise:	Daniel Bracken has more than 25 years' experience in retailing, fashion, and brand development in Australia and international markets. He has held executive and Chief Executive roles across strategy, marketing, and merchandise among others. Prior to joining Specialty Fashion Group he was Deputy CEO and Chief Merchandise & Customer Officer at Myer. Previously, Mr. Bracken was CEO of The Apparel Group and performed a range of roles at Burberry London.
Other current directorships:	Mr. Bracken does not hold any other listed company directorships.
Former directorships (last 3 years):	Mr. Bracken has not held any other listed company directorships in the last three years.
Special responsibilities:	Former Chief Executive Officer and Managing Director
Interests in shares:	Not applicable as no longer a director
Interests in options:	Not applicable as no longer a director
Interests in rights:	Not applicable as no longer a director

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretary

The Company Secretary is Mark Ohlsson, FCPA. Mr. Ohlsson was appointed to the position of Company Secretary on 10 May 2019. Mr. Ohlsson has been involved in business management and venture capital for over 35 years. His particular expertise is in governance, assessing venture capital and business proposals, all aspects of contractual negotiations, finance and management reporting requirements, board consultation and representation and accounting services. He is a Fellow of CPA Australia and a Registered Tax Agent.

The former Company Secretary was Claudine Tarabay, B.Economics, CA. Ms. Tarabay was appointed to the position of Company Secretary in October 2016 and resigned on 10 May 2019. Prior to this, Ms. Tarabay worked at PricewaterhouseCoopers in Audit and Assurance and has more than 15 years of commercial experience.

City Chic Collective Limited
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Directors' report
30 June 2019

Meetings of directors

The number of meetings of the Company's Board of Directors (the 'Board') held during the period ended 30 June 2019, and the number of meetings attended by each director were:

	Full Board		NRC		ARC	
	Attended	Held	Attended	Held	Attended	Held
Michael Kay ¹	10	10	3	3	4	4
Michael Hardwick	12	12	7	7	6	6
Megan Quinn	12	12	7	7	6	6
Phil Ryan ²	6	6	-	-	1	1
Anne McDonald ³	4	4	4	4	2	2
Ashley Hardwick ⁴	3	4	-	-	-	-
Daniel Bracken ⁵	2	2	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

¹ Michael Kay appointed as non-executive director on 1 October 2018 and Chairman on 9 November 2018.

² Phil Ryan appointed as Chief Executive Officer on 1 October 2018 and Managing Director on 12 February 2019.

³ Anne McDonald resigned 9 November 2018.

⁴ Ashley Hardwick resigned 9 November 2018.

⁵ Daniel Bracken was appointed 12 February 2018 and resigned 30 September 2018.

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Remuneration report (audited)

The remuneration report, which has been audited as required by section 308(3C) of the *Corporations Act 2001*, outlines the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

1. Introduction
2. Remuneration strategy and policy
3. Remuneration framework
4. Remuneration outcomes for key management personnel
5. Service agreements
6. Disclosures relating to share, options, and performance rights
7. Additional disclosures relating to key management personnel

1. Introduction

This report outlines the remuneration strategy, framework and other conditions of employment for key management personnel and details the role and accountabilities of the Board and relevant Committees that support the Board on these matters. Key management personnel (KMP) are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

Key management personnel of the consolidated entity were also the key management personnel of City Chic Collective Limited (the parent entity) for the years ended 30 June 2019 and 1 July 2018. The key management personnel consisted of the following directors and senior executives of City Chic Collective Limited:

Name	Role
<i>Non-executive directors:</i>	
Michael Kay	Chairman (appointed 9 November 2018) and non-executive director (appointed 1 October 2018)
Michael Hardwick	Non-executive director
Megan Quinn	Non-executive director
Anne McDonald	Former Chairperson and non-executive director (resigned 9 November 2018)
Ashley Hardwick	Former non-executive director (resigned 9 November 2018)
<i>Executive directors:</i>	
Phil Ryan	Chief Executive Officer (appointed 1 October 2018) and Managing Director (appointed 12 February 2019); previously General Manager City Chic
Daniel Bracken	Former Chief Executive Officer and Managing Director (resigned 30 September 2018)
<i>Other key management personnel¹:</i>	
Munraj Dhaliwal	Chief Financial Officer (appointed 14 February 2019)
Tim Fawaz	Former Chief Financial and Operations Officer (resigned 14 February 2019)

2. Remuneration strategy and policy

The Nomination and Remuneration Committee (referred to hereafter as the "NRC" or the 'Committee') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract and retain talented and motivated executives who can enhance the Group's performance through their contributions and leadership.

¹ Sonia Moura was determined to be a KMP in prior years however after the FY2018 divestment, the role is no longer considered to qualify as KMP.

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Principles used to determine the nature and amount of remuneration

The objectives of the Group's executive remuneration framework are as follows:

- competitiveness and sustainability;
- acceptability to the Group's strategic and business objectives and the creation of shareholder value;
- performance linkage/alignment of executive compensation; and
- transparency and acceptability to shareholders.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- including economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets; and
- attracting and retaining high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

Remuneration policies are developed to provide market competitive remuneration arrangements that support the attraction, engagement and retention of talented team members, and that are aligned with shareholders' interests.

3. Remuneration framework

In accordance with best practice corporate governance, the structures of non-executive directors and executive remuneration are separate.

Non-executive directors' remuneration

Non-executive directors receive fees and do not receive share-based payments or other incentives. The Chairman's fees are determined independently to the fees of other non-executive directors and are based on comparable roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. The NRC review non-executive directors' fees and payments annually. The NRC may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 8 November 2012, where the shareholders approved a maximum annual aggregate remuneration of \$600,000. The NRC has reviewed the fee and deemed the maximum annual aggregate remuneration is still appropriate.

Executive directors and other key management personnel

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration that has both fixed and variable components, as well as a blend of short and long-term incentives. Executive remuneration comprises base pay and benefits, short-term incentives, long-term incentives, and superannuation contributions.

(i) Fixed Remuneration

Executives receive a base pay and benefits which reflect their roles, experience and level of responsibility. This is reviewed annually to ensure the executive's pay is competitive with the market. Other benefits include car allowances.

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(ii) Short-term Incentives

The NRC reviews the short-term incentives (STI) for executives and employees annually. If the NRC determines that STI should be made available for executives and/or employees, the cash incentives (bonuses) are payable should the Group achieve pre-determined targets following finalisation and announcement of the full year audited results. Using value creation targets ensures variable awards are only available when value has been created for shareholders and when profit is consistent with the business plan.

The NRC considers the appropriate targets and KPIs to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2019, the KPIs linked to the STI plan were based on achieving budgeted EBITDA (80%), capital expenditure within guidance (10%) and establishing engagement benchmarks for the business (10%). The STI payments are adjusted in line with the degree of achievement against the target performance levels. For the year ended 30 June 2019, the STI hurdles were achieved.

(iii) Long-term Incentives

The Group's remuneration framework aims to align long-term incentives for executives with the delivery of sustainable value to shareholders. This is important in ensuring that key management personnel and other executives are focused on delivering sustainable returns to shareholders, whilst allowing the Group to attract and retain high calibre executives.

In the year ended 30 June 2019, the NRC conducted a review of the long-term incentive plan (LTIP) with the assistance of remuneration consultants, PricewaterhouseCoopers. Under the LTIP, the Group issued performance rights during the year ended 30 June 2019. The LTIP rewards executives for high performance and ongoing commitment over a three to five year horizon and recognises the important role executives play in delivering the long term growth of the Group. Details of the LTIP grant in the year ended 30 June 2019 are set out below.

Tranche 1

Vesting Condition 1 Continued service to August 2021, with no holding lock on resulting shares;
Vesting Condition 2 Compound annual growth rate (CAGR) in the Group's earnings per share before tax (EPS) during the three years to June 2021 in accordance with the following schedule:

EPS CAGR across the Tranche 1 Performance Period	Proportion of Tranche 1 Performance Rights held that will satisfy Vesting Condition 2
Below 5%	Nil
5%	25%
5% ≤ EPS CAGR ≤ 20%	Straight line pro-rata vesting between 25% and 100% (inclusive)

Tranche 2A

Vesting Condition Continued service to August 2021, with no holding lock on resulting shares.

Tranche 2B

Vesting Condition 1 Continued service to August 2021, with no holding lock on resulting shares;
Vesting Condition 2 Group EPS performance in accordance with the following schedule:

Group EPS for the year to 30 June 2021	Proportion of Tranche 2B Performance Rights held that will satisfy Vesting Condition 2
Below \$0.0975 (1.3 x FY2018 EPS)	Nil
\$0.0975 ≤ EPS < \$0.1050 (1.4 x FY2018 EPS)	50%
EPS ≥ \$0.1050	100%

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Tranche 2C

Vesting Condition 1
Vesting Condition 2

Continued service to August 2023, with no holding lock on resulting shares;
Group EPS performance in accordance with the following schedule:

Group EPS for the year to 30 June 2023	Proportion of Tranche 2C Performance Rights held that will satisfy Vesting Condition 2
Below \$0.1125 (1.5 x FY2018 EPS)	Nil
\$0.1250 ≤ EPS < \$0.1200 (1.6 x FY2018 EPS)	50%
\$0.1200 ≤ EPS < \$0.1275 (1.7 x FY2018 EPS)	75%
EPS ≥ \$0.1275	100%

Use of remuneration consultants

During the financial period ended 30 June 2019, the consolidated entity, through the NRC, engaged PricewaterhouseCoopers, remuneration consultants, to review its existing remuneration policies and provide recommendations on how to improve both the STI and LTIP programs. This has resulted in share-based payments remuneration in the form of performance rights being implemented. PricewaterhouseCoopers was paid \$69,998 for these services.

An agreed set of protocols were put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel. These protocols include requiring that the consultant not communicate with affected key management personnel without a member of the NRC being present, and that the consultant not provide any information relating to the outcome of the engagement with the affected key management personnel. The Board is also required to make inquiries of the consultant's processes at the conclusion of the engagement to ensure that they are satisfied that any recommendations made have been free from undue influence. The Board is satisfied that these protocols were followed and as such there was no undue influence.

Voting and comments made at the company's 9 November 2018 Annual General Meeting (AGM)

At the 9 November 2018 AGM, 99.28% of the votes received supported the adoption of the remuneration report for the year ended 1 July 2018. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

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4. Remuneration outcomes for key management personnel

(a) Payments and benefits

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

	Short-term			Total	Post-employment	Other long-term	Termination benefit	Share-based	Total	Proportion of performance related remuneration
	Cash salary & fees	Bonus	Allowances		superannuation	leave benefits		payments performance rights		
2019	\$	(A) \$	(B) \$	\$	\$	(C) \$	\$	(D) \$	\$	%
<i>Non-executive directors</i>										
Michael Kay ¹	116,790	-	-	116,790	11,095	-	-	-	127,885	0%
Michael Hardwick	75,000	-	-	75,000	7,125	-	-	-	82,125	0%
Megan Quinn	75,000	-	-	75,000	7,125	-	-	-	82,125	0%
Anne McDonald ²	48,077	-	-	48,077	4,567	-	-	-	52,644	0%
Ashley Hardwick ³	28,846	-	-	28,846	2,740	-	-	-	31,586	0%
<i>Executive directors</i>										
Phil Ryan ⁴	527,500	195,000	11,002	733,502	24,351	151,257 ⁵	-	508,692	1,417,802	50%
Daniel Bracken ⁶	294,228	-	-	294,228	5,133	-	20,023	-	319,384	0%
<i>Other key management personnel</i>										
Munraj Dhaliwal ⁷	130,154	108,000	-	238,154	6,350	6,106	-	96,797	347,407	59%
Tim Fawaz ⁸	249,789	112,000 ⁹	16,346	378,135	15,399	40,615	-	-	434,149	N/A
Total	1,545,384	415,000	27,348	1,987,732	83,885	197,978	20,023	605,489	2,895,107	

(A) The short-term incentive bonus in relation to Phil Ryan and Munraj Dhaliwal is for performance during the respective financial year using the criteria set out on pages 10 - 11. The amount was finally determined at a Board meeting held on 26 August 2019 and expected to be paid in January 2020, subject to serviceability.

(B) This comprises car and travel allowances.

(C) In accordance with *AASB 119 Employee Benefits*, annual leave is classified as other long-term employee benefit. Balance also includes long service leave and annual leave accrued in the period.

(D) The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award multiplied by probability of vesting. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

¹ Michael Kay appointed as non-executive director on 1 October 2018 and Chairman on 9 November 2018.

² Anne McDonald resigned on 9 November 2018.

³ Ashley Hardwick resigned on 9 November 2018.

⁴ Phil Ryan appointed as Chief Executive Officer on 1 October 2018 and Managing Director on 12 February 2019.

⁵ Other long-term leave benefits in FY2019 include long service leave and annual leave accrued in the period, as well as adjustment for opening leave liability balances to reflect current annual salary.

⁶ Daniel Bracken was appointed on 12 February and resigned 30 September 2018.

⁷ Munraj Dhaliwal was appointed on 14 February 2019.

⁸ Tim Fawaz was appointed on 1 July 2017 and resigned on 14 February 2019.

⁹ Cash bonus paid in relation to service during transition after the divestment on 2 July 2018.

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	Cash salary & fees	Bonus ¹	Short-term Allowances ²	Total	Post-employment superannuation	Other long-term leave benefits	Termination benefit	Total	Proportion of performance related remuneration
2018	\$	\$	\$	\$	\$	\$	\$	\$	%
<i>Non-executive directors</i>									
Anne McDonald	116,667	-	-	116,667	11,083	-	-	127,750	0%
Michael Hardwick	75,000	-	-	75,000	7,125	-	-	82,125	0%
Ashley Hardwick	75,000	-	-	75,000	7,125	-	-	82,125	0%
Megan Quinn	75,000	-	-	75,000	7,125	-	-	82,125	0%
<i>Executive directors</i>									
Daniel Bracken ³	319,314	250,000	100,000	669,314	11,766	-	414,000 ⁴	1,095,080	23%
Gary Perlstein ⁵	686,853	-	45,100	731,953	15,036	330,193	312,313 ⁶	1,389,495	0%
<i>Other key management personnel</i>									
Tim Fawaz ⁷	413,077	350,000	25,000	788,077	20,898	-	-	808,975	43%
Sonia Moura ⁸	304,458	50,000	25,000	379,458	20,655	5,124	-	405,237	12%
Phil Ryan	460,000	295,000 ⁹	35,250	790,250	33,250	7,678	-	831,178	36%
Tony Karp ¹⁰	163,710	-	10,923	174,633	10,024	-	-	184,657	0%
Total	2,689,079	945,000	241,273	3,875,352	144,087	342,995	726,313	5,088,747	

The proportion of remuneration linked to performance and the fixed proportion assuming full STI is received and that the LTI fully vests are as follows:

Name	Fixed Remuneration		At risk - STI		At risk - LTI		Cash bonus paid/payable		Cash bonus forfeited	
	2019	2018	2019	2018	2019	2018	2019	2018	2019	2018
<i>Executive director:</i>										
Phil Ryan	47%	72%	14%	28%	39%	-	100%	100%	0%	0%
<i>Other key management personnel:</i>										
Munraj Dhaliwal	63%	N/A	19%	N/A	18%	N/A	100%	N/A	0%	N/A
Tim Fawaz	100%	57%	N/A	43%	N/A	-	N/A	100%	0%	0%

¹ Bonus in relation to announced sale of the discontinued businesses payable post 2018 financial year end.

² Includes car, travel and accommodation allowances.

³ Daniel Bracken was appointed on 12 February and resigned 30 September 2018.

⁴ This represents an accrued charge for contractual notice period to be paid out in the 2019 financial year.

⁵ Gary Perlstein resigned 15 November 2017.

⁶ This statutory entitlement was a cash payout in the 2018 financial period.

⁷ Tim Fawaz was appointed on 1 July 2017 and resigned on 14 February 2019.

⁸ Sonia Moura was determined to be a KMP in prior years however after the FY2018 divestment, the role is no longer considered to qualify as KMP.

⁹ This represents a cash payment in the 2018 financial period.

¹⁰ Tony Karp resigned 10 November 2017.

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5. Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows

Name:	Phil Ryan
Title:	Chief Executive Officer (appointed 1 October 2018) and Managing Director (appointed 12 February 2019)
Term of agreement:	None
Details:	• Notice period of 6 months • Remuneration review at Board discretion • Eligible for short-term incentives • Eligible for long-term incentives • No severance period • No termination benefits (except for statutory entitlements) • No other benefits

Name:	Munraj Dhaliwal
Title:	Chief Financial Officer (appointed 14 February 2019)
Term of agreement:	None
Details:	• Notice period of 3 months • Remuneration review at Board discretion • Eligible for short-term incentives • Eligible for long-term incentives • No severance period • No termination benefits (except for statutory entitlements) • No other benefits

Name:	Tim Fawaz
Title:	Former Chief Financial and Operations Officer (resigned 14 February 2019)
Term of agreement:	None
Details:	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short-term incentives • Eligible for long-term incentives • No severance period • No termination benefits (except for statutory entitlements) • No other benefits

All non-executive directors stand for re-election at least every 3 years and have no notice period, no annual remuneration review, no eligibility for short-term incentives, no eligibility for long-term incentives, no severance period, no termination benefits and no other benefits.

6. Disclosures relating to share, options, and performance rights

Issue of shares and options

There were no shares or options issued to key management personnel as part of compensation during the period ended 30 June 2019.

Issue of performance rights

There were performance rights over ordinary shares issued to key management personnel as part of compensation as at 30 June 2019.

The details of each grant of performance rights over ordinary shares affecting remuneration of key management personnel in this financial period or future reporting years are as follows:

Tranche	Grant date	Performance period end date	Share price at grant date	Expected volatility	Dividend yield	Risk-free rate	Fair value
1	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	\$1.07
2A	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	\$1.07
2B	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	\$1.07
2C	13/11/2018	30/06/2023	\$1.17	35.00%	3.50%	2.12%	\$0.99

The number of performance rights over ordinary shares granted to and vested by key management personnel as part of compensation during the period ended 30 June 2019 are set out below:

	Number of rights granted during the period 2019	Number of rights vested during the period 2019
Phil Ryan	2,640,740	-
Munraj Dhaliwal	483,333	-
Total	3,124,073	-

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The fair value of performance rights over ordinary shares granted, vested and lapsed for key management personnel as part of compensation during the period ended 30 June 2019 are set out below:

	Value of rights granted during the period 2019 \$	Value of rights lapsed during the period 2019 \$
Phil Ryan	531,108	-
Munraj Dhaliwal	102,578	-
Total	633,686	-

The number of performance rights over ordinary shares granted to key management personnel as part of compensation during the period ended 30 June 2019 are set out below:

Name	Tranche 1	Tranche 2A	Tranche 2B	Tranche 2C	Total Performance Rights
Phil Ryan	240,740	600,000	600,000	1,200,000	2,640,740
Munraj Dhaliwal	133,333	87,500	87,500	175,000	483,333
Total	374,073	687,500	687,500	1,375,000	3,124,073

There were no performance rights over ordinary shares granted, vested or lapsed for key management personnel during the period ended 1 July 2018.

Additional information

The following information has been provided to reflect the financial hurdles considered in measuring executive performance in delivering long term growth of the Group:

	2019	2018
Profit/(loss) before income tax for continuing underlying operations	\$21.3 m	\$14.4 m
EPS (underlying, before income tax)	11.1 cents per share	7.5 cents per share

7. Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial period by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions during the period	Disposals during the period	Other movements ¹	Balance at the end of the period
Directors' shareholding						
Michael Kay	-	-	509,914	-	-	509,914
Michael Hardwick	395,000	-	100,000	-	-	495,000
Phil Ryan	124,000	-	-	-	-	124,000
Anne McDonald	35,000	-	-	-	(35,000)	-
Ashley Hardwick ²	39,801,811	-	-	-	(39,801,811)	-
Subtotal	40,355,811	-	609,914	-	(39,836,811)	1,128,914
Other key management personnel shareholding						
Munraj Dhaliwal	-	-	-	-	80,000 ³	80,000
Tim Fawaz	400,000	-	202,387	-	(602,387)	-
Subtotal	400,000	-	202,387	-	(522,387)	80,000
Total KMP shareholdings	40,755,811	-	812,301	-	(40,359,198)	1,208,914

¹ Balance at the end of the period has been reduced to nil for KMP who have resigned from the consolidated entity.

² Beneficial interest held through NAAH Pty Ltd and NAAH Investments Pty Ltd.

³ Balance represents shareholdings held prior to appointment as KMP.

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Performance rights holding

The number of performance rights over ordinary shares in the Company held during the financial period by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Granted	Vested	Expired/forfeited/other	Balance at the end of the period
<i>Performance rights over ordinary shares</i>					
Phil Ryan	-	2,640,740	-	-	2,640,740
Munraj Dhaliwal	-	483,333	-	-	483,333
Total	-	3,124,073	-	-	3,124,073

Non-executive directors do not hold any performance rights over ordinary shares in the Company.

As at 30 June 2019, there were no outstanding loans made to or received from directors of City Chic Collective Limited and other key management personnel of the consolidated entity, including their personally related parties (2018: nil).

The following transactions occurred with key management personnel and their personally related parties:

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Payment for other expenses:</i>		
Lease of business premises in which Gary Perlstein a former director of the consolidated entity, has an interest	-	125,087
Services provided by Southern Cross Shopfitting, a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd ¹	965,129	210,508 ²
Share registry and Annual General Meeting fees paid to Link Market services. Anne McDonald is a former non-executive director of Link Administrative Holding Limited (Link Group)	12,928	52,931
	<u>978,057</u>	<u>388,526</u>

All transactions were made on normal commercial terms and conditions and at market rates.

This concludes the remuneration report, which has been audited.

¹ Michael Hardwick was not involved in decision making relating to Southern Cross Shopfitting and its dealings with the Group.

² Services provided from March 2018 to June 2018 in FY2018.

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Shares under performance rights

There were no unissued ordinary shares of City Chic Collective Limited under performance rights outstanding at the date of this report.

Shares issued on the exercise of performance rights

There were no ordinary shares of City Chic Collective Limited issued on the exercise of performance rights during the period ended 30 June 2019 and up to the date of this report.

Indemnity and insurance of officers

The Company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial period, the Company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The Company has not, during or since the end of the financial period, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial period, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial period by the auditor are outlined in note 29 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

Officers of the company who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Company who are former partners of Deloitte Touche Tohmatsu.

Rounding of amounts

The Company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

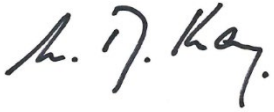
Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

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This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors



Michael Kay
Chairman

27 August 2019
Sydney



Phil Ryan
Chief Executive Officer and Managing Director

The Board of Directors
City Chic Collective Limited
151-163 Wyndham Street
Alexandria, NSW, 2015

27 August 2019

Dear Board Members,

City Chic Collective Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of City Chic Collective Limited and its subsidiaries.

As lead audit partner for the audit of the financial statements of City Chic Collective Limited and its subsidiaries for the 52 week period ended 30 June 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit, and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



Annalisa Amiradakis
Partner
Chartered Accountants

Independent Auditor's Report to the Members of City Chic Collective Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of City Chic Collective Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 52 week period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 30 June 2019 and of its financial performance for the 52 week period then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Gain or loss on divestment of brands and the related tax</p> <p>On 2 July 2018, the Company completed the sale of the businesses associated with the operations and brands of Millers, Katies, Rivers, Autograph and Crossroads to Noni B Limited. The agreement was to sell these brands for consideration of \$31.0 million (plus or minus post completion adjustment).</p> <p>Experts were appointed in accordance with the Business Sales Agreement to determine the outcome of the completion adjustment. On 31st July 2019, Noni B Limited applied to the Supreme Court to have the expert determination reviewed.</p> <p>Both qualitative and quantitative impacts of the divestment to the financial performance of the discontinued operation were considered significant during the course of the financial year given the complexity of the divestment, expert involvement, pending legal review by the Supreme Court and judgements that were applied, during the year and at year end, over the valuation of the liabilities associated with the divestment and net completion adjustment.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing the sale transaction to understand the Business Sale Agreement with Noni B Limited including reference to the sale consideration, the assets and liabilities being sold, mechanism for the working capital (“completion”) adjustment and the dispute resolution process; • Reviewing the expert determination and subsequent application of relief sought by NBL, to assess the application of the rulings in the gain/loss computation prepared and valuation of the completion adjustment raised, • Testing the validity of claims owing by and to the Group to supporting documentation, • Evaluating managements estimate of the recoverability of any claims raised in favour of the group, • Discussions were held with legal representatives of the Group to gain an independent understanding of the matters subject to uncertainty. • Recalculating the mathematical accuracy of the gain/loss on divestment in light of the assets classified as held for sale as at 1 July 2018 and any associated adjustments required as a result of the expert determination and subsequent relief sought by the court review, • Recalculating the mathematical accuracy of the current and deferred taxation impacts associated with the transaction giving due consideration to the revised proceeds after expert determination but subject to pending legal finalisation. <p>We also assessed the appropriateness of the disclosures in Notes 2, 6, 7, 15, 16, 33 and 36 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Revenue recognition impact of the Vendor Funded Mark Down Rebate and the valuation of the associated contract liability at year end</p> <p>The Group has arrangements with key customers (vendors) in the wholesale and dropship revenue streams that act as a rebate against revenue. During the year, revenue of \$28.9 million was earned in the Northern Hemisphere, net of vendor funded markdown rebates, as disclosed in the revenue Note 4. The liability for vendor funded markdowns is included in other payables as disclosed in Note 16.</p> <p>The liability is determined by reference to an agreed percentage against revenue earned over a specified period of time as well as estimated claw back percentages, based on the sell through of product at specific margins and the claw back of margin in the event certain thresholds are not met by the vendor.</p> <p>The timing of retail events, discount strategies and historical evidence of key metrics such as margin and sell through are considered to forecast the liability required at year end. As a result, there is significant judgement applied in determining the appropriate vendor funded markdown liability and the impact on revenue in profit or loss.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Meetings were held with the Chief Executive Officer to understand the arrangements with key customers (vendors), • Obtaining and testing the reconciliation over the revenue earned, net of such rebates and discounts, to the cash received from and paid to these vendors, • Evaluating the key assumptions (the expected vendor discounting required and likelihood of the vendor achieving their guaranteed margins) applied by management to forecast the claw back vendor funded markdown liability at year end, • Testing the supporting evidence (rebate claim) received from the vendors subsequent to year end requiring settlement and supporting the liability raised at year end, • Recalculating the mathematical accuracy of the vendor funded markdown liability based on our understanding of the arrangement and assumptions applied. <p>We also assessed the appropriateness of the disclosures and classification in Notes 1, 2, 4 and 16 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Valuation of inventory at net realisable value and determination of the inventory obsolescence allowance for City Chic</p> <p>As at 30 June 2019 the carrying value of inventory totalled \$19.4 million, as disclosed in Note 10.</p> <p>The Group values its inventory on a weighted average cost method at the lower of cost and net realisable value. The Group establishes an obsolescence allowance against its inventory determined by reference to the inventory’s ageing by season and consideration of historical inventory losses, selling prices net of mark downs, and market conditions. As a result, there is significant judgement applied in determining the appropriate inventory obsolescence allowance.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Meetings were held with the Chief Executive Officer to validate the assumptions applied in estimating the allowance and understanding the current market conditions and strategy of the brand that impacts the inventory on hand available to sell, • Assessing the performance of the City Chic brand relative to each season in the financial year and performing a retrospective review of the allowance balance from FY18 to FY19 to assess the historical accuracy of management’s ability to determine the inventory obsolescence allowance. • Recalculating the mathematical accuracy of the inventory obsolescence allowance, • Testing the completeness and valuation of the specific allowance against terminal inventory and understanding the rationale of such terminal inventory, • Challenging management’s estimates and judgements by formulating a number of independent estimates of the inventory obsolescence, including: <ul style="list-style-type: none"> – actual inventory losses incurred in the current financial year, and – the net realisable value with reference to the last selling price of inventory on hand. – consideration of aged inventory. <p>We also assessed the appropriateness of the disclosures in Notes 1, 2 and 10 to the financial statements.</p>

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Impact assessment of AASB 16 Leases and related disclosures</p> <p>AASB 16 Leases will be adopted by the group from the effective date of 1 July 2019. The estimated impact has been disclosed in note 1. The estimated impact is a right of use assets within a range of \$28.0m and \$32.0m and associated lease liabilities within a range of \$30.0m and \$35.0m.</p> <p>The Group has a retail store portfolio of 104 stores. The determination of the right of use asset and associated lease liability is impacted by judgements made over various assumptions and the use of practical expedients on transition within AASB 16 Leases.</p> <p>The areas of estimation, judgement and application of the standard include consideration of renewal options to be exercised, leases on holdover (also known as leases which operate on a month to month basis whilst renegotiation is pending), incremental borrowing rate, lease incentives, variable cost considerations, low value assets and duration of leases on transition. As a result, there is significant judgement applied in estimating the impact of AASB 16.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Obtaining and understanding the AASB 16 impact assessment computation reconciling the lease portfolio data within the calculation to the lease portfolio information and open stores trading, • Obtaining the AASB 16 impact assessment computation and testing a sample of leases to source documents to validate the accuracy of the data, • Obtaining and understanding management’s assessment of the incremental borrowing rate to be applied to the assets within the portfolio and performing a benchmarking analysis to the market, • Obtaining and understanding management’s assessment of the treatment of leases with incentives, leases on holdover, make good provisions contained within the lease and renewal options, • Challenging and assessing the adequacy of the judgements applied to the lease portfolio, • Challenging and assessing the adequacy of the practical expedients applied to the lease portfolio, • Recalculating the mathematical accuracy of the impact assessment. <p>We also assessed the appropriateness of the disclosures in Note 1 to the financial statements.</p>

Other Information

The directors are responsible for the other information. The other information comprises the Corporate Directory, Directors’ Report, Corporate Governance Statement and Shareholder information which we obtained prior to the date of this auditor’s report, and also includes the following information which will be included in the Group’s annual report (but does not include the financial report and our auditor’s report thereon): City Chic Collective Overview; Chairman and CEO’s Report; Overview of the Board and Executive Team; Annual Highlights; Health and Wellbeing; Diversity; and Corporate Social Responsibility, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor’s report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the City Chic Collective Overview; Chairman and CEO's Report; Overview of the Board and Executive Team; Annual Highlights; Health and Wellbeing; Diversity; and Corporate Social Responsibility, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the ability of Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 16 of the Directors' Report for the 52 week period ended 30 June 2019.

In our opinion, the Remuneration Report of City Chic Collective Limited, for the 52-week period ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



Annalisa Amiradakis
Partner
Chartered Accountants
Parramatta, 27 August 2019

**City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Corporate Governance Statement
30 June 2019**

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Group and its controlled entities and to best addressing the directors' accountability to shareholders and other stakeholders.

In formulating the governance principles that guide the operations of the Group, the directors have taken into account the ASX Corporate Governance Council's Principles of Good and Best Practice Recommendations (3rd edition). This is supported by an overriding organisation wide commitment to the highest standards of legislative compliance and financial and ethical behaviour.

This corporate governance statement outlines the Group's main corporate governance practices and policies in place during the 52 week period ended 30 June 2019, except where indicated otherwise.

This statement and other related information is available from the Corporate Governance section of the Group's website at <http://citychiccollective.com.au/corporate-governance>.

PRINCIPLE 1 - LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The role of the Board is to provide effective governance over the Group's affairs to ensure the interest of shareholders are protected and enhanced and the confidence of the investment market is maintained whilst having regard for the interests of all stakeholders, including customers, employees, suppliers and local communities.

The functions of the Board of Directors are clearly defined in the Group's Board of Directors Charter which includes responsibility for:

- Approval of corporate strategies and the annual budget;
- Monitoring financial performance including approval of the annual and half-year financial reports and liaison with the Group's auditors;
- Monitoring managerial performance; and
- Ensuring the significant risks facing the Group and its controlled entities have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place.

The Board of Directors

The Board of Directors Charter prescribes the structure of the Board and its committees, the framework for independence and director obligations.

Board membership is reviewed to ensure an appropriate skill mix, personal qualities, expertise and diversity to meet the Board's responsibilities and objectives. When a vacancy exists or there is a need for particular skills, the selection criteria based on the skills deemed necessary are identified. The Nomination and Remuneration Committee (NRC) reviews potential candidates for Board appointment and assesses retiring directors standing for re-election, considering a number of factors including skills, experience, expertise and personal qualities to enhance Board effectiveness, as well as any potential conflicts of interest and independence. The Board also undertakes appropriate checks and/or seeks confirmation of key matters in relation to any potential candidates before a person is appointed by the Board or put forward to shareholders as a candidate for election as a director. In its recommendation to shareholders in relation to the election or re-election of a director, the Notice of Meeting for an Annual General Meeting (AGM) sets out material information that would be relevant to the shareholder's decision.

The Group provides a letter of appointment to all directors, which sets out the Group's expectations, their duties, the terms and conditions of their appointment, remuneration and forms part of the induction program for directors.

The Board currently comprises three non-executive directors and one executive director who is, the Chief Executive Officer and Managing Director. Michael Hardwick, Michael Kay and Megan Quinn are considered by the Board to be independent directors. Michael Kay and Michael Hardwick own shares in the Group however are not substantial shareholders. Michael Hardwick was previously not regarded as an independent director by the Board by virtue of his role as Chief Financial Officer of the Cotton On Group, an entity associated with NAAH Pty

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30 June 2019**

Ltd and NAAH Investments Pty Ltd, which was a substantial shareholder in City Chic Collective Limited. The Group also engages the services of Southern Cross Shopfitting, a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd. Given that NAAH Pty Ltd and NAAH Investments Pty Ltd are no longer substantial shareholders in the Group, the Board has re-assessed Michael Hardwick's independence and now considers him to be an independent director. Michael Hardwick is not involved in decision making relating to Southern Cross Shopfitting and its dealings with the Group.

The Chairman and the Chief Executive Officer are not the same person. The Board is chaired by Michael Kay, who is an independent director. The Chairman is responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Group's senior executives. The Chief Executive Officer is responsible for implementing group strategies and policies. The Board of Directors Charter specifies that these are separate roles to be undertaken by separate people.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense. Prior written approvals of the Chairman is required, but this will not be unreasonably withheld.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report on pages 5 to 7 under the heading "Information on directors".

Directors' Independence

Any past or present relationship with the Group is reviewed to assess the likely impact on a director's ability to be objective and exercise independent judgement. The Board reviews any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed. The Board is confident that suitable processes are in place, as outlined in its Board of Directors Charter, to satisfy expectations and requirements in relation to decision making and the management of conflicts of interest. The directors on the Board of City Chic Collective Limited contribute significant knowledge across a range of areas. Regardless of whether directors are defined as independent, all directors are expected to provide independent judgements and views to Board discussions.

Performance Evaluation

The Board undertakes periodic self-assessments of its collective performance, the performance of the Chairman and its committees. Management are invited to contribute to this appraisal process. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. There is also an evaluation process of the senior executives that occurs on an annual basis. Given Board and executive team changes during the reporting period, the Board determined it appropriate to undertake performance evaluations of the Board and senior executives from FY2020 onwards.

Company Secretary

The Board appointed Mark Ohlsson, FCPA, as Company Secretary on 10 May 2019. Prior to this, Claudine Tarabay, B.Economics, CA, was the Company Secretary until her resignation on 10 May 2019. All directors have access to the services and advice of the Company Secretary. Details of the skills, experience and expertise of the Company Secretary for the reporting period are set out in the directors' report. The Company Secretary is accountable directly to the Board, through the Chair, on all matters to do with the proper functioning of the Board and Board Committees.

**City Chic Collective Limited
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Corporate Governance Statement
30 June 2019**

Diversity

Workplace diversity recognises and values the contribution of people from different backgrounds, experiences and perspectives. It is the Group's aim to ensure that all team members have equal opportunity to participate and advance in their careers.

The Group values and recognises the diversity of our Team Members and the added value diversity provides to achieving the Group's overall objectives. The Group's diversity policy outlines the Group's diversity objectives in relation to gender, age, ethnicity, cultural background, disability, religion, gender identity, sexual orientation and professional background. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Group's progress in achieving them.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 30 June 2019 are set out below:

FY2019 Diversity Strategy

Objective	Achievement
1. Conduct Diversity Survey with all Support Office Team Members	Not completed
2. Propose revised Diversity Strategy as results from survey	Not completed
3. Submit the Workplace Gender Equality Report	Completed
4. Training for Team Member on applicable policies and topics	Completed
5. Review Diversity Policy, ensuring it is robust and current	Completed

Objective 1 and 2 were not completed due to change in strategy on engagement which was prioritised over this. These objectives have been incorporated into FY2020 where it will be more appropriate.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 30 June 2020 are set out below:

FY2020 Diversity Strategy

Objective
1. Conduct a Diversity Survey for a new CCX baseline
2. Develop Diversity strategy for FY2021
3. Submit the Workplace Gender Equality Report
4. Implement feedback collected from team through engagement survey process around career & development

Gender Balance

CCX's ongoing commitment to reporting on Diversity is in line with the Workplace Gender Equality Act 2012 (WGE Act 2012). The proportion of women employed at different levels across CCX was as follows:

- 1 of 4 Board members is a woman;
- 63% of the Executive Team are women;
- 85% of our Managers are women;
- 100% of our Team Leaders are women;
- 97% of our workforce are women.

**City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Corporate Governance Statement
30 June 2019**

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Nomination and Remuneration Committee

The Nomination and Remuneration Committee (NRC) consists of the following non-executive directors:

- Megan Quinn (Chair)
- Michael Kay
- Michael Hardwick

The NRC comprises three non-executive directors, a majority of whom are independent. The Chair of the Committee is Megan Quinn, an independent non-executive director. Details of the Committee with regards to remuneration policies and practices are detailed in “*Principle 8 – Remunerate fairly and responsibly*”. The number of meetings held by the Nomination and Remuneration Committee is set out in the directors’ report. Mr. Kay is excluded from meetings where his remuneration is being decided.

The NRC Charter prescribes the structure and responsibilities of the Committee which can be found on the Group’s website.

The Board has been structured such that its composition and size will enable it to effectively discharge its responsibilities and duties. Each director has the relevant industry experience and specific expertise relevant to the Group’s business and level of operations. The Board considers that its structure is, and will continue to be, appropriate in the context of the Company’s activities and does not consider it necessary at this stage of its development to have a matrix setting out the mix of skills of the directors.

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, diversity, personal qualities and expertise to enable it to carry out its obligations and responsibilities. The Board believes that having a range of different skills, backgrounds, experience and gender ensures a diversity of viewpoints which facilitate effective governance and decision making.

The Group believes that the skills and experience in the areas listed below are desirable for the Board to perform its role effectively. The Board considers that its current composition possesses an effective blend of these skills and experience which enables it and its Committees to effectively govern the business, operate effectively and add value in the context of the Group’s strategy:

- Governance expertise and experience;
- Risk management expertise and experience;
- Financial and legal experience;
- Corporate advisory expertise;
- Executive/management experience;
- Operational management expertise and experience;
- Global expansion and international business dealings experience;
- Technology, innovation and transformation experience;
- Retail knowledge and experience;
- Property expertise; and
- Listed Group Board experience.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

Code of Conduct

The Group has developed a statement of values and a Code of Conduct (the “Code”) which has been fully endorsed by the Board and applies to all directors and employees. The Code is reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group’s integrity and to take into account legal obligations and reasonable expectations of the Group’s stakeholders.

**City Chic Collective Limited
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In summary, the Code requires that at all times the Group's personnel act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and Group policies.

Trading in City Chic Collective Limited Shares

The Group has a Securities Trading Policy which stipulates it is contrary to Group policy for employees to be engaged in short-term trading of the Group's securities. Directors and senior executives of the Group are subject to the *Corporations Act 2001*, which prohibits buying, selling or subscribing for shares in the Group if they are in possession of inside information.

Appropriate time for directors and employees to acquire or sell the Group's shares is when they are not in possession of price sensitive information which is not generally available to the market. Under the policy, directors and employees must not deal in the Group's shares during the period between 1 January and 24 hours after the release of the consolidated entity's half-yearly results or the period between 1 July and 24 hours after the release of the consolidated entity's annual results.

It is contrary to Group policy for directors and employees to deal in a derivative, the value of which is determined by reference to any unvested security held, until that security has fully and unconditionally vested.

The Code and the Securities Trading Policy is discussed with each new employee as part of their induction training. All employees are asked to sign a declaration confirming their understanding and compliance with the Code and the Securities Trading Policy. A copy of the Code and the Securities Trading Policy is available on the Group's website.

PRINCIPLE 4 - SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Audit and Risk Committee

The Audit and Risk Committee (ARC) consists of the following non-executive directors:

- Michael Hardwick (Chairman)
- Michael Kay
- Megan Quinn

The ARC comprises of three non-executive directors, a majority of whom are independent. The Chairman of the Committee is Michael Hardwick, an independent non-executive director.

The Board and the ARC, at all times, act in a manner designed to ensure they safeguard the integrity of the Group's corporate reporting.

The functions of the ARC are clearly defined in the Group's ARC Charter (available on the Group's website) which includes responsibility for:

- Review and report to the Board on the annual and half-year report and financial statements; and
- Assist the Board in reviewing the effectiveness and adequacy of the organisation's internal financial control environment to enable them to provide the Board with up to date and reliable financial information.

The Committee is also charged with the responsibilities of recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit and non-audit services.

In fulfilling its responsibilities, the Committee receives regular reports from management and external auditors. It also meets in private with the external auditors at least twice a year, more frequently if necessary. The external auditors have a clear line of direct communication at any time to either the Chairman of the ARC or the Chairman of the Board.

The Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party and obtain external legal or other independent professional advice.

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30 June 2019**

The Committee reports to the full Board after each committee meeting and relevant papers and minutes are provided to all directors. The number of meetings held by the ARC is set out in the directors' report.

Financial Report Accountability

The Chief Executive Officer and the Chief Financial Officer who are present for Board discussion of financial matters are required to certify to the Board that the consolidated entity's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the Group and consolidated entity; the financial statements and notes thereto are in accordance with the *Corporations Act 2001* and this statement is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board of Directors.

Auditor Attendance at the Annual General Meeting

The external audit firm partner in charge of the City Chic Collective Limited audit is available to answer shareholder questions at the Group's Annual General Meeting.

PRINCIPLE 5 - MAKE TIMELY AND BALANCED DISCLOSURE

The Group satisfies its continuous disclosure obligations as required by the Listing Rules of the Australian Securities Exchange and the Corporations Law by adhering to its External Communications Policy (available on the Group's website) which requires information to be disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Group.

The Group's annual and half-yearly reports, investor presentations, press releases and other information disclosed to the ASX and the Group's Code of Conduct are posted on the Group's website (www.citychiccollective.com.au).

PRINCIPLE 6 - RESPECT THE RIGHTS OF SECURITY HOLDERS

Information about City Chic Collective Limited and its governance is available via its website. The Group aims to facilitate effective communication with investors to ensure all information in relation to significant matters is communicated in a timely, clear and objective manner.

Information is provided to the Group's shareholders through:

- The City Chic Collective Limited Annual and Half-yearly Reports;
- The Annual General Meeting;
- Results announcements and ASX releases;
- The Group's website, which has a dedicated Investor Relations section.

The Group hosts briefing sessions for investors and analysts on its half and full year results and other times, as deemed necessary. All material information and presentations are lodged with the ASX and are made available on the Group's website.

Shareholders are encouraged to attend the Annual General Meeting and ask questions of the Chairman and the Board. The Group adopts best practice in drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All Annual General Meeting material is made available in the Investor Relations section area of our website.

The share registry offers shareholders the option to receive communications electronically.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

The Board, through the ARC, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Group's policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives. The Group's exposure to economic, environmental and social sustainability risks are set out in the directors' report.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the Board proactively promotes a culture of quality and integrity.

The Group's risk management policy and the operation of the risk management and compliance system is managed by the Group Risk Management Committee which consists of senior executives. The Board receives regular reports from this group as to the effectiveness of the Group's management of material risks that may impede meeting business objectives. A review of the Group's risk management framework was completed during the reporting period.

Risk Management Accountability

As part of the process of approving the financial statements, at each reporting date the Chief Executive Officer and Chief Financial Officer provide statements in writing to the Board on the quality and effectiveness of the Group's risk management and internal compliance and control systems.

In the absence of a dedicated internal audit team, the Group employs the services of professional third parties from time to time to review and make recommendations on the Group's internal control processes. The Audit and Risk Committee is satisfied that the activities undertaken by management and the internal loss prevention teams are sufficient in assessing and monitoring the Group's risk profile and internal control processes.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Group has a NRC, as disclosed earlier in "*Principle 2 – Structure the Board to add value*".

The Committee considers remuneration policies and practices generally and makes specific recommendations on remuneration packages and other terms of employment for executive directors and other senior executives. The Committee, having regard to performance, relevant comparative information and independent expert advice, reviews executive remuneration and other terms of employment annually. As well as a base salary, remuneration packages include superannuation and performance related bonuses. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of non-executive directors is determined by the Committee within the maximum amount approved by the shareholders from time to time.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading "Remuneration report".

City Chic Collective Limited
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General information

The financial statements cover City Chic Collective Limited as a consolidated entity consisting of City Chic Collective Limited and the entities it controlled at the end of, or during, the period. The financial statements are presented in Australian dollars, which is City Chic Collective Limited's functional and presentation currency.

City Chic Collective Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

151-163 Wyndham Street
Alexandria, NSW 2015
Telephone: (02) 9059 4300

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 27 August 2019. The directors have the power to amend and reissue the financial statements.

City Chic Collective Limited
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Consolidated statement of profit or loss and other comprehensive income
For the period ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000
Revenue from continuing operations	4	148,432	131,870
Interest and other revenue	4	841	284
Expenses from continuing operations			
Cost of sales	5	(62,568)	(54,102)
Employee benefits expense	5	(31,011)	(27,000)
Depreciation, amortisation and impairment expense	5	(3,942)	(3,862)
Rental expense	5	(14,886)	(16,913)
Other expenses	5	(17,403)	(17,224)
Finance costs		(218)	(1,576)
Profit before income tax from continuing operations		19,245	11,477
Income tax (expense)/benefit	6	(4,980)	3,482
Profit after income tax from continuing operations		14,265	14,959
Profit/(loss) after income tax expense from discontinued operations	7	1,713	(24,265)
Profit/(loss) after income tax for the period attributable to the owners of City Chic Collective Limited		15,978	(9,306)
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Cash flow hedges transferred to profit or loss, net of tax		-	1,715
Change in the fair value of cash flow hedges taken to equity	24	(126)	3,478
Foreign currency translation	24	(193)	(1,303)
Income tax benefit/(expense) relating to the components of other comprehensive income	24	38	(1,558)
Other comprehensive income for the period, net of tax		(281)	2,332
Total comprehensive income for the period attributable to the owners of City Chic Collective Limited		15,697	(6,974)
Total comprehensive income for the period is attributable to:			
Continuing operations		13,984	17,291
Discontinued operations	7	1,713	(24,265)
		15,697	(6,974)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Consolidated statement of profit or loss and other comprehensive income
For the period ended 30 June 2019

	Note	Consolidated 2019 Cents	2018 Cents
Earnings per share for profit from continuing operations attributable to the owners of City Chic Collective Limited			
Basic earnings per share	38	7.4	7.8
Diluted earnings per share	38	7.4	7.8
Earnings per share for profit/(loss) from discontinued operations attributable to the owners of City Chic Collective Limited			
Basic earnings per share	38	0.9	(12.6)
Diluted earnings per share	38	0.9	(12.6)
Earnings per share for profit/(loss) attributable to the owners of City Chic Collective Limited			
Basic earnings per share	38	8.3	(4.8)
Diluted earnings per share	38	8.3	(4.8)

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Consolidated statement of financial position
As at 30 June 2019

	Note	Consolidated	
		2019 \$'000	2018 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	23,214	28,929
Trade and other receivables	9	4,574	4,025
Inventories	10	19,353	15,819
Derivative financial instruments	11	-	126
Other	12	1,323	-
Income tax receivable		-	15
		<u>48,464</u>	<u>48,914</u>
Assets of disposal groups classified as held for sale	7	-	125,063
Total current assets		<u>48,464</u>	<u>173,977</u>
Non-current assets			
Plant and equipment	13	9,306	6,684
Intangibles	14	15,153	10,095
Deferred tax	15	12,057	5,349
Total non-current assets		<u>36,516</u>	<u>22,128</u>
Total assets		<u>84,980</u>	<u>196,105</u>
Liabilities			
Current liabilities			
Trade and other payables	16	25,522	44,277
Provisions	17	5,071	7,395
Income tax payable	18	5,544	-
Other	19	761	491
		<u>36,898</u>	<u>52,163</u>
Liabilities directly associated with assets classified as held for sale	7	-	91,791
Total current liabilities		<u>36,898</u>	<u>143,954</u>
Non-current liabilities			
Borrowings	20	-	12,860
Provisions	21	1,941	1,784
Other	22	1,875	406
Total non-current liabilities		<u>3,816</u>	<u>15,050</u>
Total liabilities		<u>40,714</u>	<u>159,004</u>
Net assets		<u>44,266</u>	<u>37,101</u>
Equity			
Issued capital	23	49,139	49,139
Reserves	24	(248)	(1,047)
Accumulated losses	25	(4,625)	(10,991)
Total equity		<u>44,266</u>	<u>37,101</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Consolidated statement of changes in equity
For the period ended 30 June 2019

Consolidated	Issued capital \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2017	134,497	61	(3,547)	107	(87,043)	44,075
Loss after income tax benefit for the period	-	-	-	-	(9,306)	(9,306)
Other comprehensive income for the period, net of tax	-	-	3,635	(1,303)	-	2,332
Total comprehensive income for the period	-	-	3,635	(1,303)	(9,306)	(6,974)
Capital reduction ¹	(85,358)	-	-	-	85,358	-
Balance at 1 July 2018	49,139	61	88	(1,196)	(10,991)	37,101

Consolidated	Issued capital \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 2 July 2018	49,139	61	88	(1,196)	(10,991)	37,101
Profit after income tax benefit for the period	-	-	-	-	15,978	15,978
Other comprehensive income for the period, net of tax	-	-	(88)	(193)	-	(281)
Total comprehensive income for the period	-	-	(88)	(193)	15,978	15,697
<i>Transactions with owners in their capacity as owners:</i>						
Share-based payments (note 39)	-	1,080	-	-	-	1,080
Dividends paid (note 26)	-	-	-	-	(9,612)	(9,612)
Balance at 30 June 2019	49,139	1,141	-	(1,389)	(4,625)	44,266

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

¹ During FY2018, the parent entity undertook a capital reduction to reduce its share capital by \$85.4 m to \$49.1 m, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the parent entity with no impact on the net assets of either the parent entity of the Group. On consolidation, the share capital of the Group also reduced by \$85.4 m to \$49.1 m.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Consolidated statement of cash flows
For the period ended 30 June 2019

	Note	Consolidated 2019 \$'000	2018 \$'000 Restated
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		163,351	148,325
Payments to suppliers (inclusive of GST)		(165,875)	(129,364)
Interest received		591	53
Other revenue		250	809
Interest and other finance costs paid		(218)	(814)
Income taxes paid		(1,933)	(141)
Net cash (used in)/from operating activities	37	(3,834)	18,868
Cash flows from investing activities			
Payments for plant and equipment	13	(4,936)	(2,206)
Payments for intangibles	14	(5,692)	(1,290)
Proceeds from sale of plant and equipment		-	368
Proceeds from sale of discontinued operations		31,099	-
Net cash from/(used in) investing activities		20,471	(3,128)
Cash flows from financing activities			
Repayment of borrowings		(12,860)	(1,671)
Payment of dividends		(9,612)	-
Net cash used in financing activities		(22,472)	(1,671)
Net (decrease)/increase in cash and cash equivalents		(5,835)	14,069
Cash and cash equivalents at the beginning of the financial period		28,929	17,431
Effects of exchange rate changes on cash and cash equivalents		120	-
Net cash used in discontinued operations	7	-	(2,571)
Cash and cash equivalents at the end of the financial period	8	<u>23,214</u>	<u>28,929</u>

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the periods presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 9 Financial Instruments

The consolidated entity has adopted AASB 9 from 2 July 2018. The standard introduced new classification and measurement models for financial assets. A financial asset shall be measured at amortised cost if it is held within a business model whose objective is to hold assets in order to collect contractual cash flows which arise on specified dates and that are solely principal and interest. A debt investment shall be measured at fair value through other comprehensive income if it is held within a business model whose objective is to both hold assets in order to collect contractual cash flows which arise on specified dates that are solely principal and interest as well as selling the asset on the basis of its fair value. All other financial assets are classified and measured at fair value through profit or loss unless the entity makes an irrevocable election on initial recognition to present gains and losses on equity instruments (that are not held-for-trading or contingent consideration recognised in a business combination) in other comprehensive income ('OCI'). Despite these requirements, a financial asset may be irrevocably designated as measured at fair value through profit or loss to reduce the effect of, or eliminate, an accounting mismatch. For financial liabilities designated at fair value through profit or loss, the standard requires the portion of the change in fair value that relates to the entity's own credit risk to be presented in OCI (unless it would create an accounting mismatch). New simpler hedge accounting requirements are intended to more closely align the accounting treatment with the risk management activities of the entity. New impairment requirements use an 'expected credit loss' ('ECL') model to recognise an allowance. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available. There was no material adjustment in the current year arising as a result of adoption.

AASB 15 Revenue from Contracts with Customers

The consolidated entity has adopted AASB 15 from 2 July 2018. The standard provides a single comprehensive model for revenue recognition. The core principle of the standard is that an entity shall recognise revenue to depict the transfer of promised goods or services to customers at an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard introduced a new contract-based revenue recognition model with a measurement approach that is based on an allocation of the transaction price. This is described further in the accounting policies below. Credit risk is presented separately as an expense rather than adjusted against revenue. Contracts with customers are presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Customer acquisition costs and costs to fulfil a contract can, subject to certain criteria, be capitalised as an asset and amortised over the contract period. There was no material adjustment in the current year arising as a result of adoption.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of, plant and equipment and derivative financial instruments.

Offsetting financial assets and liabilities

Financial assets and financial liabilities have been offset and the net amount presented in the statement of financial position where the consolidated entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Restatement of comparatives

The comparatives on the consolidated statement of cash flow statement and related notes have been restated to present cash flows from continuing activities, which aligns with current year disclosures for continuing and discontinued operations. Information on discontinued operations is included in Note 7. Discontinued Operations.

The comparatives for the consolidated statement of financial performance and consolidated statement of financial position have not been restated.

Parent entity information

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of City Chic Collective Limited ('Company' or 'parent entity') as at 30 June 2019 and the results of all subsidiaries for the period then ended. City Chic Collective Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation

The financial statements are presented in Australian dollars, which is City Chic Collective Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition

The consolidated entity recognises revenue as follows:

Revenue from contracts with customers

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the consolidated entity is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

For each contract with a customer, the consolidated entity: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are initially recognised as deferred revenue in the form of a separate refund liability. Refer to Note 2 on consideration of Contract liabilities for vendor funded markdown provision.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Retail sales

Revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods. Amounts disclosed as revenue are net of sales returns, trade discounts and commission paid.

Wholesale revenue

Revenue is recognised at time of delivery less an allowance for estimated customer returns, rebates and other similar allowances.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

City Chic Collective Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

The amount receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Discontinued operations

A discontinued operation is a component of the consolidated entity that has been disposed of or is classified as held for sale and that represents a separate major line of business or geographical area of operations, is part of a single co-ordinated plan to dispose of such a line of business or area of operations, or is a subsidiary acquired exclusively with a view to resale. The results of discontinued operations are presented separately on the face of the statement of profit or loss and other comprehensive income.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Allowance for expected credit losses

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

Right of return assets

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets held for sale

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets to fair value less costs of disposal. A gain is recognised for any subsequent increases in fair value less costs of disposal of non-current assets, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale are presented separately on the face of the statement of financial position, in current assets. The liabilities classified as held for sale are presented separately on the face of the statement of financial position, in current liabilities.

Financial assets

Financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless, an accounting mismatch is being avoided.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortised cost using the effective interest rate method. Gains and losses are recognised in profit or loss when the asset is derecognised or impaired.

Impairment of financial assets

The consolidated entity recognises an allowance based on an 'expected credit loss' ('ECL') model. Impairment is measured using a 12-month ECL method unless the credit risk on a financial instrument has increased significantly since initial recognition in which case the lifetime ECL method is adopted. For receivables, a simplified approach to measuring expected credit losses using a lifetime expected loss allowance is available.

For financial assets measured at fair value through other comprehensive income, the loss allowance is recognised within other comprehensive income. In all other cases, the loss allowance is recognised in profit or loss.

Plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of plant and equipment over their expected useful lives as follows which ranges from 2 to 10 years.

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
30 June 2019

Note 1. Significant accounting policies (continued)

Brand

Brand is recognised on acquisition of brand assets. Brand assets have been determined to be indefinite life intangibles and is not amortised. Brand is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on brand are taken to profit or loss and are not subsequently reversed.

Other intangible assets

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

Significant costs associated with software are deferred and amortised on a diminishing value basis over the period of their expected benefit, being their finite life of 2-4 years.

Impairment of non-financial assets

Goodwill and brand valuation have an indefinite useful life and are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial period and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

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Note 1. Significant accounting policies (continued)

Onerous lease provision

A provision has been made for onerous lease contracts. The provision is calculated based on an estimate of the lease space under contract that is surplus to requirements, less any amounts receivable under a sub-lease agreement.

Sales return provision

In determining the level of provision required for sales return the consolidated entity has made judgements in respect of the expected return rate of products based on customer type. The provision is based on estimates made from historical return data.

Employee Benefits

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Performance rights issued have been accounted for as equity-settled transactions. The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using the Binomial model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Binomial model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

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Note 1. Significant accounting policies (continued)

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial period and no longer at the discretion of the Company.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of City Chic Collective Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the financial period.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

City Chic Collective Limited
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Note 1. Significant accounting policies (continued)

Rounding of amounts

The company is of a kind referred to in *Corporations Instrument 2016/191*, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2019. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces *AASB 117 'Leases'* and for lessees will eliminate the classifications of operating leases and finance leases.

Subject to exceptions, a 'right-of-use' (ROU) asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred.

A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs.

Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However, EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16.

For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component.

The consolidated entity will adopt this standard from 1 July 2019. The consolidated entity is implementing processes to capture all leases in scope and performing the accounting entries in compliance with the new standard.

The consolidated entity plans to apply AASB 16 initially on 1 July 2019, using a hybrid model by lease approach which includes simplified and modified retrospective. Therefore, the cumulative effect of adopting AASB 16 will be recognised as an adjustment to opening balance of retained earnings at 1 July 2019, with no restatement of comparative information.

The consolidated entity plans to apply the practical expedient to apply AASB 16 on contracts that were previously identified as leases under AASB 117 and Interpretation 4 which will result in the consolidated entity recognising new ROU assets and lease liabilities for its store leases and head office lease. The consolidated entity store portfolio consists of a high number of stores where leases have expired and are currently on holdover as well as leases due to expire in the next 12 months. While the lease commitments on these leases will be minimal under AASB 117 reporting, the consolidated entity has considered the likelihood of renewal options or staying on past lease expiry based on historical data to reassess the lease term.

City Chic Collective Limited
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Note 1. Significant accounting policies (continued)

Based on the above assessment, estimated impact on consolidated statement of financial position as at 1 July 2019:

Lease liabilities \$30.0 m - \$35.0 m

ROU assets \$28.0 m - \$32.0 m

The net effect of the new lease liabilities and ROU assets adjusted for deferred tax will be recognised in retained earnings.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates, judgement in accounting policy and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Gain or loss on divestment of brands and the related tax

On 2 July 2018, the Group completed the sale of the businesses associated with the operations and brands of Millers, Katies, Rivers, Autograph and Crossroads to Noni B Limited. The agreement was to sell these brands for consideration of \$31.0 m (plus or minus post completion adjustment). Independent experts were appointed to determine the outcome of the completion adjustment and other aspects of the Business Sale Agreement. As announced by the Group to the ASX on 24 June 2019, those disputes were determined by independent experts in the Group's favour. On 31 July 2019, Noni B Limited filed proceedings in the Supreme Court of New South Wales seeking orders setting aside the independent experts' determination. Notwithstanding that City Chic received a favourable expert determination, given the subsequent proceedings filed by Noni B, the Group has been prudent and provisioned accordingly.

A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The result of the sale is considered a discontinued operation, and the results are presented separately in the Consolidated statement of profit and loss. In the prior year the assets and liabilities held for sale were classified accordingly in the balance sheet. Judgement and estimation was applied by management over impairment of discontinued operations assets and allocation of associated costs. It involved a high degree of complexity and a risk of a potential material adjustment to the carrying amounts of assets and liabilities within subsequent periods.

In the current year, adjustments to the assets and liabilities held for sale have been realised and presented in the discontinued operations as part of the gain or loss on disposal. Furthermore, management has applied judgement to the post completion adjustment under dispute and provided adequately by taking into account both qualitative and quantitative impacts of the divestment such as the complexity, expert involvement and pending legal review by the Supreme Court. The financial performance of the discontinued operation has been impacted by these judgements applied, during the year. At year end, similar judgement was applied over the valuation of the liabilities associated with the divestment and the post completion adjustment.

Given the finalisation of the completion adjustment is yet to be determined and as a consequence the divestment proceeds is still uncertain, any changes to the completion adjustment and liabilities associated with the divestment will impact the Group's future profit or loss as part of discontinued operations. Furthermore the calculation of the associated tax impact of the discontinued operations for the current financial year is complex and includes an estimated taxable capital gain on the sale as well as the recognition of deferred tax assets on previously unrecognised capital losses which are expected to be available to the Group in relation to capital assets sold. The calculations included the use of estimation and judgement.

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Note 2. Critical accounting judgements, estimates and assumptions (continued)

Contract liabilities for vendor funded markdown provision

In determining the level of vendor funded markdown provision required the consolidated entity has made judgements in respect of expected vendor discounting and likelihood of vendor achieving their guaranteed margin. The provision is based on estimates from historical margin achieved by the vendor.

Provision for impairment of inventories

The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 1. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of plant and equipment

The consolidated entity assesses impairment of plant and equipment at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segment, being fashion retail. The operating segment is based on the internal reports that are reviewed and used by the Chief Executive Officer (who is identified as the Chief Operating Decision Maker ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM assesses the performance of the operating segments based on a measure of Underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis, including weekly reporting on key metrics.

Major customers

There is no revenue that is significant from any particular customer. Segment revenue from external parties, assets and liabilities are all reported to the CODM in a manner consistent with the financial statements.

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Note 3. Operating segments (continued)

Revenue by geographical area

The Group operates in the following geographical areas:

- Southern hemisphere – includes Australia and New Zealand; both regions serviced by stores and website.
- Northern hemisphere – includes US and Europe. US sales are comprised of online (website and marketplace) and wholesale; Europe business is solely wholesale.

Refer to Note 4. Revenue for details on revenue by geographical area.

Reconciliation of operating profit before income tax to underlying EBITDA (Earnings before interest, taxation, depreciation, amortisation and impairment, and other adjustments) from continuing operations is provided as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Net profit after tax from continuing operations	14,265	14,959
Net interest (income)/expense	(373)	1,576
Tax expense/(benefit)	4,980	(3,482)
Depreciation, amortisation and impairment expense	3,942	3,862
Release of store exit costs ¹	(289)	(1,109)
Gain on hedging contract ²	-	(1,715)
Restructuring costs ³	-	1,872
Provision for onerous lease and contract ⁴	(272)	3,910
Transition costs ⁵	2,625	-
Underlying EBITDA from continuing operations	24,878	19,873

Note 4. Revenue

	Consolidated	
	2019	2018
	\$'000	\$'000
From continuing operations		
Sales of goods	148,432	131,870
Interest revenue	591	14
Other revenue	250	270
Revenue from ordinary activities	149,273	132,154

¹ Writeback of USA provision for onerous lease.

² Related to close out of cash flow hedges following the divestment of 5 brands to Noni B Limited (NBL).

³ Restructuring cost includes redundancies and retention payments to employees in relation to divestment of 5 brands to NBL and renewal of corporate bank facility and associated fees.

⁴ Related to provision for head office unutilised space and onerous contract from the Transition Service Agreement (divestment of brands) – agreement whereby provision of transition service from NBL to the Group is indicated. FY2019 related to provision on store identified as impaired.

⁵ Transition costs related to costs incurred to implement the separation of the divested brands and the organisational transformation.

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Note 4. Revenue (continued)

Disaggregation of revenue

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	148,432	131,870
<i>Geographical regions</i>		
Southern hemisphere	119,466	110,975
Northern hemisphere	28,966	20,895
	<u>148,432</u>	<u>131,870</u>
<i>Channel</i>		
Stores	74,588	78,077
Online website	55,571	41,210
Online marketplace	9,162	6,395
Wholesale	9,111	6,188
	<u>148,432</u>	<u>131,870</u>

Note 5. Expenses

	Consolidated	
	2019	2018
	\$'000	\$'000
Profit before income tax from continuing operations includes the following specific expenses:		
Cost of sales	62,568	54,102
Depreciation, amortisation and impairment expense	3,942	3,862
Rental expense relating to operating leases ¹	14,886	16,913
Defined contribution superannuation expense	1,934	1,816
Share-based payments expense	1,080	-
Employee benefits expense excluding superannuation and share based-payment expense	27,997	25,184
Subtotal	<u>112,407</u>	<u>101,877</u>
<i>Other expenses</i>		
Utility and maintenance expenses	3,228	2,667
Professional and consulting fees	3,051	3,368
Transactional fees and charges	2,304	1,509
Other	8,820	9,680
Subtotal	<u>17,403</u>	<u>17,224</u>
Total	<u>129,810</u>	<u>119,101</u>

¹ FY2018 period includes release of store exit costs of \$1.1 m and provision for onerous lease at Alexandria head office of \$3.3 m. FY2019 period includes reversal of onerous lease provisions of \$0.3 m for Alexandria support office and \$0.3 m for USA.

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Note 6. Income tax expense/(benefit)

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>a) Income tax expense/(benefit)</i>		
Current tax	4,490	255
Deferred tax - origination and reversal of temporary differences	(2,230)	(7,078)
Prior year overprovisions	(1,123)	-
Adjustment on prior year estimated capital gains tax	3,843	-
Deferred tax asset released to income tax expense relating to discontinued operations	-	5,096
Aggregate income tax expense/(benefit)	<u>4,980</u>	<u>(1,727)</u>
Deferred tax included in income tax expense/(benefit) comprises:		
Increase/(decrease) in deferred tax assets (note 15)	<u>2,230</u>	<u>(2,006)</u>
<i>b) Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Profit/(loss) before income tax expense	<u>19,245</u>	<u>(11,033)</u>
Tax at the statutory tax rate of 30%	5,774	(3,310)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	2	3
CFC income	55	117
Sundry items	441	2,701
	<u>6,272</u>	<u>(489)</u>
Prior year overprovisions	(1,123)	-
Adjustment on prior year estimated capital gains tax	3,843	-
Difference in overseas tax rates	25	(1)
Foreign currency differences	-	1
Tax loss not recognised/utilised	-	469
Trading day adjustment	-	2
Deferred tax recognised on prior year tax losses	(4,037)	(1,710)
Income tax expense/(benefit)	<u>4,980</u>	<u>(1,727)</u>
Income tax expense/(benefit) related to continuing operations	4,980	(3,482)
Income tax (benefit)/expense related to discontinued operations	(4,012)	1,755
<i>c) Amounts charged directly to equity</i>		
Deferred tax assets (note 15)	<u>(38)</u>	<u>1,558</u>
<i>d) Income tax losses not recognised</i>		
Unused income tax losses for which no deferred tax asset has been recognised	<u>-</u>	<u>1,563</u>
Potential income tax benefit at tax rate of 30%	<u>-</u>	<u>469</u>

The above potential tax benefit for income tax losses has not been recognised in the statement of financial position as at 1 July 2018.

City Chic Collective Limited
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Note 6. Income tax expense/(benefit) (continued)

e) Capital losses

Unused tax losses related to capital losses of \$147.0 m (2018: \$131.5 m) carried forward to which no deferred tax asset has been recognised. These tax losses can only be utilised in the future if the continuity of ownership test is passed, or failing that, the same business test is passed.

The agreement to sell the Brands' businesses to Noni B Limited resulted in a crystallised capital gain of \$10.6 m in the current year. In the prior year this was previously estimated as \$23.4 m. Notwithstanding the final sale was completed in this financial year on 2 July 2018, the capital gain arose in the prior year due to the contractual conditions precedent satisfied prior to 1 July 2018. Apportionment of proceeds between revenue generating assets and capital assets sold and appropriate consideration of the cost bases resulted in a considerable change in estimated capital gains.

The Group estimated capital gains tax on the disposal group of \$3.2 m (2018: \$7.0 m) and recognised this within the tax benefit/expense in discontinued operations. Further, as a result of the above, the Group also recognised a deferred tax asset of \$3.2 m (2018: \$7.0 m) in respect to the first-time recognition of previous capital losses incurred by the Group. These have been recognised as part of the tax benefit/expense in the results from continuing operations. As the capital losses will offset the capital gains there is no impact on the consolidated statement of financial position.

Due to the reversal of \$3.8 m of explained tax payable and associated deferred tax asset, the relevant adjustments have been passed within the respective continuing and discontinued business results this year.

f) Income tax losses

As at 30 June 2019, the consolidated entity had carried forward income tax losses of \$20.8 m (2018: \$12.4 m). These losses were fully recognised as a deferred tax asset for the year ended 30 June 2019 and partially recognised for the year ended 1 July 2018.

g) Tax consolidation legislation

City Chic Collective Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1.

Note 7. Discontinued operations

Description

On 2 July 2018, the Group divested five of its brands to Noni B Limited (ASX:NBL) for cash consideration of \$31.0 m (before post completion adjustments, transaction and separation costs). The Group retained ownership of the brand City Chic. Refer to note 36. Events after the reporting period for further information.

The divestment of the five brands took effect from 2 July 2018 and is reported as a discontinued operation. Refer below for financial information relating to the discontinued operations.

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Note 7. Discontinued operations (continued)

Financial performance information

	Consolidated	
	2019 \$'000	2018 \$'000
Revenue ¹	-	620,650
Expenses	(3,366)	(643,560)
Loss before income tax from discontinued operations	(3,366)	(22,910)
Income tax benefit/(expense) ²	4,012	(1,755)
Profit/(Loss) after income tax from discontinued operations	646	(24,665)
Gain on measurement of disposal group to fair value less cost to sell	-	400
Gain on disposal of disposal group	1,067	-
Profit/(Loss) after income tax from discontinued operations	1,713	(24,265)

Cash flow information

The results of cash flows used in the discontinued operations during the period are set out below:

	Consolidated	
	2019 \$'000	2018 \$'000
Net cash from operating activities	-	20,206
Net cash used in investing activities	-	(11,594)
Net cash used in financing activities	-	(11,183)
Net decrease in cash and cash equivalents from discontinued operations	-	(2,571)

Details of the disposal

	2019 \$'000	Consolidated	
		Adjusted 2018 \$'000	Reported 2018 \$'000
<i>Breakdown - gain/loss on disposal</i>			
Net assets held for sale - reported	-	33,272	33,272
Adjustments to assets held for sale	-	(1,535)	-
Net assets held for sale - adjusted	-	31,737	33,272
Proceeds from sale	-	31,000	31,000
Carrying amount of net assets disposed	-	(31,737)	(33,272)
Loss on disposal of net assets	-	(737)	(2,272)

Note 8. Current assets - cash and cash equivalents

	Consolidated	
	2019 \$'000	2018 \$'000
Cash at bank	10,214	28,929
Term deposit	13,000	-
	23,214	28,929

¹ Revenue includes sales and other revenue.

² In FY2018, the divestment of brands resulted in crystallisation of capital gains of \$23.4 m and estimated the capital gains tax on the disposal group of \$7.0 m (recognised through income tax expense in discontinued operations). As a result of appropriate consideration of the revenue generating assets sold and the capital assets sold, the capital gain has been estimated to be \$3.2 m. A reversal of \$3.8 m has been passed within the discontinued business results.

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Note 9. Current assets - trade and other receivables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade receivables	4,181	3,174
Prepayments	-	646
Other receivables	393	205
	<u>4,574</u>	<u>4,025</u>

Refer to note 27 for further information on financial instruments.

Note 10. Current assets - inventories

	Consolidated	
	2019	2018
	\$'000	\$'000
Inventories on hand at lower of cost and net realisable value	<u>19,353</u>	<u>15,819</u>

Note 11. Current assets - derivative financial instruments

	Consolidated	
	2019	2018
	\$'000	\$'000
Forward foreign exchange contracts - cash flow hedges	<u>-</u>	<u>126</u>

Note 12. Current assets - other

	Consolidated	
	2019	2018
	\$'000	\$'000
Prepayments	859	-
Right of return assets	464	-
	<u>1,323</u>	<u>-</u>

Note 13. Non-current assets - plant and equipment

	Consolidated	
	2019	2018
	\$'000	\$'000
Plant and equipment - at cost	23,766	22,888
Less: Accumulated depreciation	<u>(14,460)</u>	<u>(16,204)</u>
	<u>9,306</u>	<u>6,684</u>

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Note 13. Non-current assets - plant and equipment (continued)

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Plant and equipment \$'000	Total \$'000
Balance at 1 July 2017	57,299	57,299
Additions	1,478	1,478
Disposals	(3,098)	(3,098)
Exchange differences	(88)	(88)
Transfer to assets held for sale	(45,067)	(45,067)
Depreciation expense	(3,840)	(3,840)
Balance at 1 July 2018	6,684	6,684
Transfer to intangibles	(110)	(110)
Adjustment to assets held for sale	992	992
Additions	4,936	4,936
Depreciation expense	(3,149)	(3,149)
Impairment write-back	82	82
Exchange differences	(129)	(129)
Balance at 30 June 2019	9,306	9,306

Note 14. Non-current assets - intangibles

	Consolidated	
	2019 \$'000	2018 \$'000
Goodwill - at cost	10,095	10,095
Brand - at cost	2,547	-
Other intangible assets - at cost	3,855	-
Less: Accumulated amortisation	(1,344)	-
	15,153	10,095

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial period are set out below:

Consolidated	Goodwill \$'000	Brand \$'000	Other intangibles \$'000	Total \$'000
Balance at 1 July 2017	10,095	8,505	4,383	22,983
Additions	-	-	100	100
Transfer to assets held for sale	-	(8,505)	(4,461)	(12,966)
Amortisation expense	-	-	(22)	(22)
Balance at 1 July 2018	10,095	-	-	10,095
Transfer from plant and equipment	-	-	110	110
Additions	-	2,547	3,145	5,692
Amortisation expense	-	-	(875)	(875)
Exchange differences	-	-	131	131
Balance at 30 June 2019	10,095	2,547	2,511	15,153

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Note 14. Non-current assets - intangibles (continued)

Goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units (CGUs) to which goodwill has been allocated. These calculations reflect an estimated cash flow projection based on a five-year forecast and requires the use of assumptions, including estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates.

The value-in-use method used in determining the recoverable amount of the CGUs is affected by management's assumptions used in the calculation.

Growth rates of estimated future cash flows are based on a budget that has been approved by the Board, and projected for a further four years based on an estimated growth rate of 2.5% (2018: 2.25%). The growth rate has been determined with reference to industry trends. As part of the annual impairment test for goodwill, management assesses the reasonableness of growth rate assumptions by reviewing historical cash flow projections against actual cash flows.

The discount rates used in the value-in-use calculations are pre-tax and reflect management's estimate of the time value of money, as well as the risks specific to the CGUs. The discount rates have been determined using the average weighted cost of capital and the current market risk-free rate, adjusted for relevant business risks. Discount rate applied in the current year value-in-use model: 10.1% (2018: 10.9%). A terminal growth rate of 2.5% (2018: 2.5%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five-year forecast horizon.

No sensitivity analysis was performed given the significant excess headroom at reporting date. There has been no impairment loss recognised in relation to goodwill (2018: nil).

Brand

On 29 April 2019, the Group acquired select assets of CMI Enterprises LLC trading as Hips & Curves, a US based plus-size online retailer, for cash consideration of US\$2.0 m. Brand value of A\$2.5 m was recognised per management assessment. There was no impairment recognised in relation to brand at 30 June 2019.

Determining whether brand is impaired requires an estimation of the value-in-use of the CGUs to which the brand has been allocated. These calculations reflect an estimated cash flow projection based on a five-year forecast and requires the use of assumptions, including estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates.

The value-in-use method used in determining the recoverable amount of the CGUs is affected by management's assumptions used in the calculation.

Growth rates of estimated future cash flows are based on a conservative view of sales around time of acquisition and projected for a further four years based on an estimated growth rate of 3.0%.

The discount rates used in the value-in-use calculations are pre-tax and reflect management's estimate of the time value of money, as well as the risks specific to the CGUs. The discount rates have been determined using the average weighted cost of capital and the current market risk-free rate, adjusted for relevant business risks. Discount rate applied in the current year value-in-use model: 10.1%. A terminal growth rate of 3.0% has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five year forecast horizon.

No sensitivity analysis was performed given the significant excess headroom at reporting date. There has been no impairment loss recognised in relation to brand.

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Note 15. Non-current assets - deferred tax

	Consolidated	
	2019	2018
	\$'000	\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses ¹	5,822	1,766
Plant and equipment	(1,101)	(3,596)
Employee benefits	773	833
Other provisions and accruals	5,841	4,355
Deferred lease incentives	728	1,263
Inventories	(144)	705
Other	138	61
	<u>12,057</u>	<u>5,387</u>
Amounts recognised in equity:		
Derivative financial instruments	-	(38)
Deferred tax asset	<u><u>12,057</u></u>	<u><u>5,349</u></u>
<i>Movements:</i>		
Opening balance	5,349	4,901
Credited to profit or loss - continuing (note 6)	2,230	2,006
Credited to profit or loss - discontinued (note 7)	4,440	-
Charged to equity (note 6)	38	(1,558)
Closing balance	<u><u>12,057</u></u>	<u><u>5,349</u></u>

Note 16. Current liabilities - trade and other payables

	Consolidated	
	2019	2018
	\$'000	\$'000
Trade payables	10,622	6,957
Other payables	14,900	37,320
	<u><u>25,522</u></u>	<u><u>44,277</u></u>

Refer to note 27 for further information on financial instruments.

Note 17. Current liabilities - provisions

	Consolidated	
	2019	2018
	\$'000	\$'000
Provisions - employee benefits	2,285	1,401
Other provisions	2,786	5,994
	<u><u>5,071</u></u>	<u><u>7,395</u></u>

¹ Includes tax losses related to City Chic USA operation not previously recognised.

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Note 17. Current liabilities - provisions (continued)

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Onerous lease

The provision represents the present value of the estimated costs for unutilised space at the head office premises.

Sales return provision

The sales return provision represents managements' best estimate of the future outflow of economic benefits in respect of products sold. The provision is estimated based on historical sales claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Stepped lease provision

The stepped lease provision represents the difference between the contract rental charge and that paid over the lease term.

Movements in provisions

Movements in each class of provision during the current financial period, other than employee benefits, are set out below:

Consolidated - 2019	\$'000
Carrying amount at the start of the period	5,994
Additional provisions recognised	1,495
Amounts transferred to non-current	(1,987)
Amounts used	(2,716)
Carrying amount at the end of the period	<u>2,786</u>

Note 18. Current liabilities - income tax

	Consolidated	
	2019	2018
	\$'000	\$'000
Provision for income tax	5,544	-

Note 19. Current liabilities - other

	Consolidated	
	2019	2018
	\$'000	\$'000
Deferred lease incentives	761	491

Deferred lease incentives

The provision represents lease incentives received. The incentives are allocated to profit or loss in such a manner that the rent expense is recognised on a straight-line basis over the lease term.

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Note 20. Non-current liabilities - borrowings

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank loans	-	12,860

Refer to note 27 for further information on financial instruments.

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank loans	-	12,860

Assets pledged as security

The bank loans are secured by first mortgages over the consolidated entity's land and buildings.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2019	2018
	\$'000	\$'000
Total facilities		
Bank loans	15,000	15,000
Bank guarantee	96	-
Corporate credit card	1,500	500
	<u>16,596</u>	<u>15,500</u>
Used at the reporting date		
Bank loans ¹	-	13,114
Bank guarantee	96	-
Corporate credit card	243	394
	<u>339</u>	<u>13,508</u>
Unused at the reporting date		
Bank loans	15,000	1,886
Bank guarantee	-	-
Corporate credit card	1,257	106
	<u>16,257</u>	<u>1,992</u>

External borrowings at 30 June 2019 was nil (1 July 2018: \$12.8 m). On 29 June 2018 the Group renewed its external finance facilities such that their maturity date was extended to 28 February 2021.

At balance date, bank loan facilities totalling \$15.0 m were available to the Group (1 July 2018: \$15.0 m). Of these facilities, \$15.0 m was unused (1 July 2018: \$1.9 m).

In August 2019, the Group amended its external finance facilities from a working capital facility of \$15.0 m to a general corporate purpose facility of \$5.0 m.

¹ Includes letter of credit of \$0.3 m as at 1 July 2018.

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Note 21. Non-current liabilities - provisions

	Consolidated	
	2019 \$'000	2018 \$'000
Provisions - Employee benefits	297	1,448
Other	1,644	336
	<u>1,941</u>	<u>1,784</u>

Movements in provisions

Movements in each class of provision during the current financial period, other than employee benefits, are set out below:

Consolidated - 2019	\$'000
Carrying amount at the start of the period	336
Additional provisions recognised	84
Amounts transferred from current	1,987
Amounts used	(763)
Carrying amount at the end of the period	<u>1,644</u>

Note 22. Non-current liabilities - other

	Consolidated	
	2019 \$'000	2018 \$'000
Deferred lease incentives	1,875	406

Note 23. Equity - issued capital

	Consolidated			
	2019 Shares	2018 Shares	2019 \$'000	2018 \$'000
Ordinary shares - fully paid	<u>192,236,121</u>	<u>192,236,121</u>	<u>49,139</u>	<u>49,139¹</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

¹ During FY2018, the parent entity undertook a capital reduction to reduce its share capital by \$85.4 m to \$49.1 m, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the parent entity with no impact on the net assets of either the parent entity of the Group. On consolidation, the share capital of the Group also reduced by \$85.4 m to \$49.1 m.

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Note 23. Equity - issued capital (continued)

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial period.

Note 24. Equity - reserves

	Consolidated	
	2019	2018
	\$'000	\$'000
Foreign currency reserve	(1,389)	(1,196)
Hedging reserve - cash flow hedges	-	88
Share-based payments reserve	<u>1,141</u>	<u>61</u>
	<u>(248)</u>	<u>(1,047)</u>

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Hedging reserve - cash flow hedges

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

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Note 24. Equity – reserves (continued)

Movements in reserves

Movements in each class of reserve during the current and previous financial period are set out below:

Consolidated	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Total \$'000
Balance at 1 July 2017	61	(3,547)	107	(3,379)
Revaluation - gross	-	3,478	-	3,478
Deferred tax	-	(1,558)	-	(1,558)
Foreign currency translation	-	-	(1,303)	(1,303)
Gain on hedges closed out relating to discontinued operations - recycled to profit and loss	-	1,715	-	1,715
Balance at 1 July 2018	61	88	(1,196)	(1,047)
Revaluation - gross	-	(126)	-	(126)
Deferred tax	-	38	-	38
Foreign currency translation	-	-	(193)	(193)
Share-based payments expense	1,080	-	-	1,080
Balance at 30 June 2019	1,141	-	(1,389)	(248)

Note 25. Equity – retained earnings / (accumulated losses)

	Consolidated	
	2019 \$'000	2018 \$'000
Accumulated losses at the beginning of the financial period	(10,991)	(87,043)
Capital reduction ¹	-	85,358
Profit/(loss) after income tax for the period	15,978	(9,306)
Dividends paid (note 26)	(9,612)	-
Retained earnings at the end of the financial period ²	(4,625)	(10,991)
<i>Retained earnings/(accumulated losses) at the end of the financial period comprises</i>		
Loss reserve	(10,991)	(10,991)
Retained earnings	6,366	-
	(4,625)	(10,991)

¹ During FY2018, the parent entity undertook a capital reduction to reduce its share capital by \$85.4 m to \$49.1 m, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the parent entity with no impact on the net assets of either the parent entity or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 m to \$49.1 m.

² Subsequent to the share capital reduction in FY2018, accumulated losses as at 1 July 2018 of \$(11.0 m) were transferred to a Loss reserve. Balance as 30 June 2019 comprises Loss reserve of \$(11.0 m) and Retained earnings of \$6.4 m.

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Note 26. Equity - dividends

Dividends

Dividends paid during the financial period were as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Interim ordinary dividend for the period ended 30 June 2019 (2019: 2.5 cents per ordinary share (2018: nil))	4,806	-
Special dividend for the period ended 30 June 2019 (2019: 2.5 cents per ordinary share (2018: nil))	4,806	-
	<u>9,612</u>	<u>-</u>

Since the end of the period, the directors have declared the payment of a fully franked final ordinary dividend of 1.5 cents per ordinary share (2018: nil). Record date is 16 September 2019 and payment date is 30 September 2019 for the final ordinary dividend. The aggregate amount of the dividends expected to be paid on 30 September 2019 out of retained earnings at 30 June 2019, but not recognised as a liability at the end of the period is \$2.9 m.

Franking credits

	Consolidated	
	2019	2018
	\$'000	\$'000
Franking credits available at the reporting date based on a tax rate of 30%	43,849	45,984
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	5,544	-
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>49,393</u>	<u>45,984</u>

The above amounts represent the balance of the franking account as at the end of the financial period, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 27. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts where necessary to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. In the year ended 30 June 2019, the consolidated entity did not require to use any new derivative financial instruments with the last cash flow hedge closed out in January 2019. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

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Note 27. Financial instruments (continued)

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board. These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units where necessary. Finance reports to the Board on a monthly basis.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 2018 Annual Report.

In order to maintain or adjust the capital structure, the consolidated entity manages the level of debt that is prudent, facilitates the execution of the operational plan and provides flexibility for growth while managing the amount of equity and expectation of return for dividends.

The consolidated entity is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year. Formal notification of this compliance is confirmed on a quarterly basis.

The capital structure of the consolidated entity consists of net debt (borrowings as detailed in note 20 offset by cash and cash equivalents as detailed in note 8) and equity of the consolidated entity (comprising issued capital, reserves and accumulated losses as detailed in notes 23 to 25).

	Consolidated	
	2019	2018
	\$'000	\$'000
Financial assets		
Cash and cash equivalents	23,214	28,929
Trade and other receivables	4,574	4,025
Derivative financial instruments	-	126
	<u>27,788</u>	<u>33,080</u>
Financial liabilities		
Trade and other payables	25,522	44,277
Borrowings	-	12,860
	<u>25,522</u>	<u>57,137</u>

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the consolidated entity has historically entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Following the divestment of five brands on 2 July 2018 with City Chic as the remaining brand, the consolidated entity has not required to hedge its foreign exchange exposure given the natural hedge that is provided from its USA operations. Management monitors this natural hedge on an ongoing basis to ensure that the exposure to foreign exchange is acceptable. The consolidated entity closed out all cash flow hedges in January 2019.

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Note 27. Financial instruments (continued)

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date were as follows:

	Buy US dollars		Sell Australian dollars		Future hedge rate	
	2019 \$'000	2018 \$'000	2019 \$'000	2018 \$'000	2019 \$	2018 \$
Buy US dollars						
Maturity:						
Less than 1 year	-	3,513	-	4,627	-	0.7601

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge was recognised directly in other comprehensive income.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The Group did not have any exposure to interest rate risk in the period to 30 June 2019 as the long-term borrowings were undrawn for the entirety of the period. Historically, the Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk.

As at the reporting date, the consolidated entity had the following variable rate borrowings and interest rate swap contracts outstanding:

Consolidated	2019		2018	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Cash and cash equivalents	1.6%	23,214	1.2%	28,929
Borrowings	-	-	3.5%	(12,860)
Net exposure to cash flow interest rate risk		<u>23,214</u>		<u>16,069</u>

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Note 27. Financial instruments (continued)

An analysis by remaining contractual maturities is shown in 'remaining contractual maturities' below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

The consolidated entity has a credit risk exposure with trade debtors, which as at 30 June 2019 owed the consolidated entity \$4.2 m (2018: \$3.2 m). There are no guarantees against this receivable but management closely monitors the receivable balance on a monthly basis and is in regular contact with its customers to mitigate risk.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

Allowance for expected credit losses

The consolidated entity has recognised a loss of \$0.1 m in profit or loss in respect of the expected credit losses for the year ended 30 June 2019.

Liquidity risk

Prudent liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable. The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities. Inventory management methods and established supplier relationships assist management to prepare rolling forecasts of the consolidated entity's cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for the period of 12 months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the consolidated entity maintains the following lines of credit:

At balance date, bank loan facilities totalling \$15.0 m was available to the Group (1 July 2018: \$15.0 m). In August 2019, the Group amended its external finance facilities from a working capital facility of \$15.0 m to a general corporate purpose facility of \$5.0 m. Management monitors rolling forecasts of the consolidated entity's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the consolidated entity in accordance with practice and limits set by the consolidated entity. These limits vary by location to consider the liquidity of the market in which the entity operates. In addition, the consolidated entity's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

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Note 27. Financial instruments (continued)

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2019	2018
	\$'000	\$'000
Bank loans ¹	15,000	1,886
Corporate credit card	1,257	106
	16,257	1,992

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated - 2019	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	25,522	-	-	-	25,522
<i>Interest-bearing - fixed rate</i>						
Bank loans	-	-	-	-	-	-
Total non-derivatives		25,522	-	-	-	25,522

Consolidated - 2018	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives						
<i>Non-interest bearing</i>						
Trade and other payables	-	44,277	-	-	-	44,277
<i>Interest-bearing - variable</i>						
Bank loans	3.5%	-	-	12,860	-	12,860
Total non-derivatives		44,277	-	12,860	-	57,137
Derivatives						
Forward foreign exchange						
contracts inflow	-	126	-	-	-	126
Total derivatives		126	-	-	-	126

¹ Includes letter of credit of \$0.3 m as at 1 July 2018.

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Note 27. Financial instruments (continued)

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

This note provides information about how the consolidated entity determines fair values of various financial assets and financial liabilities.

Fair values of financial instruments are categorised by the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The consolidated entity has financial assets and liabilities which are measured at fair value at the end of each reporting period. Forward foreign exchange contracts are measured at fair value using level 2 inputs.

The fair values of the financial assets and financial liabilities included in the level 2 fair value hierarchy have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. There were no transfers between levels during the financial year.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of receivables, trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

City Chic Collective Limited
(Formerly known as Specialty Fashion Group Limited)
Notes to the financial statements
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Note 28. Key management personnel disclosures

Directors

The following persons were directors of City Chic Collective Limited during the financial period:

Michael Kay	Chairman (appointed 9 November 2018)	Non-executive director (appointed 1 October 2018)
Michael Hardwick		Non-executive director
Megan Quinn		Non-executive director
Phil Ryan	Chief Executive Officer (appointed 1 October 2018)	Managing Director (appointed 12 February 2019)
Anne McDonald	Former Chairperson	Former non-executive director (resigned 9 November 2018)
Ashley Hardwick		Former non-executive director (resigned 9 November 2018)
Daniel Bracken	Former Chief Executive Officer	Former Managing Director (resigned 30 September 2018)

Other key management personnel¹

The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial period:

Munraj Dhaliwal	Chief Financial Officer (appointed 14 February 2019)
Tim Fawaz	Former Chief Financial and Operations Officer (resigned 14 February 2019)

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2019	2018
	\$	\$
Short-term employee benefits	1,987,732	3,875,352
Post-employment benefits	83,885	144,087
Long-term benefits	197,978	342,995
Termination benefits	20,023	726,313
Share-based payments	605,489	-
	<u>2,895,107</u>	<u>5,088,747</u>

Shareholding

The number of shares in the company held during the financial period by each key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the period	Received as part of remuneration	Additions during the period	Disposals during the period	Other movements ²	Balance at the end of the period
<i>Directors' shareholding</i>						
Michael Kay	-	-	509,914	-	-	509,914
Michael Hardwick	395,000	-	100,000	-	-	495,000
Phil Ryan	124,000	-	-	-	-	124,000
Anne McDonald	35,000	-	-	-	(35,000)	-
Ashley Hardwick ³	39,801,811	-	-	-	(39,801,811)	-
Subtotal	40,355,811	-	609,914	-	(39,836,811)	1,128,914
<i>Other key management personnel shareholding</i>						
Munraj Dhaliwal	-	-	-	-	80,000 ⁴	80,000
Tim Fawaz	400,000	-	202,387	-	(602,387)	-
Subtotal	400,000	-	202,387	-	(522,387)	80,000
Total KMP shareholdings	40,755,811	-	812,301	-	(40,359,198)	1,208,914

¹ Sonia Moura was determined to be a KMP in prior years however after the FY2018 divestment, the role is no longer considered to qualify as KMP.

² Balance at the end of the period has been reduced to nil for KMP who have resigned from the consolidated entity.

³ Beneficial interest held through NAAH Pty Ltd and NAAH Investments Pty Ltd.

⁴ Balance represents shareholdings held prior to appointment as KMP.

City Chic Collective Limited
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Notes to the financial statements
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Note 29. Remuneration of auditors

During the financial period the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company, and its network firms:

	Consolidated	
	2019	2018
	\$	\$
<i>Auditor of the parent entity</i>		
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	323,807	429,900
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance services including review of company income tax returns	20,000	30,000
Tax advisory services	104,460	-
<i>Total remuneration - auditor of parent entity</i>	448,267	459,900
<i>Network firms of the parent entity auditor</i>		
<i>Audit services - network firms</i>		
Audit or review of the financial statements	7,885	-
<i>Other services - network firms</i>		
Tax compliance services including review of company income tax returns	56,199	37,099
Tax advisory services	32,335	92,194
<i>Total remuneration - network firms of the parent entity auditor</i>	96,419	129,293
<i>Total remuneration</i>	544,686	589,193

It is the consolidated entity's policy to employ Deloitte on assignments additional to their statutory audit duties where Deloitte's expertise and experience with the consolidated entity are important. These assignments are principally tax advice and other advisory services, or where Deloitte is awarded assignments on a competitive basis. It is the consolidated entity's policy to seek competitive tenders for all major consulting projects.

Note 30. Contingent liabilities

The consolidated entity had contingent liabilities at 30 June 2019 in respect of:

Cross guarantees by and between City Chic Collective Limited and Specialty Fashion Group No.5 Pty Limited. These are described in Note 35. Deed of cross guarantees. No deficiencies of assets exist in any of these companies.

No material losses are anticipated in respect of any of the above contingent liabilities.

City Chic Collective Limited
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Notes to the financial statements
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Note 31. Commitments

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Plant and equipment	-	240
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	7,824	9,452
One to five years	10,013	10,239
Beyond five years	211	-
	<u>18,048</u>	<u>19,691</u>

The above commitments do not include leases which have expired and are currently on holdover or any rental payments which may arise in the event that sales revenue exceeds a pre-determined amount.

Lease commitments includes contracted amounts for various retail outlets under non-cancellable operating leases expiring within 1 to 7 years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

Note 32. Related party transactions

Parent entity

City Chic Collective Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2019 \$	2018 \$
<i>Payment for other expenses:</i>		
Lease of business premises in which Gary Perlstein, a former director of the consolidated entity had an interest	-	125,087
Services provided by Southern Cross Shopfitting, a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd, a related party of Michael Hardwick. ¹	965,129	210,508 ²
Share registry and Annual General Meeting fees paid to Link Market services. Anne McDonald is a former non-executive director of Link Administrative Holding Limited (Link Group)	12,928	52,931
	<u>978,057</u>	<u>388,526</u>

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

¹ Michael Hardwick was not involved in decision making relating to Southern Cross Shopfitting and its dealings with the Group.

² Services provided from March 2018 to June 2018 in FY2018.

City Chic Collective Limited
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Note 32. Related party transactions (continued)

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2019 \$'000	2018 \$'000
Revenue	114,636	111,095
Expenses	(94,554)	(87,613)
Profit before income tax	<u>20,082</u>	<u>23,482</u>
Income tax expense	(9,505)	(4,139)
Profit after income tax from continuing operations	10,577	19,343
Profit after income tax from discontinued operations	<u>2,050</u>	<u>(27,159)</u>
Total profit after income tax for the year from parent entity	12,627	(7,816)
Other comprehensive (loss)/income	(581)	3,635
Total comprehensive income/(loss) from parent entity	<u>12,046</u>	<u>(4,181)</u>

Statement of financial position

	Parent	
	2019 \$'000	2018 \$'000
Total current assets ¹	<u>34,335</u>	<u>167,223</u>
Total assets ¹	<u>81,786</u>	<u>198,947</u>
Total current liabilities ²	<u>31,269</u>	<u>142,459</u>
Total liabilities ²	<u>34,914</u>	<u>157,476</u>
Equity		
Issued capital ³	49,139	49,139
Foreign currency reserve	(493)	-
Hedging reserve - cash flow hedges	-	88
Share-based payments reserve	1,141	61
Dividends paid	(9,612)	-
Retained profits/(accumulated losses)	<u>6,697</u>	<u>(7,817)</u>
Total equity	<u>46,872</u>	<u>41,471</u>

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The same guarantee disclosure applies to both parent and consolidated accounts, refer to Note 35. Deed of cross guarantee.

¹ FY2018 balance included assts held for sale of \$122.4 m.

² FY2018 balance included liabilities associated to asset held for sale of \$91.2 m.

³ During FY2018, the parent entity undertook a capital reduction to reduce its share capital by \$85.4 m to \$49.1 m, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the parent entity with no impact on the net assets of either the parent entity of the Group. On consolidation, the share capital of the Group also reduced by \$85.4 m to \$49.1 m.

City Chic Collective Limited
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Notes to the financial statements
30 June 2019

Note 33. Parent entity information (continued)

Contingent liabilities

The above disclosure does not include contingent rental payments which may arise in the event that sales revenue exceeds a predetermined amount.

Capital commitments - Plant and equipment

The parent entity had no capital commitments for plant and equipment as at 30 June 2019.

	2019 \$'000	Parent	2018 \$'000
Committed at the reporting date but not recognised as liabilities, payable:			
Plant and equipment		-	240

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2019 %	2018 %
Specialty Fashion Group No. 5 Pty Limited	Australia	100.00%	100.00%
City Chic Collective No. 1 Pty Limited (formerly known as Specialty Fashion Group No. 1 Pty Limited)	Australia	80.00%	80.00%
City Chic Collective No. 2 Pty Ltd (formerly known as Specialty Fashion Group No. 2 Pty Limited)	Australia	100.00%	100.00%
Specialty Fashion Group No. 6 Pty Limited	Australia	100.00%	100.00%
City Chic International Pty Limited	Australia	100.00%	100.00%
City Chic Collective New Zealand Limited (formerly known as Specialty Fashion Group New Zealand Limited)	New Zealand	100.00%	100.00%
Specialty Fashion Group (Shanghai) Limited Company	China	100.00%	100.00%
Specialty Fashion Group South Africa (Pty) Ltd	South Africa	100.00%	100.00%
City Chic Collective USA Incorporated (formerly known as Specialty Fashion Group USA Incorporated)	United States	100.00%	100.00%

Note 35. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

- City Chic Collective Limited
- Specialty Fashion Group No.5 Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under *Corporations Instrument 2016/785* issued by the Australian Securities and Investments Commission.

City Chic Collective Limited
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Notes to the financial statements
30 June 2019

Note 35. Deed of cross guarantee (continued)

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by City Chic Collective Limited, they also represent the 'Extended Closed Group'. All companies in the Closed Group are dormant, except for City Chic Collective Limited.

The statement of profit or loss and other comprehensive income and statement of financial position are substantially the same as the consolidated entity and therefore have not been separately disclosed. The financial results of the Closed Group are the same as the financial results of the parent entity which are disclosed in Note 33. Parent entity information.

Note 36. Events after the reporting period

During the reporting period on 2 July 2018, the Group completed the sale of the businesses associated with the operations and brands of Millers, Katies, Rivers, Autograph and Crossroads to Noni B Limited. The agreement was to sell these brands for consideration of \$31.0 m (plus or minus post completion adjustment). Independent experts were appointed to determine the outcome of the completion adjustment and other aspects of the Business Sale Agreement. As announced by the Group to the ASX on 24 June 2019, those disputes were determined by independent experts in the Group's favour. On 31 July 2019, Noni B Limited filed proceedings in the Supreme Court of New South Wales seeking orders setting aside the independent experts' determination. Notwithstanding that City Chic received a favourable expert determination, given the subsequent proceedings filed by Noni B, the Group has been prudent and provisioned accordingly.

In August 2019, the Group amended its external finance facilities from a working capital facility of \$15.0 m to a general corporate purpose facility of \$5.0 m.

Other than the above, no other matter or circumstance has arisen since 30 June 2019 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 37. Reconciliation of profit after tax to net cash from operating activities

	Consolidated 2019 \$'000	2018 \$'000 Restated
Profit after tax from continuing operations	14,265	14,959
Adjustments for:		
Depreciation, amortisation and impairment	3,942	3,862
Net (gain)/loss on disposal of plant and equipment	(851)	658
Share-based payments	1,080	-
Adjustments for discontinued operations	1,181	-
Foreign exchange and other differences	926	(1,291)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables and prepayments	(549)	4,423
(Increase)/decrease in inventories	(3,534)	75,021
Decrease in income tax refund due	15	20
Increase in deferred tax assets	(6,670)	(1,999)
Decrease in derivative assets	-	3
Decrease in trade and other payables	(18,755)	(51,304)
Increase/(decrease) in provision for income tax	5,544	(33)
Decrease in provisions	(2,167)	(22,457)
Increase/(decrease) in other liabilities	1,739	(2,994)
Net cash from operating activities for continuing operations	<u>(3,834)</u>	<u>18,868</u>

City Chic Collective Limited
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Notes to the financial statements
30 June 2019

Note 38. Earnings per share

	Consolidated	
	2019 \$'000	2018 \$'000
<i>Profit/(loss) after income tax attributable to the owners of City Chic Collective Limited</i>		
Continuing operations	14,265	14,959
Discontinued operations	1,713	(24,265)
	15,978	(9,306)
	2019 Number	2018 Number
Weighted average number of ordinary shares used in calculating basic earnings per share	192,236,121	192,236,121
Adjustments for performance rights	1,084,487	-
	193,320,608	192,236,121
	2019 Cents	2018 Cents
<i>Basic earnings per share</i>		
Continuing operations	7.4	7.8
Discontinued operations	0.9	(12.6)
	8.3	(4.8)
<i>Diluted earnings per share</i>		
Continuing operations	7.4	7.8
Discontinued operations	0.9	(12.6)
	8.3	(4.8)

Note 39. Share-based payments

Tranche	Grant date	Performance period end date	Share price at grant date	Expected volatility %	Dividend yield %	Risk-free interest rate %	Balance at the start of the period	Granted	Vested	Expired/forfeited/other	Balance at the end of the period
1	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	-	895,552	-	-	895,552
2A	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	-	1,237,500	-	-	1,237,500
2B	13/11/2018	30/06/2021	\$1.17	35.00%	3.50%	2.12%	-	1,237,500	-	-	1,237,500
2C	13/11/2018	30/06/2023	\$1.17	35.00%	3.50%	2.12%	-	2,475,000	-	-	2,475,000
							-	5,845,552	-	-	5,845,552

Vesting conditions of the grants are set out below.

Tranche 1

Vesting Condition 1 Continued service to August 2021, with no holding lock on resulting shares;
Vesting Condition 2 Compound annual growth rate (CAGR) in the Group's earnings per share before tax (EPS) during the three years to June 2021 in accordance with the following schedule:

EPS CAGR across the Tranche 1 Performance Period	Proportion of Tranche 1 Performance Rights held that will satisfy Vesting Condition 2
Below 5%	Nil
5%	25%
5% ≤ EPS CAGR ≤ 20%	Straight line pro-rata vesting between 25% and 100% (inclusive)

Tranche 2A

Vesting Condition Continued service to August 2021, with no holding lock on resulting shares.

Tranche 2B

City Chic Collective Limited
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Notes to the financial statements
30 June 2019

Note 39. Share-based payments (continued)

Vesting Condition 1 Continued service to August 2021, with no holding lock on resulting shares;
Vesting Condition 2 Group EPS performance in accordance with the following schedule:

Group EPS for the year to 30 June 2021	Proportion of Tranche 2B Performance Rights held that will satisfy Vesting Condition 2
Below \$0.0975 (1.3 x FY2018 EPS)	Nil
\$0.0975 ≤ EPS < \$0.1050 (1.4 x FY2018 EPS)	50%
EPS ≥ \$0.1050	100%

Tranche 2C

Vesting Condition 1 Continued service to August 2023, with no holding lock on resulting shares.
Vesting Condition 2 Group EPS performance in accordance with the following schedule:

Group EPS for the year to 30 June 2023	Proportion of Tranche 2C Performance Rights held that will satisfy Vesting Condition 2
Below \$0.1125 (1.5 x FY2018 EPS)	Nil
\$0.1250 ≤ EPS < \$0.1200 (1.6 x FY2018 EPS)	50%
\$0.1200 ≤ EPS < \$0.1275 (1.7 x FY2018 EPS)	75%
EPS ≥ \$0.1275	100%

Total expenses arising from share-based payment transactions recognised during the period as part of employee benefit expense were as follows:

	Consolidated	
	2019	2018
	\$'000	\$'000
Performance rights issued under LTIP	1,080	-
	<u>1,080</u>	<u>-</u>

City Chic Collective Limited
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Directors' declaration
30 June 2019

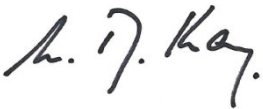
In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 35 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



Michael Kay
Chairman



Phil Ryan
Chief Executive Officer and Managing Director

27 August 2019
Sydney

City Chic Collective Limited
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Shareholder information
30 June 2019

The shareholder information set out below was applicable as at 9 August 2019.

Distribution of equitable securities

Analysis of number of ordinary share holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	964
1,001 to 5,000	1,509
5,001 to 10,000	414
10,001 to 100,000	401
100,001 and over	70
	3,358
Holding less than a marketable parcel	150

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Ordinary shares Number held	% of total shares issued
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	42,017,533	21.86
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	31,961,701	16.63
NATIONAL NOMINEES LIMITED	19,057,150	9.91
MR GARY PERLSTEIN AND CONTROLLED ENTITIES ¹	17,862,728	9.29
MR IAN MILLER AND CONTROLLED ENTITIES ²	9,044,906	4.71
BNP PARIBAS NOMS PTY LTD	8,278,498	4.31
T BATSAKIS PTY LTD	7,000,000	3.64
NAAH PTY LTD / NAAH INVESTMENTS PTY LTD	6,571,811	3.42
CITICORP NOMINEES PTY LIMITED	4,061,532	2.11
HENOCH INVESTMENTS PTY LTD	4,000,000	2.08
CITICORP NOMINEES PTY LIMITED	2,724,000	1.42
GRAHGER RETAIL SECURITIES PTY LTD	1,800,000	0.94
ONE MANAGED INVT FUNDS LTD	1,781,795	0.93
UBS NOMINEES PTY LTD	1,669,819	0.87
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,150,337	0.60
BNP PARIBAS NOMINEES PTY LTD	894,252	0.47
NCH PTY LTD	734,755	0.38
GDL INVESTMENTS PTY LTD	715,564	0.37
MR DAVID MCSEVENY	707,363	0.37
TDA SECURITIES PTY LTD	630,000	0.37
	162,663,744	84.68

¹ Beneficial interest in City Chic Collective Limited through Icestorm Pty Ltd and Snowglaze Investments Pty Ltd.

² Beneficial interest in City Chic Collective Limited through Landpeak Pty Ltd and Landcharm Pty Ltd.

City Chic Collective Limited
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Shareholder information
30 June 2019

Unquoted equity securities

There are no unquoted equity securities.

Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares	
	Number held	% of total shares issued
SPHERIA ASSET MANAGEMENT	18,299,351	9.52
MR GARY PERLSTEIN AND CONTROLLED ENTITIES ¹	17,862,728	9.29
QVG CAPITAL	14,847,265	7.72
WILSON ASSET MANAGEMENT	12,057,177	6.27

Voting rights

The voting rights attached to ordinary shares are set out below:

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

¹ Beneficial interest in City Chic Collective Limited through Icestorm Pty Ltd and Snowglaze Investments Pty Ltd.