City Chic Collective Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	City Chic Collective Limited
ABN:	43 057 569 169
Reporting period:	For the 26 week period ended 29 December 2019
Previous period:	For the 26 week period ended 30 December 2018

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	up	39.0%	to	104,842
Profit after tax for the period from continuing operations attributable to the owners of City Chic Collective Limited	up	6.3%	to	10,469
Profit after tax for the period from continuing and discontinued operations attributable to the owners of City Chic Collective Limited	up	4.5%	to	10,602

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

	Consolidated 29 Dec 2019 $'000	30 Dec 2018 $'000
Net profit after tax from continuing operations	10,469	9,851
Net interest expense/(income) (excluding AASB 16 impact)	133	(182)
Tax expense from continuing operations	5,519	4,033
Depreciation, amortisation and impairment expense (excluding AASB 16 impact)	2,279	971
Transition costs[1]	-	1,145
Transaction costs[2]	1,832	-
Net AASB 16 impact	(1,120)	-
Underlying EBITDA	**19,112**	**15,818**

	29 Dec 2019 Cents	30 Dec 2018 Cents
Basic earnings per share for the Group	5.5	5.3
Diluted earnings per share for the Group	5.5	5.3

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	9.7	18.9

[1] HY19 Transition costs related to costs incurred to implement the separation of the divested brands to Noni B Limited (now Mosaic Brands Limited) and the organisational transformation.
[2] HY20 Transaction costs related to executing the acquisition of Avenue Online and integrating the business.

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

No dividends have been recommended for the current financial period.

Previous period

			Amount per security Cents	Franked amount per security Cents
Final ordinary dividend	Paid	30 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

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 were subject to a review by the auditors and the review report is attached as part of the Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of City Chic Collective Limited for the period ended 29 December 2019 is attached.

---

12. Signed

Phil Ryan
Chief Executive Officer and Managing Director
Sydney

Date: 20 February 2020

City Chic Collective Limited

ABN 43 057 569 169

Interim Report – 26 week period ended 29 December 2019

City Chic Collective Limited
Contents
29 December 2019

General information

The condensed consolidated interim 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 26 week period. The financial statements are presented in Australian dollars, which is City Chic Collective Limited's functional and presentation currency.

City Chic Collective Limited (ASX Code: CCX) 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 20 February 2020.

City Chic Collective Limited
Directors' report
29 December 2019

The directors present their report, together with the interim 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 26 week period ended 29 December 2019 (referred to hereafter as 29 December 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:

Michael Kay[1]
Michael Hardwick
Megan Quinn
Phil Ryan[2]

Principal activities
City Chic Collective Limited operates within the women's fashion retail sector in Australia, USA, New Zealand, Europe and UK for the period. The Southern Hemisphere, which comprises Australia and New Zealand, represented 67% of revenue with the balance in our Northern Hemisphere markets across USA, Europe and UK.

Dividends
Dividends paid during the financial period and prior period were as follows:

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Interim ordinary dividend for the period (2019: 2.5 cents per ordinary share)	-	4,806
Special dividend for the period (2019: 2.5 cents per ordinary share)	-	4,806
Final ordinary dividend for the period (2019: 1.5 cents per ordinary share)	2,884	-
	2,884	9,612

No dividends have been recommended for the current financial period.

Significant changes in the state of affairs
On 16 October 2019, the Group acquired the e-commerce assets of Avenue Stores LLC (Avenue) for cash consideration of US$16.5m. The acquisition is part of the Group's strategy to accelerate US customer growth and expand across plus-size segments. Please refer to details in Note 15. Business combinations.

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

Operating and financial review
City Chic Collective is a global omni-channel retailer specialising in plus-size women's apparel, accessories and footwear. It is a collective of customer-led brands including City Chic, CCX, Avenue and Hips & Curves. City Chic appeals to fashion forward women and its omni-channel model comprises; of a network of 107 stores across Australia and New Zealand; multiple websites operating in Australasia and the USA; marketplace and wholesale partnerships with major US retailers such as Macys and Nordstrom; and a wholesale business with European and UK partners such as ASOS and Zalando. Avenue targets value-conscious women and Hips & Curves is an intimates brand; both are online only with a significant customer following throughout the US.

The Group achieved revenue from continuing operations of $104.8m (30 December 2018: $75.4m) and net profit after tax for continuing operations was $10.5m (30 December 2018: $9.9m). The Underlying EBITDA from continuing operations was $19.1m (30 December 2018: $15.8m).

[1] Michael Kay was appointed as non-executive director on 1 October 2018 and Chairman on 9 November 2018.
[2] Phil Ryan was appointed as Chief Executive Officer on 1 October 2018 and Managing Director on 12 February 2019.

On 23 August 2019, the Group amended its external finance facilities from a working capital facility of $15.0m to a general corporate purpose facility of $5.0m. On 11 October 2019 in order to fund the acquisition of the e-commerce assets of Avenue, the Group secured an additional “Acquisition Facility” of $12.5m to be repaid over a 12 month period. Refer below for matters subsequent to the end of the financial period.

The Group ended the half-year with net debt of $2.6m at 29 December 2019 (30 June 2019: net cash of $23.2m). The reported operating cash flow for the first half is $15.2m (30 December 2018: ($8.7m)).

Matters subsequent to the end of the financial period

In February 2020, the Group received a credit approved commitment to refinance the existing $17.5m facility with a $35.0m 3-year facility.

In February 2020, the Group and Mosaic Brands Limited (formerly Noni B Limited) reached a confidential settlement in relation to the post completion working capital adjustment associated with the divestment of brands in July 2018. The profit for discontinued operations and the balance sheet reflect the terms of the settlement.

In early 2020, there was an outbreak of COVID-19 (“Coronavirus”) in China. The Group is not directly exposed from a demand perspective and has several levers to help offset the impact of delays in production. Chinese Government imposed restrictions have started to be lifted in the regions where a majority of The Group’s factories are located. Some of The Group’s factory base is in the Hubei province, which remains closed. The Group is working closely with its long-standing supply partners and at this stage the disruption will not impact sales and inventory.

Apart from the above, no other matter or circumstance has arisen since 29 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

The Group 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 on page 4 and forms part of this report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001.*

On behalf of the directors

Michael Kay
Chairman

Phil Ryan
Chief Executive Officer and Managing Director

20 February 2020
Sydney

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Eclipse Tower
60 Station Street
Parramatta
Sydney, NSW, 2150
Australia

Phone: +61 2 9840 7000
www.deloitte.com.au

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

20 February 2020

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.

As lead audit partner for the review of the financial statements of City Chic Collective Limited for the half-year ended 29 December 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 review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Annalisa Amiradakis
Partner
Chartered Accountants

Liability limited by a scheme approved under Professional Standards Legislation

Member of Deloitte Asia Pacific Limited and the Deloitte Network

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Eclipse Tower
60 Station Street
Parramatta
Sydney, NSW, 2150
Australia

Phone: +61 2 9840 7000
www.deloitte.com.au

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

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of City Chic Collective Limited, which comprises the condensed consolidated statement of financial position as at 29 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year then ended, notes comprising a summary of significant accounting policies and other explanatory information and, the Directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 7 to 29.

The Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the condensed consolidated half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's and consolidated entity's financial position as at 29 December 2019 and their performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001. As the auditor of City Chic Colelctive Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the review of the financial report.

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

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of City Chic Collective Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

Deloitte.

Conclusion

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

(a) giving a true and fair view of the company's and consolidated entity's financial position as at 29 December 2019 and of their performance for the half-year ended on that date; and

(b) complying with Australian Accounting Standards AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Annalisa Amiradakis
Partner
Chartered Accountants
Parramatta, 20 February 2020

City Chic Collective Limited
Condensed consolidated statement of profit or loss and other comprehensive income
For the period ended 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	30 Dec 2018 $'000
Revenue from continuing operations	4	104,842	75,430
Interest and other revenue	4	195	291
Expenses from continuing operations			
Cost of sales		(48,025)	(29,848)
Employee benefits expense		(17,595)	(15,112)
Depreciation, amortisation and impairment expense		(8,596)	(971)
Rental expense		(215)	(7,706)
Other expenses		(13,926)	(8,091)
Finance costs		(692)	(109)
Profit before income tax expense from continuing operations		**15,988**	**13,884**
Income tax expense		(5,519)	(4,033)
Profit after income tax expense from continuing operations		**10,469**	**9,851**
Profit after income tax expense from discontinued operations	3	133	294
Profit after income tax expense for the period attributable to the owners of City Chic Collective Limited	12	**10,602**	**10,145**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		-	(103)
Foreign currency translation		(542)	849
Income tax (expense)/benefit relating to the components of other comprehensive income		-	31
Other comprehensive income for the period, net of tax		(542)	777
Total comprehensive income for the period attributable to the owners of City Chic Collective Limited		**10,060**	**10,922**
Total comprehensive income for the period is attributable to:			
Continuing operations		9,927	10,628
Discontinued operations		133	294
		10,060	**10,922**

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

City Chic Collective Limited
Condensed consolidated statement of profit or loss and other comprehensive income
For the period ended 29 December 2019

	Note	Consolidated 29 Dec 2019 Cents	30 Dec 2018 Cents
Earnings per share for profit from continuing operations attributable to the owners of City Chic Collective Limited			
Basic earnings per share	16	5.4	5.1
Diluted earnings per share	16	5.4	5.1
Earnings per share for profit/(loss) from discontinued operations attributable to the owners of City Chic Collective Limited			
Basic earnings per share	16	0.1	0.2
Diluted earnings per share	16	0.1	0.2
Earnings per share for profit attributable to the owners of City Chic Collective Limited			
Basic earnings per share	16	5.5	5.3
Diluted earnings per share	16	5.5	5.3

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

City Chic Collective Limited
Condensed consolidated statement of financial position
As at 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	30 Jun 2019 $'000	30 Dec 2018 $'000
Assets				
Current assets				
Cash and cash equivalents		14,901	23,214	35,476
Trade and other receivables		10,571	4,574	5,967
Inventories		36,830	19,353	15,234
Other		3,844	1,323	22
Total current assets		**66,146**	**48,464**	**56,699**
Non-current assets				
Plant and equipment	5	10,595	9,306	8,334
Right-of-use assets	8	30,450	-	-
Intangibles	6	39,048	15,153	11,976
Deferred tax		9,370	12,057	7,294
Total non-current assets		**89,463**	**36,516**	**27,604**
Total assets		**155,609**	**84,980**	**84,303**
Liabilities				
Current liabilities				
Trade and other payables		39,470	25,522	20,650
Provisions		6,655	5,071	8,163
Borrowings	7	12,500	-	-
Lease liabilities	8	12,136	-	-
Income tax payable		3,191	5,544	2,601
Other		365	761	663
Total current liabilities		**74,317**	**36,898**	**32,077**
Non-current liabilities				
Borrowings	7	5,000	-	-
Provisions		337	1,941	2,748
Lease liabilities	8	22,594	-	-
Other		-	1,875	1,260
Total non-current liabilities		**27,931**	**3,816**	**4,008**
Total liabilities		**102,248**	**40,714**	**36,085**
Net assets		**53,361**	**44,266**	**48,218**
Equity				
Issued capital	10	49,139	49,139	49,139
Reserves	11	716	(248)	(75)
Retained earnings/(Accumulated losses)	12	3,506	(4,625)	(846)
Total equity		**53,361**	**44,266**	**48,218**

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

City Chic Collective Limited
Condensed consolidated statement of changes in equity
For the period ended 29 December 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 2 July 2018	49,139	61	88	(1,196)	(10,991)	**37,101**
Profit after income tax expense for the period	-	-	-	-	10,145	**10,145**
Other comprehensive income for the period, net of tax	-	-	(72)	849	-	**777**
Total comprehensive income for the period	-	-	(72)	849	10,145	**10,922**
Share-based payments (note 9)	-	195	-	-	-	**195**
Balance at 30 December 2018	**49,139**	**256**	**16**	**(347)**	**(846)**	**48,218**

Consolidated	Issued capital $'000	Share-based payments reserve $'000	Hedging reserve $'000	Foreign currency translation reserve $'000	(Accumulated losses) / Retained earnings $'000	Total equity $'000
Balance at 1 July 2019	49,139	1,141	-	(1,389)	(4,625)	**44,266**
Adjustment for change in accounting policy (net of tax) (AASB 16)	-	-	-	-	413	**413**
Balance at 1 July 2019 - restated	49,139	1,141	-	(1,389)	(4,212)	**44,679**
Profit after income tax expense for the period	-	-	-	-	10,602	**10,602**
Other comprehensive income for the period, net of tax	-	-	-	(542)	-	**(542)**
Total comprehensive income for the period	-	-	-	(542)	10,602	**10,060**
Transactions with owners in their capacity as owners:						
Share-based payments (note 9)	-	1,506	-	-	-	**1,506**
Issue of loan funded shares (note 10)	20,190	-	-	-	-	**20,190**
Loan funded shares held in trading lock (note 10)	(20,190)	-	-	-	-	**(20,190)**
Dividends paid (note 13)	-	-	-	-	(2,884)	**(2,884)**
Balance at 29 December 2019	**49,139**	**2,647**	**-**	**(1,931)**	**3,506**	**53,361**

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

City Chic Collective Limited
Condensed consolidated statement of cash flows
For the period ended 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	Consolidated 30 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		114,834	82,230
Payments to suppliers and employees (inclusive of GST)		(95,641)	(90,167)
Interest received		45	291
Other revenue		150	-
Interest and other finance costs paid		(178)	(109)
Income taxes paid		(4,032)	(964)
Net cash from/(used in) operating activities		**15,178**	**(8,719)**
Cash flows from investing activities			
Payments for plant and equipment	5	(2,769)	(1,787)
Payments for intangibles	6	(1,262)	(1,721)
Proceeds from disposal of business		-	31,099
Payment for purchase of business	15	(25,658)	-
Net cash (used in)/from investing activities		**(29,689)**	**27,591**
Cash flows from financing activities			
Repayment of lease liabilities		(7,220)	-
Dividends paid	13	(2,884)	-
Proceeds from borrowings	7	17,500	-
Repayment of borrowings		-	(12,860)
Net cash from/(used in) financing activities		**7,396**	**(12,860)**
Net (decrease)/increase in cash and cash equivalents from continuing operations		**(7,115)**	**6,012**
Net (decrease)/increase in cash and cash equivalents from discontinued operations		(1,207)	424
Cash and cash equivalents at the beginning of the financial period		23,214	28,929
Effects of exchange rate changes on cash and cash equivalents		9	111
Cash and cash equivalents at the end of the financial period		**14,901**	**35,476**

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 29 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the 52 week period ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001.*

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical cost. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the policies stated below.

Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include:

AASB 16 Leases
The Group has adopted AASB 16 from 1 July 2019. The standard replaces AASB 117 'Leases' and for lessees eliminates the classifications of operating leases and finance leases. Except for short-term leases and leases of low-value assets, right-of-use assets and corresponding lease liabilities are recognised in the statement of financial position. Straight-line operating lease expense recognition is replaced with a depreciation charge for the right-of-use (ROU) assets (included in operating costs) and an interest expense on the recognised lease liabilities (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 improve as the operating expense is now replaced by interest expense and depreciation in profit or loss. For classification within the statement of cash flows, the interest portion is disclosed in operating activities and the principal portion of the lease payments are separately disclosed in financing activities.

Impact of adoption
AASB 16 was adopted using a hybrid model by lease approach which included simplified and modified retrospective approach and as such the comparatives have not been restated. Lease liabilities were measured at the present value of the remaining lease payments, discounted at the Group's incremental borrowing rate (3.0%) as at 1 July 2019. ROU assets were measured at either:

- Their carrying amount as if AASB 16 had been applied since the commencement date, discounted using the Group's incremental borrowing rate at the date of initial application - the Group applied this approach to leases which have not expired.
- An amount equal to the lease liability where leases have expired and are currently on holdover as well as leases due to expire in the next 12 months. The Group has considered the likelihood of renewal options or staying on past lease expiry based on historical data to reassess the lease term.

Note 1. Significant accounting policies (continued)

Refer below for reconciliation of operating lease commitments to lease liabilities recognised:

	2019 $000
Operating lease commitments disclosed as at 30 June 2019	18,048
Less: short-term leases recognised on a straight-line basis as expense	(33)
Add: adjustments as a result of a different treatment of extension and termination options	17,419
Add: adjustments as a result of different rental increase estimates	211
Less: discounting using the incremental borrowing rate at 1 July 2019	(804)
Lease liabilities recognised at 1 July 2019	34,841

Practical expedients applied on transition
On transition, the Group has applied the practical expedient to grandfather the assessment of which contracts are leases. AASB 16 has only been applied to contracts entered into before 1 July 2019 that were identified as leases in accordance with AASB 117 and Interpretation 4 which has resulted in the recognition of new ROU assets and lease liabilities for its store leases and head office lease. The Group 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 were minimal under AASB 117 reporting, the Group has considered the likelihood of renewal options or staying on past lease expiry based on historical data to reassess the lease term.

The Group has elected to apply practical expedients in AASB 16 C10 which includes the following:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics;
- Reliance on previous assessments on whether leases are onerous;
- Not to recognise ROU assets and lease liabilities for short-term leases that have a lease term or 12 months or less and leases of low-value assets. The lease payments associated with these leases is recognised as an expense on a straight-line basis over the lease term;
- The exclusion of initial direct costs for the measure of the ROU asset at the date of initial application; and
- The use of hindsight, in determining the lease term, if the contract contains options to extend or terminate the lease.

Right-of-use assets
A ROU asset is recognised at the commencement date of a lease. The ROU asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

ROU assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability leases for lease on planned closures within 3 months of transition date and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Note 1. Significant accounting policies (continued)

Lease liabilities
A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

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 Group for the annual reporting period ended 29 December 2019. The Group has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Standards in issue but not yet effective:

New or revised requirement	When effective
AASB 2014-10 Amendments to Australian Accounting Standards – Sale or Contribution of Assets between an investor and its Associate or Joint Venture	Applicable to annual reporting periods beginning on or after 1 January 2022
AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business	Effective for business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020
AASB 2018-7 Amendment to Australian Accounting Standards – Definition of Material	Effective for annual periods beginning on or after 1 January 2020
AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework	Effective for annual reporting periods beginning on or after 1 January 2020
AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform	Effective for annual reporting periods beginning on or after 1 January 2020
AASB 2019-5 Amendments to Australian Accounting Standards – Disclosure of the Effect of New IFRS Standards Not Yet Issued in Australia	Effective for annual reporting periods beginning on or after 1 January 2020

Note 2. Operating Segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segment being fashion retail. This 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 Makers ('CODM') in assessing performance and in determining the allocation of resources.

The CODM assess the performance of the operating segment based on a measure of EBITDA (Earnings before interest, tax, depreciation, amortisation and impairment, and other adjustments). 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.

Note 2. Operating Segments (continued)

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.

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, Europe and UK. US sales are comprised of online (website and marketplace) and wholesale; European and UK business is solely wholesale.

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

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

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Net profit after tax from continuing operations	10,469	9,851
Net interest expense/(income) (excluding AASB 16 impact)	133	(182)
Tax expense from continuing operations	5,519	4,033
Depreciation, amortisation and impairment expense (excluding AASB 16 impact)	2,279	971
Transition costs[1]	-	1,145
Transaction costs[2]	1,832	-
Net AASB 16 impact	(1,120)	-
Underlying EBITDA	**19,112**	**15,818**

Note 3. Discontinued operations

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

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. In February 2020, the parties reached a confidential settlement. The profit for discontinued operations and the balance sheet reflect the terms of the settlement.

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Revenue	-	17
Expense	(150)	404
Adjustment to gain on disposal of assets held for sale	2,802	-
Income tax expense	(2,519)	(127)
Profit after income tax from discontinued operations	**133**	**294**

[1] HY19 Transition costs related to costs incurred to implement the separation of the divested brands to Noni B Limited (now Mosaic Brands Limited) and the organisational transformation.
[2] HY20 Transaction costs related to executing the acquisition of Avenue Online and integrating the business.

Note 3. Discontinued operations (continued)

Cash flow information

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Net cash (used)/from operating activities	(1,207)	424
Net cash used in investing activities	-	-
Net cash used in financing activities	-	-
Net (decrease)/increase in cash and cash equivalents from discontinued operations	(1,207)	424

Details of the disposal

	Consolidated Adjusted HY20 2018 $'000	Consolidated Adjusted FY19 2018 $'000	Consolidated Initial FY18 2018 $'000
Breakdown – gain/(loss) on disposal			
Net assets held for sale - reported	31,737	33,272	33,272
Adjustments to assets held for sale	639	(1,535)	-
Net assets held for sale - adjusted	32,376	31,737	33,272
Proceeds from sale	31,000	31,000	31,000
Adjustments to proceeds	3,441	-	-
Proceeds from sale - adjusted	34,441	31,000	31,000
Gain/(Loss) on disposal of net assets	2,065	(737)	(2,272)

Accounting policy for discontinued operations
A discontinued operation is a component of the Group 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 and statement of cash flows.

Note 4. Revenue

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Sales of goods	104,842	75,311
Other revenue	-	119
	104,842	75,430
Interest revenue	45	291
Other revenue	150	-
	195	291
Revenue	105,037	75,721

Note 4. Revenue (continued)

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

	Consolidated 29 Dec 2019 $'000	Consolidated 30 Dec 2018 $'000
Timing of revenue recognition		
Goods transferred at a point in time	104,842	75,311
Geographical regions		
Southern hemisphere	69,862	63,597
Northern hemisphere	34,980	11,714
	104,842	75,311
Channel		
Stores	41,300	41,320
Online website	54,439	26,952
Online marketplace	4,719	3,558
Wholesale	4,384	3,481
	104,842	75,311

Note 5. Plant and equipment

	Consolidated 29 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Non-current assets		
Plant and equipment - at cost	25,290	23,766
Less: Accumulated depreciation	(14,695)	(14,460)
	10,595	9,306

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

Consolidated	Total $'000
Balance at 1 July 2019	**9,306**
Additions	2,769
Disposals	-
Depreciation expense	(1,492)
Exchange differences	(20)
Impairment writeback	32
Balance at 29 December 2019	**10,595**

Accounting policy for 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.

Note 5. Plant and equipment (continued)

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 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.

Note 6. Intangibles

	Consolidated 29 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Non-current assets		
Goodwill - at cost	33,514	10,095
Brand - at cost	2,560	2,547
Other intangible assets - at cost	5,088	3,855
Less: Accumulated amortisation	(2,114)	(1,344)
	2,974	2,511
	39,048	**15,153**

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

Consolidated	Goodwill $'000	Brand $'000	Other intangibles $'000	Total $'000
Balance at 1 July 2019	**10,095**	**2,547**	**2,511**	**15,153**
Opening balance adjustments	-	-	-	-
Additions through business combinations (note 15)	24,304	-	-	24,304
Other additions	-	-	1,262	1,262
Amortisation expense	-	-	(819)	(819)
Exchange differences	(885)	13	20	(852)
Balance at 29 December 2019	**33,514**	**2,560**	**2,974**	**39,048**

Accounting policy for 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.

Note 6. Intangibles (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 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.

Note 7. Borrowings

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Current liabilities		
Bank loans	12,500	-
Non-current liabilities		
Bank loans	5,000	-
	17,500	**-**

On 23 August 2019, the Group amended its external finance facilities from a working capital facility of $15.0m to a general corporate purpose facility of $5.0m. On 11 October 2019 in order to fund the acquisition of Avenue, the Group secured an additional "Acquisition Facility" of $12.5m to be repaid over a 12 month period.

At 29 December 2019, the Company had current outstanding borrowings of $12.5m relating to the Acquisition Facility (30 December 2018: nil) and non-current outstanding borrowings of $5.0m relating to a general corporate purpose facility (30 December 2018: nil). The Group ended the half-year with net debt of $2.6m (cash and cash equivalents less borrowings) (30 June 2019: net cash of $23.2m).

Refer to Note 17 for matters subsequent to the end of the financial period.

Accounting policy for borrowings
Loan 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.

Liabilities that are settled within 12 months after the reporting date are classified as current.

Note 8. Leases

	Consolidated 29 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Non-current asset		
Plant and equipment - right-of-use	36,767	-
Less: Accumulated depreciation	(6,317)	-
	30,450	**-**
Current liabilities		
Lease liability	12,136	-
Non-current liabilities		
Lease liability	22,594	-
	34,730	**-**

Additions to the right-of-use assets during the period were $6.6m.

The Group leases retail outlets and office space under agreements of between 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.

The Group leases office equipment under agreements of less than 5 years. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

	Consolidated 29 Dec 2019 $'000	Consolidated 30 Dec 2018 $'000
Amounts recognised in profit and loss		
Depreciation expense on right-of-use assets	6,317	-
Interest expense on lease liabilities	506	-
Expense relating to short-term leases	515	-

Note 9. Share-based payments

During the current year the Group established the 2019 Employee Share Plan approved by shareholders at the Annual General Meeting on 21 November 2019.

The plan was introduced following a review of existing remuneration arrangements of the Group. The purpose of the plan is to further align the incentive arrangements for the executive team and the Group's success.

The key terms of the Plan are listed as follows:

- Loan funded (LF) shares are issued at the Company's share price on the ASX at the time of issue.
- The Company advances money to pay for the subscription price of the LF Shares (Loan).
- The Loan has an interest payable of 1.9% and is repayable on the earlier of cessation of employment (6 or 12 month grace periods may be applied) or 7 years from the agreement by the Board to issue LF Shares under the Plan.
- The Company's recourse in the event it seeks to recover the Loan is limited to the LF Shares. Where a Participant does not repay the Loan by the repayment date, the Participant is deemed to have agreed to sell to the Company pursuant to an employee share scheme buy-back, that number of LF shares required to repay the Loan to the Company.
- The Company will apply the after-tax amount of any dividends payable in respect of a Participant's LF Shares towards repayment of the outstanding balance of the Loan.
- The LF Shares offered are subject to Vesting Conditions, which if not met, the unvested LF Shares will be forfeited and bought back by the Company at the issue price and the Loan will be deemed repaid.

As at 29 December 2019, the LF shares issued under the Loan Funded Share Plan (LFSP) have been treated as 'in-substance options' which have been valued using a Binomial option pricing methodology. The resulting value is amortised over the vesting period on a probability adjusted basis.

Tranche	Grant date	Performance period end date	Share price at grant date	Expected volatility %	Risk-free interest rate %	Balance at the start of the period	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the period
3	21/11/2019	30/06/2024	$2.68	35.00%	2.12%	-	7,533,448	-	-	**7,533,448**

Vesting conditions of the LF Shares are set out below:

Tranche 3

Vesting Condition 1	Continued service to 30 June 2024.
Vesting Condition 2	Compound annual growth rate (CAGR) in the Group's earnings per share after tax (AEPS) prescribed by the Board over the 3 year period commencing on 1 July 2019, in which case (subject to satisfaction of Vesting Period Condition) the LF shares held will vest in accordance with the following vesting scale:

AEPS 3-year CAGR from 1 July 2019	Proportion of Tranche 3 LF Shares that will satisfy Vesting Condition 2
12.5%	25%
20.0%	100%
12.5% ≤ AEPS CAGR ≤ 20.0%	Straight-line pro rata vesting between 25% and 100% (inclusive)

The LF shares issued under the Plan have been treated as 'in substance options' which have been valued using a Modified Binomial Lattice option pricing model which allows for varying exercise price. The resulting value is amortised over the vesting period on a probability adjusted basis. The total expense recorded for the period was $0.4m.

In the year ended 30 June 2019, performance rights were issued under the Long Term Incentive Plan (LTIP). Details of the LTIP grant in the year 30 June 2019 are set out below:

Note 9. Share-based payments (continued)

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 LTIP tranches 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 5.0%	Nil
5.0%	25%
5.0% ≤ EPS CAGR ≤ 20.0%	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%

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	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Performance rights issued	1,070	195
Loan funded shares issued	436	-
	1,506	195

Note 9. Share-based payments (continued)

Accounting policy for share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using either the Binomial or Modified Binomial Lattice option pricing 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 Group 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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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.

Note 10. Issued capital

	Consolidated			
	29 Dec 2019 Shares	30 Jun 2019 Shares	29 Dec 2019 $'000	30 Jun 2019 $'000
Ordinary shares - fully paid	199,769,569	192,236,121	69,329	49,139
Less: Loan funded shares	(7,533,448)	-	(20,190)	-
	192,236,121	192,236,121	49,139	49,139

Note 10. Issued capital (continued)

Movement in ordinary shares on issue

	Shares	$'000
Opening balance 1 July 2019	192,236,121	49,139
Shares issued under:		
Loan funded share plan at $2.68 per share	7,533,448	20,190
	199,769,569	69,329

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.

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.

Loan funded shares
During the current financial period, 7,533,448 loan funded shares were issued as part of the Company's 2019 Employee Share Plan approved by shareholders at the Annual General Meeting on 21 November 2019. The participants are granted a loan by the company to purchase the beneficial interest in shares. These are limited recourse loans to the participants and any dividends received in respect of the loan funded shares are used to reduce the loan balance net of tax payable. Participants are required to meet service requirements and performance conditions before being entitled to acquire full title to these shares and are required to repay the loan in order to do so. The shares held by the company have been deducted from equity as shares are held in trading lock until vesting in line with accounting standards.

Share buy-back
There is no current on-market share buy-back.

Accounting policy for issued capital
Ordinary shares are classified as equity.

Note 11. Reserves

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Foreign currency reserve	(1,931)	(1,389)
Share-based payments reserve	2,647	1,141
	716	(248)

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.

Share-based payments reserve
The reserve is used to recognise the cost of share-based payments on the Group's employee incentive schemes.

Note 12. Retained earnings/(accumulated losses)

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Accumulated losses at the beginning of the financial period	(4,625)	(10,991)
Adjustment for change in accounting standard requirement (net of tax) (AASB 16)	413	-
Accumulated losses at the beginning of the financial period - restated	(4,212)	(10,991)
Profit after income tax expense for the period	10,602	15,978
Dividends paid (note 13)	(2,884)	(9,612)
Retained earnings/(accumulated losses) at the end of the financial period	3,506	(4,625)

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Retained earnings/(accumulated losses) at the end of the financial period comprises		
Loss reserve[1]	(10,991)	(10,991)
Retained earnings	14,497	6,366
	3,506	(4,625)

Note 13. Dividends

Dividends

Dividends paid during the financial period and prior period were as follows:

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Interim ordinary dividend for the period (2019: 2.5 cents per ordinary share)	-	4,806
Special dividend for the period (2019: 2.5 cents per ordinary share)	-	4,806
Final ordinary dividend for the period (2019: 1.5 cents per ordinary share)	2,884	-
	2,884	9,612

No dividends have been recommended for the current financial period.

Franking credits

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Franking credits available at the reporting date based on a tax rate of 30%	47,852	43,849
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%	4,095	5,544
Franking credits available for subsequent financial years based on a tax rate of 30%	51,947	49,393

Accounting policy for dividends

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

[1] Accumulated losses as at 1 July 2018 of $(11.0m) were transferred to a Loss reserve.

Note 14. Related party transactions

Parent entity
City Chic Collective Limited is the parent entity.

Transactions with related parties
The following transactions occurred with related parties.

	Consolidated	
	29 Dec 2019 $	30 Dec 2018 $
Payment for other expenses:		
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]	2,209,006	83,751
Services provided by Southern Cross Shopfitting (NZ), a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd, a related party of Michael Hardwick[2]	38,385	-
Share registry and Annual General Meeting fees paid to Link Market Services Limited. Anne McDonald[3] is a former non-executive director of Link Administrative Holding Limited (Link Group)	-	12,928

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.

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

Note 15. Business combinations

On 16 October 2019, the Group acquired the e-commerce assets of Avenue Stores LLC (Avenue) for cash consideration of AUD $24.6m (US$16.5m) (excluding net working capital adjustments). The acquisition is part of the Group's strategy to accelerate US customer growth and expand across plus-size segments.

The acquisition was funded through cash and cash equivalents and a new Acquisition Facility of $12.5m.

There were no acquisitions in the 26 week period ending 30 December 2018.

[1] Michael Hardwick was not involved in decision making related to Southern Cross Shopfitting and its dealings with the Group.
[2] Michael Hardwick was not involved in decision making related to Southern Cross Shopfitting (NZ) and its dealings with the Group.
[3] Anne McDonald was the former Chairperson and non-executive director up until her resignation on 9 November 2018.

Note 15. Business combinations (continued)

Provisional value of assets and liabilities assumed at the date of the acquisition are as follows:

	Fair value $'000
Inventory	5,580
Deferred tax assets	2,675
Provisions and payables	(3,231)
Gift cards and customer loyalty liabilities	(3,670)
Net assets acquired	1,354
Goodwill	24,304
Acquisition-date fair value of the total consideration transferred	25,658
Representing:	
Amount settled in cash on acquisition	25,658
Acquisition costs expensed to profit or loss	1,138

The ongoing assessment and valuation of the identifiable intangible assets related to the acquisition are expected to be finalised prior to 28 June 2020, within the 12-month window permitted by AASB 3. It is anticipated that amounts will be allocated to Brand and Customer List from Goodwill in the year-end financial statements.

The goodwill is attributable to the profitability of the acquired business. It will not be deductible for tax purposes.

The initial accounting for the acquisition of assets and liabilities has only been provisionally determined at the end of the reporting period. Management is working through the purchase price allocation with its valuation specialists to appropriately establish the value of any identified intangible assets as well as understand the trading impact since acquisition to finalise the accuracy and completeness of assets and liabilities acquired and assumed at acquisition. The provisional values will be finalised no later than in the financial statements of the Group for the 52 week period ending 28 June 2020.

Accounting policy for business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued, or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the Group assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the Group's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

This business has been accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Note 16. Earnings per share

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Profit after income tax attributable to the owners of City Chic Collective Limited		
Continuing operations	10,469	9,851
Discontinued operations	133	294
Profit after income tax attributable to the owners of City Chic Collective Limited	10,602	10,145

	29 Dec 2019 Number	30 Dec 2018 Number
Weighted average number of ordinary shares		
Ordinary shares – fully paid	199,769,569	192,236,121
Less: Loan funded shares	(7,533,448)	-
Weighted average number of ordinary shares used in calculating basic earnings per share	192,236,121	192,236,121
Adjustments for calculation of diluted earnings per share:		
Performance rights	1,946,394	233,848
Weighted average number of ordinary shares used in calculating diluted earnings per share	194,182,515	192,469,969

	29 Dec 2019 Cents	30 Dec 2018 Cents
Basic earnings per share		
Continuing operations	5.4	5.1
Discontinued operations	0.1	0.2
	5.5	5.3
Diluted earnings per share		
Continuing operations	5.4	5.1
Discontinued operations	0.1	0.2
	5.5	5.3

Accounting policy for 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. Loan funded shares were issued for $2.68, refer to details in note 9.

Note 17. Events after the reporting period

In February 2020, the Group received a credit approved commitment to refinance the existing $17.5m facility with a $35.0m 3-year facility.

In early 2020, there was an outbreak of COVID-19 ("Coronavirus") in China. The Group is not directly exposed from a demand perspective and has several levers to help offset the impact of delays in production. Chinese Government imposed restrictions have started to be lifted in the regions where a majority of The Group's factories are located. Some of The Group's factory base is in the Hubei province, which remains closed. The Group is working closely with its long-standing supply partners and at this stage the disruption will not impact sales and inventory.

In February 2020, the Group and Mosaic Brands Limited (formerly Noni B Limited) have reached a confidential settlement in relation to the post completion working capital adjustment associated with the divestment of brands in July 2018. The profit for discontinued operations and the balance sheet reflect the terms of the settlement.

Apart from the above, no other matter or circumstance has arisen since 29 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

City Chic Collective Limited
Directors' declaration
29 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes give a true and fair view of the Group's financial position as at 29 December 2019 and of its performance for the financial period ended on that date; and

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

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001.*

On behalf of the directors

Michael Kay
Chairman

Phil Ryan
Chief Executive Officer and Managing Director

20 February 2020
Sydney