MOSAIC BRANDS LTD

2020 ANNUAL REPORT

Millers WOMAN • NONI B • W.LANE • KATIES • rockmans • crossroads • AUTOGRAPH • beme • rivers

"The past 12 months do not reflect the consistent growth the Group has achieved over the past 5 years, nor does it reflect our 5,900 strong team's hard work, commitment & customer service first approach.

There are no road maps to navigate the circumstances we have faced; however our operational approach has been to put the safety of our customers and team first, whilst reshaping Mosaic Brands to take advantage of the fundamental changes to retail and digital acceleration to deliver a return to sustainable profitability in FY21."

– SCOTT EVANS
CEO MOSAIC BRANDS LTD

ABN: 96 003 321 579

MOSAIC BRANDS LTD

"We put the customer at the heart of everything we do."

Mosaic Brands Limited is one of the largest fashion retail groups in Australia and New Zealand.

Our brands include Millers, Noni B, W.Lane, Katies, Autograph, Rockmans, Crossroads, beme and Rivers along with a majority shareholding of 50.1% of EziBuy. We span Australia and New Zealand with a strong digital presence and a network of 1,333 stores. Our collective purpose is to help our customers express their love of life – by embracing the truth that every occasion is a special occasion worth feeling fabulous for.

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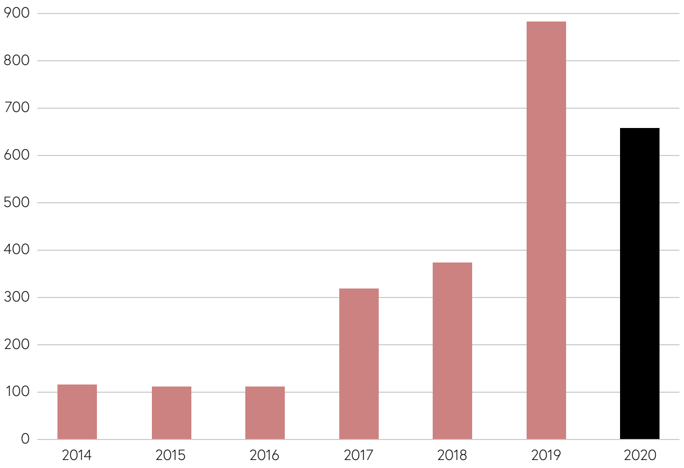
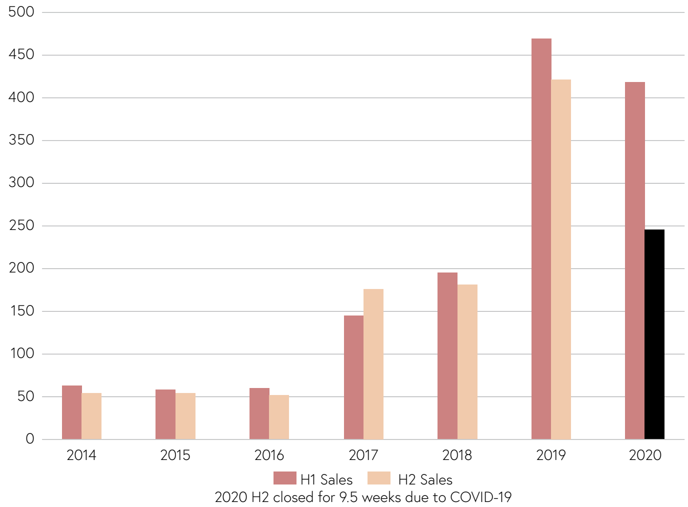
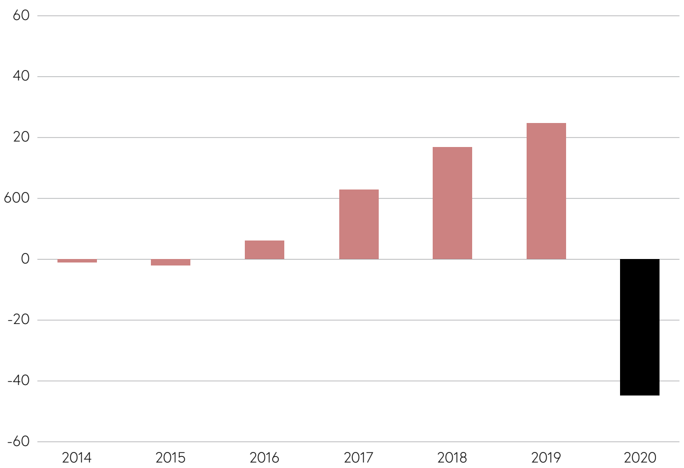
GROUP REVENUE $m



GROUP REVENUE by Half $m



EBITDA[1] Full Year (incl. EziBuy) $m



EBITDA[1] by Half (incl. EziBuy) $m

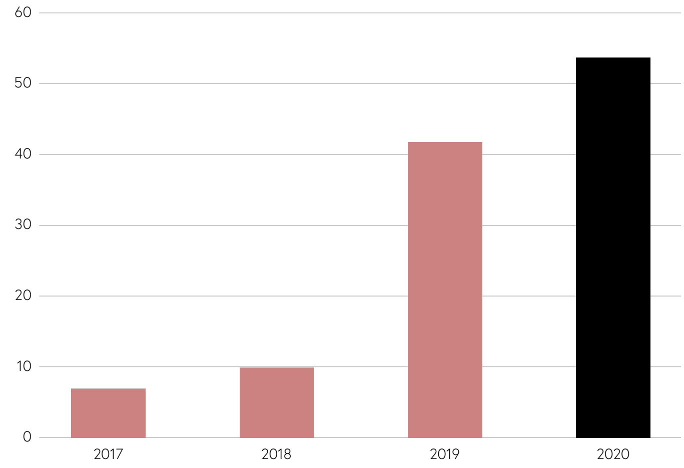
1. EBITDA is a not a financial measure under Australian Accounting Standards, but is defined for the purposes of this document as earnings before interest, tax, depreciation, amortisation, non-recurring income/expenditure and certain non-cash items such as share based payments and unrealised foreign exchange gains/losses.
2. Graphs exclude EziBuy to allow for year-on-year comparisons unless otherwise stated.

 "We put the customer at the heart of everything we do."

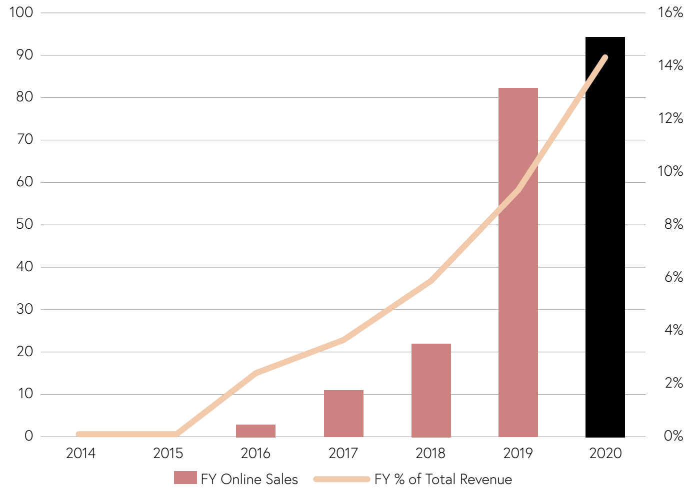
FINANCIAL HIGHLIGHTS

The following charts reflect Mosaic Brands' journey since 2014.

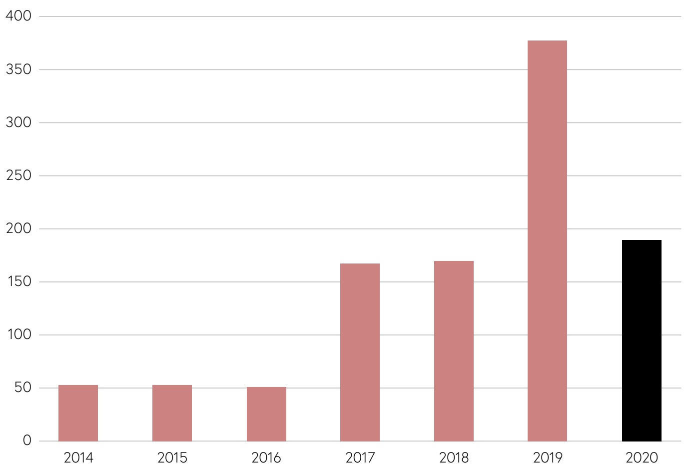
H2 ONLINE SALES $m



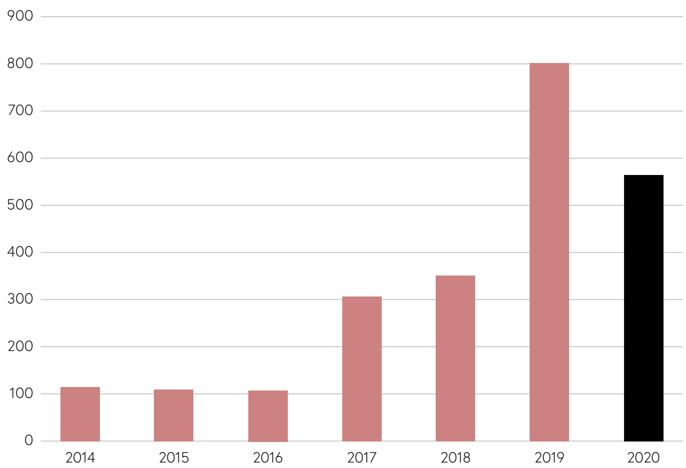
FULL YEAR ONLINE SALES $m



H2 STORE SALES (non comp) $m



FULL YEAR STORE SALES (non comp) $m



FINANCIAL MANAGEMENT

Wages

- JobKeeper received in Q4 FY20
- JobKeeper in Q1 FY21 net benefit expected $32m
- JobKeeper in Q2 FY21 likely to be circa $15m - $20m net benefit

Rental Concessions

- Negotiations remain ongoing with landlords. Material rental assistance in the form of rent waivers having been secured for a significant portion of the portfolio
- Further material benefits anticipated through ongoing negotiations with balance of portfolio
- Lease expiry profile has 41% of stores on holdover or expiring by December 2020, with 87% expiring over the next 24 months

Inventory

- Improved payment terms agreed with circa 90% of trade creditors
- No intake for Q4 FY20 preventing overstock position and preserving cash holdings
- Exited unseasonal stock in June deleveraging the balance sheet, releasing cash
- Entered FY21 with 50% less stock holding than prior year
- Strong intake planned for key Christmas trading period

Capital Management

- Temporary suspension of dividends
- Continued support from bank with reset of covenants to reflect COVID-19 environment

CHAIRMAN'S REPORT

Over the past six years at Mosaic Brands our company strategy has been driven by two very simple principles.

We have had a relentless and continuous focus on shareholder value. This has seen us consistently deliver improved annual earnings and turn loss-making businesses into strong vibrant brands.

Secondly, we have put the customer at the heart of everything we do.

The events over the last 12 months have put those principles to the test in the most extreme of ways.

They have seen us focus on delivering the right balance between our duty to our shareholders, team members and customers, as well as to our business partners.

In his update, our Managing Director, Scott Evans, details how we've navigated and sought to gain this balance in the most challenging retail conditions for decades and in our lifetimes, not only in Australia and New Zealand, but globally.

However, speaking broadly, both the board and management in the last financial year have sought to avoid the temptation of short-term financial sugar hits over positioning the business for the longer term.

That has seen the result for the financial year ended 28th June 2020 headlined by a large accounting loss. This is largely due to non-cash write-downs, impairments and provisions.

Having now taken those steps, we enter the new financial year well-placed to ride out the current continuing uncertainty and to benefit from the eventual recovery.

We closed the 2020 financial year with Mosaic holding a strong cash balance of $77 million, brands not weighed down by excess stock, a growing online business, diversification and innovation in our product offering, and a large and growing loyal customer data base.

Putting the customer at the heart of everything we do made our decision to close stores while other retailers remained open at the onset of COVID-19 a difficult but straightforward one.

Many of those customers, and crucially our team, are in the segment where all the statistics point to them being more vulnerable to the effects of this virus. Keeping stores open may have been fiscally appealing, but it would have been morally wrong.

During this very challenging time, I am proud that our Group's resilience, agility and strategic mindset have resulted in the Group adapting to the new norm post-COVID-19.

Looking ahead, we believe that our demographic will a play a key role in retail spending as the majority are of a generation more likely to return to spending as the virus recedes.

As we all know, change is never easy and only the strong will lead through such a challenging time. As a result, we will see our portfolio shrink potentially by 300 and up to 500 stores over the next 24 months, in part driven by some landlords not demonstrating a preparedness to accept or embrace the seismic shift in retail behaviour and spending patterns being seen globally.

The Group recently took a very public stand on this issue and we're heartened by the support we've received from retail sector colleagues for changes to occur and for sparking a wider discussion about what the new retail landscape will look like.

Given all that we've faced in the last financial year, I believe your company is in the strongest possible position to weather this continuing uncertainty and come out strongly on the other side, returning to sustainable profitability in the 2021 financial year.

– RICHARD FACIONI

CHAIRMAN

At the 2019 annual general meeting in November, we confirmed that the company was on track to achieve EBITDA of $75 million for the year to June 2020, compared with underlying EBITDA of $45.5 million the previous year and in line with market consensus. Importantly, we also were able to report the five new brands had achieved comparable store sales and margin growth for the first four months of the financial year – a significant turnaround after several years of decline. This was achieved through the Group's continued focus on increasing margin, rather than pursuing sales at any price, improved product collections and instore experience.

Unfortunately this forecast was utterly derailed, due to the impacts of bushfires followed by the COVID-19 pandemic.

The catastrophe caused to many communities by the devastating bushfires from late November to January impacted the Group's performance heavily, especially during the key Christmas trading period. Some 20% of the Group's 1,386 stores were directly affected by the fires and 32% were in regional areas where consumer confidence suffered.

On 25 February when we reported the company's interim results we announced that despite the bushfires' impact trading had started to recover and the Group looked forward to a positive second half, including the all-important Mother's Day period.

The first half's gross margin had increased to 59.7% from 56.7% a year earlier, delivered through our core strategy of reduced discounting and margin growth. As a result, first half EBITDA was $32.7 million, up 12.4% from $29.1 million the previous year.

We are very proud that Mosaic could provide some support to our customers in these communities by donating $50,000 to the St. Vincent de Paul Bush Fire Appeal and close to $1 million worth of clothing to the GIVIT charity.

During March, the potential impact of the COVID-19 pandemic was becoming more apparent across Australia. As the government introduced guidelines to limit infection, store traffic declined and on 26 March, to protect the health and wellbeing of our customers and team, we became one of the first national retail chains to close all our stores. Team and customer safety is our highest priority and, particularly given the risk profile of the segment which we serve, we made this move decisively.

Throughout this period, and the later Victorian lockdown, we communicated weekly with all team members to ensure they kept abreast of the evolving rules and government guidelines, while also providing support and helping to maintain their morale during this unprecedented time. Team members affected by the closure were stood down with access to their leave entitlements pending the federal government's introduction of its JobKeeper support program.

We also continued to progress and invest in the Group's core digital department store strategy. The range of products offered was expanded to 14 categories and over 150,000 SKUs were added to our nine brands' websites. As a result, online sales increased by over 80% during the store closure period. Our digital strategy continues to deliver strong performance following stores' re-opening, and in July 2020 online sales were 40% above July 2019.

In addition, during the nine and a half weeks stores were closed nationally, we worked swiftly to reset our cost of doing business to allow the Group to enter FY21 in a strong position. Cost reductions of $18 million will be fully realised in FY21.

Stores re-opened in June and we focused on clearing non-appropriate seasonal stock, ensuring we entered FY21 in a strong cash and clean stock-holding position. I am very pleased with the cash balance of $77 million at the end of the year along with our stock levels being 50% less than a year earlier. These two key action have given the Group a strong foundation entering FY21, enabling us to continue to focus on margin and navigate the uncertainties posed by the pandemic.

Prepared for the new retail world

We believe that the changes in consumer behaviour we have seen since March will have a permanent impact on the retail sector. The pandemic has accelerated the shift to online shopping and we anticipate this will continue, along with subdued foot traffic in shopping centres for some time. Accordingly, we are very confident that, in focusing on delivering our core digital department store strategy and improving customer experience and product collections, Mosaic Brands will prosper in this 'new retail world'.

OUTLOOK

The decisions and actions we have taken since the pandemic began to spread in Australia have placed Mosaic Brands in a solid financial position for FY21.

The Group remains focused on our strategy to drive margin growth rather than sales at any cost. With centre traffic expected to remain subdued over the coming months, this strategy positions us well to manage through these ongoing challenges.

Further evidence of this is our strong start to FY21 with 4% comparable store margin growth for July.

The Group's brands have strong relationships with their customers and our database continues to grow with a total of 5.2 million names in June 2020. This major asset remains core to our digital department store strategy which enables the Group to grow our 'share of wallet' through offering a wider range of products and categories supplied online only. The second half of FY20 saw results from the 'share of wallet' strategy accelerate ahead of expectation and there was no slowdown in the first month of FY21.

In November 2019, our digital strategy had a step-change with the acquisition of a 50.1% shareholding in EziBuy, one of the largest multi-channel retailers in Australia and New Zealand with annual revenue of $115 million, over 87% through its digital platform. We acquired our initial shareholding for a nominal consideration and have an option to buy the remaining 49.9% for $11 million on or before 31 December 2020. EziBuy continues to make solid progress in its turnaround plan and has been successful in realising opportunities to reduce its cost of doing business. We will continue working with the EziBuy team to realise the strategic benefits to our digital strategy and will review the purchase of the additional shares over the coming months.

Following the reduction in shopping centre traffic, we are reviewing our store portfolio, which consisted of 1,333 stores at 28 June 2020 compared with 1,379 a year earlier. Leases for over 87% of our stores expire over the next 24 months, giving the Group a high level of agility to realign rentals to reflect the new environment.

Currently we expect to close 300-500 stores unless satisfactory terms can be agreed with landlords. We will endeavour to redeploy as many as possible of our team members who are affected by the closures.

These are not easy decisions but they are the right ones in what is still a highly uncertain and fast changing pandemic-driven environment. Your company has been able to come through a national and international crisis in the last financial year and the 12 months ahead may yet bring more external shocks not in our direct control.

We are planning a number of innovations across the Group to support our return to growth. These include the launch of impulse merchandise in all stores, the roll-out of beauty products in all stores in November, in-store catalogues showcasing our widening range, and new categories available on our department store websites.

During the past year, we have demonstrated the resilience of our business. We have strong brands and a great team and we look forward to building on these strengths to restore the company to profitable growth.

Our team members, and their commitment to put the customer at the heart of everything they do, are one of Mosaic Brands' great strengths. I thank them for their support during the challenges and frustrations of the past year and for their understanding that inevitably further changes will be necessary in the future. I also thank our longstanding supply partners for working with us during these difficult times to help ensure that we all emerge in good shape from the shocks which we have had to withstand.

– SCOTT EVANS

MANAGING DIRECTOR

BOARD OF DIRECTORS

Joined the Board in November 2014

Richard Facioni

CHAIRMAN, NON-EXECUTIVE DIRECTOR

Richard is an experienced corporate finance and investment professional, with over 25 years' experience in investment banking, mergers and acquisitions, corporate advice, restructurings and principal investment. Richard leads the private equity practice of Alceon Group and represents Alceon's investment in Mosaic Brands. He also oversees and is a Director of Alceon's other retail investments in Alquemie Group and Cheap as Chips Discount Stores. Prior to Alceon, Richard was a Managing Director of Silverfern Group, a global private equity origination and co-investment firm, where he co-led the group's activities in Australasia. He previously spent 15 years with Macquarie Group where he held a number of roles including Head of Acquisition Finance and Head of Principal Transactions Group, and was a co-founder of Shearwater Capital Group, a private credit opportunities investment firm.

QUALIFICATIONS: Bachelor of Engineering (Honours I) from the University of Sydney; Master of Business Administration from the Wharton School at the University of Pennsylvania; Graduate Member of the Australian Institute of Company Directors; Fellow of the Financial Services Institute of Australasia (FINSIA).

SPECIAL RESPONSIBILITIES: Chair of the Remuneration and Nomination Committee and member of the Audit and Risk Committee.

Joined the Board in November 2014

Scott Evans

CEO, MANAGING DIRECTOR

Scott has over 20 years' experience in international retailing leading both private and public companies. Scott started in the United Kingdom with Marks & Spencer before transitioning to Managing Director of Greenwoods Menswear (150 store chain) where Scott orchestrated the sale of the business to Chinese brand Bosideng. Scott moved to Australia and joined Specialty Fashion Group leading both Millers (largest ladies specialty business in the country with a 400 store chain) and Crossroads (150 store chain). Scott then transitioned to the role of CEO at Bras N Things under the BBRC Group before taking on the opportunity at Mosaic Brands in November 2014.

QUALIFICATIONS: Scott holds a BTEC National Diploma in Business and Finance.

Joined the Board in November 2014

David Wilshire

NON-EXECUTIVE DIRECTOR

David has over 20 years' experience in mergers and acquisitions, capital markets and principal investment.

He is also a Director of Alceon's other retail investments in Alquemie Group and Cheap as Chips Discount Stores. Prior to Alceon, David held roles within the corporate finance group of Babcock & Brown and the investment banking divisions of Goldman Sachs and Macquarie Group, where he helped numerous leading Australian and international companies across a broad range of industries with acquisitions, divestments and capital market transactions, as well as strategic advice.

QUALIFICATIONS: David holds a Bachelor of Commerce from the Monash University; Member of the Australian Institute of Company Directors.

SPECIAL RESPONSIBILITIES: Member of the Remuneration and Nomination Committee and Audit and Risk Committee.

BOARD OF DIRECTORS

Sue Morphet
NON-EXECUTIVE DIRECTOR

Joined the Board in February 2015

Sue Morphet has over 30 years of brand management and retail experience across Australia and New Zealand. Sue is currently a Non-Executive Director of Asaleo Care Ltd (since 2014), Non-Executive Director of Arnott's Biscuits Limited (since 2020), President of Chief Executive Women. Sue was previously CEO of Pacific Brands Limited (2007 – 2012) having worked in the organisation for 12 years, most notably as Group General Manager of Bonds.

Other prior roles include Chairperson of Manufacturing Australia (2013 – 2015), Non-Executive Director at Fisher & Paykel Appliances Ltd (2014 – 2018), Non-Executive Director of Godfreys Group Limited (2014 – 2018) and Chairperson of National Tiles Pty Ltd. (2015 - 2020)

QUALIFICATIONS: Sue holds a Bachelor of Science and Education, University of Melbourne; Scholar, Mt Eliza Business School.

SPECIAL RESPONSIBILITIES: Member of the Remuneration and Nomination Committee; Chair of the Audit and Risk Committee.

Jacqueline Frank
NON-EXECUTIVE DIRECTOR

Joined the Board in May 2019

Jackie is one of Australia's most successful and highly regarded media executives with over 30 years' experience in publishing, management and marketing, brand innovation and retail consulting.

From 2014 to 2018, Jackie was General Manager of the health, fashion, beauty and lifestyle group at Pacific Magazines and successfully led the brand's multi-platform transformation, and new online-only brand launches.

In 2018, Jackie started her own company, Be Frank Group, helping brands engage with the female economy and to date has consulted to Hearst US, Bumble Australia, SEED Heritage, SCCI, Westfield, EziBuy, French Connection, Sapphire Group and McCann Agency Australia.

SPECIAL RESPONSIBILITIES: Member of the Remuneration and Nomination Committee.

Luke Softa
CFO, COMPANY SECRETARY

Appointed Company Secretary in March 2015

Luke has over 15 years' experience as a Chief Financial Officer within the Asian, American and Australian markets.

Luke has spent 18 years in the service industry and held a number of roles within the Millward Brown Group, including regional Chief Financial Officer for Africa Asia Pacific, before transitioning to Michael Page International as their Asia Pacific Chief Financial Officer. Luke then moved into the retail industry as the Chief Financial Officer at Bras N Things before taking on the opportunity at Noni B in March 2015.

QUALIFICATIONS: Luke holds a Bachelor of Commerce, Graduate Member of the Australian Institute of Company Directors and is a Fellow Certified Practising Accountant.

SPECIAL RESPONSIBILITIES: Secretary to the Remuneration and Nomination Committee and Audit and Risk Committee.

Our Portfolio of Brands

“We put the customer at the heart of everything we do.”

2020 BRAND REVIEW

279
STORES

4.5m
MEMBERS

12.2m
ONLINE
VISITS

1.8m
EMAIL
SUBSCRIBERS

Millers
WOMAN

Millers is a destination for value, quality and ageless fashion. Creating collections to inspire and make her feel good, and help her express her individuality with confidence.

212
STORES

1.2m
MEMBERS

8.3m
ONLINE
VISITS

685k
EMAIL
SUBSCRIBERS

104
STORES

1.2m
MEMBERS

5.6m
ONLINE
VISITS

614k
EMAIL
SUBSCRIBERS

NONI B

NONI B believes that every day is a special occasion worth feeling fabulous for. Curating classic, timeless styles through beautiful collections. Noni B is the style authority for smart casual and smart elegance.

W·LANE

For an active and fulfilling lifestyle, W.Lane exudes understated and timeless elegance by keeping styles relaxed, natural and fresh. W. Lane is the home of natural fibres offering luxury in rich colours and prints that inspire.

KATIES We create unique and versatile fashion with personality and individual style to suit any busy lifestyle. Our ranges offer a taste of European style and relaxed sophistication.

AUTOGRAPH Embracing curves with a signature style, Autograph covers all occasions from relaxed casual, to work style. With natural and breathable fabrics that create a true fit and comfort silhouette.

rockmans

Bright, happy, fun & free lies at the heart of our crafted collections. Quality, value and comfort are priorities when it comes to fashion. Creating unique prints, shapes, and details that complement everyday life.

 “We put the customer at the heart of everything we do.”

2020 BRAND REVIEW

crossroads At Crossroads, we strive to make women everywhere look good and feel great by creating on-trend outfits without the expensive price tag. To all the 'Forever 30's' Crossroads is fun, vibrant and confident.

beme Empowering confidence in every 'body through everyday fashion with a true focus on fit. For the woman that has places to go, is passionate about fashion and wants the latest trend.

Rivers have been providing quality fashion for the everyday Australian since 1836. Now home to the biggest brands at the lowest prices, Rivers is the trusted go-to-destination for exceptional value, providing the freedom to live life confidently.

Online Growth

"We put the customer at the heart of everything we do."

TOTAL ONLINE SALES
$93,700,000

+15% VS LAST YEAR

DIGITAL CUSTOMERS

+25%

WE DELIVERED
1,500,000
ORDERS
VS 1.2M LAST YEAR

+18%

5,200,000
EMAIL ADDRESSES

4,400,000
MOBILE NUMBERS

+29%

+26%

ONLINE SESSIONS
75,200,000
VS 60M LAST YEAR

+15%

COMPARABLE SALES GROWTH
VS LAST YEAR
(excluding EziBuy)

+7%

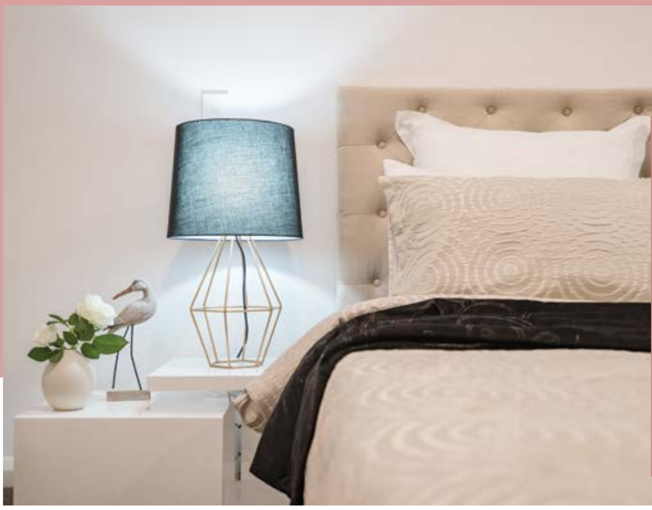
MOBILE SALES REVENUE +48%
VS 41% LAST YEAR

+31%

NEW MEMBERS
1,725,000
VS 1.3M LAST YEAR

"We put the customer at the heart of everything we do."

DEPARTMENT STORE



GROWTH TO
150,000 SKUs
SPANNING
14 CATEGORIES

Clothing

Jewellery & Watches

Home Decor

Electrical Appliances

Kids

Beauty

Kitchen

Accessories

Bedroom

Sleepwear

Bags

Health Essentials

Bathroom

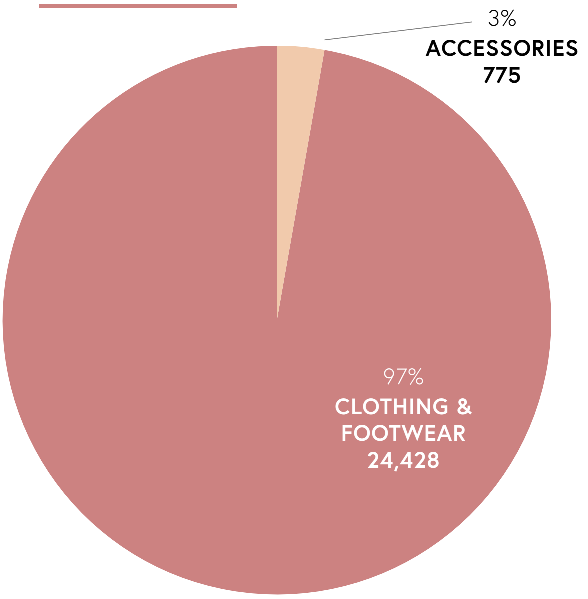
Tech

Category Expansion

2020 saw us expand our Department Store offering 14 categories across 150,000 SKUs. This core strategy will continue to see growth in FY21 with 10 new categories being added.

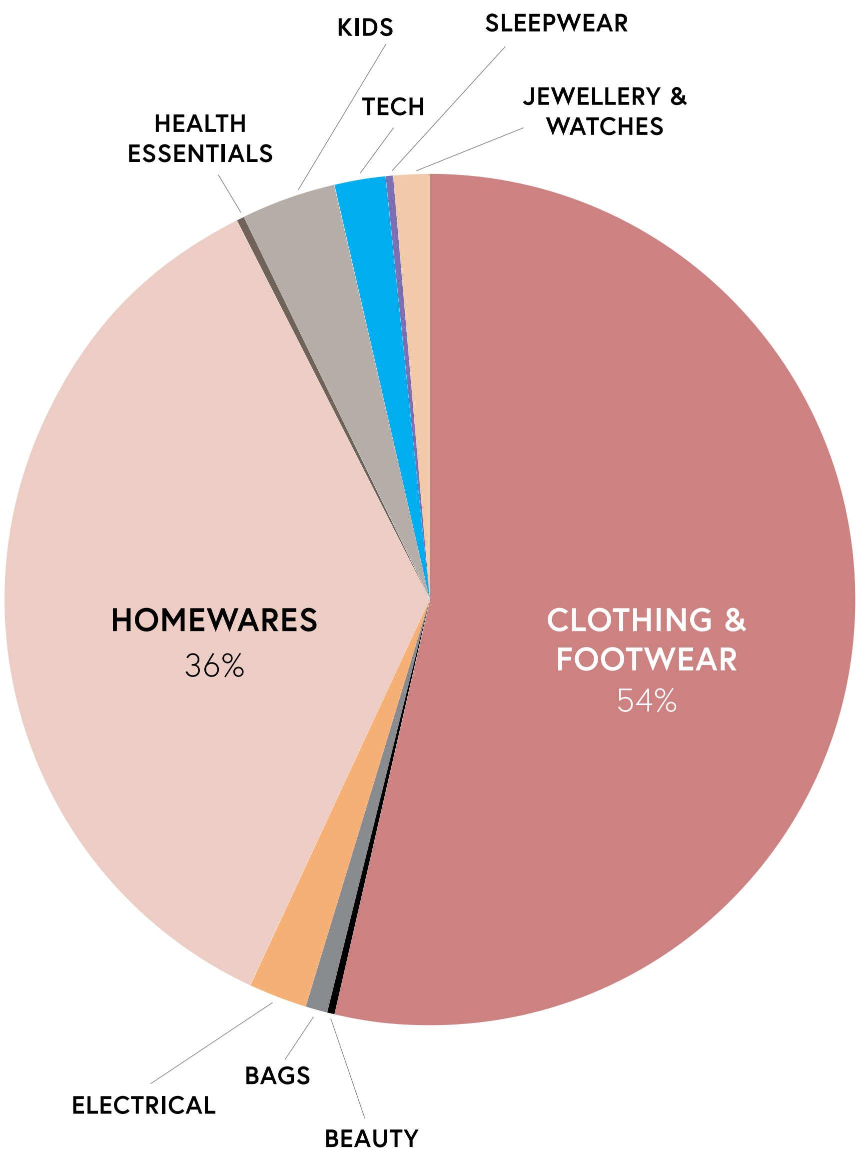
FY19

CATEGORY & PRODUCTS ON SITE



FY20

CATEGORY & PRODUCTS ON SITE



- CLOTHING & FOOTWEAR **81,000**
- HOMEWARES **54,000**
  (home decor, kitchen, bathroom, bedroom)
- JEWELLERY & WATCHES **1,723**
- KIDS **5,272**
- TECH **3,158**
- SLEEPWEAR **120**
- BAGS **1,472**
- HEALTH ESSENTIALS **21**
- ELECTRICAL **3,118**
- BEAUTY **116**

 “We put the customer at the heart of everything we do.”

“The shopping experience is just as important as our products. We invite customers to discover; we create surprise; and we deliver great service that’s second-to-none.”

Instore

We continue to invest in our stores and teams to ensure that we always improve our instore experience and service.

Enhanced Instore Experience

WE DELIVERED

929,000

ORDERS

“We put the customer at the heart of everything we do.”

EZIBUY

ONLINE SESSIONS
21,600,000

MOBILE TRAFFIC
51%

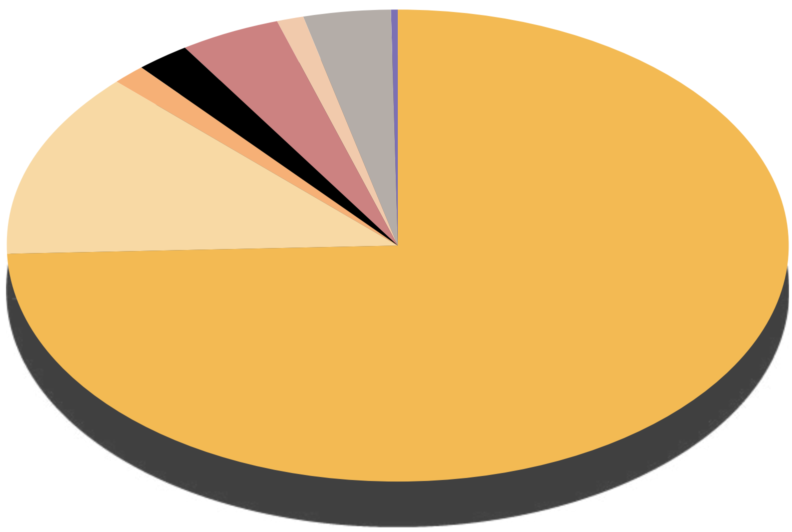
ONLINE CONVERSION RATE 4.6%

2,500,000
EMAIL ADDRESSES

250,000
MOBILE NUMBERS

ACTIVE CUSTOMERS
504,000

CATEGORY MIX %



- Clothing
- Plus Size
- Home & Gift
- Lingerie
- Shoes & Accessories
- Kids
- Partner Brands
- Sleep & Swim

ETHICAL SOURCING

Mosaic Brands is consistently embracing positive change to build a better future. We know our customers demand superior quality and collections, but our obligation to our customers does not end there. We are also committed to ensuring our products are made under safe and all appropriate working conditions as outlined in our Responsible Sourcing policies. A fundamental part of Mosaic Brands' ethical sourcing strategy continues to be to limit the number of vendors used to supply our product, and to work with vendors where we have established close and long term relationships.

Mosaic Brands continues to commit to a strict ethical sourcing policy and practices. We work in close partnership with vendors, factories, contractors and consultants that are like minded and share our responsible sourcing philosophy and behaviours. We support this through our sourcing and procurement processes, our polices and our principles of behaviour.

Our ethical sourcing policies are applied to all vendors globally. All partners must adhere to the Group's ethical sourcing standards which are fully aligned with the Ethical Trade Initiative (ETI) base code and its principles of continuous improvement. We will not knowingly source product from any vendor that does not comply with these ethical sourcing standards and they form part of all Group product purchasing decisions.

- Child and forced labour will not be permitted;
- Employment is freely chosen;
- Freedom of association and the right to collective bargaining are respected;
- All working conditions are safe and hygienic.
- Living wages are paid;
- Working hours are not excessive;
- Discrimination should never be permitted;
- Regular employment is provided; and
- No harsh or inhumane treatment is allowed.

Modern Slavery

Mosaic Brands Group is committed to reducing the risk of slavery, servitude, forced or compulsory labour within our business and supply chain. We believe that business can be a force for good if it acts responsibly towards those within its supply chain. We consider modern slavery to be a significant risk within the global garment and textile sector and are committed to preventing and addressing modern slavery in line with the UN Guiding Principles on Business and Human Rights.

Sourcing Policy Insurance

Social and ethical implications are considered in all Group product purchasing decisions. Factories supplying our products, as well as their subcontractors, are audited by accredited independent auditors. These are reviewed on a regular basis, so we can be certain they are adhering to the Group code of practice, the ETI base code and the requirements of the Modern Slavery Act.

All vendors to the Group must sign up to the Mosaic Brands supply terms and conditions, which includes our ethical sourcing policies, ETI base code, anti-corruption, chemical / process policies and commitments to transparency, prior to conducting any business with the Group.

Ethical Raw Material

Our sourcing commitment is supported by a number of initiatives relating to raw materials, including restrictions on where our raw materials can be sourced, and restrictions on how the materials are processed for our final product. These restrictions cover cotton sourcing, angora, azo dyes and sandblasting.

> We put the customer at the heart of everything we do through a core focus on service, execution and differentiation.

Our Support

Through the devastating bushfires we were proud to partner with GIVIT Australia, a charity organisation that supports families directly affected by the fires by donating 100,132 styles of clothing to the Australians that needed it most.

Our Values

Our values guide us in the everyday interactions with both our customers and teams. We believe in continuous improvement; we are always learning and adapting. Our values form a culture that is unique and lives through our behaviours.

CUSTOMERS ARE AT THE HEART OF EVERYTHING WE DO

INSPIRE AND MOTIVATE EACH OTHER

OWN WHAT YOU DO

GO ABOVE AND BEYOND

KNOW AND SHARE AND TALK MORE

Annual Financial Report

"We put the customer at the heart of everything we do."

The Directors present their report, together with the financial statements, on the Consolidated Entity consisting of Mosaic Brands Limited and the entities it controlled at the end of, or during, the year ended 28 June 2020.

GENERAL INFORMATION

DIRECTORS

The following persons were Directors of Mosaic Brands Limited during the financial year and up to the date of this report, unless otherwise stated:

Richard Facioni	Non-Executive Director
Scott Evans	Chief Executive Officer and Managing Director
David Wilshire	Non-Executive Director
Sue Morphet	Non-Executive Director
Jacqueline Frank	Non-Executive Director

PRINCIPAL ACTIVITIES

The principal activities of the Consolidated Entity constituted by the Company and the entities it controlled during the financial year were the retailing of women's apparel and accessories. On 23 December 2019 the Group acquired 50.1% with an option to acquire the remaining 49.9% share of New EziBuy Limited (EziBuy) with an effective date of 28 October 2019. EziBuy is one of the largest multi-channel retailers in Australia and New Zealand, generating approximately 80% of its revenue through its digital platform. It houses expertise in digital and catalogue retailing which the Group will leverage across the broader portfolio.

DIVIDENDS PAID, DECLARED OR RECOMMENDED

During the financial year ended 28 June 2020, the Mosaic Brands Board announced a final dividend of 5.5 cents on 27 August 2019 which was made payable to shareholders on 24 October 2019. Following this there were no further dividends declared or paid throughout or since the end of the financial year.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 23 December 2019, Mosaic Brands Limited acquired 50.1% with an option to acquire the remaining 49.9% of the ordinary shares of New EziBuy Limited (EziBuy) from its substantial shareholder Alceon Retail for the total consideration of $1 effective from 28 October 2019. The purchase includes a call and put option to either acquire the remaining 49.9% equity interest on or prior to 31 December 2020 for a consideration of $11,000,000 or return the current shareholding to Alceon Retail. EziBuy is a multi-channel retailing business which operates predominately in New Zealand and also Australia. It was acquired to increase the Group's online revenue share by gaining access to the customer portfolio which includes a high customer loyalty base.

During the 2020 financial year the Group was impacted by the global COVID-19 pandemic which resulted in operational changes in order to manage the effect on the Group and its environment. As a result, for safety reasons the Group shutdown all of its stores from end March to June.

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

The impact of the Coronavirus (COVID-19) pandemic is ongoing and as such it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

In the interests of the health and safety of its customers and store teams, Mosaic Brands Limited closed all stores within Victoria temporarily. In response to the state Government's imposition of stage 3 and 4 restrictions, the Group closed 25 stores on 1 July with an additional 135 stores on 8 July with the balance 89 regional stores closed on 5 August. All stores will remain closed until restrictions are reduced.

Mosaic Brands announced on 20 August temporary closure of 129 stores in the Westfield centres. The financial contribution of these stores are not of a material nature with most impacted team members being redeployed to other locations.

Apart from the above, no other matter or circumstances has arisen since 28 June 2020 that has significantly affected, or may significantly affect the Groups operations, the results of those operations, or the state of affairs in future financial years.

LIKELY FUTURE DEVELOPMENTS AND EXPECTED RESULTS

The likely developments in the operations of the Group and the expected results of those operations in financial years subsequent to the year ended 28 June 2020 is included in the operational and financial highlights section of this report. No additional information is included on the likely developments in the operations of the Group and the expected results of those operations as the Directors reasonably believe that the disclosure of such information would be likely to result in unreasonable prejudice to the economic entity if included in this report, and it has therefore been excluded in accordance with section 299(3) of the *Corporations Act 2001*.

ENVIRONMENTAL REGULATION

The Group's operations are not subject to any significant environmental obligations or regulations under Australian Commonwealth or State Law.

OPERATING AND FINANCIAL REVIEW

Review of operations

Mosaic Brands Limited operates within the women's fashion and retail sector in Australia and New Zealand. During the 2020 financial year, the Group comprised of the Noni B, Millers, W.Lane brands ("Classic" brands) as well as Rockmans, Katies, Crossroads, Autograph, beme brands ("Contemporary" brands) and Rivers. The store portfolio on a like for like basis ended the year at 1,333 (2019: 1,379). On 23 December 2019 the Group acquired 50.1% with an option to acquire the remaining 49.9% share of EziBuy, with an effective date of 28 October 2019. EziBuy is a multi-channel retailing business that operates predominately in New Zealand and Australia. It was acquired to increase the Group's online revenue share by gaining access to the customer portfolio which includes a high customer loyalty base.

Review of financial performance

A reconciliation of earnings before interest and tax to underlying EBITDA which includes occupancy expenses which is under current negotiations with landlords for rent relief (provided for not paid) is as follows:

	Post AASB 16	Pre AASB 16 (unaudited)	
	2020	**2020**	2019
	$'000	**$'000**	$'000
(Loss) / profit before tax	**(212,170)**	**(185,220)**	11,873
Interest expense	**2,594**	**2,594**	1,864
Interest on lease liabilities (per AASB 16)	**10,841**	**–**	–
Impairment on goodwill and brand name	**97,386**	**97,386**	–
Impairment on non-current assets	**1,991**	**1,991**	79
Impairment on right-of-use assets (AASB 16)	**16,109**	**–**	–
Depreciation & amortisation*	**129,320**	**26,280**	22,346
Other items**	**11,201**	**11,201**	9,296
EBITDA	**57,272**	**(45,768)**	45,458

* Depreciation and amortisation under AASB 16 includes rent amortisation which previously was classed as an operational expense.

** Other items in FY20 includes acquisition and legal costs ($2,410,000) and provision for stamp duty on acquisition ($1,247,000) and an increased obsolescence provision attributed to COVID-19 store shutdown ($13,949,000) and an adjustment for non-cash share based payment and unrealized exchange gain of $6,405,000. FY19 includes transaction ($5,480,000) and restructuring costs ($3,659,000) in respect to the acquisition of Millers, Katies, Crossroads, Autograph & Rivers brands and an adjustment for non-cash share based payment and unrealized foreign exchange loss ($157,000).

Review of financial position

The Group ended the year with a cash and cash equivalent balance of $86,928,000. Mosaic Brands (excluding EziBuy) ended with a cash and equivalent balance of $77,553,000 (2019: $36,684,000). Net cash position after loans and borrowings (excluding EziBuy) was $3,590,000 (2019: $7,202,000). Group cash from operating activities resulted in an inflow of $105,998,000, excluding EziBuy Mosaic delivered on a like for like comparison with rent reclassed back to inflow $11,830,000 (2019: $23,483,000).

Simplified Balance Sheet

	June 2020			June 2019
	Mosaic $'000	**EziBuy $'000**	**Group $'000**	Mosaic $'000
Cash	**77,553**	**9,375**	**86,928**	36,684
Other receivables*	**25,632**	**3,320**	**28,952**	5,484
Inventories	**83,349**	**18,980**	**102,329**	166,951
Current assets	**186,534**	**31,675**	**218,209**	209,119
Trade and other payables	**213,156**	**33,925**	**247,081**	198,602
Provisions and other liabilities	**27,879**	**1,328**	**29,207**	37,997
Current Liabilities**	**241,035**	**35,253**	**276,288**	236,599
Loan (current)***	**28,974**	**12,528**	**41,502**	–
Loan (non-current)	**44,989**	**–**	**44,989**	29,482
Loans	**73,963**	**12,528**	**86,491**	29,482
Net Cash	**3,590**	**(3,153)**	**437**	7,202
Net Current Liabilities	**(83,475)**	**(16,106)**	**(99,581)**	(27,480)

* Includes Government grants of $17,507,000

** Excludes contingent consideration for EziBuy booked for acquisition accounting purposes

*** Includes bridging facility draw down of $14,155,000 for JobKeeper

Outlook

Although traffic and sales are expected to remained below prior year levels the actions taken in the second half of FY20 allows the Group to continue its focus on comparable store margin growth. Managements also expect to further realise cost efficiencies in the 2021 financial year.

The recent closures across Victoria and New Zealand and the subsequent subdued sentiment across other states in August has been challenging however the Group expects this to improve post September as restrictions are forecasted to ease and we remain confident in a return to sustainable profitability for the 2021 financial year, subject to no further material disruptions to operations due to COVID-19.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 28 June 2020, and the number of meetings attended by each Director were:

	Board meeting		Audit and risk management committee		Remuneration and nomination committee	
	Held	Attended	Held	Attended	Held	Attended
Richard Facioni	18	18	3	3	3	3
Scott Evans	18	18	–	–	–	–
David Wilshire	18	17	3	3	3	3
Sue Morphet	18	18	3	3	3	3
Jacqueline Frank	18	18	–	–	3	3

Held: Represents the number of meetings held during the time the Directors held office.

INDEPENDENT DIRECTORS

The Directors considered by the Board to be independent are Sue Morphet and Jacqueline Frank.

In determining whether a Non-Executive Director is considered by the Board to be independent, the following relationships affecting independence will be taken into account:

(1) whether the Director is a substantial shareholder of the Group or an officer of, or otherwise associated directly with a substantial shareholder of the Group (as defined in section 9 of the *Corporations Act*);

(2) whether the Director is employed or has been employed in an Executive capacity by the Group or another group member and there has not been a period of at least three years between ceasing such employment and serving on the Board;

(3) whether the Director is or has been a principal of a material professional adviser or a material consultant to the Group or another group member, or an employee materially associated with the service provided;

(4) whether the Director is or has been employed by, or a partner in, any firm that has been the Group's external auditors;

(5) whether the Director is a material supplier or customer of the Group or any other group member, or an officer of or otherwise associated, directly or indirectly, with a material supplier or customer;

(6) whether the Director has a material contractual relationship with the Group or another group member other than as a Director of the Group; and,

(7) whether the Director is free from any interest and any business or other relationship which could materially interfere with the Director's ability to act in the best interests of the Group.

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 Directors (Executive and Non-Executive) and the Senior Executives received the amounts set out in the table of benefits and payments and explained in this section of the report as compensation for their services as Directors and/or Executives of the Group during the financial year ended 28 June 2020.

Specific matters included in this Report are set out below under separate headings, as follows:

1. **Details of remuneration**
2. **Remuneration policy**
3. **Service Agreements**
4. **Additional information**

1. DETAILS OF REMUNERATION

Key Management Personnel

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Directors.

The key management personnel of the Group consisted of the following Directors of Mosaic Brands Limited and Chief Executive Officer of EziBuy:

Richard Facioni	Chairman
Scott Evans	Chief Executive Officer and Managing Director
David Wilshire	Non-Executive Director
Sue Morphet	Non-Executive Director
Jacqueline Frank	Non-Executive Director

And the following Senior Executives:

Luke Softa	Chief Financial Officer and Company Secretary
Stephen Gosney	Chief Executive Officer of EziBuy

Remuneration of Key Management Personnel

Details of the nature and amount of each element of compensation for services for key management personnel of the Group paid in the financial year are as follows:

	Short term benefits				Post employment benefits		Long term benefits	Share based payments	
2020	Cash salary and fees $	Cash bonuses STI $	Cash bonuses LTI $	Non-monetary benefits $	Super-annuation $	Termi-nation benefits $	Long service leave $	Equity settled $	Total $
Directors									
Executive Directors									
Scott Evans	1,068,789	–	–	23,606	24,941	–	16,698	–	1,134,034
Non-executive Directors									
Richard Facioni*	232,545	–	–	–	–	–	–	153,586	386,131
David Wilshire*	147,545	–	–	–	–	–	–	–	147,545
Sue Morphet	100,000	–	–	–	–	–	–	–	100,000
Jacqueline Frank	100,000	–	–	–	–	–	–	–	100,000
Other key management personnel									
Luke Softa	557,932	–	–	1,309	24,904	–	9,258	23,217	616,620
Stephen Gosney**	278,014	–	–	–	10,501	–	4,770	26,154	319,439
Total	**2,484,825**	**–**	**–**	**24,915**	**60,346**	**–**	**30,726**	**202,957**	**2,803,769**

* Richard Facioni and David Wilshire are both Directors of EziBuy. Both Directors received $47,545 each in cash salary and fees during the period 28 October 2019 to 28 June 2020

** Stephen Gosney is key management personnel for EziBuy and currently holds the position of Director and Chief Executive Officer. The information above represents the period 28 October 2019 to 28 June 2020

	Short term benefits				Post employment benefits		Long term benefits	Share based payments	
2019	Cash salary and fees $	Cash bonuses STI $	Cash bonuses LTI $	Non-monetary benefits $	Super-annuation $	Termi-nation benefits $	Long service leave $	Equity settled $	Total $
Directors									
Executive Directors									
Scott Evans	1,173,477	237,500	–	24,831	25,000	–	36,728	237,500	1,735,036
Non-executive Directors									
Richard Facioni	185,000	–	–	–	–	–	–	153,586	338,586
David Wilshire	100,000	–	–	–	–	–	–	–	100,000
Sue Morphet	100,000	–	–	–	–	–	–	–	100,000
Jacqueline Frank	16,667	–	–	–	–	–	–	–	16,667
Other key management personnel									
Luke Softa	634,414	137,500	–	4,109	24,851	–	18,206	160,717	979,797
Total	**2,209,558**	**375,000**	**–**	**28,940**	**49,851**	**–**	**54,934**	**551,803**	**3,270,086**

2. REMUNERATION POLICY

Non-Executive Directors

Non-Executive Director remuneration is set by the Board's Remuneration and Nomination Committee and is subject to shareholder approval as detailed below based on independent external advice with regard to market practice, relativities, and Director duties and accountability. Company policy is designed to attract and retain competent and suitably qualified Non-Executive Directors, to motivate these Non-Executive Directors to achieve Mosaic Brand's long term strategic objectives and to protect the long term interests of shareholders.

Fee Pool

Non-Executive Directors' fees are set by resolution of shareholders at the annual general meeting. It is currently set at $750,000 per annum in aggregate. The remuneration does not include any participation by Independent Directors in Company Share schemes which is separately approved by the Board and ratified by shareholders at the annual general meeting.

Fees

The Non-Executive Directors' base fee is set at $100,000 per annum and the Chairman's fee is set at $185,000 per annum. During the financial year ended 28 June 2020 the Group held a total of 24 formal meetings, including committee, Board and shareholder meetings.

Equity participation

Non-Executive Directors may receive rights, options or shares as part of their remuneration, subject only to shareholder approval. As referenced below, no rights, options or shares have been issued to any of the Non-Executive Directors during the financial year.

Retiring Allowance

No retiring allowances are paid to Non-Executive Directors.

Superannuation

Mosaic Brand's pays management fees to the related party of the Non-Executive Directors (note 26). Therefore, no contribution is made to their respective superannuation fund.

Executive Directors and Senior Executives

Mosaic Brand's overall Group remuneration policy is set by the Board's Remuneration and Nomination Committee. The policy is reviewed on a regular basis to ensure it remains contemporary and competitive.

For the specified Executives, the policy is intended to be consistent with the remuneration recommendations and guidelines set down in Principle 8 of the Australian Security Exchange's "best practice" corporate governance guidelines. Broadly, Mosaic Brand's policy is intended to ensure:

- for each role, that the balance between fixed and variable (performance) components is appropriate having regard to both internal and external factors;
- that individual set objectives will result in sustainable beneficial outcomes;
- that all performance remuneration components are appropriately linked to measurable personal, business unit or Group performance; and
- that total remuneration (that is the sum of fixed plus variable components of the remuneration) for each Executive is fair, reasonable and market competitive.

Mosaic Brand's achievement of these objectives is checked on a regular basis using independent external remuneration consultants.

Components of Executive remuneration

Generally, Mosaic Brand's provides selected Senior Executives with three components of remuneration, as follows:

- fixed remuneration is made up of basic salary, benefits, superannuation and other salary sacrifices. This is reflective of their roles, experience and level of responsibility and is reviewed annually against market data for comparable positions. Benefits may include car allowances;
- short term incentives (STI) – paid in cash / options, directly earned upon the successful achievement of specific financial and operational targets. A portion of this STI may be provided in Mosaic Brand's shares subject to service and/ or performance conditions. All STI awards are based on performance measures which are set and reviewed by the Remuneration and Nomination Committee annually;
- long term incentives (LTI) – provides selected and invited Senior Executives with the right to acquire shares, only where specific future service requirements and future financial and operational targets that improve shareholder returns have been exceeded. Performance measures are set and reviewed by the Remuneration and Nomination Committee annually.

The objective of the reward schemes (STI and LTI) is to both reinforce the key financial goals of the Group and to provide a common interest between management and shareholders.

The fair value at grant date of share plan and performance share rights are independently determined using a Binomial Approximation Option Valuation Model and the Black Scholes Valuation Model that takes into account the exercise price, the term of the rights over shares, 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 rights over shares.

Details of rights over ordinary shares in the Group provided as remuneration to each of the key management personnel of the Company and the Group are set out below.

Offer for performance share rights

Performance Share Rights

These have a variety of market conditions (volume weighted average price) and non-market conditions being qualifying and non-qualifying leaver provisions.

Richard Facioni

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Risk free interest rate	Number of rights available	Number of rights vested
19/08/2016	18/08/2021	$ 0.47	$ 1.33	$ 1.25	35%	1.54%	1,200,000	940,000
19/08/2016	18/08/2021	$ 0.39	$ 1.33	$ 1.50	35%	1.54%	300,000	235,000
19/08/2016	18/08/2021	$ 0.32	$ 1.33	$ 1.75	35%	1.54%	300,000	235,000

Luke Softa

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Risk free interest rate	Number of rights available	Number of rights vested
19/08/2016	18/08/2021	$ 0.47	$ 1.33	$ 1.25	35%	1.54%	250,000	195,833

Tranche 1 Performance Rights – these shares are issued to Scott Evans only

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Risk free interest rate	Number of rights available	Number of rights vested
26/06/2015	01/07/2020	$ 0.36	$ 0.70	$ 0.51	43.8%	2.78%	882,479	882,479

Tranche 2 Performance Rights – these shares are issued to Scott Evans only

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Risk free interest rate	Number of rights available	Number of rights vested
26/06/2015	01/07/2020	$ 0.37	$ 0.70	$ 0.51	43.8%	2.78%	882,479	882,479

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		Short term incentive		Long term incentive	
Name	**2020**	2019	**2020**	2019	**2020**	2019
Non-Executive Directors						
Richard Facioni	**60%**	55%	**–**	–	**40%**	45%
David Wilshire	**100%**	100%	**–**	–	**–**	–
Sue Morphet	**100%**	100%	**–**	–	**–**	–
Jacqueline Frank	**100%**	100%	**–**	–	**–**	–
Executive Directors						
Scott Evans	**100%**	72%	**–**	14%	**–**	14%
Other key management personnel						
Luke Softa	**96%**	70%	**–**	14%	**4%**	16%
Stephen Gosney	**92%**	–	**–**	–	**8%**	–

The portion of the cash bonus paid/payable is as follows:

Name	**2020**	2019
Executive Directors		
Scott Evans	**–**	100%
Other key management personnel		
Luke Softa	**–**	100%
Stephen Gosney	**–**	–

3. 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:	**Scott Evans**
Title:	Chief Executive Officer
Duration of agreement:	Employment agreement for Chief Executive Officer operative until terminated by either party.
Termination payment:	Maximum payment to be made to Chief Executive Officer on termination is 3 months'. Total Remuneration (being Total Fixed Remuneration plus Short Term Incentives, Long Term Incentives and benefits). To be paid in the following circumstances: 1) Redundancy; or 2) Fundamental Change.
Notice of termination:	On termination by Mosaic Brand or the Executive – 3 months' notice. Payment in lieu of notice can be made by Mosaic Brand in all circumstances, if Mosaic Brand so chooses.
Restraint Conditions:	Restraint period of 6 months
Name:	**Luke Softa**
Title:	Chief Financial Officer and Company Secretary
Duration of agreement:	Employment agreement for Chief Financial Officer operative until terminated by either party.
Termination payment:	Maximum payment to be made to the Chief Financial Officer on termination is 3 months'. Total Remuneration (being Total Fixed Remuneration plus Short Term Incentives, Long Term Incentives and benefits). To be paid in the following circumstances: 1) Redundancy; or 2) Fundamental Change.
Notice of termination:	On termination by Mosaic Brand or the Executive – 3 months' notice. Payment in lieu of notice can be made by Mosaic Brand in all circumstances, if Mosaic Brand so chooses.
Restraint Conditions:	Restraint period of 6 months

Name:	**Stephen Gosney**
Title:	Chief Executive Officer (EziBuy)
Duration of agreement:	Employment agreement for Chief Executive Officer operative until terminated by either party.
Termination payment:	Maximum payment to be made to the Chief Executive Officer on termination is 3 months'. Total Remuneration (being Total Fixed Remuneration plus Short Term Incentives, Long Term Incentives and benefits). To be paid in the following circumstances: 1) Redundancy; or 2) Fundamental Change.
Notice of termination:	On termination by EziBuy or the Executive – 3 months' notice. Payment in lieu of notice can be made by EziBuy in all circumstances, if EziBuy so chooses.
Restraint Conditions:	Restraint period of 6 months

4. ADDITIONAL INFORMATION

The earnings of the Group for the five years to 28 June 2020 are summarised below:

	2020 $'000	2019 $'000	2018 $'000	2017 $'000	2016 $'000
Revenue	**736,777**	881,920	372,426	316,756	110,478
(Loss) / Profit after income tax	**(170,485)**	8,130	17,293	3,253	2,210

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2020	2019	2018	2017	2016
Share price at financial year end ($)	**$0.71**	$2.72	$2.94	$1.75	$1.00
Basic (loss) / earnings per share (cents per share)	**(176.0)**	8.4	21.3	4.6	6.1
Total dividends (cents)	**5.5**	13.0	13.0	–	–

Options held by Directors and key management personnel

There are options outstanding at end of the financial year ended 28 June 2020.

Relevant interest in shares by Directors and key management personnel

The number of shares in the parent entity held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below.

Directors and key management personnel	Shareholding at 30 June 2019 No.	Shares purchased or (sold) ordinary No.	Shares acquired under performance rights plan ordinary No.	**Shareholding at 28 June 2020 No.**
Richard Facioni	1,800,000	–	–	1,800,000
Scott Evans	4,745,314	–	43,555	4,788,869
David Wilshire	–	–	–	–
Sue Morphet	2,460,784	–	–	2,460,784
Jacqueline Frank	–	–	–	–
Luke Softa	919,813	–	25,216	945,029
Stephen Gosney	315,396	–	18,339	333,735
TOTAL	**10,241,307**	**–**	**87,110**	**10,328,417**

This concludes the remuneration report which has been audited.

SHARES UNDER OPTION AND ISSUED ON THE EXERCISE OF OPTIONS

Details of the shares issued under the exercise of options and unissued ordinary shares under option at the date of this report can be found in note 20 and 33 respectively.

INDEMNITY AND INSURANCE OF DIRECTORS AND OFFICERS

The Group has indemnified the Directors and Executives of the Group 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 year, the Group paid a premium in respect of a contract to insure the Directors and Executives of the Group 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 Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

During the financial year, the Group has not paid a premium in respect of a contract to insure the auditor of the Group 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 Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or part of those proceedings.

NON-AUDIT SERVICES

The details of amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 25 to the financial statements.

The Directors are satisfied that the provision of non-audit services during the financial year by the auditor is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The Directors are of the opinion that the services as disclosed in note 25 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor, and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional & Ethical Standards Board, including reviewing or auditing the auditors own work, acting in a management or decision-making capacity for the Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

AUDITOR

BDO continues in office in accordance with section 327 of the *Corporations Act 2001*. The BDO entity performing the audit of the Group transitioned from BDO East Coast Partnership to BDO Audit Pty Limited on 26 June 2020.

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 Director's report.

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.

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

Richard Facioni
Chairman

Sydney 25 August 2020

Scott Evans
Managing Director

Sydney 25 August 2020

AUDITOR'S INDEPENDENCE DECLARATION

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DECLARATION OF INDEPENDENCE BY GILLIAN SHEA TO THE DIRECTORS OF MOSAIC BRANDS LIMITED

As lead auditor of Mosaic Brands Limited for the year ended 28 June 2020, I declare that, to the best of my knowledge and belief, there have been:

1. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
2. No contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Mosaic Brands Limited and the entities it controlled during the period.

Gillian Shea
Director

BDO Audit Pty Ltd
Sydney
25 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 28 JUNE 2020

		Consolidated Group	
		2020	2019
	Note	**$'000**	$'000
Continuing Operations			
Revenue	3	**713,580**	864,493
Other income	3	**23,197**	17,427
Cost of goods sold		**(384,253)**	(382,783)
Expenses (excluding finance costs)	4	**(450,216)**	(476,001)
Transaction and restructuring costs		**(3,657)**	(9,139)
Finance costs	4	**(13,435)**	(2,124)
Impairment of brand names	12	**(33,364)**	–
Impairment of goodwill	12	**(64,022)**	–
(Loss) / profit before income tax		**(212,170)**	11,873
Income tax benefit / (expense)	5	**41,685**	(3,743)
(Loss) / profit attributed to members of the parent entity		**(170,485)**	8,130
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		**123**	31
Other comprehensive income, net of tax		**123**	31
Total comprehensive income for the year attributed to members of the parent entity, net of tax		**(170,362)**	8,161
(Loss) / earnings per share			
Basic (loss) / earnings per share (cents)	32	**(176.0)**	8.4
Diluted (loss) / earnings per share (cents)	32	**(176.0)**	8.4

The above consolidated statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes. The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

CONSOLIDATED STATEMENT OF FINANCIAL POSTION AS AT 28 JUNE 2020

	Note	Consolidated Group 2020 $'000	2019 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	**86,928**	36,684
Other receivables	7	**23,140**	5,484
Inventories	8	**102,329**	166,951
Income tax receivable	5	**–**	4,846
Other current assets	9	**5,812**	347
TOTAL CURRENT ASSETS		**218,209**	214,312
NON-CURRENT ASSETS			
Plant and equipment	10	**31,045**	41,101
Right-of-use assets	11	**140,793**	–
Intangible assets	12	**42,943**	123,970
Deferred tax assets	5	**117,866**	32,386
Other non-current assets		**24**	91
TOTAL NON-CURRENT ASSETS		**332,671**	197,548
TOTAL ASSETS		**550,880**	411,860
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	13	**247,081**	198,602
Borrowings	14	**41,502**	–
Provisions	15	**29,112**	29,089
Derivative financial instruments	16	**534**	570
Lease liabilities	17	**87,544**	–
Income tax payable	5	**145**	–
Other current liabilities	18	**95**	8,908
Deferred consideration	19	**9,580**	–
TOTAL CURRENT LIABILITIES		**415,593**	237,169
NON-CURRENT LIABILITIES			
Borrowings	14	**44,989**	29,482
Lease liabilities	17	**111,013**	–
Provisions	15	**2,828**	4,427
Deferred tax liabilities	5	**56,656**	19,171
Other non-current liabilities	18	**110**	15,489
TOTAL NON-CURRENT LIABILITIES		**215,596**	68,569
TOTAL LIABILITIES		**631,189**	305,738
NET ASSETS		**(80,309)**	106,122
EQUITY			
Issued capital	20	**108,034**	107,605
Reserves	21	**17,868**	9,421
Accumulated losses		**(206,211)**	(10,904)
TOTAL EQUITY		**(80,309)**	106,122

The above consolidated statement of financial position should be read in conjunction with the accompanying notes. The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY FOR THE YEAR ENDED 28 JUNE 2020

	Note	Issued capital $'000	Equity reserve $'000	Foreign currency translation reserve $'000	Dividend profit reserve $'000	Accumulated losses $'000	Total $'000
Balance at 1 July 2018		**107,651**	**3,159**	**–**	**10,112**	**(10,904)**	**110,018**
Profit after income tax for the year		–	–	–	–	8,130	8,130
Transfer to dividend profit reserve	21	–	–	–	8,130	(8,130)	–
Other comprehensive income for the year, net of tax		–	–	31	–	–	31
Total comprehensive income for the year		**–**	**–**	**31**	**8,130**	**–**	**8,161**
Transactions with owners in their capacity as owners:							
Shares cancelled during the year	20	(46)	–	–	–	–	(46)
Share based payment expense	33	–	365	–	–	–	365
Dividends paid or provided for	21,22	–	199	–	(12,575)	–	(12,376)
Balance at 30 June 2019	**20,21**	**107,605**	**3,723**	**31**	**5,667**	**(10,904)**	**106,122**
Adjustment for changes in accounting policy – AASB 16	1	–	–	–	–	(11,521)	(11,521)
Loss after income tax for the year		–	–	–	–	(170,485)	(170,485)
Transfer profit after income tax for the half-year**	21	–	–	–	13,301	(13,301)	–
Other comprehensive income for the year, net of tax		–	–	123	–	–	123
Total comprehensive income for the year		**–**	**–**	**123**	**13,301**	**(195,307)**	**(181,883)**
Transactions with owners in their capacity as owners:							
Shares issued during the year	20	429	–	–	–	–	429
Share based payment expense	33	–	266	–	–	–	266
Dividends paid or provided for	21,22	–	88	–	(5,331)	–	(5,243)
Balance at 28 June 2020	**20,21**	**108,034**	**4,077**	**154**	**13,637**	**(206,211)**	**(80,309)**

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.
**The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.*

***The transfer into the dividend profit reserve was recorded based on the profit recognised for the half-year ended 29 December 2019. No dividend has been declared or paid since 29 December 2019.*

CONSOLIDATED STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 28 JUNE 2020

	Note	Consolidated Group 2020 $'000	 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		**811,837**	967,944
Payments to suppliers and employees (inclusive of GST)		**(724,079)**	(918,839)
Receips from Government grants		**31,056**	–
Transaction and restructuring costs paid		**(5,656)**	(9,139)
Interest received		**94**	293
Interest and other finance costs paid		**(13,160)**	(1,264)
Income taxes received / (paid)		**5,906**	(15,512)
Net cash provided by operating activities	31	**105,998**	23,483
CASH FLOWS FROM INVESTING ACTIVITIES			
Payment for the purchase of business, net of cash acquired		**2,460**	(32,082)
Payment for plant and equipment		**(4,790)**	(8,239)
Payment for software assets		**(4,378)**	(1,562)
Proceeds from the sale of plant and equipment		**51**	52
Net cash used in investing activities		**(6,657)**	(41,831)
CASH FLOWS FROM FINANCING ACTIVITIES			
Payment for buy-back of shares		**–**	(46)
Proceeds from borrowings		**93,797**	32,000
Repayment of borrowings		**(43,483)**	(22,950)
Payment of borrowing costs		**–**	(365)
Payment of lease liabilities		**(94,168)**	–
Dividends paid		**(5,243)**	(12,376)
Net cash used in financing activities		**(49,097)**	(3,737)
Net increase / (decrease) in cash and cash equivalents		**50,244**	(22,085)
Cash and cash equivalents at the beginning of the financial year		**36,684**	58,697
Cash and cash equivalents at the end of the financial year	6	**86,928**	36,684

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes. The Group has initially applied AASB 16 at 1 July 2019. Under the transition method chosen comparative information is not restated.

Note 1. SIGNIFICANT ACCOUNTING POLICIES

The financial report of Mosaic Brands Limited for the 52 weeks ended 28 June 2020 was authorised for issue in accordance with a resolution of the Directors on 25 August 2020.

Mosaic Brands is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange. The Consolidated Entity is primarily involved in the retailing of women's apparel and accessories and has acquired 50.1% with an option to acquire the remaining 49.9% interest in a multi-category Omni channel New Zealand based entity (EziBuy). The nature of the operations and principal activities are described in the Directors' Report.

(a) Basis of Preparation

These general purpose financial statements have been prepared in accordance with the Corporations Act 2001, Australian Accounting Standards and Interpretations of the Australian Accounting Standards Board and International Financial Reporting Standards as issued by the International Accounting Standards Board. Material accounting policies adopted in the preparation of these financial statements are presented below and have been consistently applied unless stated otherwise.

Except for cash flow information, the financial statements have been prepared on an accruals basis and are based on historical costs, modified, where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

The financial report has been prepared on a going concern basis which contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. During the 2020 financial year the Group was impacted by the global COVID-19 pandemic which resulted in operational changes in order to manage the effect on the Group and its environment. The impact and management of the effects of the COVID-19 pandemic resulted in the Group ending with a net current liability position of $197,384,000 as at 28 June 2020. Current liabilities included $87,544,000 in current lease liabilities as a result of the adoption of AASB 16. Current liabilities also included $8,690,000 in employee benefit provisions which may not be settled in cash over the next twelve months.

The Directors believe it is appropriate to prepare the financial report on a going concern basis after considering the following factors:

- Subsequent to year end, management has successfully negotiated an extension of the Group's working capital facility with ANZ. Management expect to be able to renegotiate the loan facility disclosed in note 14, currently due on 6 July 2021, if required.
- Management were able to manage working capital during the nationwide shutdown in end March to June and will continue to do so through:
  - cancelling or delaying inventory orders
  - continuing to pursue operating efficiencies
  - re-negotiating and extending payment terms with key suppliers
  - negotiating rental concessions and modified rental agreements with landlords
  - accessing JobKeeper extensions where eligible
- The Group has as disclosed in note 27 proceedings which are in early stages. Management are confident of a successful outcome, and as such potential legal costs have not been included in the Company's cash flow forecasts.
- The EziBuy acquisition is still in its review period with the call/put option timeline being 31 December 2020. Any financing requirements needed to exercise the call option and repay related party loans as disclosed in note 19 if the Group chooses to purchase EziBuy at that date or earlier.

The underlying uncertainty linked to what impacts COVID-19 will have on the national economy, the unknown timelines to a cure and any other actions or assistance the Government may take can have an impact on the Group. These aforementioned events and conditions give rise to an existence of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The Group retains the ability to take alternative measures, which may include capital raisings, additional debt financing and further cost curtailment, which the Group has a history of achieving. The financial statements do not include any adjustment relating to the recoverability and classification of assets carrying amounts or the amount of liabilities that might result should the Group be unable to continue as a going concern and meet its debts as and when they fall due.

The Directors have therefore concluded that there are reasonable grounds to believe that the Group will be able to pay its debts as and when they fall due. On this basis the financial report has been prepared on a going concern basis. Should the Group be unable to continue as a going concern, it may be required to realise its assets and discharge its liabilities at amounts different to those stated in the financial statements.

(b) 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 following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB16 Leases

The Consolidated Entity 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 some 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 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. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The Group has applied AASB 16 using the modified retrospective method, under which the cumulative effect of initial application is recognised in retained earnings at 1 July 2019. Accordingly, the comparative information presented for 2019 has not been restated – i.e. it is presented, as previously recorded, under AASB 117 Leases and related interpretations. Details of the changes in the accounting policies are disclosed below.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use 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.

Right-of-use 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 re-measurements of lease liabilities.

The Consolidated Entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

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, and 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.

Key estimates and judgements

Lease term

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease or purchase the underlying asset will be exercised, or an option to terminate the lease will not be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, or not exercise a termination option, if there is a significant event or significant change in circumstances.

Incremental borrowing rate

Where the interest rate implicit in a lease cannot be readily determined, an incremental borrowing rate is estimated to discount future lease payments to measure the present value of the lease liability at the lease commencement date. Such a rate is based on what the consolidated entity estimates it would have to pay a third party to borrow the funds necessary to obtain an asset of a similar value to the right-of-use asset, with similar terms, security and economic environment.

Nature of the effect of adoption of AASB 16

The Group leases buildings for its offices and retail outlets. Before the adoption of AASB 16, the Group classified each of its leases (as lessee) at the inception date as operating lease. In an operating lease, the leased property was not capitalised and the lease payments were recognised as rent expense in the statement of profit or loss on a cash flow basis over the lease term. Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for the leases that it

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

is the lessee, where leases have expired and are currently on holdover are treated as variable factors which were excluded from the AASB 16 adoption. The Group recognised lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets. In accordance with the modified retrospective method of adoption, the Group applied AASB 16 as at 1 July 2019 with the initial application adjusted to the retained earnings.

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

- The use of a single discount rate to portfolio of leases with reasonably similar characteristics
- Reliance on previous assessments on whether leases are onerous
- Not to recognise ROU assets and leases liabilities for leases of low-value assets. The lease payments associated with these lease 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

As at 1 July 2019:

- Right-of-use assets of $195,612,000 were recognised and presented separately in the statement of financial position
- Lease liabilities of $241,348,000 were recognised and presented separately as either current or non-current measured using an incremental borrowing rate of 4.58%
- Lease incentives of $24,325,000 were derecognised from other liabilities to right-of-use assets
- Provisions of $5,743,000 were derecognised as onerous leases to right-of-use assets and retained earnings
- Deferred tax asset increased by $4,147,000 because of the deferred tax impact of the changes in assets
- The net effect of these adjustments had been adjusted to Retained earnings $11,521,000

Reconciliation of operating lease commitments and lease liability

The reconciliation between the operating lease commitments disclosed in applying AASB 117 at 30 June 2019 discounted using the Company's weighted incremental borrowing rate and the lease liability recognised as at 1 July 2019 is as follows:

	Increase (Decrease) $'000
Operating lease commitments, 30 June 2019	262,883
Adjustments:	
Effect of discounting using the weighted average incremental borrowing rate of 4.58%	(3,948)
Short term lease payments	(17,587)
Lease liability, 1 July 2019	**241,348**

For the twelve months ended 28 June 2020:

- Depreciation expense increased by $103,040,000 relating to the depreciation of additional assets recognised (i.e., increased in the right-of-use assets, net of decrease in property, plant and equipment)
- Impairment expense increased by $16,109,000 relating to expected leases which will not be renewed
- Rent expense decreased by $111,511,000 relating to previous operating leases as these expenditures are now included within depreciation and interest expense
- Occupancy expenses only includes the base rent for the leases that are currently on holdover being $19,750,000
- Variable lease payments are included in the occupancy expenses disclosed in note 4
- There are an additional $62,014,000 of new leases including $25,543,000 from the acquisition of EziBuy
- Finance costs increases by $10,841,000 relating to the interest expense on additional lease liabilities recognised
- Income tax expense decreased by $528,000 relating to the tax effect of these changes in expenses
- Net cash flow from financing activities increased by $94,168,000

IFRIC Interpretation 23 Uncertainty over Income Tax Treatments

The Group does not consider that IFRIC Interpretation 23 *Uncertainty over Income Tax Treatments* has a material impact to the Group.

Principles of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Mosaic Brands Limited as at 28 June 2020 and the results of all subsidiaries for the year then ended, including the results of EziBuy from 28 October

2019 (refer Note 30). Mosaic Brands 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.

(c) Fair value measurement

The Group measures some of its assets and liabilities at fair value on either a recurring or non-recurring basis, depending on the requirements of the applicable Accounting Standard.

Fair value is the price the Group would receive to sell an asset or would have to pay to transfer a liability in an orderly (i.e. unforced) transaction between independent, knowledgeable and willing market participants at the measurement date.

As fair value is a market-based measure, the closest equivalent observable market pricing information is used to determine fair value. Adjustments to market values may be made having regard to the characteristics of the specific asset or liability. The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data.

To the extent possible, market information is extracted from either the principal market for the asset or liability (i.e. the market with the greatest volume and level of activity for the asset or liability) or, in the absence of such a market, the most advantageous market available to the entity at the end of the reporting period (i.e. the market that maximises the receipts from the sale of the asset or minimises the payments made to transfer the liability, after taking into account transaction costs and transport costs).

For non-financial assets, the fair value measurement also takes into account a market participant's ability to use the asset in its highest and best use or to sell it to another market participant that would use the asset in its highest and best use.

The fair value of liabilities and the entity's own equity instruments (excluding those related to share-based payment arrangements) may be valued, where there is no observable market price in relation to the transfer of such financial instruments, by reference to observable market information where such instruments are held as assets. Where this information is not available, other valuation techniques are adopted and, where significant, are detailed in the respective note to the financial statements.

(d) Financial instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial instruments at fair value through profit or loss.

Financial 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. The consolidated entity's cash and cash equivalents and other receivables are classified as at amortised cost.

Certain investments qualify to be recognised and measured subsequently at fair value through other comprehensive income ('OCI') on exercise of an irrevocable election at the time of initial recognition, otherwise they are recognised at fair value through profit or loss.

Financial liabilities are subsequently measured at amortised cost. Derivatives are recognised at fair value through profit or loss.

Amortised cost is calculated as the amount at which the financial asset or financial liability is measured at initial recognition less principal repayments and any reduction for impairment, and adjusted for any cumulative amortisation of the difference between that initial amount and the maturity amount calculated using the effective interest method.

The consolidated entity recognises a loss allowance for expected credit losses on debt instruments which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain. 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. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

(e) Foreign currency translation

The financial statements are presented in Australian dollars, which is the functional and presentation currency for Mosaic Brands Limited.

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 year-end exchange rates of monetary assets and

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

(f) Employee benefits

Employees of the Group receive defined contribution superannuation entitlements for which the Group pays the fixed superannuation guarantee contribution (currently 9.5% of the employee's average ordinary salary) to the employee's superannuation fund of choice. All contributions in respect of employees' defined contribution entitlements are recognised as an expense when they become payable. The Group's obligation with respect to employees' defined contribution entitlements is limited to its obligation for any unpaid superannuation guarantee contributions at the end of the reporting period. All obligations for unpaid superannuation guarantee contributions are measured at the (undiscounted) amounts expected to be paid when the obligation is settled and are presented as current liabilities in the Group's statement of financial position.

(g) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of goods and services tax (GST) except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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 Trade and other receivables or 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 included in receipts from customers or payments to suppliers.

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

(h) Period

When required by Accounting Standards, comparative figures have been adjusted to conform to changes in presentation for the current financial year. The current reporting period, 1 July 2019 to 28 June 2020, represents 52 weeks and the comparative reporting period is from 2 July 2018 to 30 June 2019 which represents 52 weeks.

(i) 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.

(j) Critical accounting estimates and judgements

The Directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation of future events and are based on current trends and economic data, obtained both externally and within the Group. The key estimates and judgements have been included within the notes to the financial report.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates, and the resulting financial impacts and disclosures.

(k) 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 27.

(l) 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 28 June 2020. 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.

Conceptual Framework for Financial Reporting (Conceptual Framework)

The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 January 2020 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the consolidated entity has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the consolidated entity may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the consolidated entity's financial statements.

(m) 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.

(n) Government grants

Government Grants are recognised on the Consolidated Statement of Profit or Loss and Other Comprehensive Income when there is reasonable assurance that the entity will comply with the conditions attaching to them, and the grant will be received. Such grants are presented on a net basis on the Statement of Profit or Loss and Other Comprehensive Income within employee benefits expense.

(o) Reclassification

Certain amounts in the financial report have been reclassified to conform to current year presentation.

Note 2. OPERATING SEGMENT

Management has determined the operating segments based on internal reports reviewed and used by the Chief Executive Officer (CEO) in assessing performance and in determining the allocation of resources. The Group operates predominately in Australia and also within New Zealand and is organised into two operating segments.

Fashion retail (Mosaic Brands Australia and New Zealand)

The fashion retail segment shares similarities in its offering (fashion clothing) with the same customer demographic across different brands and are supported by one integrated support function. The integrated support functions include finance, information technology, marketing (both in the processes and the target customer) as well as the production and distribution processes.

Multi-channel retail (EziBuy New Zealand)

The multi-channel retail segment consists of EziBuy Limited which is based in New Zealand and services customers across both Australia and New Zealand (the Group gained control of the ordinary shares in EziBuy Limited on 23 December 2019). The multi-channel retail segment sells various products targeting a variety of customers and operates with its own separate support functions for areas including finance, information technology, marketing and distribution.

The information reported to the CEO is on at least a monthly basis, including weekly reporting on key revenue metrics. The accounting policies adopted for internal reporting to the CEO are consistent with those adopted in the financial statements.

At the end of the reporting period the Groups geographic areas of operation consisted of Australia and New Zealand:

GEOGRAPHIC SEGMENTS

	Fashion retail				Multi-channel			
	Australia		New Zealand		New Zealand		Total	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Revenue and other income:								
Revenue	630,109	849,824	9,158	14,669	74,313*	-	713,580	864,493
Other income	17,259	17,088	183	339	5,755	-	23,197	17,427
Total revenue and other income	647,368	866,912	9,341	15,008	80,068	-	736,777	881,920
Total revenue and other income per the statement of profit or loss and other comprehensive income							736,777	881,920

Note 2. OPERATING SEGMENTS (continued)

	Fashion retail				Multi-channel			
	Australia		New Zealand		New Zealand		Total	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Results:								
Cost of sales	339,183	375,544	4,752	7,239	40,318	–	384,253	382,783
Employee benefits expense	144,874	202,552	1,803	2,862	12,004	–	158,681	205,414
Depreciation	115,464	21,389	1,030	20	3,945	–	120,439	21,409
Amortisation	6,740	899	–	–	2,141	–	8,881	899
Impairment of brand names	33,364	–	–	–	–	–	33,364	–
Impairment of goodwill	64,022	–	–	–	–	–	64,022	–
Impairment of right-of-use assets and PPE	14,944	–	44	–	1,121	–	16,109	–
Interest	11,401	2,120	46	4	1,988	–	13,435	2,124
(Loss) / profit before tax expense	(205,680)	10,130	106	1,743	(6,596)	–	(212,170)	11,873
Tax (benefit) / expense	(41,161)	3,246	18	497	(542)	–	(41,685)	3,743

* Revenue includes $39,300,000 which was derived in Australia. Revenue is the only indicator that is measured by management at a geographical segment

GEOGRAPHIC SEGMENTS

	Fashion retail				Multi-channel			
	Australia		New Zealand		New Zealand		Total	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Assets and liabilities:								
Segment assets	476,375	409,150	2,452	2,710	72,053	–	550,880	411,860
Segment liabilities	550,922	304,305	2,375	1,433	77,892	–	631,189	305,738

Note 3. REVENUE AND OTHER INCOME

	Consolidated Group	
	2020	2019
	$'000	$'000
Revenue:		
Sale of goods	**713,580**	864,493
Other income:		
Interest	**94**	260
Jewellery commission	**13,312**	13,365
Other	**9,791**	3,802
Total other income	**23,197**	17,427

Recognition and measurement

Revenue arising from sales of goods is recognised at the point in time when the customer has obtained control of the goods which is considered to be fulfilment of the performance obligation. Revenue is measured with consideration to any trade discounts and volume rebates.

i. Retail sales revenue is recognised at the point of sale, which is where the customer has obtained control of the goods.

   Refund liabilities are recognised where the Group receives consideration from a customer and expects to refund some, or all, of that consideration to the customer. A refund liability is measured at the amount of consideration received or receivable for which the Group does not expect to be entitled and is updated at the end of each reporting period for changes in circumstances. Historical data is used to estimate such returns at the time of sale based on an expected value methodology.

ii. Jewellery commission revenue is recognised at the point of sale when the customer has obtained control of the goods.

iii. Other income is mainly comprised of postage income which is in the ordinary course of our online business.

iv. Revenue from the sale of gift cards is recognised upon redemption of the gift card. The amount of gift cards which expire unredeemed is not significant.

v. The Group operates a customer loyalty scheme which provides rebate vouchers to be issued to customers twice yearly, based on customer's purchases during the loyalty period. The vouchers have expiry dates six weeks after issue. The Group defers this revenue until such point at which the sale of goods is made. The deferred portion is included in sundry payables as a contract liability and is recognised as revenue only after all the rebate obligations have been fulfilled.

vi. Interest revenue is recognised when it is earned.

Note 4. (LOSS) / PROFIT FOR THE YEAR

	Consolidated Group 2020 $'000	2019 $'000
a) Expenses (excluding finance costs)		
Marketing and selling expenses	**208,366**	237,172
Occupancy expenses*	**86,904**	188,338
Administrative expenses**	**149,224**	49,340
Other expenses	**5,722**	1,151
Total expenses (excluding finance costs)	**450,216**	476,001

* FY19 includes rental related occupancy costs which are excluded in FY20 on adoption of AASB 16.

** Administrative expenses includes $103,040,000 right-of-use assets depreciation costs as per AASB 16 adoption.

	2020 $'000	2019 $'000
b) (Loss) / profit before income tax from continuing operations includes the following specific expenses:		
Expenses		
Finance costs comprising interest attributed to:		
– interest and borrowing expense	**2,594**	2,124
– interest expense on lease liabilities	**10,841**	
Total finance costs	**13,435**	2,124
All finance costs are expensed in the period in which they are incurred.		
Depreciation – plant and equipment	**17,399**	21,409
Depreciation – right-of-use assets	**103,040**	
Amortisation	**8,881**	899
Impairment and write-off of non-current assets	**1,991**	79
Impairment – right-of-use assets	**16,109**	–
Impairment of Brand Names and Goodwill	**97,386**	–
Write-off and write down of obsolete stock and inventory	**32,151**	2,335
Operating lease rental expenses attributed to:		
– low value assets	**55**	55
– variable lease payments – outgoings	**21,984**	21,845
– short term lease payments – other property costs	**12,580**	130,067
Total operating lease rental expenses	**34,619**	151,967
Employee benefits expenses*	**158,681**	205,414
Superannuation expenses	**15,140**	18,325
Share based payment expenses	**266**	365
Unrealised foreign exchange gain	**(6,671)**	(208)

* Employee benefits expense for the year is net of $48,564,000 in Government grants which was provided as a result of the COVID-19 pandemic.

Note 5. INCOME TAX

	Consolidated Group 2020 $'000	2019 $'000
Major components of income tax (benefit) / expense		
Deferred tax	**(17,534)**	(2,756)
Current tax	**(24,151)**	6,499
Income tax (benefit) / expense	**(41,685)**	3,743
Reconciliation between income tax (benefit) / expense and prima facie tax on accounting profit		
Accounting (loss) / profit	**(212,170)**	11,873
Tax at 30% (2019-30%)	**(63,561)**	3,562
Tax effect on non-deductible expenses / (non-assessable items):		
Share based payment expense	**80**	109
Impairment of goodwill	**19,207**	–
Permanent differences	**1,255**	–
Impact of AASB 16	**(528)**	–
Tax rate difference	**129**	(36)
Adjustment to opening deferred tax asset position	**554**	–
Tax losses not booked	**1,305**	–
Under / over from prior year	**(190)**	–
Forfeiture of withholding tax	**36**	–
Non-deductible items	**118**	108
Income tax (benefit) / expense	**(41,685)**	3,743
Income tax		
Income tax (payable) / receivable	**(145)**	4,846
Applicable tax rate		
The applicable tax rate is the national corporate tax rate in Australia of 30%		
Analysis of deferred tax assets:		
Employee entitlements	**7,888**	7,292
Lessors fit out contribution	**62**	7,312
Accruals	**4,606**	2,059
Inventory temporary differences	**10,041**	4,920
Depreciation temporary differences	**6,139**	3,997
Foreign currency balances	**160**	171
Provision for customer loyalty	**379**	656
Contract liabilities	**1,667**	–
Future tax benefit of tax losses	**25,442**	1,261
Business capital expenditure	**289**	486
Other provisions	**1,688**	2,749
Lease liabilities	**59,113**	–
Other temporary differences	**392**	1,483
Total deferred tax assets	**117,866**	32,386

Note 5. INCOME TAX (continued)

	Consolidated Group 2020 $'000	2019 $'000
Analysis of deferred tax liabilities:		
Depreciation and amortisation temporary differences	**206**	48
Brand names	**7,426**	17,160
Trademarks	**82**	189
Accrued wages	**5,258**	–
Foreign currency balances	**1,057**	1,731
Right-of-use assets	**41,803**	–
Lease incentive	**805**	–
Other temporary differences	**19**	43
Total deferred tax liabilities	**56,656**	19,171

Recognition and measurement

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the income tax rate, adjusted by 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 rate 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 profit nor taxable profit or loss; and

– When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

The carrying amount of recognised 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.

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.

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

Recoverability of deferred tax assets

The Group has recorded a deferred tax asset relating to the future benefit of tax losses of $25,442,000 (2019: $1,261,000). The Group assesses the impairment of deferred tax assets by taking into account its projected profitability over the foreseeable future and hence its ability to recover the value of the deferred tax asset by reducing future liabilities for income tax. Management's forecasts project that the deferred tax asset is fully recoverable based on the below:

- A growth in sales in the 2021 and future financial years
- Continuation of the tight cost management and inventory intake strategies which has proven to be successful over the past 6 years

Where actual results are lower than expectations as described above a proportion of the deferred tax asset may not be used, and a write-off of the deferred tax asset may be required.

Tax consolidation

Mosaic Brands Limited (the 'head entity') and its wholly-owned Australian controlled entities formed an income tax consolidated group under the tax consolidation regime as of 1 July 2005. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. In addition to its own current and deferred amount, the head entity also recognises the current tax assets/liabilities of each subsidiary in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Mosaic Brands Limited for any current tax payable and are compensated by Mosaic Brands Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Note 6. CASH AND CASH EQUIVALENTS

	Consolidated Group	
	2020	2019
	$'000	$'000
Cash at bank and on hand	**86,928**	36,684

Recognition and measurement

Cash and cash equivalents include cash on hand, deposits held at call with financial institutions, other short-term highly liquid investments with original maturities and bank overdrafts. Bank overdrafts are reported within borrowings in current liabilities on the statement of financial position.

Note 7. OTHER RECEIVABLES

	Consolidated Group	
	2020	2019
	$'000	$'000
CURRENT		
Sundry debtors	**5,633**	5,484
Government grants	**17,507**	–
	23,140	5,484

Recognition and measurement

Sundry debtors include amounts due from repeat customers, suppliers and landlord contributions. Government grants include amounts payable to the Group as a result of the COVID-19 pandemic. Receivables expected to be collected within 12 months of the end of the reporting period are classified as current assets. All other receivables are classified as non-current assets and are subsequently measured at amortised cost which have not been discounted.

Note 8. INVENTORIES

	Consolidated Group	
	2020	2019
	$'000	$'000
CURRENT		
Finished goods at cost, net of obsolescence and shrinkage	**102,329**	166,951
	102,329	166,951

Recognition and measurement

Inventories are measured at the lower of cost and net realisable value. Costs are assigned on a first-in first-out basis. Cost comprises all costs of purchase and conversion and an appropriate proportion of fixed and variable overheads, net of settlement discounts. 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.

Stock in transit is stated at the lower of cost and net realisable value. Costs comprise of purchase and delivery costs, net of rebates and discounts received or receivable.

Note 8. INVENTORIES (continued)

Key estimate and judgement

The provision for obsolescence and shrinkage of inventories assessment requires a significant degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the classification and ageing of inventories and other factors that affect inventory obsolescence. Due to the COVID-19 global pandemic, the Group announced a temporary closure of its stores from end March to June. As a result of the temporary closure and significant change in customer sentiment, the Group has assessed an increase in stock obsolescence after management's assessment on the judgment of sales and the ageing profile of seasonal inventories.

Note 9. OTHER CURRENT ASSETS

	Consolidated Group	
	2020 **$'000**	2019 $'000
Prepayments	**2,082**	347
Right of return assets	**3,730**	–
	5,812	347

Recognition and measurement

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.

Note 10. PLANT AND EQUIPMENT

	Consolidated Group	
	2020 **$'000**	2019 $'000
a) Plant and Equipment		
Plant and equipment:		
At cost	**145,098**	107,507
Accumulated depreciation and impairment	**(114,053)**	(66,406)
	31,045	41,101

b) Movements in carrying amounts

	Plant and equipment $'000	Total $'000
Consolidated Group:		
Balance at 1 July 2018	32,234	32,234
Additions	8,225	8,225
Additions through business combination	22,168	22,168
Disposals	(117)	(117)
Depreciation expense	(21,409)	(21,409)
Balance at 30 June 2019	41,101	41,101
Additions	4,973	4,973
Additions through business combination (note 30)	4,510	4,510
Disposals	(317)	(317)
Depreciation and impairment expense	(19,222)	(19,222)
Balance at 28 June 2020	31,045	31,045

Recognition and measurement

Plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Depreciation is calculated on a straight-line basis over the estimated useful lives covering a period of three to six years.

The carrying values of plant and equipment are reviewed for impairment annually for events or changes in circumstances that may indicate the carrying value may not be recoverable. If an indication of impairment exists, and where the carrying values exceeds the estimated recoverable amount, the assets are written down to their recoverable amount. Impairment indicators are assessed at the store level.

Key estimate and judgement

The Group determines the estimated useful lives and related depreciation and amortisation charges for its plant and equipment and finite life intangible assets. 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 or will be written off or written down.

Note 11. RIGHT-OF-USE ASSETS

	Consolidated Group
	2020 **$'000**
Lease rights – property	**264,120**
Less: Accumulated depreciation and impairment	**(123,327)**
Total right-of-use assets	**140,793**

The Group leases buildings for its offices and retail outlets under agreements of between two to ten years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. During the year the Group had an additional $62,014,000 of new leases including $25,543,000 from the acquisition of EziBuy.

Key estimate and judgement

Due to the COVID-19 global pandemic, the temporary closure and significant change in customer sentiment towards the Groups retail outlets resulted in an impact to Group performance. Management has assessed its retail outlets for those that resulted in either loss-making in nature and identified 235 stores with a highly probability of closure within the next 12 months based on current trading and the current negotiations with landlords. Based on this information, the Group has recognised an impairment loss on right-of-use assets of $16,109,000 for the period ended 28 June 2020.

Note 12. INTANGIBLE ASSETS

	Consolidated Group	
	2020 **$'000**	2019 $'000
Goodwill – at cost	**74,786**	64,022
Less: accumulated impairment losses	**(64,022)**	–
Net carrying value	**10,764**	64,022
Brand names – at cost	**58,090**	57,200
Less: accumulated impairment losses	**(33,364)**	–
Net carrying value	**24,726**	57,200
Other intangible assets – at cost	**16,334**	4,094
Less: accumulated amortisation	**(8,881)**	(1,346)
Net carrying value	**7,453**	2,748
Total intangibles	**42,943**	123,970

Note 12. INTANGIBLE ASSETS (continued)

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

	Consolidated Group			
	Goodwill $'000	Brand names $'000	Other* $'000	Total $'000
Consolidated Group:				
Balance at 1 July 2018	38,625	36,300	1,054	75,979
Additions	–	–	820	820
Additions from business combination	25,397	20,900	1,773	48,070
Amortisation expense	–	–	(899)	(899)
Balance at 30 June 2019	64,022	57,200	2,748	123,970
Additions	–	–	8,408	8,408
Additions from business combination (note 30)	10,764	890	5,178	16,832
Amortisation expense	–	–	(8,881)	(8,881)
Impairment	(64,022)	(33,364)	–	(97,386)
Balance at 28 June 2020	**10,764**	**24,726**	**7,453**	**42,943**

* Includes software, development costs and trademarks

Goodwill and Brand names

Recognition and measurement

Brand names and goodwill acquired in a business combination are initially measured at cost. Goodwill is the excess of the cost of the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities. Goodwill on acquisition is included in intangible assets along with Brand names and is allocated to cash generating units (CGUs) for the purposes of impairment testing. Goodwill and Brand names are assessed as having an indefinite useful life and are tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill and Brand names is carried at cost less accumulated impairment losses. Impairment losses are taken to the profit or loss and are, for goodwill, not subsequently reversed.

Impairment of brand names is determined comparing the recoverable amount of brand calculated using the relief from royalty method to the carrying value of the brand. The relief from royalty method is a calculation of the amount of the hypothetical royalty that would be paid if the bands were licensed from an independent third party. When the recoverable amount of the brand is less than the carrying amount, an impairment loss is recognised.

Impairment of goodwill is determined by assessing the recoverable amount of the CGUs to which it relates have been determined to be the brand level. Each of the brands is a fashion and retail brand selling both in stores and online. When the recoverable amount of the CGU is less than the carrying amount of the CGU (after any impairment of individual assets is recognised), an impairment loss is recognised. The recoverable amount of the CGU has been determined based upon the value in use approach.

Trademarks were acquired through the acquisition of the Millers, Autograph, Katies, Crossroads and Rivers brands. These trademarks are amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3 years, and are tested annually for impairment.

Costs associated with software and development cost are amortised on a straight-line basis over the period of their expected benefit being their finite life of 2-5 years and is tested annually for impairment.

Key estimates and judgements to account for business combinations

On 5 September 2016, the Group acquired 100% of the shares of the Pretty Girl Fashion Group (PGFG). The brands within the Pretty Girl Fashion Group include Rockmans, W.Lane and beme. An independent valuation of the brand names acquired as part of the transaction resulted in a total brand valuation of $36,364,000.

On 2 July 2018, the Group acquired the Millers, Autograph, Crossroads, Rivers and Katies brands from the Specialty Fashion Group through a business combination (collectively known as MARCK). An independent valuation of the brand names acquired as part of the transaction resulted in a total brand valuation of $20,900,000 with value attributable to all brands except Crossroads.

The fair value of the acquired Brands was determined based upon the relief from royalty method at acquisition date. The royalty rates used in the valuation were based on rates observed in the market. Brand names are assessed as having an indefinite useful life. The indefinite useful life reflects management's intention to continue to operate these brands to generate net cash inflows into the foreseeable future.

The Group has recognised goodwill of $10,764,000 on the acquisition of EziBuy effective 28 October 2019 (refer Note 30). Management will test goodwill for impairment prior to 28 October 2020. Management has considered indicators of impairment at the end of the reporting period and deemed that operational synergies have been achieved as planned.

Impairment indicators

At the beginning of the financial year the recoverable amount of the brands and goodwill were in excess of the carrying value. During the course of the financial year the COVID-19 global pandemic has had broad reaching economic consequences which have created market uncertainty and the retail industry has been impacted particularly hard. The impacts have included the closure of all stores for safety reasons from the end of March and this has contributed to a downward trend in both Revenue and Gross Margin year on year and financial performance below budget. A market capitalisation deficiency also existed at the end of the reporting period. On the basis of these factors management determined that impairment losses should be recognised totalling $33,364,000 and $64,022,000 for brand names and goodwill respectively (2019: nil). More detail on the calculation of these impairment losses is included below.

Determination of key assumptions and inputs

EBITDA margin

Management has prepared cash flow forecasts for a four-year period derived from the approved budget for FY21. These forecasts include assumptions around sales prices and volumes and operating costs. Management assesses the reasonableness of its forecasting by reviewing historical cash flow and projections as well as future growth objectives.

Risk adjusted discount rates

The discount rates are derived from the Group's weighted average cost of capital as adjusted for the specific risks related to each CGU.

Long-term growth rate

To forecast beyond the discrete cash flow forecast period into perpetuity, a long-term average growth rate is used. To establish an appropriate rate, management considers long-term inflation and GDP forecasts and adjusts for industry specific impacts.

Royalty rate

Royalty rates have been reviewed by management with reference to the rates which were determined on initial recognition of the brands. Where considered necessary these rates have been revised to factor in subsequent changes in the economic environment that impact the ability of a market participant to derive the same level of royalties.

Sensitivity analysis

The results of the Group's impairment tests are dependent upon estimates and judgements made by management, particularly in relation to the key assumptions described above. A reasonably possible change in key assumptions could lead to a change of the amount of impairment recognised by the Group. The Group has therefore conducted an analysis of the sensitivity of the impairment test to changes in the key assumptions used to determine the recoverable amount for each brand name to which goodwill is allocated. This is included below.

Impairment of brand names

The relief from royalty calculation is based on the cash flow projections as at June 2020 for a period of four years. The key assumptions utilised within the model are:

- Cash flow projections based on the FY2021 budget approved by the board and projected for a further three years based on growth rates estimated by management of 3.5% to 14.0% in FY2022 and 2.0% to 4.5% in FY2023 and FY2024 (2019: 1% to 1.5%). The variation across the range reflects different stages of brand growth. The growth rates between FY2020 and FY2021 are comprised between 4.5% to 37.6% noting that Mosaic is operating in a highly dynamic environment. The growth rate range is significantly higher than in the prior year to reflect that current year performance has been impacted the economic conditions resulting from COVID-19 and reflects forecast growth as the business works back to levels more akin to those in FY19.
- A terminal growth rate of 1% (2019: 1%)
- A tax rate applied of 30% is based on the corporate tax rate in Australia (2019: 30%)

Note 12. INTANGIBLE ASSETS (continued)

Royalty rates and post-tax discount rates are included within the table below:

	Royalty rate		Post-tax discount rate	
	2020	2019	**2020**	2019
Rockmans	**1.0%**	2.0%	**17.0%**	14.0%
beme	**2.0%**	3.0%	**17.0%**	16.0%
W Lane	**1.5%**	2.5%	**17.0%**	15.0%
Millers	**0.5%**	0.5%	**17.5%**	16.5%
Autograph	**1.0%**	1.5%	**17.5%**	16.5%
Rivers	**0.5%**	1.0%	**17.5%**	16.5%
Katies	**0.5%**	0.8%	**17.5%**	16.5%

The reconciliation of the carrying values of the brands at the beginning and end of the current and previous financial year is set out below:

	Rockmans $'000	W Lane $'000	beme $'000	Millers $'000	Autograph $'000	Rivers $'000	Katies $'000	Total $'000
Balance at 1 July 2018	19,400	10,000	6,900	–	–	–	–	36,300
Additions from business combinations	–	–	–	4,700	4,200	8,600	3,400	20,900
Balance at 30 June 2019	19,400	10,000	6,900	4,700	4,200	8,600	3,400	57,200
Impairment expense	(11,989)	(6,647)	(5,443)	(818)	(1,736)	(5,264)	(1,467)	(33,364)
Balance at 28 June 2020	**7,411**	**3,353**	**1,457**	**3,882**	**2,464**	**3,336**	**1,933**	**23,836**
Impact on recoverable amount of the following changes in assumptions:								
– 1% increase in discount rate	(413)	(189)	(82)	(209)	(133)	(180)	(104)	
– 1% decrease in discount rate	468	214	93	236	150	203	118	
– 0.5% (PGFG)/ 0.25% (MARCK) increase in royalty rate	3,706	1,118	364	1,941	616	1,668	966	
– 0.5% (PGFG)/ 0.25% (MARCK) decrease in royalty rate	(3,706)	(1,118)	(364)	(1,941)	(616)	(1,668)	(966)	

Impairment of goodwill

The fair value calculation is based on the cash flow projections as at June 2020 for a period of four years. The cash flow projections are based on the FY2021 budget that has been approved by the board and are projected for a further three years based on growth rates estimated by management of 3.1% – 3.3% (2019: 0.2% to 2%) and a terminal growth rate of 1% (2019: 1%). The tax rate applied in the valuation model is based on the corporate tax rate in Australia of 30% (2019: 30%).

The post-tax discount rates applied to the cash flow projections are within a range of 16.5% and 17.0% (2019:15.0% and 15.5%).

The reconciliation of the carrying values of goodwill at the beginning and end of the current and previous financial year is set out below:

	Rockmans $'000	W Lane $'000	beme $'000	Millers $'000	Autograph $'000	Rivers $'000	Katies $'000	Total $'000
Balance at 1 July 2018	20,643	10,640	7,342	–	–	–	–	38,625
Additions from business combinations	–	–	–	5,710	5,104	10,451	4,132	25,397
Balance at 30 June 2019	20,643	10,640	7,342	5,710	5,104	10,451	4,132	64,022
Impairment expense	(20,643)	(10,640)	(7,342)	(5,710)	(5,104)	(10,451)	(4,132)	(64,022)
Balance at 28 June 2020	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**

No reasonably possible change in the key assumptions could result in an increase in the amount of impairment recognised in respect of goodwill because it has been written down to zero for all CGUs. This table excludes Ezibuy. Management will test EziBuy goodwill for impairment prior to 28 October 2020. Management has considered indicators of impairment at the end of the reporting period and deemed that operational synergies have been achieved as planned.

Note 13. TRADE AND OTHER PAYABLES

	Consolidated Group	
	2020	2019
	$'000	$'000
Trade payable	**141,889**	72,724
Accruals	**35,506**	23,107
Stock in transit	**17,176**	32,165
Sundry payables	**43,170**	69,294
Contract and customer liabilities	**9,340**	1,312
	247,081	198,602

Recognition and measurement

Trade and other payables represent the liabilities for goods and services received by the Group that remain unpaid at the end of the reporting period. The balance is recognised as a current liability with the amounts normally paid within 30 – 90 days of recognition of the liability. Due to the short-term nature they are measured at amortised cost and are not discounted.

As a result of the ongoing COVID-19 pandemic and its uncertainty, the Group re-negotiated and extended payment terms with its key trade payable suppliers.

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

Key estimate and judgement

Contract liabilities are calculated based on historical sales claim information, sales levels and any trends that may suggest future liabilities could differ from historical amounts.

The Group operates a loyalty program where customers accumulate points for purchases made which entitles them to discounts on future purchases. This is recognised as a customer loyalty provision within sundry payables and is based on (i) loyalty events and (ii) an estimate of the loyalty redemption by the loyalty customers. The estimate considers historical experience and other factors relevant to customer spending.

Note 14. BORROWINGS

	Consolidated Group	
	2020	2019
	$'000	$'000
CURRENT		
Secured liabilities:		
Commercial hire purchase liabilities	**16**	–
Bank loans	**28,974**	–
Loans from related parties	**12,512**	–
Total current borrowings	**41,502**	–
NON-CURRENT		
Secured liabilities:		
Bank loans	**44,989**	29,482
Total non-current borrowings	**44,989**	29,482

Bank loans are recognised at the fair value of the consideration less directly attributable transaction costs and are due in July 2021. Fees paid on establishment of loan facilities are amortised over the term of the facility. At 28 June 2020, the Group had total outstanding loans and borrowings of $86,491,000 (2019: $20,000,000) of which $74,105,000 was from bank loans and $12,512,000 was provided as loans from related parties. At reporting date, bank loan facilities of $106,500,000 were available to the Group (2019: $31,000,000). Of this facility, $19,895,000 was unused (2019: $1,200,000). Bank loans are secured by both the warehouse inventory

Note 14. BORROWINGS (continued)

and a general security deed which is a fixed and floating charge over the business. The related party loans are due in December 2020. Interest of 0-9% is charged on the loans.

Recognition and measurement

Borrowing costs are directly attributable to the loan. They are subsequently measured at amortised costs using the effective interest method.

Finance facilities

The following lines of credit were available at reporting date:

	Consolidated Group	
	2020 $'000	2019 $'000
Amount of credit facilities available		
Bank card	**500**	400
Market rate facility	**88,000**	31,000
Related party finance facilities (Note 26)	**18,500**	–
Bank guarantees and lines of credit	**6,835**	2,235
Total	**113,835**	33,635
Amount of credit facilities unused		
Bank card	**329**	210
Market rate facility	**13,895**	1,200
Related party finance facilities (Note 26)	**6,000**	–
Bank guarantees and lines of credit	**4,835**	235
Total	**25,059**	1,645

The bank loans and finance facilities available contain specific financial covenants which the Group is required to meet. Due to the impact of the COVID-19 pandemic, the Group was able to seek amendments and a non-test of its covenant compliance. This resulted in the Group classifying bank loans as non-current for the period ending 28 June 2020. The bank loans have a maturity date of 6 July 2021.

Note 15. PROVISIONS

	Consolidated Group	
	2020 $'000	2019 $'000
Current		
Employee benefits	**23,469**	21,720
Other provisions	**5,643**	7,369
Total current provisions	**29,112**	29,089
Non-current		
Employee benefits	**2,828**	2,565
Other provisions	**–**	1,862
Total non-current provisions	**2,828**	4,427

Movements in provisions during the current financial year, other than employee benefits, are set out below:

Consolidated Group:	Onerous lease $'000	Lease make good $'000	Bonus $'000	Total $'000
Carrying amount at 1 July 2019	5,743	488	3,000	9,231
Additional provisions recognised	–	5,643	–	5,643
Amounts recognised as part of AASB 16 adoption adjustment	(5,743)	–	–	(5,743)
Amounts reversed	–	–	(3,000)	(3,000)
Amounts used	–	(488)	–	(488)
Carrying amount at the end of the year	**–**	**5,643**	**–**	**5,643**

Other long-term employee benefits

Recognition and measurement

Provision for employee benefits represents amounts accrued for annual leave and long service leave.

The current portion for this provision includes the total amount accrued for annual leave entitlements and the amounts accrued for long service leave entitlements that have vested due to employees having completed the required period of service. Based on past experience, the Group does not expect the full amount of annual leave or long service leave balances classified as current liabilities to be settled within the next 12 months. However, these amounts must be classified as current liabilities since the Group does not have an unconditional right to defer the settlement of these amounts in the event employees wish to use their leave entitlement. The amount that is not expected to be taken within the next twelve months including on costs is $8,690,000 (2019: $8,270,000).

Long-term benefits are benefits (other than termination benefits) that are not expected to be settled wholly within 12 months after the end of the annual reporting period in which the employees render the related service. Other long-term employee benefits are measured at the present value of the expected future payments to be made to employees. Expected future payments incorporate anticipated future wage and salary levels, durations of service and employee departures and are discounted at rates determined by reference to market yields at the end of the reporting period on government bonds that have maturity dates that approximate the terms of the obligations. Any remeasurements for changes in assumptions of obligations for other long-term employee benefits are recognised in profit or loss in the periods in which the changes occur.

The non-current portion for this provision includes amounts accrued for long service leave entitlements that have not yet vested in relation to those employees who have not yet completed the required period of service.

Key estimate and judgement

The liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Provisions

Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

Provisions are measured using the best estimate of the amounts required to settle the obligation at the end of the reporting period.

Other provisions include:

Onerous lease

The provision represents leases with unavoidable costs of meeting the lease for which the costs of meeting the obligations exceed the economic benefits expected to be received.

Lease make good

The provision represents the present value of the estimated costs to make good the store closures for the premises leased by the Group.

Bonus

The provision represents the estimated amount to be paid to team members. Due to the impact of the Coronavirus (COVID-19) pandemic the Board has not approved and provisioned any bonus to be paid for the 2020 financial year.

Note 16. DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated Group	
	2020 $'000	2019 $'000
Forward exchange contracts	**28**	33
Interest rate swaps	**506**	537
	534	570

Refer to note 23 for further information on financial instruments.

Note 17. LEASE LIABILITIES

	Consolidated Group
	2020 $'000
CURRENT	
Lease liability	**87,544**
NON-CURRENT	
Lease liability	**111,013**
Total lease liabilities	**198,557**

Note 18. OTHER LIABILITIES

	Consolidated Group	
	2020 $'000	2019 $'000
CURRENT		
Fitout contributions and lease incentives	**95**	8,908
	95	8,908
NON-CURRENT		
Fitout contributions and lease incentives	**110**	15,489
	110	15,489

Deferred lease incentives

The liability represents operating lease incentives received. The incentives are allocated to the profit and loss on a straight-line basis over the lease term.

Note 19. DEFERRED CONSIDERATION

	Consolidated Group	
	2020 **$'000**	2019 $'000
Deferred consideration	**9,580**	–
	9,580	–

As part of the purchase of EziBuy from Alceon Retail, it was agreed that as part of the nominal consideration of $1 for a 50.1% economic interest, the buyer will be entitled to exercise an option over the remaining 49.9% equity interest at an exercise price of $11,000,000 on or prior to 31 December 2020. The 49.9% is considered by the Group as a present ownership interest and the option exercise price included in the fair value of the deferred consideration recorded at the date of acquisition (refer Note 30). The $11,000,000 exercise price has been discounted and adjusted for cash acquired and related loans to arrive at the deferred consideration balance.

Note 20. ISSUED CAPITAL

	Consolidated Group	
	2020 **$'000**	2019 $'000
Fully paid ordinary shares		
Balance at the beginning of the financial year	**107,605**	107,651
Issue of shares	**429**	–
Less transaction costs	**–**	(46)
Ordinary shares	**108,034**	107,605

	NO.	NO.
Balance at the beginning of the financial period	**96,914,779**	96,361,245
Issue of shares during the period (i)	**148,151**	845,000
Share buy-back (ii)	**(250,000)**	(291,466)
Balance at the end of the financial period	**96,812,930**	96,914,779

(i) a total of 148,151 performance shares were issued during the period from escrow.

(ii) 250,000 shares were issued to Senior Management however they were cancelled by the Company during the year.

Ordinary shares

Ordinary shares are classified as equity and entitle the holder to participate in dividends and the proceeds on the winding up of the Group in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Group 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. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction, net of tax, from proceeds.

Note 21. RESERVE

	Consolidated Group	
	2020 $'000	2019 $'000
Reserves comprise:		
Equity reserve	**4,077**	3,723
Foreign currency translation reserve	**154**	31
Dividend profit reserve	**13,637**	5,667
Total reserves	**17,868**	9,421

Equity reserve

The equity reserve is used to record the value of the share based payments provided to employees. In accordance to the Rules of the Director and Senior Management Share Plan, dividends paid on the Plan Shares will be applied to the value of shares. The dividend amount which was applied to the Plan Shares during the 2020 Financial Year was $88,000 (2019: $199,000) and this amount was not paid in cash.

Foreign currency translation reserve

The foreign currency translation reserve is used to record the exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

Dividend profit reserve

To the extent that any current year profits are not distributed as dividends, the Group may set aside some or all of the undistributed profits to a separate dividend profit reserve to facilitate the payment of future dividends, rather than maintaining these profits within accumulated losses. During the year the Directors decided to transfer the profit for the period ended 29 December 2019 of $13,301,000 (2019: $8,130,000) to the dividend profit reserve which will enable the declaration of a future dividend. The transfer into the dividend profit reserve was recorded based on the profit recognised for the period ended 29 December 2019. No dividend has been declared or paid since 28 December 2019. The Directors consider the requirements of s254T of the Corporations Act in the declaration of dividends.

Note 22. DIVIDENDS PAID

Dividends

	Consolidated Group					
	2020			2019		
	Cents per share	**Date of payment**	**Total amount $'000**	Cents per share	Date of payment	Total amount $'000
Current year interim	**–**	**–**	**–**	9.0	22/03/2019	8,722
Prior year final	**5.5**	**24/10/2019**	**5,331**	4.0	12/10/2018	3,853
			5,331			12,575

All dividends are fully franked at a 30% tax rate.

Due to the impact and ongoing uncertainty caused by the COVID-19 pandemic the Board of Directors have decided to take a prudent approach and not declare a final dividend to be paid from the dividend profit reserve.

Franking credits

	Consolidated Group 2020 $'000	Consolidated Group 2019 $'000
Franking credits available for future financial years (tax paid basis, 30% tax rate)	**12,307**	15,060

The above amount represents the balance of the franking account as at the end of the financial year, 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 23. FINANCIAL RISK MANAGEMENT

Capital Risk Management

Management controls the capital of the Group in order to maintain a sustainable debt to equity ratio, generate long-term shareholder value and ensure that the Group can fund its operations and continue as a going concern.

The Group's debt and capital include ordinary share capital and financial liabilities, supported by financial assets. The Group is not subject to any externally imposed capital requirements.

Management effectively manages the Group's capital by assessing the Group's financial risks and adjusting its capital structure in response to changes in these risks and in the market. These responses include the management of debt levels, distributions to shareholders and share issues.

There have been no changes in the strategy adopted by management to control the capital of the Group since the prior year. The gearing ratios for the years ended 28 June 2020 and 30 June 2019 are as follows:

	Note	Consolidated Group 2020 $'000	Consolidated Group 2019 $'000
Total debt	14	**86,491**	29,482
Total equity		**(80,309)**	106,122
Total capital		**6,182**	135,604
Gearing ratio		**1,399.1%**	21.7%

Total debt of $86,491,000 predominately consists of $14,155,000 for the JobKeeper bridging facility which is repaid monthly on receipt of the Government grants, the working capital facility of $39,950,000 and the Groups $20,000,000 for the long-term facility. Total debt for the year also includes loans from related parties of $12,512,000 for EziBuy see note 14.

Financial Risk Management Policies

The Board monitors the Group's financial risk management policies and exposures and approves financial transactions within the scope of its authority. It also reviews the effectiveness of internal controls relating to commodity price risk, counterparty credit risk, currency risk, liquidity risk, and interest rate risk.

The Boards overall risk management strategy seeks to assist the Group in meeting its financial targets, while minimising potential adverse effects on financial performance. Its functions include the review of the use of hedging derivative instruments, credit risk policies and future cash flow requirements.

Specific Financial Risk Exposures and Management

The main risks the Group is exposed to through its financial instruments are credit risk, liquidity risk, and market risk consisting of interest rate risk, foreign currency risk and other price risk (commodity and equity price risk). There have been no substantive changes in the types of risks the Group is exposed to, how these risks arise, or the Board's objectives, policies and processes for managing or measuring the risks from the previous period.

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks. As sales to retail customers are settled in cash or

Note 23. FINANCIAL RISK MANAGEMENT (continued)

using major credit cards within 24 hours, the Group is mitigated from any material credit risk exposure to any single debtor or group of debtors. Current trade account receivables are non-interest bearing loans and are generally on 45 day terms.

Market Risk

Foreign currency risk

The Group 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 Group has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year.

The contracts are timed to mature when payments for certain shipments of inventory are scheduled to be made. The fair value of forward exchange contracts is determined using forward exchange market rates at reporting date.

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

	Sell AUD dollars		Average exchange rate	
Buy US dollars	**2020 $'000**	2019 $'000	**2020 $**	2019 $
Maturity:				
Less than 1 year	**47,829**	158,851	**0.6841**	0.7028

The derivatives that are not effective accounting hedges are measured at fair value through profit or loss.

Price risk

The Group is not exposed to any significant price risk.

Interest Rate Risk

The Group's main interest rate risk arises from loans and borrowings. Borrowings with variable rates expose the Group to interest rate risk with borrowings issued at fixed rates exposing the Group to fair value interest risk. The Group currently has interest swaps in order to reduce the exposure to interest rate risk.

As at the reporting date, the Group had the following interest rate borrowings outstanding:

	Loan balance		Average interest rate	
	2020 $'000	2019 $'000	**2020 %**	2019 %
Commercial hire purchase	**16**	–	**6.21%**	–
Bank loans	**73,963**	29,482	**3.12%**	4.23%
Loans from related parties	**12,512**	–	**8.37%**	–

Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities.

The Group manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows. At reporting date, bank loan facilities of $106,500,000 were available to the Group (2019: $31,000,000). Of this facility, $19,895,000 was unused (2019: $1,200,000).

The following table reflects the Groups financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. The tables include both principal and interest cash flows disclosed as remaining contractual maturities and therefore the totals may differ from their carrying amount in the statement of financial position.

	Consolidated Group	
	2020 $'000	2019 $'000
Maturity < 1 month	**134,078**	138,587
Maturity 1 – 3 months	**94,539**	49,493
Maturity 3 – 12 months	**151,826**	10,522
Maturity > 1 year	**161,955**	29,800
	542,398	228,402

Financial liabilities above include undiscounted lease liabilities payable by the Group.

Fair Value of financial instruments

AASB 13, fair value measurement requires the disclosure of fair value information by level of the fair value hierarchy, which categorises fair value measurements into one of three possible levels based on the lowest level that an input that is significant to the measurement can be categorised into as follows:

Level 1 – the fair value is calculated using quoted price in active markets for identical assets or liabilities.

Level 2 – the fair value is estimated using inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices).

Level 3 – the fair value is estimated using inputs for the asset or liability that are not based on observable market data.

The fair values of assets and liabilities that are not traded in an active market are determined using one or more valuation techniques. These valuation techniques maximise, to the extent possible, the use of observable market data. If all significant inputs required to measure fair value are observable, the asset or liability is included in Level 2. If one or more significant inputs are not based on observable market data, the asset or liability is included in Level 3.

Valuation techniques

The Group selects a valuation technique that is appropriate for the circumstances. The valuation technique on the derivatives is based on quoted mark to market data provided by the bank. There has been no movement between levels and no changes in valuation techniques.

The following tables provide the fair values of the Group's assets and liabilities measured and recognised on a recurring basis after initial recognition and their categorisation within the fair value hierarchy:

	Level 1		Level 2		Level 3		Total	
	2020 $'000	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000	**2020 $'000**	2019 $'000
Recurring fair value measurements								
Derivatives (Liability) held for hedging:								
– Forward exchange forward contracts	**–**	–	**(28)**	(33)	**–**	–	**(28)**	(33)
– Interest swaps	**–**	–	**(506)**	(537)	**–**	–	**(506)**	(537)
Total liabilities recognised at fair value	**–**	–	**(534)**	(570)	**–**	–	**(534)**	(570)

Note 24. KEY MANAGEMENT PERSONNEL

Information regarding individual key management personnel (KMP), shareholdings of key management personnel, as well as other transactions and balances with key management personnel and their related parties, as required by Regulation 2M.3.03 of the *Corporations Regulations 2001* is provided in the Remuneration Report section of the Directors' Report.

Directors

The following persons were Directors of Mosaic Brands Limited during the financial year.

- Richard Facioni — Chairman
- Scott Evans — Chief Executive Officer
- Sue Morphet — Non-Executive Director
- David Wilshire — Non-Executive Director
- Jacqueline Frank — Non-Executive Director

Other key management personnel

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

- Luke Softa — Chief Financial Officer
- Stephen Gosney — Chief Executive Officer of EziBuy

Compensation

The aggregate remuneration of the Directors and other key management personnel of the Group are as follows:

	Consolidated Group	
	2020	2019
Short-term employee benefits	**2,509,740**	2,613,498
Post-employment benefits	**60,346**	49,851
Other long-term benefits	**30,726**	54,934
Share based payments	**202,957**	551,803
Total benefits	**2,803,769**	3,270,086

Short-term employee benefits

These amounts include fees and benefits paid as well all salary, paid leave benefits, fringe benefits and cash bonuses.

Post-employment benefits

These amounts are the current-year's estimated costs of providing for the Group's defined benefits scheme post-retirement, superannuation contributions made during the year and post-employment life insurance benefits.

Other long-term benefits

These amounts represent long service leave benefits accruing during the year, long-term disability benefits and deferred bonus payments.

Share-based payments

These amounts represent the expense related to the participation of the key management personnel in equity-settled benefit schemes as measured by the fair value of the options, rights and shares granted on grant date.

Note 25. AUDITORS' REMUNERATION

During the financial year the following fees were paid or payable for services provided by BDO, the auditor of the Group and its network firms.

	Consolidated Group	
	2020 **$**	2019 $
Audit services – BDO		
– Audit and review of the financial statements	**465,000**	375,000
Other services – BDO		
– Tax compliance services including review of company income tax returns	**29,000**	–
– Other advisory services*	**211,065**	–
– Other assurance services	**43,760**	3,000
	748,825	378,000

*2020 fee in relation to audit and other advisory services have increased from the prior year primarily due to the acquisition of EziBuy

The BDO entity performing the audit of the Group transitioned from BDO East Coast Partnership to BDO Audit Pty Limited on 26 June 2020. The disclosures include amounts received or due and receivable by BDO East Coast Partnership and BDO Audit Pty Limited.

Note 26. RELATED PARTY TRANSACTIONS

Parent entity

Mosaic Brands Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 28.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the Remuneration report is included in the Directors' report.

Transactions with related parties

On 23 December 2019 an extraordinary general meeting (EGM) was held to approve the purchase of 50.1% of EziBuy for a nominal price of $1.00 effective from 28 October 2019 (date of acquisition). The EGM also approved the grant and exercise of call and put options to either acquire the remaining 49.9% equity interest on or prior to 31 December 2020 for a consideration of $11 million, or return the current shareholding to Alceon Retail for $1.00. Should neither option be exercised by Mosaic Brands Limited, Alceon Retail has the option to purchase the 50.1% back from Mosaic for $1.00.

The Group paid rent to four Alceon-owned property trusts amounting to $299,000 (2019: $336,000) in relation to stores in Caboolture, Orange, Sale and Gladstone. The rental paid was at normal commercial terms and conditions.

A total of $120,000 was paid in management fees to related party of the Non-Executive Directors during the financial period (2019: $120,000).

Receivables 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

At 28 June 2020, a loan amount payable to a related party (Alceon Retail Bidco) of $12,512,000 was owed through EziBuy. There were no other loans to or from related parties at the current and previous reporting date.

Note 27. PARENT ENTITY INFORMATION

The following information has been extracted from the books and records of the parent and has been prepared in accordance with Australian Accounting Standards.

	Consolidated Group	
	2020 **$'000**	2019 $'000
Statement of profit or loss and other comprehensive income		
Net (loss) / profit after income tax expense	**(104,153)**	23,398
Total comprehensive (loss) / income for the year	**(104,153)**	23,398
Statement of financial position		
ASSETS		
Current assets	**52,907**	153,334
Non-current assets	**107,398**	197,283
TOTAL ASSETS	**160,305**	350,617
LIABILITIES		
Current liabilities	**165,028**	184,825
Non-current liabilities	**100,623**	59,670
TOTAL LIABILITIES	**265,651**	244,495
EQUITY		
Issued capital	**108,035**	107,605
Reserves	**17,897**	9,421
Accumulated losses	**(231,277)**	(10,904)
TOTAL EQUITY	**(105,345)**	106,122

As at 28 June 2020, the parent entity had an excess of current liabilities over current assets of $112,121,000 (2019 net current liability position of $44,366,000).

Contingent liabilities

Mosaic Brands Limited is a party to various legal proceedings incidental to its business. As is the case with other companies in similar industries managing through the COVID-19 pandemic, the Company faces exposure from actual or potential claims and legal proceedings. Although the ultimate result of the legal proceedings cannot be predicted due to the uncertainty, it is the opinion of management that the outcome of any claim which is pending, either individually or on a combined basis, will not have a material effect on the financial position of the Company, its cash flows and result of operations. Accordingly, no provision has been provided within these financial statements.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.

Contractual commitments

As at 28 June 2020, the parent entity had no contractual commitments apart from lease liabilities (note 17).

Note 28. INTERESTS IN SUBSIDIARIES

Information about the Principal Subsidiaries

The subsidiaries listed below have share capital consisting solely of ordinary shares which are held directly by the Group. The proportion of ownership interests held equals the voting rights held by the Group. Each subsidiary's principal place of business is also its country of incorporation.

	Country of	Ownership Interest	
Name of Subsidiary	Incorporation	**2020**	2019
Noni B Holdings Pty Limited	Australia	**100%**	100%
Pretty Girl Fashion Group Holdings Pty Ltd	Australia	**100%**	100%
Pretty Girl Fashion Group Pty Ltd	Australia	**100%**	100%
W.Lane Pty Ltd	Australia	**100%**	100%
Noni B Holdings 2 Pty Ltd	Australia	**100%**	100%
Millers Retail Pty Ltd	Australia	**100%**	100%
Autograph Retail Pty Ltd	Australia	**100%**	100%
Rivers Retail Holdings Pty Ltd	Australia	**100%**	100%
Crossroads Retail Pty Ltd	Australia	**100%**	100%
Katies Retail Pty Ltd	Australia	**100%**	100%
Noni B Holdco Pty Ltd	Australia	**100%**	100%
EziBuy Pty Ltd	Australia	**100%***	–
Noni B NZ Limited	New Zealand	**100%**	100%
Noni B Holdings NZ Limited	New Zealand	**100%**	100%
New EziBuy Ltd	New Zealand	**100%***	–
EziBuy Holdings Ltd	New Zealand	**100%***	–
EziBuy Ltd	New Zealand	**100%***	–
EziBuy Operations Ltd	New Zealand	**100%***	–
Sara Apparel Ltd	New Zealand	**100%***	–
Last Stop Shop Ltd	New Zealand	**100%***	–
EziBuy Custodian Ltd	New Zealand	**100%***	–

* New EziBuy Limited was acquired at 50.1% with an option to acquire the remaining 49.9% which has been accounted for as a present ownership interest (refer Note 30).

Note 29. DEED OF CROSS GUARANTEE

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

- Mosaic Brands Limited
- Noni B Holdings Pty Limited
- Noni B Holdings 2 Pty Ltd
- Noni B Holdings NZ Limited
- Millers Retail Pty Ltd
- Autograph Retail Pty Ltd
- Pretty Girl Fashion Group Holdings Pty Ltd
- Pretty Girl Fashion Group Pty Ltd
- Crossroads Retail Pty Ltd
- Katies Retail Pty Ltd
- Rivers Retail Holdings Pty Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and Directors' report under ASIC Legislative Instrument 2016/785.

The above companies (including Mosaic Brands Limited as parent entity) represent a 'Closed Group' for the purposes of the legislative instrument. The financial information pertaining to the Closed Group is the consolidated financial information in the report less the information of the parent entity as disclosed in note 27.

Note 29. DEED OF CROSS GUARANTEE (continued)

Consolidated statement of profit or loss and other comprehensive income

	Closed Group	
	2020 $'000	2019 $'000
Continuing operations		
Revenue	**639,267**	864,493
Other income	**17,442**	17,427
Cost of goods sold	**(343,935)**	(382,783)
Expenses (excluding finance costs)	**(405,856)**	(476,001)
Transaction and restructuring costs	**(3,657)**	(9,139)
Finance costs	**(11,449)**	(2,124)
Impairment of brand names	**(33,364)**	–
Impairment of goodwill	**(64,022)**	–
(Loss) / profit before income tax	**(205,574)**	11,873
Income tax benefit / (expense)	**41,143**	(3,743)
(Loss) / profit attributed to members of the parent entity	**(164,431)**	8,130
Items that may be reclassified subsequently to profit or loss		
Foreign currency translation	**(93)**	31
Other comprehensive income, net of tax	**(93)**	31
Total comprehensive income for the year attributed to members of the parent entity, net of tax	**(164,524)**	8,161

Consolidated statement of financial position

	Closed Group	
	2020 $'000	2019 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	**77,553**	36,684
Other receivables	**22,765**	5,484
Inventories	**83,349**	166,951
Income tax receivable	**–**	4,846
Other current assets	**2,867**	347
TOTAL CURRENT ASSETS	**186,534**	214,312
NON-CURRENT ASSETS		
Plant and equipment	**27,332**	41,101
Right-of-use assets	**119,665**	–
Intangible assets	**39,341**	123,970
Deferred tax assets	**107,856**	32,386
Other non-current assets	**26**	91
TOTAL NON-CURRENT ASSETS	**294,220**	197,548
TOTAL ASSETS	**480,754**	411,860

	Closed Group 2020 $'000	2019 $'000
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	**213,156**	198,602
Borrowings	**28,974**	–
Provisions	**27,783**	29,089
Derivative financial instruments	**534**	570
Lease liabilities	**83,546**	–
Income tax payable	**154**	–
Other current liabilities	**95**	8,908
Deferred consideration	**9,580**	–
Intercompany payables	**1,928**	–
TOTAL CURRENT LIABILITIES	**365,751**	237,169
NON-CURRENT LIABILITIES		
Borrowings	**44,989**	29,482
Lease liabilities	**91,611**	–
Provisions	**2,828**	4,427
Deferred tax liabilities	**49,935**	19,171
Other non-current liabilities	**110**	15,489
TOTAL NON-CURRENT LIABILITIES	**189,473**	68,569
TOTAL LIABILITIES	**555,224**	305,738
NET ASSETS	**(74,470)**	106,122
EQUITY		
Issued capital	**108,034**	107,605
Reserves	**18,694**	9,421
Accumulated losses	**(201,198)**	(10,904)
TOTAL EQUITY	**(74,470)**	106,122

Note 30. BUSINESS COMBINATIONS

On 23 December 2019 an extraordinary general meeting (EGM) was held to approve the purchase of 50.1% of EziBuy for a nominal price of $1.00 effective from 28 October 2019 (date of acquisition). The EGM also approved the grant and exercise of call and put options to either acquire the remaining 49.9% equity interest on or prior to 31 December 2020 for a consideration of $11 million, or return the current shareholding to Alceon Retail for $1.00. Should neither option be exercised by Mosaic Brands Limited, Alceon Retail has the option to purchase the 50.1% back from Mosaic for $1.00.

EziBuy is a multi-channel retailing business which operates predominately in New Zealand and also Australia. It was acquired to increase the Group's online revenue share by gaining access to the customer portfolio which includes a high customer loyalty base. The acquired business operates in New Zealand and transacts in New Zealand Dollars which has been translated to Australian Dollars (AUD) for the purposes of these accounts.

The acquisition has been accounted for as a business combination under AASB 3 *Business Combinations*. The Group considers it has a present ownership interest in the 49.9% shareholding currently held by related party Alceon Retail and has therefore accounted for 100% of EziBuy's results. Consequently, there is no non-controlling interest to be recognised at acquisition.

The Group has recognised a financial liability for the present value of the exercise price of the call option. If the call option expires unexercised, the Group will account for a disposal of its present ownership interest in the 49.9% shareholding, together with any resulting implications under the acquisition agreement.

Note 30. BUSINESS COMBINATIONS (continued)

The fair value of the deferred consideration has been calculated based on the underlying Share Purchase Agreement, and includes the fair value of the exercise price of the call option of $10,800,000, which includes the amount to settle related party loans payable to the owners of the remaining 49.9% equity interest of $3,800,000 and the cash adjustment required to settle the cash acquired in the business of $2,460,000.

The Share Purchase Agreement requires the payment of contingent consideration to Alceon Retail in the event that the Group sells more than 50% of the equity interest in EziBuy within 12 months of exercising the call option.

Details of the acquisition are as follows:

	Fair value $'000
Consideration	
– Cash paid for purchase	–
– Fair value of deferred consideration	9,580
Total cash consideration to be paid	**9,580**
Net identifiable assets / (liabilities) acquired	
– Inventories	30,504
– Other current assets	2,074
– Plant and equipment	4,510
– Right-of-use assets (AASB 16)	25,543
– Brand names	890
– Intangibles – software	5,178
– Deferred tax assets	2,632
– Cash acquired	2,460
– Trade and other payables	(38,766)
– Loans and borrowings	(6,520)
– Lease liabilities (AASB 16)	(25,543)
– Other provisions	(4,146)
Net identifiable assets / (liabilities) acquired	**(1,184)**
Goodwill on acquisition	**10,764**

From the date of acquisition, the acquired brands contributed revenues of $80,068,000 to the Group (includes related party interest) for the financial reporting period, of which $39,300,000 of sales were derived in Australia. The acquired company contributed an operating loss of ($6,054,000) to the Group, this excludes operating loss attributed to related party interest.

Acquisition costs incurred during the financial period were $1,386,000.

Management has determined that disclosure of the profit and loss of the acquired entities as though the acquisition date had been as of 1 July 2019 is impracticable due to the high degree of estimation required to normalise for the economic consequences of COVID-19.

Provisional goodwill of $10,764,000 includes the acquired workforce, future growth opportunities and operational synergies.

AASB 3 *Business Combinations* allows a measurement period of up to 12 months after a business combination to provide the acquirer a reasonable time to obtain the information necessary to identify and measure all of the various components of the business combination as of the acquisition date. The details of the acquisition above are determined provisionally, pending the finalisation of the valuation information. Further adjustments may be made to the fair values assigned to the identifiable assets acquired and liabilities assumed. Consequently, the resulting goodwill is provisional and has not been allocated to the Group's cash generating units.

Management will test goodwill for impairment prior to 28 October 2020. Management has considered indicators of impairment at the end of the reporting period and deemed that operational synergies have been achieved as planned.

The accounting treatment of the acquisition has been revised since the half year to reflect the commercial substance of the transaction.

Note 31. CASH FLOW INFORMATION

	Consolidated Group	
	2020	2019
	$'000	$'000
Reconciliation of Cash Flows from Operating Activities with Profit after income tax		
(Loss) / profit after income tax	**(170,485)**	8,130
Non-cash flows in (loss) / profit:		
– depreciation	**120,439**	21,409
– amortisation	**8,881**	899
– write-off and write down of obsolete stock	**32,151**	2,335
– impairment and write-off of non-current assets	**1,991**	79
– sales return provision	**3,175**	–
– impairment of Brand Names and Goodwill	**97,386**	–
– net gain on disposal of plant and equipment	**(51)**	(52)
– unrealised foreign exchange gain	**(6,671)**	(208)
– share based payment expense	**266**	365
Change in assets and liabilities:		
– (increase) / decrease in trade and other receivables	**(958)**	713
– decrease / (increase) in inventories	**64,622**	(77,089)
– increase in deferred tax assets	**(85,480)**	(363)
– increase in deferred tax liabilities	**37,485**	–
– (decrease) / increase in trade and other payables	**(132)**	75,419
– (decrease) / increase in financial instruments	**(36)**	1,215
– increase / (decrease) in tax liability	**4,991**	(10,901)
– (decrease) / increase in provisions	**(1,576)**	1,532
Net cash flow from operating activities	**105,998**	23,483

Note 32. (LOSS) / EARNINGS PER SHARE

	Consolidated Group	
	2020 $'000	2019 $'000
(Loss) / earnings per share		
(Loss) / profit after income tax	**(170,485)**	8,130
(Loss) / profit after income tax attributable to the owners of Mosaic Brands Limited	**(170,485)**	8,130
	Number $'000	Number $'000
Weighted average number of ordinary shares used in calculating:		
– basic earnings per share	**96,858**	96,824
– diluted earnings per share	**96,858**	96,824
Basic (loss) / earnings per share (cents)	**(176.0)**	8.4
Diluted (loss) / earnings per share (cents)	**(176.0)**	8.4

Basic earnings per share

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

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.

Note 33. SHARE BASED PAYMENTS

The fair value at grant date is independently determined using a Binomial Approximation Option Valuation Model and the Black Scholes Valuation model that takes into account the exercise price, the term of the rights over shares, 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 rights over shares. The volatility calculation is based on historical share prices. These have a variety of market and non-market conditions based on the volume weighted average price (VWAP). 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.

A summary of the movement of all rights over share grants during the year ended 28 June 2020 include:

Performance Share Rights

Performance share rights which were outstanding as at 28 June 2020 were as follows:

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Interest rate	Number of rights available
08/08/2016	07/08/2021	$ 0.44	$ 1.33	$ 1.33	35%	1.54%	100,000
19/08/2016	18/08/2021	$ 0.47	$ 1.33	$ 1.25	35%	1.54%	1,450,000
19/08/2016	18/08/2021	$ 0.39	$ 1.33	$ 1.50	35%	1.54%	300,000
19/08/2016	18/08/2021	$ 0.32	$ 1.33	$ 1.75	35%	1.54%	300,000
17/02/2017	16/02/2022	$ 0.48	$ 1.46	$ 1.47	35%	1.54%	100,000
24/05/2017	23/05/2022	$ 0.54	$ 1.63	$ 1.64	35%	1.54%	100,000
12/01/2018	11/01/2023	$ 0.45	$ 2.09	$ 1.93	24%	1.55%	25,000
24/09/2018	23/09/2023	$ 1.31	$ 3.58	$ 3.42	54%	1.55%	550,000
21/12/2018	20/12/2023	$ 0.63	$ 2.68	$ 3.42	49%	1.55%	20,000

The weighted average price for the above performance share rights was $1.78.

During the financial period the number of share rights that were exercised was nil (2019: 845,000).

Performance share rights which were forfeited during the period 1 July 2019 to 28 June 2020 were as follows:

Grant date	Expiry date	Fair value at grant date	Share price at grant date	Exercise price	Volatility	Interest rate	Number of rights available
10/05/2017	09/05/2022	$ 0.55	$ 1.65	$ 1.63	35%	1.54%	25,000
07/08/2017	06/08/2022	$ 0.38	$ 1.96	$ 1.86	15%	1.55%	100,000
25/08/2017	24/08/2022	$ 0.38	$ 2.00	$ 1.95	16%	1.55%	25,000
11/11/2017	10/11/2022	$ 0.39	$ 2.02	$ 2.01	25%	1.55%	25,000
12/01/2018	11/01/2023	$ 0.45	$ 2.09	$ 1.93	24%	1.55%	50,000
12/05/2018	11/05/2023	$ 0.37	$ 2.35	$ 2.50	28%	1.55%	50,000
24/09/2018	23/09/2023	$ 1.31	$ 3.58	$ 3.42	54%	1.55%	125,000

The total charge arising from share based payment transactions during the year as part of employee benefit expense was $266,000 (2019: $365,000).

Recognition and measurement

Share-based payments to employees are measured at the fair value of the instruments issued and amortised over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the equity reserve. The fair value is determined using the Black-Scholes pricing model. The number of shares expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognised for services received as consideration for the equity instruments granted is based on the number of equity instruments that eventually vest.

Note 34. COMMITMENTS AND CONTINGENT LIABILITIES

Contractual commitments

As at 28 June 2020, the Group had no contractual commitments apart from lease liabilities (note 17).

Contingent liabilities

Mosaic Brands Limited is a party to various legal proceedings incidental to its business. As is the case with other companies in similar industries managing through the COVID-19 pandemic, the Group faces exposure from actual or potential claims and legal proceedings. Although the ultimate result of the legal proceedings cannot be predicted due to the uncertainty, it is the opinion of the Groups management that the outcome of any claim which is pending, either individually or on a combined basis, will not have a material effect on the financial position of the Group, its cash flows and result of operations. Accordingly, no provision has been provided within these financial statements.

Note 35. EVENTS AFTER THE REPORTING DATE

The impact of the Coronavirus (COVID-19) pandemic is ongoing and as such it is not practicable to estimate the potential impact, positive or negative, after the reporting date. The situation is rapidly developing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

In the interests of the health and safety of its customers and store teams, Mosaic Brands Limited closed all stores within Victoria temporarily. In response to the state Government's imposition of stage 3 and 4 restrictions, the Group closed 25 stores on 1 July with an additional 135 stores on 8 July with the balance 89 regional stores closed on 5 August. All stores will remain closed until restrictions are reduced.

Mosaic Brands announced on 20 August temporary closure of 129 stores in the Westfield centres. The financial contribution of these stores are not of a material nature with all impacted team members being redeployed to other locations.

Apart from the above, no other matter or circumstances has arisen since 28 June 2020 that has significantly affected, or may significantly affect the Groups operations, the results of those operations, or the state of affairs in future financial years.

DIRECTORS' DECLARATION

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 28 June 2020 and of its performance for the financial year 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 Extended 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 29 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

Richard Facioni
Chairman

25 August 2020

Scott Evans
Managing Director

25 August 2020

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INDEPENDENT AUDITOR'S REPORT

To the members of Mosaic Brands Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Mosaic Brands Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 28 June 2020, 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 year then ended, and notes to the financial report, including a summary of significant accounting policies 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 28 June 2020 and of its financial performance for the year ended on that date; 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 *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (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.

Material uncertainty related to going concern

We draw attention to Note 1 in the financial report which describes the events and conditions which give rise to the existence of a material uncertainty that may cast significant doubt about the group's ability to continue as a going concern and therefore the group may be unable to realise its assets and discharge its liabilities in the normal course of business. Our opinion is not modified in respect of this matter.

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 of 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. In addition to the matter described in the *Material uncertainty related to going concern* section, we have determined the matters described below to be the key audit matters to be communicated in our report.

Carrying value of intangible assets

Key audit matter	*How the matter was addressed in our audit*
Australian Accounting Standards require intangibles with indefinite useful lives to be tested annually for impairment, and to recognise an impairment charge if the carrying value exceeds recoverable amount. Prior to year end, the Group had identified indicators of impairment due to the market capitalisation of the Group being lower than the net assets of the Group. The Group has recognised an impairment of \$64.02m in relation to goodwill and \$33.36m in relation to brand names. As discussed in Note 12 of the financial report, the assessments of the impairment of the Group's goodwill and other intangible assets incorporates significant judgements and estimates, specifically concerning factors such as forecast cash flows, discount rates, terminal growth rates and royalty rates. The identification of, and allocation of assets to cash generating units was also a key area of judgement. The Group has engaged an expert to assist with the impairment testing. This was considered to be a key audit matter due to the significance of the intangible assets, the material amount of the impairment charge recorded and the judgements and estimates exercised in the impairment testing.	Our audit procedures included, amongst others: • Evaluating whether management's expert had the necessary competence, capabilities and objectivity. We obtained an understanding of the work of management's expert including an understanding of the relevant field of expertise; • Assessing whether the cash generating units were appropriate and consistent with our knowledge of the Group's operations and internal reporting; • Assessing whether the impairment testing methodology used by the Group met the requirements of Australian Accounting Standards; • Testing the mathematical accuracy of models used; • Evaluating the Group's assumptions and estimates used in their cash flow forecasting, and with our internal valuation experts, assessing the growth rates (including terminal growth rate), discount rates and royalty rates used; • Considering how the Group allowed for any deterioration in the market including the economic effects of COVID-19 which would impact the valuation of intangibles; and

	• Evaluated the adequacy of the impairment disclosures in the financial report, particularly those relating to intangible assets and to judgements and estimates.

Valuation of inventory

Key audit matter	***How the matter was addressed in our audit***
The carrying value of inventory as at 28 June 2020 is \$102.33m (2019: \$166.95m) as disclosed in Note 8 of the financial report. Due to the industry in which the Group operates, the items held in inventory have an inherent risk of obsolescence. The carrying value of inventories was reduced by \$32.15m (2109: \$6.79) for obsolescence and shrinkage factors, which is judgemental in nature. Significant management judgements include categorisation of inventories, fragmentation and sell through rates, and shrinkage, which form the basis of management's calculation to determine the net realisable value of inventory. The valuation of inventory is a key audit matter due to the judgements and estimates required in calculating the provision for obsolescence and shrinkage, the deterioration of trading due to COVID-19, and the material nature of the inventory balance.	Our audit procedures included, amongst others: • Considering and testing the design and operating effectiveness of key inventory controls; • Discussing with management the Group's current performance and future strategies to assist in evaluating the underlying assumptions applied in the calculation of the inventory obsolescence and shrinkage provision, particularly due to the current economic environment ; • Recalculating the arithmetical accuracy of the provision for inventory obsolescence and shrinkage calculation; • Challenging management's assumptions by testing the classifications of the underlying data used within the calculation, performing inventory turnover analysis; and analysing the accuracy of historical obsolescence provisions; and • Agreeing a sample of inventory on hand to initial purchase invoices and subsequent sales invoices and comparing the carrying amount to the net realisable value.

Accounting for the acquisition of EziBuy

Key audit matter	*How the matter was addressed in our audit*
As disclosed in Note 30 of the financial report, the Group acquired 50.1% of New EziBuy Limited (EziBuy) with the option to acquire the remaining 49.9%. Accounting for this transaction is complex, requiring the Group to exercise judgement in how the structure and substance of the transaction is treated under Australian Accounting Standards, and identifying and determining the fair value of the assets and liabilities acquired. The audit of the accounting for this acquisition is a key audit matter due to the magnitude of the transaction and the significant judgement and complexity involved in accounting for the transaction.	Our audit procedures included, amongst others: • Reviewing the business sale agreement to understand the terms and conditions of the acquisition and evaluating management's accounting thereof and application of the relevant accounting standards; • Comparing the assets and liabilities recognised on acquisition against the executed agreements and the historical financial information of the acquired entity; • Evaluating and challenging the assumptions made and methodology used in management's determination of the fair value of assets and liabilities acquired; • Assessing the impact of the derivative instruments on the transaction structure and the application of accounting standards in their recognition; and • Considering the adequacy of the business combination disclosures in light of the requirement of Australian Accounting Standards.

Adoption of AASB16 - Leases

Key audit matter	*How the matter was addressed in our audit*
The Group has adopted AASB 16 *Leases* effective 1 July 2019. As disclosed in note 1, the Group has a significant number of lease arrangements due to its vast store network. Certain judgements were required to be made on adoption of AASB16 Leases on 1 July 2019. The adoption of AASB16 Leases is a key audit matter due to the magnitude of lease liabilities ($241.35m) and right of use assets ($195.61m) recorded on the Group's balance sheet and significant judgement applied in determining key assumptions, including	Our audit procedures included, amongst others: • Assessing whether the Group's accounting policy for leases is in line with the requirements of AASB 16; • Testing the accuracy of key data inputs to the lease liability and right of use asset calculations by comparing to underlying lease agreements and subsequent variations on a sample basis; • Testing the accuracy of the lease liability and right of use asset by re-performing the calculations on a sample basis;

incremental borrowing rates, exercise of option periods and lease terms. Management has assessed the right-of-use assets for impairment which was also subject to judgement, including the impact of COVID-19.	• Assessing the reasonableness of key judgements used in the calculations including the incremental borrowing rate, option periods, lease terms and appropriateness of the practical expedients applied by the Group in computing the lease liability and right of use asset on implementation date; • Evaluating the methodology applied in the impairment assessment over right of use assets; and • Considering the adequacy of the disclosures in light of the requirements of Australian Accounting Standards.

Other information

The directors are responsible for the other information. The other information comprises the information contained in the Directors' report, Corporate Governance Statement and additional securities exchange information for the year ended 28 June 2020, but does not include the financial report and our auditor's report thereon, which we obtained prior to the date of this auditor's report, and the annual report, 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 annual report, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and will request that it is corrected. If it is not corrected, we will seek to have the matter appropriately brought to the attention of users for whom our report is prepared.

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 the 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.

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at:

https://www.auasb.gov.au/admin/file/content102/c3/ar1_2020.pdf

This description forms part of our auditor's report.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration report included in the Directors' report for the year ended 28 June 2020.

In our opinion, the Remuneration report of Mosaic Brands Limited, for the year ended 28 June 2020, 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.

BDO Audit Pty Ltd

BDO

Gillian Shea
Director

Sydney, 25 August 2020

ADDITIONAL INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information to shareholders not elsewhere disclosed in this Annual Report. The information provided is current as at 31 July 2020 (Reporting date).

CORPORATE GOVERNANCE STATEMENT

The Company's Directors and management are committed to conducting the business of the Group's business in an ethical manner and in accordance with the highest standards of corporate governance. The Company has adopted and substantially complies with the *ASX Corporate Governance Principles and Recommendations* (Third Edition) (Recommendations) to the extent appropriate to the size and nature of the Group's operations.

The Company has prepared a statement which sets out the corporate governance practices that were in operation throughout the financial year for the Company, identifies any Recommendations that have not been followed, and provides reasons for not following such Recommendations (Corporate Governance Statement).

In accordance with ASX Listing Rules 4.10.3 and 4.7.4, the Corporate Governance Statement will be available for review on the Company's website (https://mosaicbrandslimited.com.au), and will be lodged together with an Appendix 4G with ASX at the same time that this Annual Report is lodged with ASX.

The Appendix 4G will particularise each Recommendation that needs to be reported against by the Company and will provide shareholders with information as to where relevant governance disclosures can be found.

The Company's corporate governance policies and charters are all available on its website https://mosaicbrandslimited.com.au.

NUMBER OF HOLDERS

As at the Reporting Date, the number of holders in each class of equity securities:

Class of equity securities	Number of holders	Number of shares on issue
Fully paid ordinary shares	2,098	96,812,930

VOTING RIGHTS OR EQUITY SECURITIES

The only class of equity securities on issue in the Company are ordinary shares.

At a general meeting of the Company, every holder of ordinary shares present in person or by proxy, attorney or representative has one vote on a show of hands and, on a poll, one vote for each ordinary share held. On a poll, every member (or his or her proxy, attorney or representative) is entitled to vote for each fully paid share held and, in respect of each partly paid share, is entitled to a fraction of a vote equivalent to the proportion which the amount paid up (not credited) on that partly paid share bears to the total amounts paid and payable (excluding amounts credited) on that share. Amounts paid in advance of a call are ignored when calculating the proportion.

DISTRIBUTION OF HOLDERS OF EQUITY SECURITIES

The distribution of holders of equity securities on issue in the Company as at the Reporting date is as follows:

Distribution of ordinary shareholdings	Holders	Total units	%
Size of Holding			
1 – 1,000	467	247,929	0.26
1,001 – 5,000	767	2,119,612	2.18
5,001 – 10,000	378	2,910,691	3.01
10,001 – 100,000	424	11,238,373	11.61
100,001 and over	62	80,296,325	82.94
Total number of shares	**2,098**	**96,812,930**	**100.00**

LESS THAN MARKETABLE PARCELS OF ORDINARY SHARES (UMP SHARES)

The number of holders of less than a marketable parcel of ordinary shares based on the closing market price at the Reporting date is as follows:

Total shares	UMP shares	UMP holders	% of issued shares held by UMP holders
96,812,930	159,210	378	0.1644512

SUBSTANTIAL HOLDERS

As at the Reporting Date, the names of the substantial holders of the Company and the number of equity securities in which those substantial holders and their associates have a relevant interest, as disclosed in substantial holding notices given to the Company, are as follows:

Holder of equity securities	Number of equity securities held	% of total issued securities
Alceon Group Pty Limited	34,821,570	35.97
Perpetual Limited	14,140,606	14.61
LHC Capital Partners Pty Ltd	11,210,000	11.58

TWENTY LARGEST SHAREHOLDERS

The Company only has one class of quoted securities, being ordinary shares. The names of the 20 largest holders of ordinary shares, and the number of ordinary shares and percentage of capital held by each holder is as follows:

	Ordinary shares	
Holder name	Number held	% of total shares issued
HSBC Custody Nominees (Australia) Limited	14,942,634	15.43
Alceon Group Pty Ltd <NB No 1 A/C>	12,353,308	12.76
Alceon Group Pty Limited <NB No.3 A/C>	11,571,543	11.95
Alceon Group Pty Ltd <NB No 2 A/C>	8,262,366	8.53
UBS Nominees Pty Ltd	5,729,185	5.92
HBSC Custody Nominees (Australia) Limited – A/C 2	5,718,224	5.91
Scott Graham Evans	3,418,862	3.53
Alceon Group Pty Ltd <NB No 4 A/C>	2,487,255	2.57
Vacuna Nominees Pty Ltd <The Vacuna A/C>	1,800,000	1.86
Morphet Investments Pty Ltd <Morphet Investment A/C>	1,448,392	1.50
Simone Robyn Evans	1,184,313	1.22
J P Morgan Nominees Australia Pty Limited	1,095,917	1.13
Fitzroy Super Pty Ltd <Fitzroy Super Fund A/C>	1,012,392	1.05
Luke Anthony Softa	500,000	0.52
BNP Paribas Nominees Pty Ltd <IB Au Noms Retailclient Drp>	435,327	0.45
National Nominees Limited	341,430	0.35
Stephen Thomas Gosney	333,735	0.34
KI & A Mason Super Fund Pty Ltd <Kj & A Mason Super Fund A/C>	332,245	0.34
Mr Donald James Mackenzie	300,000	0.31
Ms Ellen Oi Wah So	294,259	0.30
Total	**73,561,387**	**75.97**

OTHER INFORMATION

On 2 December 2019, the Company closed the on-market share buyback which commenced on 11 December 2018. On 6 February 2020 the Company announced that it had initiated a new on-market share buyback up to the maximum aggregate amount of $10.0 million during the period 20 February 2020 to 19 February 2021. No shares have been purchased on-market under the new share buyback.

250,000 shares were purchased on-market during the reporting period under or for the purposes of an employee incentive scheme or to satisfy the entitlements of the holders of options or other rights to acquire securities granted under an employee incentive scheme.

There are no issues of securities approved for the purposes of item 7 of section 611 of the Corporations Act which have not yet been completed.

CORPORATE DIRECTORY

DIRECTORS
Richard Facioni
Scott Evans
David Wilshire
Sue Morphet
Jacqueline Frank

COMPANY SECRETARY
Luke Softa

NOTICE OF ANNUAL GENERAL MEETING
Details of the Annual General Meeting of Mosaic Brands:
Virtual Annual General Meeting
Details: To be advised on the ASX
Time: 11:00am
Date: Thursday 29th October 2020

REGISTERED OFFICE
Mosaic Brands Limited

Ground Floor, 61 Dunning Avenue
Rosebery NSW 2018

Telephone: (02) 8577 7777
Facsimile: (02) 8577 7887

ABN: 96 003 321 579

SHARE REGISTER
Computershare Registry Services Pty Limited
Level 5, 115 Grenfell Street
Adelaide SA 5000

Telephone: 1300 556 161

AUDITOR
BDO Audit Pty Limited
1 Margaret Street
Sydney NSW 2000

BANKERS
ANZ
242 Pitt Street
Sydney NSW 2000

STOCK EXCHANGE LISTING
Mosaic Brands Limited shares are listed on the Australian Securities Exchange

ASX Code: MOZ

WEBSITE
www.mosaicbrandslimited.com.au

CORPORATE GOVERNANCE STATEMENT
www.mosaicbrandslimited.com.au


W·LANE
rivers
Millers
WOMAN
NONI B
KATIES
crossroads
rockmans
AUTOGRAPH
beme
EZIBUY