ANNUAL REPORT 2022

Universal Store

UNIVERSAL SPIRIT

The unique ability to create memorable and positive experiences for all. Creating an experience that is fun, open and based on kindness.

The environment that enables a person to be their best.

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YEAR IN REVIEW

FY22 provided many new and ongoing challenges and there is much to be proud of as our teams stepped up to overcome adversity. Significant mandated store lockdowns and restrictions impacted our teams and customers across Australia. Each department within Universal Store faced challenges and together aligned to deliver on our objectives.

HIGHLIGHTS

$23.9M
NET CASH AT YEAR END

“Solid results despite the ongoing COVID-19 challenges including mandated lockdowns and restrictions.”

FULL YEAR DIVIDEND
21.5 CENTS PER SHARE

NEW STORES
11
opening late H1 FY22 (9 Universal Store and 2 Perfect Stranger)

UNDERLYING EBIT 5 YEAR CAGR
+23%

$208M

SALES (1.4%) YoY

Up +34.3% on FY20

(3.0%)

LFL[3] SALES

Cycling +28.5% in FY21

+39% YoY

ONLINE SALES TO

$35.7M

$20.6M

NPAT

(15.6)% YoY

UNDERLYING EPS[2]

28.9 CENTS

UNDERLYING[1]

30.9M EBIT

(29.5%) YoY

Up +30.4% on FY20

5 YEAR AVERAGE LFL GROWTH[3]

+13%

1 Underlying EBIT excludes the impact of (i) accounting for leases under AASB16; (ii) one-off IPO transactions and MEP expenses (for FY21 only).

2 Based on underlying NPAT and total shares on issue at year-end FY21 (73.2m).

3 LFL sales excludes closed stores from date of closure and new stores which have traded less than 55 weeks. Stores that were closed during COVID-19 are excluded from LFL sales growth calculation for the weeks that they were closed. LFL are calculated on 4/4/5 financial week.

STRATEGIC PRIORITIES & PROGRESS

NEW STORE ROLLOUT

DIGITAL GROWTH

OPTIMISE PRODUCT MIX

SUSTAINABILITY

CUSTOMER

PRODUCTIVITY

13

new stores opened since IPO (78 stores at June FY22)

- Standalone Perfect Stranger concept progressing well – three locations currently with a further four opening pre-Christmas 2022.
- “Full Potential” target is 100+ Universal Stores across Australia/New Zealand (excl. PS rollout).

17.2%

Online sales as a percentage of total, up from 8.8% FY20

- Continue to scale our digital and e-Commerce capacity and services, doubling investment into digital marketing.
- Launched standalone Perfect Stranger website, further enhancements, and customer acquisition strategy in plan.
- Improved speed and delivery options.
- Our customer-centric digital strategy delivers on our mission to Make Shopping Easier, Make Personal and Make Shopping Valuable.

FY22 product gross margin (excl. delivery costs) rose to

61%

(from 58% at FY20)

- Continue brand and range curation, injecting fresh new products and brands into our offer.
- Optimise direct sourcing to further improve margins.
- Progress diversification of our supply chain.
- Further develop and build our Perfect Stranger brand and range.

100%

of private brand sourced from tier 1 factories will have had a valid audit during FY22

- Rolled out our Supplier code of conduct to all Private label suppliers (100%) and 89% of our third-party suppliers have signed our code or have equivalent or superior policies in place.
- New office and warehouse integrates environmental design features.
- All our stores have now been retro fitted with energy efficient LED lights.
- Joined Sedex and advanced our supply chain transparency platform.

Our average LFL[1] store growth over the last 3 years is

12%

- Continue to grow market share through superior customer service, inspirational stores, and curated product brands.
- Further develop Customer Data Platform to continuously inform key business decisions.
- Maintain our customer-led and complimentary private brand strategy.

1. LFL sales excludes closed stores from date of closure and new stores which have traded less than 55 weeks. Stores that were closed during COVID-19 are excluded from LFL sales growth calculation for the weeks that they were closed. LFL are calculated on 4/4/5 financial week.

Relocate our Office and Distribution Centre in early Oct

FY23

- Continue to care for our team, ensuring safe and COVID-19-safe workplaces.
- Implement a full Human Capital Management (HCM) system including advanced time and attendance scheduling functionality.
- Refine our newly implemented Warehouse Management System (WMS).
- Execute our IT roadmap which includes upgrading the store network.

CHAIRPERSON'S REPORT

Dear Fellow Shareholders,

On behalf of the Board of Directors, I am pleased to introduce the annual report of Universal Store Holdings Limited and its controlled entities for the 2022 financial year.

The results delivered by the Company are very solid in the context of the continued disruption that the retail industry and particularly apparel retailers have faced as a result of the continued COVID-19 pandemic. Mandated store closures resulted in circa 3,192 of overall trading days being lost during the year. We were therefore pleased that our overall sales were only 1.4% below FY21 and were 34.3% higher than FY20.

The loss of trading days in our physical store was mitigated to some extent by the strong growth in our online channel which recorded growth of 38.6% over FY21 and 162.5% over FY20.

It is particularly creditable that despite this disruption to demand patterns, the management team maintained a strong control over working capital and, as a result, inventory levels were in line with the plan at the end of the year with aged inventory at historical levels. This reflects the flexible supply chain of the company with the ability to flex supply between domestic and international suppliers as appropriate.

We have maintained our commitment to long-term growth with 9 new Universal Store and 2 new Perfect Stranger stores opened during the year. We have also continued to invest in our people and our technology and plans to relocate and enhance our support office and distribution centre are progressing well.

As a recently listed public company, we are continuing to develop and refine our approach to ESG and we are particularly pleased with the progress that we have made in developing and implementing key sustainability and environmental targets.

Financial Results

Group revenue, at $208 million was 1.4% below FY21 but this was 34.3% higher than FY20.

Underlying group profit after income tax was 30.6% lower than FY21 at 21.1 million. This generated underlying earnings per share of 28.9 cents.

Strong management of working capital produced an underlying operating cash flow after capital of $31.5 million ensuring that the Company is in a robust financial position with net cash of $23.9 million and liquidity measures in a prudent position.

Our Managing Director and Chief Executive Officer (CEO), Alice Barbery will provide further detail on the financial and operating profit of the Company in her report.

Capital Management

The Board is committed to delivering strong returns to shareholders while making the necessary investments to support the delivery of the Company's strategy. The current dividend policy of the Board is to target a payout ratio of 60% to 80% of statutory NPAT subject to a number of factors outlined in the IPO Prospectus.

The solid financial performance of the Group, enabled the Directors to declare a fully franked interim dividend of 11 cents per share in respect of the half year ended 31 December 2021 and the Directors have declared a final dividend of 10.5 cents per share.

> **"We have maintained our commitment to long term growth with 9 new Universal Store and 2 new Perfect Stranger stores opened during the year."**

Strategy

The Group operates within the youth casual apparel segment of the broader Australian fashion market and we believe there is significant potential to increase our penetration of this large and fragmented segment.

During the year, we commenced the trial of a standalone Perfect Stranger retail apparel business. We believe that Perfect Stranger which originated as a private brand within Universal Store has the potential to provide a differentiated offer targeting the young female customer who has different tastes to a typical Universal Store customer. We initially trialled a pop-up store in Chermside Queensland and its successful performance led to the opening of two standalone stores and a further pop-up and the launch of a website. We anticipate a further five to ten new stores in the next 12 months.

We continue to have strong confidence in the potential of Universal Store to generate significant growth and our strategy focuses on six areas:

- Expansion of the physical store network;
- Maturation of existing stores;
- Developing the online experience and integration with physical stores;
- Focus on range differentiation and dynamic curation;
- Sustainability of our product sourcing and supply chain; and
- Productivity of our operations and technology.

The Company's unique team culture, commitment to its retail formula and focus on execution underpin the successful implementation of our strategy.

Environmental Social Governance

Universal Store is committed to developing a sustainable future. Our focus over the last year has been on development and implementation of key sustainability and environmental targets. We are focusing on three areas: Product Excellence; Supplier Partnerships and Community Impact. We will provide a full report on our strategy and initiatives in our Sustainability Report (refer page 16).

Diversity and inclusion is core to the ethos of Universal Store as regularly showcased in our marketing campaigns. 73% of the Universal Store team members are women with 50% in senior leadership positions and 50% of the Board of Directors.

The Board has adopted an approach of digestible continual improvement to Governance processes across the Group and is focused on enhancements to risk and safety management in the year ahead.

Remuneration

The Company has developed remuneration policies which are designed to achieve alignment between the implementation of strategy and delivery of sustainable performance and the reward to executive directors and senior leadership. Details of the arrangements are set out in the Remuneration report which is on pages 43 to 56.

As foreshadowed in last year's annual report, we have been working on the design of a new long-term incentive plan, which we propose to implement in the 2023 financial year. Details of the new plan, which is designed to ensure that we will appropriately incentivise our existing leadership and attract the talent we will need to support the continued growth of the Company, are also set out in the Remuneration report.

Board of Directors

There have been two changes to the Board of Directors during the year. I would firstly like to acknowledge the contribution of Srdjan Dangubic who served as a Director of Universal Store from October 2018 until his resignation on 31 December 2021. Srdjan was appointed to the Board as part of Five V Capital's investment in the Company and he played a key role in the growth of the Company and in ensuring a successful transition from private to public ownership.

The Board of Directors has taken the opportunity to strengthen its experience and knowledge in digital and information technology with the appointment of Renee Gamble as a Director on 1 December 2021. Digital and technology are key areas of focus in the Company's strategy and Renee has over 20 years' experience in those industries. Renee will stand for election at the 2022 Annual General Meeting.

Conclusion

It is clear that we will continue to see external challenges in the year ahead with the continued impact of COVID-19, uncertain consumer confidence, increasing costs and supply chain disruption. However, we remain confident that we have a flexible business model, robust balance sheet, strong leadership and team culture that will enable the Company to grow. We will continue to invest in the growth of our Universal Store business and we are optimistic over the potential for our Perfect Stranger business. We will also see the move to a new support office and distribution centre in the year ahead and will continue to invest in our people, our technology and other growth initiatives.

Finally, I would like to thank Alice Barbery, the Senior Leadership Team and the whole Universal Store team for their significant contribution during such a challenging year. They should all be very proud of their achievements.

Peter Birtles
Chairperson

MD/CEO REPORT

Dear Shareholders,

Reflecting on the past year I am again humbled by the tenacity and comradery of the Universal Store team. Each department has faced challenges and each team has responded with grit and grace. We are one team made up of many smaller teams working together to live our values and face a new year with aligned vision. We hold fast to our core values which have served us over the years while constructing an even more competitive business to deliver on our objectives. The old saying of "it's not being in water that sinks a ship, it's letting the water IN that sinks the ship" is as true as ever. I want to thank my team for their commitment and bravery over these past 12-24 months. I also want to acknowledge the continued support of our suppliers and business partners who have shared the burden of COVID-19 to overcome unprecedented challenges. We have learned that well-managed challenges uncover future opportunities. In FY23 we continue to position ourselves to be able to maximise those opportunities.

Universal Store continues to execute on our plan to deliver sustainable growth and win in our market. Several exciting initiatives will be realised over the upcoming financial year. This October we move into our new purpose-built support office and distribution centre. We have embarked on an IT infrastructure upgrade, investing in new systems such as a Warehouse Management System and a new Human Capital Management System along with vital store IT and Customer Experience upgrades. We continue to add new brands, products and stores to excite customers and drive revenue. We continue to navigate, if not a post-COVID-19 world, a COVID-19-Wise one.

Customer

We share our customer's enthusiasm for realising more freedoms and participating in broader social activities. Many of our customer's favourite festivals are back on the calendar of "must attend events", which is a welcome tonic to all. While we are excited to re-join our customers in these key events, we recognise the need to remain vigilant regarding how we interact. Protecting our customers and colleagues through continued responsible behaviours is regularly reinforced. The spectre of reinstated mandatory restrictions is factored into our planning. Ensuring we get constant updates about events in order to plan proactively and cautiously is key to providing exceptional service which includes having the right products in the right locations in the right quantities for our customers.

While foot traffic in most centres is still below FY21 levels, we have started to see a positive trend of consumers returning to offices and workplaces. Toward the end of FY22 and into FY23, CBD locations which were most severely impacted, experience a welcomed increase in footfall. While the possibility of governments reinstating restrictions may temporarily soften this trend, we believe it is a trend that will continue to rebound. While 100% return to the office may never occur, we have been encouraged by increased foot traffic across many market segments. We have observed casualised dressing continues however there is also increased enthusiasm for dressing up for special occasions. We continue to monitor trends in customer's behaviour and our ability to respond to our consumers ever-changing tastes and trends with speed remains a core strength.

Additional cost of living pressures are being felt across all customer segments. While pressure on the youth segment may be less pronounced, we are sensitive to how they may be impactful. Interest rate hikes do not tend to be a cause of financial stress among the 16–25-year cohort, however housing shortages, increased rental costs and rising petrol and food prices are a factor. There is much written about young people living at home longer, the rise of share accommodation and the uptake of public transport use over personal vehicle use. Positively, younger employees have been a recipient of significant wage increases due to skills shortages and an increased minimum wage. However, any downward financial stress impacts consumer confidence and we continue to carefully monitor feedback and trends. It is critical for us to stay attuned to our consumer's experience for us to remain to be the retailer of choice in the market. Our customer focus remains at the forefront of all decision-making.

Private Brands

The customer's enthusiasm for our Private Brands continues to grow. Our ability to respond to trends with speed continues to drive sales. Our Private Label contributed 43% of total sales in FY22. This continued customer-led mix shift demonstrates that our private brand product meets our customers' needs in style, fit, and speed to market.

Common Need expanded to whole of body last year and continues to gain a growing customer base. Our newest menswear label, Neovision addresses a customer we identified was missing in our business; we are very encouraged with the growth of this brand. With increased investment in our in-house design and sourcing capabilities we continue to meet growing customer demand.

Never losing sight of how important our domestic and international third-party brands are to our customers we continue to grow and add new brands and categories. These brands are critical to meeting our consumer's needs and are in demand in the youth fashion segment. We continue to target underpenetrated categories with private brands and when adding new brands, rather than cannibalise our offer, we complement, enhance, and add on to the customer's shopping basket.

Perfect Stranger

We are actively searching for great sites to expand our Perfect Stranger standalone bricks-and-mortar network. The brand has performed well in the initial trial phases, and we are keenly aware that we are growing a brand, not just opening stores. Considered growth and focused brand management must be maintained for Perfect Stranger to hold its own in the Australian fashion scene. The brand continues to be synonymous with affordable and valuable feminine youth fashion. We are encouraged by early results and have made both refinements and investments in order to meet the broader customer appetite. Our initial test and learn phase of three Bricks and Mortar stores, supported by an Online Store has met our internal hurdles.

We are building a loyal community of followers across social media to develop a strong customer database who embody the values of the brand. While still in the early stages of the trial, we plan to open seven additional stores in FY23 and expand outside of Queensland.

Online

We closely monitor the ever-changing needs of our consumers, and we continue to be agnostic regarding which channels our customers use to browse and or purchase. We continue to be proud of our growing online channel performance. We are focused on refining our customer experience and delivery/fulfilment options. Our Click and Collect offer is being joined by our Store to Door offer which will launch in the first half of FY23. Traffic to the website was up +28% with conversion up 4.7% in FY22 and we continue to grow a quality customer database which increased by 95.4% in FY22.

Business Performance

Total sales of $208 million in FY22, a decrease of 1.4% on the prior year with group like-for-like sales down 3.0%. Total bricks-and-mortar store sales down 6.9% in FY22 with like-for-like growth down 9.5%[1]. Online sales grew strongly by 38.6% during FY22.

We experienced serious trade disruptions throughout FY22 due to COVID-19 variants. Mandated government store closures and restrictions impacted our ability to trade and service customers. The increased incidences and related concerns about the Omicron variant of COVID-19 in the later part of H1 led to sharply lower foot traffic levels and more aversion at a customer level to visiting shopping centres. The store closures in New South Wales, Victoria and the ACT alone resulted in 3,192 lost trading days and we estimate the closure period sales impact to be ~$20 million on FY22 results.

Despite these challenges we continued a strong and connected relationship with our customers via our online channel, targeted marketing, and social media channels. Once our stores reopened in October 2021, we saw our customer traffic improve each month as restrictions and social occasions resumed. Key events, festivals, travel, and the influx of international students only recently returned Q4 FY22.

> **“Cash at the end of the financial year was $38.8 million and represents a $5.4 million increase in cash from the prior year end balance. Our cashflow and balance sheet remain in a healthy position, delivering an underlying cashflow from operations of $38.3 million, representing operating cash flow conversion of 107% with a net cash of $23.9 million.”**

1. LFL sales excludes closed stores from date of closure and new stores which have traded less than 55 weeks. Stores that were closed during COVID-19 are excluded from LFL sales growth calculation for the weeks that they were closed. LFL are calculated on 4/4/5 financial week.

Sustainable gross margin improvement remains a key focus for the business, and we have been able to minimise and partially offset higher delivery costs and increased markdowns (resulting from H1 prolonged store closes) with our direct sourcing initiatives, optimisation of product mix and operating efficiencies associated with growing our private brands to complement the branded product offer.

Total Cost of Doing Business (CODB) was 41.1% of sales, up 540-basis point on prior year, adversely impacted by lost sales due to H1 mandated lockdowns. Costs increased with investments into marketing, people and future growth initiatives. Widespread government-mandated store closures required us to execute deeper markdowns compared to historical results. These markdowns were applied with intelligence and caution despite the heavy-handed discount activity taken by competitors in the marketplace. Gross Margin was protected by taking a data-driven approach to applying markdowns as well as forward ordering to ensure we avoided ongoing overstock issues which saw us end the year with very clean inventory levels.

Investments in digital and online efficiencies continued in FY22 and we anticipate further growth opportunities in our online channel as we enhance the customer proposition in FY23. Ensuring our product and brand remain relevant to our customers and on-trend remains paramount.

Cash at the end of the financial year was $38.8 million and represents a $5.4 million increase in cash from the prior year-end balance. Our cash flow and balance sheet remain in a healthy position, with operating cash flow conversion of 107% and a net cash of $23.9 million.

The strength of our balance sheet remains, and current liquidity levels put us in a strong position to manage trading disruptions, declare a strong final dividend for FY22, and support the investments required to pursue our growth strategies throughout FY23.

New Stores

We continue to execute on our target of 7 to 10 new Universal Store sites per annum. While COVID-19 delayed our progress in FY21 we were able to open 11 stores in FY22. Our standalone Perfect Stranger trial now consists of three stores, and we have committed and are on track to expand this portfolio to seven stores by December 2022.

We are on our way to reach our target for FY23. We have several key negotiations underway always ensuring they meet our diligent site selection criteria.

Sustainability and Ethical Sourcing

While still in our early stages, Universal Store has expanded our team capabilities to accelerate our approach to sustainability. Focusing on understanding our impacts and establishing base measurements in order to develop meaningful strategies was key.

We continue to embed initiatives and work closely with our suppliers to drive change. Sustainability practices are critically important to our team and to our customers, and while there is much to do, we are enthusiastic about the path we are on and passionate about driving positive and necessary change. The team are highly engaged across all departments and excited to embed sustainability measures into every aspect of our workplace including the new Distribution Centre and Support Office which includes a carbon-neutral concrete slab and solar panels. The Sustainability Report in this document outlines the steps we have taken and the initiatives we are committed to bringing to life.

Outlook

This time last year I shared that we continue to remain cautiously optimistic about the next 12 months considering the ongoing uncertain impact of COVID-19. I hoped that we would no longer need to reference COVID-19 in our FY23 outlook, however there are new variants and climbing case numbers within the community. Despite this, we are more vaccinated and more COVID-19 aware which gives us the confidence to forge ahead on initiatives to secure our long-term growth objectives.

We continue to execute on our strategic road map, expanding the store portfolio, optimising product mix, driving productivity, scale and drive our sustainability roadmap. We continue to enforce important safety messages within the DC, office, and retail stores.

Investing in our IT infrastructure and new distribution centre will support our ability to take advantage of opportunities as they arise. In this ever-renewing environment, we have more understanding of COVID-19 and how to proactively risk mitigate.

The economic outlook presents new challenges which we will monitor carefully and respond as needed as the landscape requires. Our customers are excited about the increased number of occasions for gathering and we are here to ensure their outfitting needs are met in a safe, friendly, and inclusive environment.

We are encouraged by the normalcy we have seen in the northern hemisphere over summer and look forward to taking advantage of opportunities as they present. The challenges we have overcome have made us smarter, more agile and resilient. We are again cautiously optimistic about the year ahead and continue to be energised by the opportunities for our team and customers for FY23.

Ali Barby

Alice Barbery
Managing Director/Chief Executive Officer

“Our customers are excited about the increased number of occasions for gathering and we are here to ensure their outfitting needs are met in a safe, friendly, and inclusive environment.”

EXECUTING OUR STRATEGY

NEW STORES/CUSTOMER

- While foot traffic in most centres were below FY21 levels, we started to see a positive trend leading into H2 FY22 as customer confidence began to grow and COVID-19 restrictions eased.
- Casualised dressing continues however there is also increased enthusiasm for dressing up for special occasions. We continue to monitor trends in customer behaviour and our ability to respond to our consumer's ever-changing tastes and trends with speed remains a core strength.
- Additional cost of living pressures have been experienced across all customer segments. While pressure on the youth segment may be less pronounced, we are sensitive to how they may be impactful. Interest rate hikes do not tend to be a cause of financial stress among the 16–25-year cohort, however housing shortages, increased rental costs and rising petrol and food prices are a factor.
- Positively, younger employees have been a recipient of significant wage increases due to skills shortages and an increased minimum wage. However, any downward financial stress impacts consumer confidence and we continue to carefully monitor feedback and trends.

> **"Our standalone Perfect Stranger business is performing extremely well, catering to a new womenswear customer. We're intending to accelerate its rollout."**

OPEN

WE OPENED 11 NEW STORES IN FY22

TOTAL STORES*

78

(at June FY22)

* Excludes web stores

With 9 new Universal Store and 2 new Perfect Stranger.

DENIM ROADSHOW – THE FIRST TIME WE HAVE HAD TEAMS TOGETHER BY STATE IN 2 YEARS

TEAM & CULTURE

- Mandated store lockdowns and restrictions impacted our teams and customers all across Australia. While the lockdowns in NSW, VIC and the ACT resulted in lengthy mandated closures, the knock-on effects impacted the entire team and our community at large.
- The resilience of all teams was tested as the COVID-19 impacts increased workloads and the team responded with grit and determination.
- Western Australia was last to be impacted by COVID-19 and our experience allowed us to rapidly respond to the needs of WA when the community faced significant outbreaks of COVID-19.
- Our ‘close to market’, and ‘micro allocation’ processes, together with lessons learned, strong supplier relationships and our focus on meeting the changing customer needs to be enabled our product team to responsibly manage stock levels by re-phasing and recalibrating product mix.
- Leading into H2 we saw encouraging signs as foot traffic in centres slowly began to improve and customer confidence increased.
- The casual dressing trend remained strong, however, when events re-emerged, the desire to dress up was evident; we were well placed to meet those varied needs.

GROWTH INVESTMENTS

MOVING HOMES

- Excitement is building as we prepare to move into our new Distribution Centre (DC) and Support office with improved systems and capabilities.
- The DC will now be ~5,000 square meters and we have provisioned for future expansion; with mezzanine and bot automation possible.
- ~2,000 square meter offices with an in-house photo studio. The office build will embed our sustainability focus with some key features; solar panels, recycling capability and carbon-neutral concrete.
- Design and procurement completed for base technology and office fit-out.
- Relocation planned for early October 2022.

WAREHOUSE MANAGEMENT SYSTEM

In June we successfully went live with our Warehouse Management System (WMS) which provides tools for picking and packing processes, resource utilization, analytics, and more. Whilst operations were initially impacted as the team upskill in new software and processes, we can see the potential efficiencies the WMS will bring as we embed and optimise processes in our new Eagle Farm location.

SYSTEM ENHANCEMENTS

Commenced deployment of a new more robust network to 20 retail sites with an expected additional 47 stores to be completed in July. Scoping completed of our cloud migration approach to move hosted servers in Nundah to AWS ahead of the office move. Enhancing Ship from Store technology offering to stabilise services.

Completed a vendor review in FY22 for Human Capital Management (HCM) which will provide operational efficiencies by creating a single cloud application that brings together payroll, time and attendance, and Human Resources functions. Looking to launch Core HR, onboarding and time and attendance modules in Q2 FY23.

In the process of implementing a Product Lifecycle Management (PLM) software that will assist our designers with managing the product's lifecycle from inception, through design and manufacturing, to sales, service, and eventually product retirement.

SUSTAINABILITY

> "The team are highly engaged across all departments and excited to embed sustainability measures into every aspect of our workplace."

We are pleased to deliver our inaugural sustainability report.

Our team at Universal Store recognise the significance of understanding and responding to the environmental and social impacts of our business on the wider community. The topic of sustainability is one that is highly important to our customers, our stakeholders and our team members. We know that sustainability is more than a plan, a report, or a conversation, it is action. Our journey to a more sustainable supply chain is not a destination at which we expect to arrive. No matter what progress is made, we embrace the reality that there will always be more to do. As with employee engagement, customer service delivery, productivity gains and quality control, it is incumbent upon us to passionately drive continuous improvement and refinement. We will continue to share project updates with our customers and community across our social channels, annual reporting and on our website.

Right now, we are focusing our collective efforts on plans to address three key areas:

1. **PRODUCT EXCELLENCE;**
2. **SUPPLIER PARTNERSHIP; AND**
3. **COMMUNITY IMPACTS**

The overarching goal for Universal Store is to ensure we are a responsible business that contributes positively to the health, safety and livelihoods of the people that work for us; and that we can continue to provide customers with high quality, on-trend products that don't cost the Earth.

OUR APPROACH

Universal Store is committed to responsible practices and we must take action to accelerate our journey towards a sustainable future.

We understand that the expectations of our stakeholders in regards to our social and environmental impacts are increasing; we are accelerating efforts to meet these expectations, reduce risks and pursue opportunities. We are continuously looking for opportunities to shift to more sustainable practices across our internal operation.

Our Future

We want to grow our business in a way that reduces environmental impacts, supports fair employment practices in our supply chain, promotes climate action and engages our community on responsible consumption. Our framework is built around four commitments:

1 TREAD LIGHTLY

Reduce our impact. Preserve our resources. Restore the planet.

2 TRANSPARENCY IN THE SUPPLY CHAIN

Improve working conditions and the lives of workers in our supply chain.

3 CLIMATE ACTION

Reduce emissions and take action to end the climate crisis.

4 AMPLIFY OUR ACTIONS

Work as a team with our community, suppliers, and customers to deliver impact.

> **"Our journey to a more sustainable supply chain is not a destination at which we expect to arrive. Whilst progress will be made we embrace the reality that there will always be more to do."**

Resources

In the last 12 months, Universal Store assembled a dedicated team to accelerate our approach to sustainability. We focused on understanding our impacts, developing strategies, implementing initiatives and liaising with our suppliers. We are on a journey to embed sustainability practices in our management systems and processes. While there is much to do, we know that big changes take continuous effort and time.

Our efforts and energy was initially directed toward refining our sustainability framework. We have developed sustainability targets for the business and completed internal plans to guide our day-to-day activities and partnerships.

Our Targets

We have set sustainability targets for the business to ensure we set a high standard of transparency and accountability for ourselves and for our stakeholders. We intend to report at least annually on our progress against these targets.

100%

of Tier 1 and 2 factories are audited by 2022.

Develop a climate action plan by 2023 and reduce emissions by

30%

by 2030.

Manufacturing from facilities applying best practice water, waste and chemical management practices by

2025

100%

existing and new stores equipped with energy efficient LED lights by 2022.

100%

of electricity for our support office and Distribution Centre from renewable sources by 2025.

100%

of our manufacturing and key third-party brands endorse our Supplier Code of Conduct by 2022.

ZERO

waste to landfill
from Distribution Centre
operations by 2030.

100%

of bags and online mailers
are reusable, recyclable
or compostable by 2025.

ONE MILLION

customer education
touchpoints on
responsible use and
care of garments
by 2025.

PROCURE AT LEAST

50%

of cotton from certified
sources by 2025.

&

PROCURE AT LEAST

50%

of polyester from certified
recycled sources by 2025.

RESPONSIBLE MATERIALS

We outline below some details of our approach and performance across key focus areas.

Raw materials play a crucial role in reducing the impact of fashion on the planet. We are researching other dimensions of sustainability performance that need to be measured to inform our products' impact on the environment.

Preferred fibre

Our aim is to make conscious fibre choices to reduce the environmental impact of our products. Our team has undertaken extensive research on the environmental impact of raw fibres entering the composition of our garments using data provided by long established industry associations and discussions with our key suppliers. We have produced a list of preferred fibres to guide our day-to-day design and sourcing decisions.

Examples of fibre we consider best and better choices:

- Recycled cotton
- Organic cotton
- Cotton in conversion
- Recycled polyester
- TENCEL™ branded lyocell fibers
- TENCEL™ branded modal fibers
- LENZING™ ECOVERO branded viscose fibers
- LENZING™ branded fibers
- Linen; and
- Hemp

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THRILLS CASE STUDY

Last year Thrills Co. and Universal Store worked together to create a range of 12 products made from more environmentally friendly hemp and organic cotton. Through this collection we were able to educate our team and customers on the many environmental benefits of choosing hemp. We haven't stopped at just one collection! Both our teams are dedicated to transitioning more product into preferred fibres.

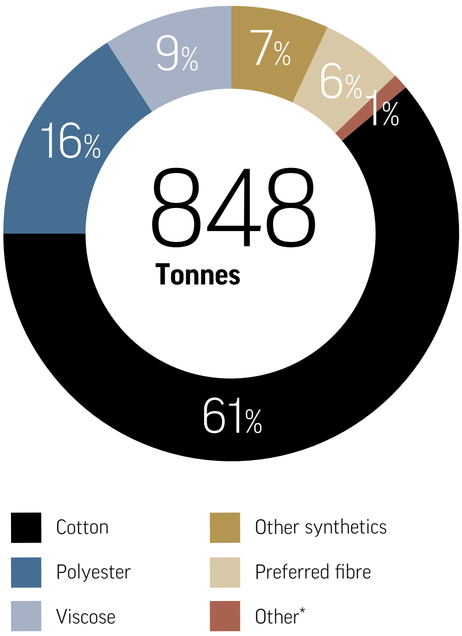
Fibre consumption

We have measured our baseline fibre consumption to provide a starting point for performance measurement. Universal Store has set targets on the use of certified cotton and recycled polyester by 2025, and our teams have translated these into category or brand level objectives.

Certification

We understand various fibre certifications are available in the marketplace and that strict compliance documentation is associated with these systems. We are in the process of engaging our suppliers on certification and finalising new processes to clarify our expectations to our suppliers.

Universal Store total fibre material (baseline* FY21):



* For apparel excl. shoes, accessories, gifting, and faulty returned products).

WASTE & RECYCLING

Membership

We care about minimising waste in the use of packaging. We also want to make more conscious choices in materials for packaging. Universal Store became a member of the Australian Packaging Covenant (APCO) in December 2021 and alongside other members, will be working toward achieving the 2025 National Waste and Recycling targets.

2025 National Waste and Recycling targets:

100%

reusable, recyclable or compostable packaging,

70%

of packaging being recycled or composted,

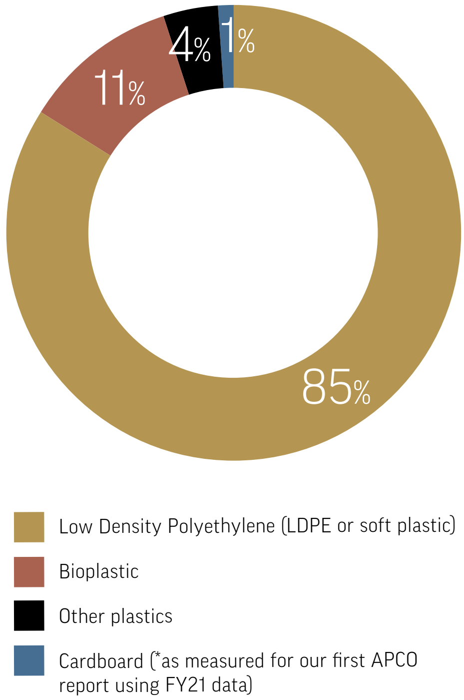
50%

average recycled content included in packaging, phase-out problematic and unnecessary single-use plastic packaging.

Sustainable Packaging

In addition to this, we have published a Sustainable Packaging Commitment, updated our trading terms with sustainable packaging expectations and engaged our suppliers on their packaging practices, such as avoiding the use of individual polybags for goods' transit. Our goal is to switch 100% of our customer packaging to recycled, recyclable or compostable packaging by 2025.

Universal Store packaging material use (baseline* FY21):



Packaging

Universal Store has switched to recycled, recyclable or compostable customer packaging for online orders packaging. The online mailers for our Perfect Stranger brand are compostable. The online mailers for Universal Store are made with recycled materials.

In FY23 we will continue to seek alternatives to virgin single-use plastic packaging for our customer packaging.

Textile Waste

Universal Store teams are committed to reduce textile waste ending up in landfill. Our commercial and procurement strategies are designed to optimise the quantity of garments we procure. Universal Store has several discount factory outlets, further reducing the amount of dead stock left over at the end of the season. To ensure no textile resource ends up in landfill, we have partnered with Upparel to process any remaining faulty and damaged stock.

Internal consultation indicated that our team members are keen to see textile waste addressed as a priority as part of our sustainability agenda.

95%

of employees rated textile waste as 'very important' or 'quite important'.

Textile* waste diversion from Landfill (Tonnes, FY22):

4.8 tonnes

/16.6 tCO_2 avoided.

* Faulty and damaged clothing from our DC diverted from landfill and processed by Upparel.

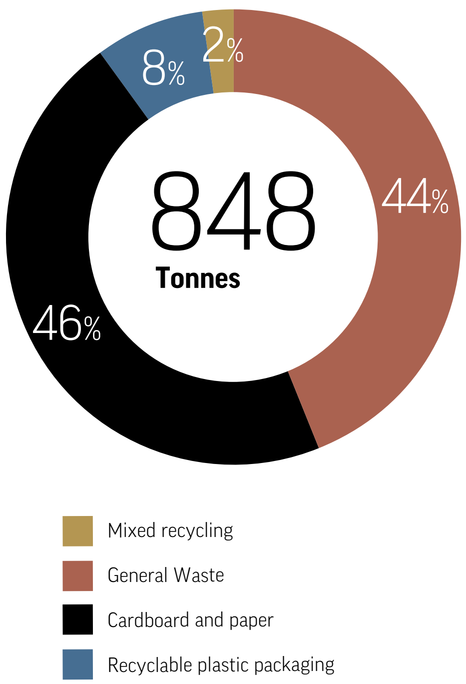
Using circularity principles when designing garments for durability and end-of-life will continue to be an area of continuous learning for our teams in FY23.

Operations

Some consumables in our offices have no place in landfill. We have partnered with Planet Ark to recycle printer toners that can contain harmful chemicals and should stay out of landfill. In addition, we have implemented a container recycling system with Containers for Change for our staff kitchens. The 10c collected from our recycled containers will be donated to Take 3 for the Sea. The non-for-profit was selected by our team members and is dedicated to raising awareness of ocean plastic pollution with the community.

- As part of our relocation preparations, teams have organised tidy up and silent auction events to avoid creating waste from items in good condition. Proceeds from the silent auctions were donated to The Freedom Hub – a non-for-profit organisation that supports survivors of modern slavery.

Waste and recycling from DC operations (tonnes, FY22)



RESPONSIBLE PROCUREMENT POLICIES

Our ethical sourcing programme is centred around building strong, lasting, and trusting relationships with our suppliers who own or contract to manufacturing facilities overseas.

Policy Standards

We are committed to high ethical and social standards across our supply chain. We acknowledge our responsibility to foster appropriate working environments in the factories where our goods are produced. Our Supplier Code of Conduct promotes 13 key ethical principles in support of worker welfare.

Supplier onboarding

We have implemented new steps as part of our supplier onboarding process to ensure manufacturing suppliers and third-party brands acknowledge the principles of our code prior to start working with us. Our Code forms part of our standard commercial terms of trade.

Training

Over the past 12 months, we have engaged with specialist consultants to develop relevant training material for our product teams involved in procurement. Two new training modules have been added to our e-learning platform – Introduction to Universal Store Supplier Code of Conduct and Modern Slavery Awareness, available to all new team members.

In FY23 we will:

- Start a partnership with local independent third-party to give workers access to a grievance mechanism.
- Continue to formalise our responsible procurement processes.

Percentage of private label suppliers with endorsed Code of Conduct:

100%

Percentage of third-party brands with endorsed Code of Conduct or equivalent ethical policies:

88%

Ethical Sourcing training:

100%

Product team members completed Supplier Code of Conduct training;

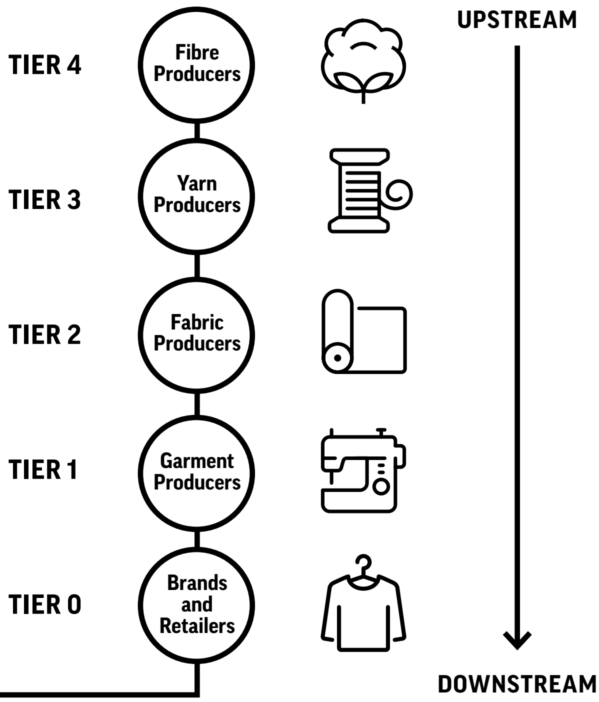
&

63%

of Support office team members completed Modern Slavery awareness training.

TRANSPARENCY AND AUDITING

Universal Store operates in a complex industry, with multiple activity tiers spanning a global supply chain. Our second Modern Slavery Statement provides details of our supply chain modern slavery risk assessment and the due diligence systems and processes we are implementing.



Ethical Sourcing

Over the past 12 months, we have continued implementing our ethical sourcing programme to reduce modern slavery risks and monitor working conditions in factories. Our aim is to improve the lives of workers in our supply chain by undertaking thorough social and labour risks assessments, establish robust risk monitoring routines and maintain open communication with our suppliers to drive improvements.

Supply chain mapping

The first step to increase transparency of our supply chain, is to collect details of the factories where our goods are being produced. As of 30 June, our supply partners were operating predominantly in China, and we have one supplier in Pakistan. We maintain details of the suppliers and factories to understand worker demographics and request social audits be conducted at least annually.

We have 23 private label suppliers, and produce from 37 factories in China and 1 factory in Pakistan.

Social Audits

During the year, our private label factories were audited against the strict social and ethical standards of our Code of Conduct to ensure adequate health and safety systems were in place, workers hours and wages were adequate and human rights respected.

Typically, issues raised in annual audits fall across 3 categories:

1. Health and Safety practices.
2. Excessive use of overtime hours.
3. Inadequate social insurance cover.

We work collaboratively with our suppliers to remediate issues, identifying better practices and set implementation timeframes for improvements. We request suppliers to address matters of Health and Safety as a top priority. We have discussed the issue of overtime with some of our key suppliers to understand how we can help alleviate pressure and work flexibly with them on our production lead times to reduce the need to use overtime.

Universal Store is a member of Sedex, an online supply chain transparency platform and industry community, which allows us to monitor risks and issues identified in our supply chain.

Progress:

- Number of Tier 1 private label factories mapped (FY22): 38.
- Percentage Tier 1 factories audited during the period (FY22): 100% – All 38 factories have had a valid audit during the period.
- Audit methodology (by type, FY22): 55% SMETA, 37% Amfori BSCI, 3% Qualspec, 5% WRAP.

In FY23 we will:

- Continue mapping Tier 2 suppliers responsible for fabric production processes.
- Continue to engage suppliers on identified audit issues and support them to resolve audit issues identified.

CLIMATE ACTION

The impacts of climate change are already being felt. Universal Store must act against climate change. Our industry is responsible for emitting large amounts of greenhouse gas emissions. There are also significant opportunities to reduce emissions associated with the use, care and disposal of clothing items by our customers. We have a lot of work to do in this area in the coming year.

Emissions footprint

We are excited to share our plan to measure our emissions, which will form a first step on the road towards more targeted emissions reductions:

STEP 1:

We will develop an inventory of our emissions sources. As part of this exercise, we will have to understand fuel usage from our operations (scope 1), emissions connected to the electricity we need for our stores, offices and distribution centre (scope 2) and emissions that are linked to the production of goods and services we use or the use and disposal of our products by our customers (scope 3).

STEP 2:

Based on step 1 information, we will identify areas of opportunity for Universal Store to reduce emissions in our operations and our supply chain.

STEP 3:

We will develop a climate action plan to outline the initiatives that will most contribute to reduce our emissions by 2030, and potentially align our targets to ensure we remain aligned with international commitments and industry ambitions.

Target to reduce emissions by

30%

by 2030 and switch to renewable energy

* Universal Store target is based on the initial Fashion Climate Charter target which has since COP26 in Glasgow been updated to 50% reduction by 2030. The target will be adjusted once we have established our baseline inventory.

Number of stores with LED lights installed:

78

(target achieved)

EMISSIONS REDUCTION

What we are already doing

During the year, Universal Store completed the installation of energy efficient LED lighting across our network of stores to save energy and reduce emissions associated with our electricity consumption. 78 stores are now fitted with LED lights systems, which represents 100% of total stores. We have therefore met our target of 100% of stores fitted with LED light by 2022.

DID YOU KNOW?

Concrete is the most widely used building material in the world? It is estimated that cement – a key input in concrete, accounts for 7-8% of global carbon emissions.

Universal Store new office and warehouse project integrates environmental design features. Our purpose-built facility has been made with carbon neutral concrete. The ECOPactZero concrete by Holcim uses alternative industrial by-products to lower emissions. The concrete product is made carbon neutral by offsetting residual carbon emissions*. By procuring this product, Universal Store conserved precious natural resources, reduced the environmental impact of the construction project, reduced its carbon footprint, and demonstrated that a sustainable future is within reach.

Total concrete volume (m^3): 4,489m^3*
Emissions reductions (tonnes CO_2-e):

88 Tonnes

That's equivalent to nearly 2 Olympic swimming pools! Compared to conventional concrete.

In FY23 we will:

- Continue integrate environmental initiatives in the design and fit-out of our new office and warehouse.
- Provide information to customer on how to care and extend life of their clothes.

Universal Store has made significant progress in kick starting some important sustainability work across multiple areas in the reporting period. We are incredibly proud of the enthusiasm of our team members and their willingness to adapt to change, but we know there is much more we need to do to continue our journey towards a sustainable future. For feedback and queries please contact sustainability@universalstore.com.au

* Climate active certified offsets.

FINANCIALS

DIRECTORS' REPORT

For the year ended 30 June 2022

The Directors submit their report on the Consolidated Entity consisting of Universal Store Holdings Limited (the "Company") and its controlled entities (the "Group") for the year ended 30 June 2022.

DIRECTORS

The names and details of the Company's Directors in office during the financial year and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Names, qualifications, experience and special responsibilities

Peter Birtles (Non-Executive Director and Chairman)

Appointed to the Board of Universal Store Holdings Limited in October 2020 as a Non-Executive Director and Chairman and as a member of the Audit and Risk Management Committee and the People and Remuneration Committee.

Peter is Chair and Non-Executive Director of Metcash Limited (since August 2022). Peter was previously a Non-Executive Director of GWA Group Limited (November 2010 – June 2022). He also provides mentoring advice to a number of small businesses that operate in or service the retail industry.

Prior to his Non-Executive career, Peter was the Group Managing Director and CEO of Super Retail Group Limited. Peter joined Super Retail Group Limited in April 2001 as Chief Financial Officer and was Group Managing Director and Chief Executive Officer from January 2006 until February 2019.

Prior to joining Super Retail Group Limited, Peter spent 12 years working with The Boots Company in the UK and Australia in a variety of senior finance, operations and information technology roles. Peter is a Chartered Accountant who started his career working with Coopers & Lybrand.

Alice Barbery (Managing Director and Chief Executive Officer)

Appointed to the Board of Universal Store Holdings Limited in October 2020 as an Executive Director.

Alice has over 30 years' experience in retail and service-centric roles across the USA, UK and Australia.

Alice first met the Universal Store Holdings Limited (Universal Store) founders in 2002 when she helped them establish a framework for the business as a retail specialist until 2004. Alice joined Universal Store full-time as Chief Operating Officer in 2009 and was appointed Chief Executive Officer in 2017. Alice has been a shareholder of Universal Store since 2016.

Prior to joining Universal Store, Alice served as the Leadership Development Manager at former ASX listed Virgin Australia Holdings Ltd where she designed and delivered leadership training for all service leaders in ground and cabin crew departments nationally. This role helped Alice develop her differentiated leadership style and focus on bespoke training methods which are utilised at Universal Store.

Alice moved to Australia in 1997 to be the National Sales Manager for former ASX listed Colorado Group Limited, leading the early expansion from 15 to 80 stores. Prior to her move to Australia, Alice worked at GAP International, transferring from the USA to the UK. In this role, Alice supported the expansion of GAP in the UK, before taking a national leadership role with women's fashion brand EAST which she successfully expanded throughout England.

Alice is also a Non-Executive board member of the National Retail Association since May 2021.

Kaylene Gaffney (Independent Non-Executive Director)

Appointed to the Board of Universal Store Holdings Limited in October 2020 as a Non-Executive Director and as Chairman of the Audit and Risk Management Committee.

Kaylene has had a career in senior financial roles for over 25 years in the retail, aviation, telecommunications and information technology sectors.

Kaylene has previously served as a Non-Executive Director and Chair of the Audit and Risk Committee of ASX listed National Veterinary Care Ltd (now delisted), MSL Solutions Ltd and Wotif.com (now delisted). In 2016, she served as Queensland State Chair of Chartered Accountants Australia and New Zealand.

David MacLean (Independent Non-Executive Director)

Appointed to the Board of Universal Store Holdings Limited in October 2019 as a Non-Executive Director and as a member of the People and Remuneration Committee.

David was formerly the CEO and Managing Director of ASX listed Adairs Limited for 14 years from 2002 to 2016.

David is currently a Non-Executive Director at ASX listed Adairs Limited (since January 2002), and Dusk Group Limited (since November 2015) and runs his family investment office as well as holding minority interests in a number of private retail businesses (since January 2002).

Trent Peterson (Non-Executive Director)

Appointed to the Board of Universal Store Holdings Limited in September 2018 as a Non-Executive Director and as Chairman of the People and Remuneration Committee.

Trent has over 20 years of investment and private equity experience, focused primarily on businesses operating in consumer, retail and media sectors. Trent is the Managing Director of Catalyst Investment Managers Pty Ltd and the Managing Director of Catalyst Direct Capital Management Pty Ltd.

Trent was Chair of Universal Store Holdings Limited from October 2018 until the completion of the listing exercise and has since been appointed as the Chair of the People and Remuneration Committee.

Trent is also a Non-Executive Director of ASX listed Adairs Limited (since November 2010), Shaver Shop Group Limited (since May 2016) and Dusk Group Limited (since February 2015) and is Chairman of non-ASX listed Australian Doctor Group Pty Ltd. Trent was previously a Director of Just Group Limited (now delisted) and Global Television Limited (now delisted).

Renee Gamble (Independent Non-Executive Director)

Appointed to the Board of Universal Store Holdings Limited in December 2021 as a Non-Executive Director and as a member of the Audit and Risk Management Committee.

Renee Gamble is Managing Director at Google Australia, leading the Sydney headquartered Large Customer Solutions sales team. Renee is also the Executive Sponsor of Google's APAC Retail Leadership Steering Committee and a member of the Google APAC Hiring Committee.

She is a Graduate of the Australian Institute of Company Directors and brings an extensive track record of technology and business innovation leadership with over 10 years at Microsoft in Singapore and Australia in various sales and business leadership roles. Renee previously worked as an industry analyst and business leader with International Data Corporation across Hong Kong, Beijing, and Singapore.

Srdjan Dangubic (Non-Executive Director)

Resigned Non-Executive Director (December 2021).

Interests in the shares and options of the Company and related bodies corporate

As at the date of this report, the interests of the Directors in the shares and options of Universal Store Holdings Limited were:

	Number of ordinary shares	Number of options over ordinary shares
Peter Birtles	200,000	–
Alice Barbery	2,162,897	–
Kaylene Gaffney	25,000	–
David MacLean	650,000	–
Trent Peterson	1,200,000	–
Renee Gamble	–	–

COMPANY SECRETARIES

Renee Jones

Appointed on 27 October 2020.

Renee has a Bachelor of Commerce, (major in Accounting) from Latrobe University and is a Certified Practicing Accountant. Renee has over 20 years' experience across retail and service industry, previously holding senior finance roles in a number of ASX listed entities.

Clare Craven

Appointed on 13 May 2022.

BLegS, FGIA, FCG, GAICD

Clare has over 25 years' legal, company secretarial and corporate governance experience gained in listed, non-listed public and private companies across various industries including banking, financial services and wealth management, retail, construction and not-for-profit. She currently acts as Company Secretary for several of Company Matters Pty Limited's clients. Previously, Clare held various senior leadership roles within Group Secretariat at Westpac Banking Corporation.

Clare is admitted as a Solicitor of the Supreme Court of NSW and holds a Bachelor of Legal Studies and a Graduate Diploma in Applied Corporate Governance.

Anne Maree Cresswell

Appointed on 19 April 2021 and resigned on 13 May 2022.

DIVIDENDS

A final dividend of $7.7 million was declared on 25 August 2021 and paid on 29 September 2021. In respect of the half-year ended 31 December 2021, an interim dividend of $8.0 million (11 cents per share) was declared on 23 February 2022 and paid on 28 March 2022 (2021: $3.7million). On 25 August 2022, the Directors declared a final dividend of $7.7 million to be paid on 29 September 2022.

PRINCIPAL ACTIVITY

During the year the principal activity of the Group consisted of fashion retailing.

There was no significant change in the nature of the activity of the Group during the year.

REVIEW OF OPERATIONS

The net profit after tax of the Group for year ended 30 June 2022 was $20.6 million (2021: $24.4 million).

	2022 $'000	2021 $'000	Change %
Revenue from contracts with customers	207,969	210,817	(1.4)
Other income	–	2	–
Expenses	(150,866)	(148,906)	1.3
EBITDA[1]	**57,103**	**61,913**	**(7.8)**
Depreciation, amortisation and impairment expense	(25,114)	(23,872)	5.2
EBIT[2]	**31,989**	**38,041**	**(15.9)**
Finance costs	(2,611)	(3,734)	(30.1)
Finance income	100	832	(88.0)
Net profit before tax	**29,478**	**35,139**	**(16.1)**
Income tax expense	(8,904)	(10,770)	(17.3)
Net profit after tax	**20,574**	**24,369**	**(15.6)**

	2022 $'000	2021 $'000	Change %
Reconciliation to underlying EBIT			
EBIT	**31,989**	**38,041**	**(15.9)**
Transaction costs associated with IPO	–	6,732	–
Incremental standalone public company costs	–	(108)	–
MEP shares expense	–	561	–
Finance income	–	83	–
AASB 16 adjustments[3]	(1,670)	(1,269)	31.6
Nundah office onerous lease	624	–	–
Underlying EBIT	**30,943**	**44,040**	**(29.7)**
Underlying EBIT margin	**14.9%**	**20.9%**	**(28.7)**

1 Earnings before interest, tax, depreciation, amortisation and impairment (EBITDA).

2 Earnings before interest and tax (EBIT).

3 Depreciation and occupancy expenses recognised under AASB 16.

	2022 Cents	2021 Cents
Basic earnings per share	30.2	39.8
Diluted earnings per share*	28.9	36.6
Adjusted EPS*	28.9	41.5

* Adjusted EPS is calculated using underlying NPAT and the number of ordinary shares on issue following the IPO (73.2 million ordinary shares).

Retail

Total sales of $208 million in FY22, a decrease of 1.4% on the prior year with group like-for-like down 3.0%. Total bricks and mortar store sales down 6.9% in FY22 with like for like growth down 9.5%. Online sales grew by 38.6% during FY22.

Throughout FY22 and because of COVID-19 variants we experienced significant disruptions to trade. Mandated government store closures and restrictions impacted our ability to trade and service customers. The increased incidences and related concerns about the Omicron variant of COVID-19 in the later part of H1 led to sharply lower foot traffic and more aversion at a customer level to visiting shopping centres. The store closures in New South Wales, Victoria and the ACT alone resulted in 3,192 lost trading days and we estimate the closure period sales impact to be approximately $20 million on FY22 results.

Despite these challenges we continued a strong and connected relationship with our customers via our online channel, targeted marketing, and social media channels. Once our stores reopened in October 2021, we progressively saw our customer traffic improve each month as restrictions eased and social occasions resumed. Key events, festivals, travel, and the influx of international students only recently returned in Q4 FY22.

Sustainable gross margin improvement remains a key focus for the business, and we have been able to minimise and partially offset higher delivery costs and increased markdowns (resulting from H1 prolonged store closes) with our direct sourcing initiatives, optimisation of product mix and operating efficiencies associated with growing our private brands to complement the branded product offer.

Investments in digital and online efficiencies continued in FY22 and we anticipate further growth opportunities in our online channel as we enhance the customer proposition in FY23. Ensuring our product and brand remains relevant to our customers and on trend remains paramount.

Universal Store Holdings Limited opened 11 new stores and relocated two stores during the period. Our standalone Perfect Stranger trial now consists of three stores, and we have committed and are on track to expand this portfolio to seven stores by December 2022.

Cash at the end of the financial year was $38.8 million and represents an $5.4 million increase in cash from the prior year end balance.

Our cashflow and balance sheet remain in a healthy position, delivering an underlying cashflow from operations of $38.3 million, representing operating cash flow conversion of 107% with a net cash of $23.9 million. The strength of our balance sheet and current liquidity levels put us in a strong position to manage the ongoing trading disruptions, declare a strong final dividend for FY22, and support the investments required to pursue our growth strategies throughout FY23.

Capital expenditure of $6.8 million increased in FY22 by $3.9 million as we opened 11 new stores compared to one in the prior year. We have also invested in a warehouse management system and infrastructure upgrades to support our growing store network and our distribution centre and new office relocation in October 2022.

Inventory levels were managed closely again in FY22 with supply delays and disruptions becoming the norm as a result of COVID-19 lockdowns in China. Overall inventory marginally increased to $18.0 million in FY22 and has been controlled in line with demand. Our aged inventory remains in line with expectations, and we continue to be committed in our disciplined pricing and promotional strategy to protect brand, margin, and customer trust.

The Group has the following debt facilities available with ANZ.

- Facility A for $15.0 million which is reviewed frequently in line with business cash requirements.
- Facility D, a $8.5 million revolving working capital facility, which is undrawn.
- Facility E, a $5.0 million standby letter of credit/guarantee facility.
- Facilities A and D were amended and the expiry date was extended to April 2025. Facility E is reviewed annually.

Facilities are secured by a General Security Agreement (GSA) and Corporate Guarantee provided by Universal Store Holdings Ltd, US 1A Pty Ltd, US 1B Pty Ltd, US Australia Pty Ltd and Universal Store Pty Ltd. A negative pledge has been provided by all parties via the ANZ Facility Agreement.

Key business risks

The Group is committed to maintaining effective risk management systems to address both financial and non-financial risks. Universal Store continues to evolve its approach to risk management to meet the demands of the trading environment. As we manage the issues arising from the COVID-19 pandemic, we are watchful of the uncertainties ahead. The business risks faced by the Group that may have a material effect on its financial results are listed below, including an overview of the Group's mitigating actions:

Key Risk and Description	Mitigation Activities
Retail Environment and economic conditions	
The Groups products are generally discretionary in nature. Consumer spending on these items is potentially sensitive to changes in general consumer sentiment. Factors which affect general consumer sentiment may or may not have a direct impact on the income levels of the Company's customers but can adversely affect their spending levels notwithstanding. These factors include house prices, political uncertainty, economic outlook, employment certainty, conflict and terror events. Disposable incomes of Universal Store's customers can vary as a result of changes to factors such as petrol prices, food and energy prices, interest rates, unemployment levels and taxation. Any material reduction in consumer spending on discretionary items may in turn result in lower levels of revenue and profitability for Universal Store.	• Proactively monitor the market, economic conditions, and our customer sentiment. • Promptly react to consumer demand and using predicative analysis to mitigate risks or act on opportunities. • Keep our cost of doing business variable with sales and investing in initiatives that will drive efficiency and productive gains into the future.

Key Risk and Description	Mitigation Activities
COVID-19 Pandemic Events related to the COVID-19 pandemic have resulted in significant market volatility. There is continued uncertainty as to the ongoing and future responses of governments and authorities both in Australia and globally. There is also a likelihood of an Australian economic recession of unknown duration or severity. As such, the full economic impact of COVID-19 on consumer behaviour, suppliers, employees and the Company is not fully known. The impact of COVID-19 may be materially adverse to the Company's financial and/or operational performance. Further, any government or industry restrictions or other measures may adversely affect the Company's operations and are likely beyond the Company's control. An increase in the spread of COVID-19 may create an adverse impact on the Company's supply chain. This may occur if the ability to deliver products into Australia by the Company's key suppliers is negatively affected or the Company is otherwise unable to efficiently distribute products to customers who have placed online orders. If the Company's supply chain is disrupted, it may have a material adverse effect on financial and/or operating performance.	• Developed COVID-19 safe plans and policies and executed across all departments within the business. • Established enhanced monitoring and communications with team members in relation to government requirements. • Enhanced cleaning and personal hygiene in all stores and office areas. • Online and digital contingency plans in place should stores need to close. • Looking to diversify our supply chain. In compliance with the Company continuous disclosure obligations, the Company will continue to update the market regarding any material impact of COVID-19 on the business.
Competition The Australian clothing, footwear and accessories market in which Universal Store operates is highly competitive and is subject to constantly changing consumer preferences in relation to trends, brands and shopping channels. The competitor set is fluid and evolving. There is a risk that Universal Store may lose market share to new or existing competitors. Some practical examples of the risks Universal Store faces include: • Existing Australian-based competitors may rollout additional stores and existing competitors may successfully reposition their offering to more effectively compete with Universal Store's offering. • Online retailers may rollout physical stores. • Existing or new market entrants may increase or gain market share through aggressive marketing campaigns, new product offerings or price discounting. Universal Store's customers may choose to purchase products from its competitors rather than from Universal Store and this may in turn reduce Universal Store's revenue. Such a reduction in revenue may have an adverse impact on Universal Store's financial performance.	• Remain relevant and nimble, ensuring we continuously exceed customer expectations both in stores and online channels. • Continue to enhance our online proposition and build CRM platform. • Monitor and stay close to competition ensuring our customer base continues to grow and take appropriate actions to course correct. • Maintain strong private brand close to market. • Continue exclusive special make up product with 3P brands.
Fashion trends and consumer preferences Demand for the Groups products is sensitive to its successful range development and the specific brand, product selection, and quantification decisions made by its team. While a level of error rate in this area is normal, sustained and material misjudgements in relation to evolving fashion trends and product range can adversely affect sales levels and consumer perspectives of its brand and result in a loss of market share. The Company can also mis-quantify the consumer demand arising from certain fashion trends, and therefore offer too much or too little product that is relevant to a particular fashion trend. In addition, with third party brands currently contributing approximately 60% of Universal Store's clothing range, the business is also reliant on the trend judgements and range development of these suppliers. In the longer term, trend misjudgements may adversely impact Universal Store's brand and reputation.	• Remain relevant, ensuring we curate outfits that are in demand an on trend. • Continue to test and trial before investing heavily. • Monitor and stay close to our customers and the events, social outings, occasions they are attending. • Continue to work with suppliers on special make up and diversification. • Enhance our analytical tools to back best sellers with speed and exit underperforming products. • Maintain shorter lead ties to react to trends with speed.

Key Risk and Description	Mitigation Activities
Branded supplier relationships The success of Universal Store's business relies in part on its ability to retain its existing key supplier relationships and its ability to continue to attract suppliers on acceptable terms. The deterioration of Universal Store's relationships with its key suppliers or the inability of Universal Store to maintain functioning arrangements with its key suppliers on terms acceptable to Universal Store, or at all, may have a material adverse effect on Universal Store's financial and/or operational performance in the future. Similarly, Universal Store relies on its key product suppliers for matters including product innovation, product quality and maintaining and building the consumer appeal and demand for these brands. The Company's position in retailing these third-party brands and their appeal to customers can also be affected by the distribution channel strategy of the brand owners. Material changes by any of Universal Store's key suppliers of their distribution channel strategy, may impact Universal Store's financial and/or operational performance in the future.	• Maintain respectful and transparent relationships. • Build relationships based on trust and develop win/win strategies for the Group and supplier. • Continue to enhance Universal Store brand positioning (marketing, campaigns, etc.).
Product sourcing Universal Store products have historically been predominantly sourced from the US, China and within Australia. While Universal Store has a diversified supplier base, the business still relies on key suppliers. Regardless of the nature and domicile of the supplier, most of the goods are manufactured in China. Any material change or disruption to Universal Store's product sourcing or supply chain could have an adverse impact on inventory availability at Universal Store. The following matters are examples of factors which could adversely impact the timing, cost and reliability of Universal Store's product sourcing and supply chain, and therefore the business' overall financial performance: Adverse effects of acts of war or terrorism, natural disasters or an outbreak of an epidemic (such as the current COVID-19), including disruption to critical points of infrastructure such as ports. Any adverse change in existing relationships or operations with product and service suppliers, unexpected, prolonged or repeated disruption to services provided by suppliers, or adverse changes to the terms and conditions of suppliers. These may result in material delays in the supply chain, which may adversely affect cost of sales and overall financial performance.	• Diversification and reducing reliance on China are in plan as the Group explores and builds partnerships outside of China. • Limited dependency on a single vendor which creates more flexibility and reduces risks. • Monitor and stay close to key suppliers to prevent or mitigate disruptions.

Key Risk and Description	Mitigation Activities
Cyber attacks The Groups business may be materially adversely affected by malicious third parties or applications that interfere with, or exploit, security flaws in websites. The security of information stored in Universal Store's systems could be put at risk by attacks from malicious software programs or persons, or inadvertent breaches. There is a risk that, if a cyber-attack were successful, any data security breaches, failure to protect confidential information or disruption to Universal Store's website could result in a loss of information integrity, breaches of Universal Store's obligations under applicable laws and website and system outages. Similarly, given some third-party suppliers hold confidential or customer data in relation to Universal Store's business may be involved in such a breach. The occurrence of any of these events may potentially have a material adverse impact on Universal Store's reputation, business, financial performance and operations.	• Continue to conduct annual risk assessment and penetration testing to determine vulnerabilities. • Established network access controls. • Introduce system encryption (bitlocker) to protect against data theft for stolen devices. • Update firewalls and antivirus software. • Enforce scheduled patch and system update management. • Introduce and enforce multi-factor authentication for key accounts and improve user access security. • Document and test disaster recovery processes within an overall business continuity plan. • Ensure payment card industry (PCI) compliance to ensure the security of each one of the Groups credit card transactions.
Health and Safety The Group operates nationally across Australia and must comply with safety standards to ensure their customers are shopping in a safe and risk-free environment. Universal Store's employees are at risk of workplace accidents and incidents. Should an employee, supplier, contractor or customer be injured in the course of their employment or engagement with the business on premises, Universal Store may be liable for penalties or damages as a result. If Universal Store were required to pay monetary penalties, this may adversely affect its financial position as well as the reputation of Universal Store.	• Launched and implemented Sonder across the business which is an easy to access wellbeing and safety support tool. • Health & Safety committee established, responsible for reporting, tracking training, and proving risk mitigation plans. • Continue to facilitate and mitigate risks by training programs, in particular the Distribution centre and Stores.
Legal and compliance The Group is subject to, and must comply with, a variety of laws and regulations in the ordinary course of its business. These laws and regulations include those that relate to fair trading and consumer protection, product safety, employment, property, taxation (including GST and stamp duty), customs and tariffs. Changes to laws and regulations in these areas may adversely affect Universal Store, including by increasing Universal Store's costs either directly (such as an increase in the amount of tax the Company is required to pay), or indirectly (including by increasing the cost to the business of complying with legal requirements). Any such adverse effect may impact Universal Store's future financial performance. Universal Store may be involved in disputes or litigation, be the subject of disputes, complaints, inquiries or audits. These Disputes may be related to warranties, product descriptions, personal injury, health, environmental, safety or operational concerns, nuisance, negligence or failure to comply with applicable laws and regulations. If the Group were to be found liable under a claim, the Company's financial position and future financial and operational performance may be adversely affected.	• External assurance and support engaged to ensure compliance with all laws and regulations. • Expansion of leadership team to ensure we embed appropriate governance to support the business in its operations.

Key Risk and Description	Mitigation Activities
Environmental & Social Sustainability The Group has a moderate exposure to environmental risks in that it's supply chain and store operations could be disrupted by extreme weather events and natural disasters. The Company recognises that climate change increases the potential frequency and severity of these events and could lead to an increase in operating costs from managing the impact and the likely increase in insurance premiums. Universal Store has a moderate exposure to social risks. In this regard, our overarching goal is to ensure we are a responsible business that contributes positively to the health, safety and livelihoods of the people that work for us; and that we can continue to provide customers with high quality, on-trend products that provide value for money.	• Universal Store recognises the significance of understanding and responding to the environmental and social impacts of our business on the wider community. • The Group has developed sustainability targets and internal plans for how to achieve those targets. • Established a responsible procurement policy which address the risk of modern slavery throughout our supply chain and business operations. For further information on how we manage environmental risks, please refer to our Sustainability Report, available on page 16 of the annual report or on our website.

Significant changes in the state of affairs

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

Significant events after the reporting date

The Group signed a Heads of Agreement with TradeCoast Central Pty Ltd in 2021 financial year to build and relocate the support office and distribution centre, with an anticipated relocation date of October 2022 for an initial term of 10 years.

On 25 August 2022, the Directors of Universal Store Holdings Limited declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is $7.7 million to be paid on 29 September 2022.

There were no other significant events which occurred after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

Likely developments and expected results

Likely developments in the operations of the Group and the expected results of those operations in future financial years have not been included in this report as the inclusion of such information is likely to result in unreasonable prejudice to the Group.

Environmental regulation and performance

The Group is not subject to any particular or significant environmental regulation under laws of the Commonwealth or of a State or Territory.

Share options

No option to acquire shares in the Group has been granted to any person. No shares have been issued during the financial year or since the end thereof by virtue of the exercise of any options. There are no unissued shares under option at the date of this report.

Indemnification and insurance of Directors and officers

During the financial year, the Group paid a premium to insure the Directors and Secretaries of the Group and the general managers of each of the divisions of the Group.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the Group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else or to cause detriment to the Group. It is not possible to apportion the premium between amounts relating to the insurance against legal costs and those relating to other liabilities. The policy prohibits the disclosure of the premium paid.

Indemnification of auditors

Universal Store Holdings Limited has agreed to reimburse PricewaterhouseCoopers ("PwC") for any liability (including reasonable legal costs) that PwC incur in connection with any claim by a third party arising from a breach by Universal Store Holdings Limited of its agreement with PwC.

Non-audit services

The following non-audit services were provided by the entity's auditor, PwC. The Directors are satisfied that the provision of services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

PwC received, or are due to receive, the following amounts for the provision of non-audit services:

	2022 $	2021 $
Amounts paid or payable to PwC for:		
Audit services – Group audit and half-year review	250,000	264,852
Tax compliance services	15,500	34,578
Tax advisory services, including IPO advisory services	2,024	211,140
Modern slavery and chain of responsibility	–	34,350
Modern slavery training workshop	–	9,990
Total remuneration of PwC Australia	**267,524**	**554,910**

Directors' meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director were as follows:

			Meetings of Committees			
	Board Meetings		Audit and Risk		People and Remuneration	
Total number of meetings held	Attended	Eligible*	Attended	Eligible*	Attended	Eligible*
Peter Birtles	16	16	4	4	2	2
Alice Barbery	16	16	4	–	2	–
Kaylene Gaffney	16	16	4	4	–	–
David MacLean	16	16	1	–	2	2
Trent Peterson	16	16	2	–	2	2
Srdjan Dangubic	9	9	2	2	–	–
Renee Gamble	8	8	2	2	–	–

* The Directors attended all meetings that they were eligible to attend. At times, non-member Directors attend meetings of sub-committees by invitation.

Committee membership

Members acting on the committees of the Board during the year were:

Audit and Risk Management	People and Remuneration
Kaylene Gaffney (Chair)	Trent Peterson (Chair)
Peter Birtles	Peter Birtles
Renee Gamble	David MacLean
Srdjan Dangubic (resigned)	

Proceedings on behalf of the Group

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.

No proceedings have been brought or intervened in on behalf of the Group with leave of the Court under section 237 of the *Corporations Act 2001*.

Rounding

The amounts contained in the financial report were rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) under the option available to the Group under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

Corporate Governance Statement

Universal Store Holding Limited Corporate Governance Statement discloses how the Company complies with the Principles and Recommendations of the ASX Corporate Governance Council (4th Edition) and sets out the Group's main corporate governance practices. This statement has been approved by the Board and is current as at 25 August 2022. The Corporate Governance Statement of Universal Store can be found on the Company's website: https://investors.universalstore.com/investor-centre/#governance

Auditor's independence declaration

The Directors have received a declaration from the auditor of Universal Store Holdings Limited. This has been included on page 57.

The Directors of Universal Store Holdings Limited present the Remuneration Report (the "Report") for the Group for the year ended 30 June 2022. This Report forms part of the Directors' report and has been audited in accordance with section 300A of the *Corporations Act 2001*.

REMUNERATION REPORT (AUDITED)

The Report details the remuneration arrangements for the Group's key management personnel ("KMP") comprised of Non-Executive Directors, Executive Directors and Senior Executives.

The KMP of the Group are those persons who, directly or indirectly, have authority and responsibility for planning, directing and controlling the major activities of the Company and Group.

The table below outlines the KMP of the Group and their movement during the financial year.

Name	Position	Terms at KMP
Non-Executive Directors		
Peter Birtles	Non-Executive Director and Chairman	Full financial year
Srdjan Dangubic	Non-Executive Director	Resigned 31 December 2021
Kaylene Gaffney	Non-Executive Director	Full financial year
David MacLean	Non-Executive Director	Full financial year
Trent Peterson	Non-Executive Director	Full financial year
Renee Gamble	Non-Executive Director	Appointed on 1 December 2021
Executive Director and Senior Executives		
Alice Barbery	Chief Executive Officer, Managing Director	Full financial year
Renee Jones	Chief Financial Officer	Full financial year

The focus of this Report is on the remuneration arrangements and outcomes for the KMP listed in the table above.

CONTENTS:

SECTION 1: REMUNERATION STRATEGY AND POLICY

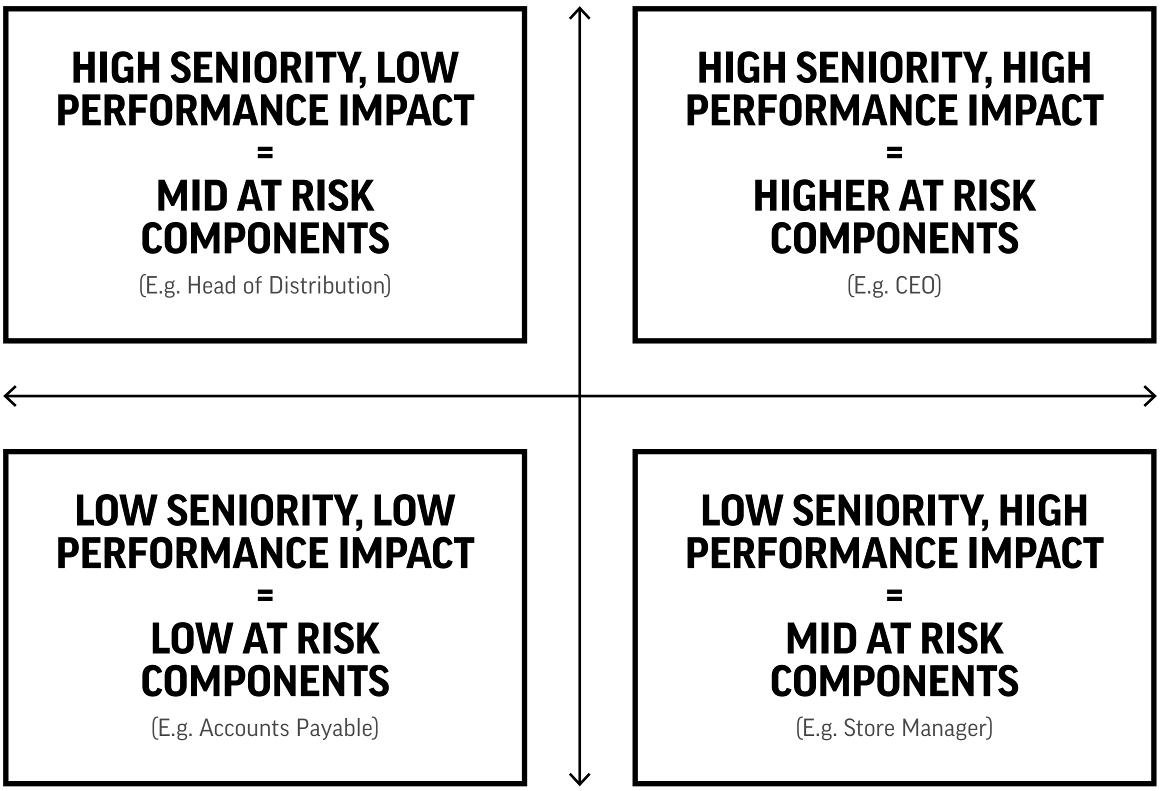
The People and Remuneration Committee (PRC) is responsible for determining and reviewing the remuneration arrangements for its Directors and Executives.

From a remuneration perspective, the objective of Universal Store Holdings Limited is to attract and retain talented and motivated, culturally aligned Executives and Team who can enhance the Company's performance through their teamwork, choices and leadership. We believe that our people are a key source of competitive advantage that is fundamental to the long-term success of the Company. We are committed to fostering a workplace culture that supports the imperative to maintain and develop our current and future generations of leaders of the Company.

The executive remuneration and reward arrangements at Universal Store Holdings Limited have two components:

- Fixed remuneration comprising of salary and superannuation.
- Variable remuneration including short-term incentives ("STI") in the form of a cash-based reward and long-term incentives ("LTI") in the form of an equity reward.

The elements of the total remuneration package may vary according to the job role, team members experience and performance. Generically, the two key variables driving the mix of fixed versus 'at risk' or variable remuneration are (1) seniority and (2) ability to impact performance and shareholder value.



In considering the remuneration arrangements of KMP and applying the market remuneration governance standards, the PRC makes recommendations based on the following objectives:

Strengthen our capabilities by attracting and retaining high calibre talent

Align the interest of the Company's KMPs to those of the shareholders

Drive sustainable long-term performance of the business

Promote individual and cross functional teamwork

Reward for outcomes and performance

Conscious of risks and managing reliance on KMP individuals

Be simple and transparent

As we consider individual remuneration arrangements, we assess how the individual's contracted terms measure up against these principles. We are aware of market movements and benchmarks; however we do not set specific remuneration objectives or benchmarks (e.g. meet 'second quartile' remuneration benchmarks) or adhere to the benchmarks or movements strictly. Instead, we use our granular knowledge of roles, market dynamics, individual capabilities and circumstances, the risk and return trade-offs faced by the Company to determine remuneration arrangements. We consider remuneration as just one part of an employee's reward for employment with the Company.

The remuneration policies are designed to achieve alignment between the Company's business strategy, values and the behaviour of employees as well as recognise and reward individual responsibility. The Board reviews the Company's objectives during the annual strategy process and each quarter key metrics quantifying progress on executing operating plans that are aligned to the strategic focus areas are reviewed.

In relation to its most senior Team Members, the Board believes that an important part of building employee engagement is to align management with each other and with shareholder interests through the ownership of shares or related securities. Management KMP have material shareholdings in the Company, as do other members of the leadership team and various Board members. As discussed further below, the Board has also decided to implement a new layer to our existing LTI plans to deepen this alignment and bring the Company's remuneration approach more in line with mechanics commonly offered by our ASX listed peers.

Executive Directors and Senior Executives' remuneration

We reward our Managing Director and Senior Executives with a level and mix of remuneration appropriate to their position, responsibilities and performance, in a way that aligns with our business strategy.

Remuneration for KMP during the financial year consists of both fixed remuneration and variable remuneration.

Fixed remuneration

Fixed remuneration is in the form of salary, superannuation contributions and other benefits and allowances and is designed to reward for:

- The scope of the executive's role;
- The executive's skills, experience and qualifications;
- Strategic value of the role;
- Size and complexity of the role; and
- Individual performance.

As discussed above, fixed remuneration is set with reference to comparable roles in similar companies, coupled with detailed knowledge of an individual's performance, nuance of their role, and the risk and return trade-offs associated with the role and its contribution to the Company. We are also mindful of the context of an individual's participation in STI and LTI plans of the Company and their remuneration history.

Variable remuneration

Variable remuneration includes STI in the form of a cash-based reward and moving forward will include an LTI in the form of an equity reward.

Short-term Incentive Plan

Members of the Company's Management (including the Executive Director and Senior Executives who are considered KMP) are eligible to participate in the Company's STI plan. Participants in the STI plan have a target cash payment amount which is set each year ("Maximum Bonus Amount").

Provisional STI amounts in any given year may be between 0% and 100% of the Maximum Bonus Amount and are assessed having regard to the Company's actual underlying EBIT result delivered in the relevant year relative to pre-set annual underlying EBIT targets (benchmarks are set pre-AASB 16 *Leases*, and ignore one offs and other abnormal or non-trading items). In FY22 the provisional STI amount was subject to an adjustment of 10% up or down based on the CEO's recommendation and subject to Board approval.

The Board continue to believe that underlying EBIT is an appropriate primary measure for determining STI outcomes. We believe EBIT is widely understood by both our team and shareholders. We believe that in most circumstances, EBIT based targets balance a measure that can be materially influenced by management with a measure we believe is a sound proxy for the leadership team's ability to deliver results that contribute to driving shareholder value.

We acknowledge that the participants in the executive STI plan have varying levels of direct influence over the Company's EBIT result. Notwithstanding, we believe that the participants all play an important role in delivering our results. We believe that the team work required from all leadership team members to deliver our financial results, coupled with the collaborative culture we strive to build and maintain, is a sound reason for having one primary financial measure to assess and drive the STI outcome.

Payments under the STI plan will be made following the release of the full-year financial results. Participants in the STI plan will have to repay the Company some or all of the payments made under the STI plan subject to Board approval and subject to any serious misconduct or material misstatement in the financial statements of the Company during any of the three preceding financial years. No incentive payment is payable if the threshold performance target is not met. The measures will be reviewed and re-set each year and are tested annually after the end of the relevant financial year. An individual's eligibility to receive an STI in any year is also subject to Board discretion in relation to any major Environmental, Social or Governance ("ESG") breach or incident which the Board consider to be sufficiently material and attributable to an individual that the payment of all or part of an STI entitlement would be inappropriate.

Long-term Incentive Plan

The existing equity ownership arrangements for Executive Directors and Senior Executives were established during the Company's transition from private to public ownership (in some instances, many years prior to the IPO). As a result, Managing Director and Senior Executives each hold a material number of shares with significantly greater value than their individual fixed and short-term incentive arrangements. A portion of the shareholdings of these executives were subject to escrow arrangements as described in the Prospectus. These securities will be released from voluntary escrow upon the Company's FY22 results being released to the ASX.

The incentives provided prior to and as part of the IPO process have the impact of delivering a long-term incentive to certain KMP and promote alignment between the leadership team with the Company's shareholders. In FY21, the Board was satisfied that given the recency with which the LTI arrangements had been established that they were adequate for the purpose of aligning the interests of existing KMP with those of the shareholders.

During the last year, the Board has continued to review whether a further layer of LTI is appropriate to ensure market-based remuneration opportunities are available to our leaders. In reviewing the objectives of a new LTI, the Board has placed particular emphasis on the retention of our highest performing leaders, and deepening alignment toward outcomes which we believe drive long term shareholder value.

The conclusion of this review was a commitment to establish a further layer of LTI. The Board is continuing to work through the detailed parameters of the LTI with our advisors. An overview of the proposed parameters are set out in the section below titled 'Current Plan for a New LTI'. The detail of the New plan will be presented in the materials prepared for the AGM in November 2022.

The CEO, CFO and other current (non-KMP) members of Management currently hold in aggregate 6,368,319 shares, representing 8.7% of the shares on issue as at 30 June 2022.

2,472,988 of these shares are loan-backed by the Company, with the loan being limited recourse, interest bearing and repayable:

(a) out of certain proceeds from the sale of the relevant Shares;

(b) out of certain proceeds of all or a portion of any dividends, distributions or similar received in respect of the Shares (subject to the Board's discretion to waive the requirement to apply dividends, distributions or similar to repayment of the loan); or

(c) in full if holder ceases to be employed by the Group.

Given the size of this existing equity interest and the continuing limited recourse loans from the Company, the Board believes that Management's interests are aligned with the interests of the Company and Shareholders at this time.

During the year, the CEO and certain (non KMP) members of Management used proceeds received from the sale of shares on Completion to repay a portion of the outstanding amount of their respective limited recourse loans. Other members of Management did not sell any shares at IPO, and therefore did not repay any portion of the loan.

It is noted that the aggregate value of loans receivable by the Company from KMP is approximately $1.1 million as at 30 June 2022 ($1.7 million at 30 June 2021). This amount is not included on the balance sheet of the Company as these instruments are accounted under AASB 2 *Share-based Payment* as share-based payments. It is expected that proceeds from the repayment of these loans will be collected by the Company over time in accordance with the terms of the loan agreement.

Senior Executive employment arrangements

Remuneration arrangements for executives are formalised in employment agreements. The following outlines the details of specific contracts with executives:

Chief Executive Officer

Alice is employed in the position of CEO of the Group. Alice was entitled to a base salary of $545,000 per annum (inclusive of statutory superannuation) for the 2022 financial year.

In addition to her base salary, Alice is eligible to participate in the Company's STI plan. In FY22, Alice did not receive a cash bonus under that STI plan.

Alice holds shares partially funded by limited recourse loans under the Company's LTI Plan.

The term of Alice's employment as CEO is ongoing. Alice's employment may be terminated by either party giving six months' notice. The Group may pay Alice in lieu of giving her notice. The Group may terminate Alice's employment immediately where there is cause to do so (e.g., serious misconduct or a material breach of her terms and conditions of employment), without notice or payment in lieu of notice.

Upon termination, Alice is bound by a restraint period of up to six months, during which time she cannot compete with the Group, provide services in any capacity to a competitor of the Group or solicit current or proposed suppliers or employees of the Group in Australia.

Chief Financial Officer

Renee Jones was employed in the position of Chief Financial Officer ("CFO") of the Group. Renee is entitled to a gross annual base salary of $400,000 per annum which includes statutory superannuation for the 2022 financial year. Additionally, Renee is eligible to participate in the Company's STI plan. In FY22, Renee did not receive a cash bonus under that STI plan.

Renee holds shares partially funded by limited recourse loans under the Company's LTI Plan.

The term of Renee's employment as CFO is ongoing. Renee's employment may be terminated by either party giving at least six months' notice. The Group may pay Renee in lieu of giving her notice. Renee's employment may also be terminated by the Group without notice where there is cause to do so (e.g., serious misconduct or a material breach of her terms and conditions of employment).

Upon termination, Renee is bound by a restraint period up to six months, during which time she cannot compete with the Group or provide services in any capacity to a competitor of the Group or solicit current or proposed suppliers or employees of the Group in Australia.

Non-Executive Directors' remuneration

Under the Company's Constitution, the Board may decide the remuneration from the Company to which each Director is entitled for their services as a Director, subject to ASX Listing Rules from time to time. However, the total aggregate amount provided to all Non-Executive Directors in any financial year for their services as Directors must not exceed the aggregate amount of Non-Executive Directors' fees approved by Shareholders at the Company's annual general meeting. This amount is currently fixed at $750,000 per annum. Any change to this aggregate annual sum needs to be approved by Shareholders. The aggregate sum does not include any special and additional remuneration for special exertions and additional services performed by a Director as determined appropriate by the Board or any amounts payable to any Executive Director under any executive services agreements. As required by ASX Listing Rule, the remuneration of Directors does not include a commission on, or a percentage of profits or operating revenue.

Directors may also be reimbursed for all reasonable travel and other expenses incurred by the Directors in attending to the Company's affairs including attending and returning from Board meetings or any meetings of committees of Directors and in attending and returning from any general meetings of the Company.

Directors may be paid such additional or special remuneration if they, at the request of the Board, and for the purposes of Universal Store, perform any extra services outside the scope or ordinary duties of a Director.

The Board believes the current levels of Non-Executive Director remuneration are fair and appropriate and reflect the alignment between shareholders' interests and the Company's remuneration policies and practices.

Other policies

Claw back policy

If the Company becomes aware of serious misconduct or a material misstatement in its financial statements for the Board may claw back that overpayment. The PRC will review this claw back policy at least annually and make recommendations to the Board as to any changes it considers should be made.

Securities trading policy

In all instances, buying or selling shares is not permitted at any time by any KMP who possess inside information in a manner contrary to the *Corporations Act 2001*. Black-out periods are strictly applied.

SECTION 2: ROLE OF THE PEOPLE AND REMUNERATION COMMITTEE

The role of the PRC is to assist the Board in fulfilling its statutory and regulatory responsibilities for corporate governance and overseeing the Group's nomination and remuneration policies and practices.

This includes evaluating and recommending the remuneration packages and policies related to the CEO, CFO, Directors and other members of Management to the board for approval. The PRC is also responsible for administering short-term and long-term incentive plans (including any equity plans). The Committee seeks independent advice where it is appropriate.

The Company complies with the recommendations set by ASX Listing Rules and ASX Corporate Governance Council in relation to the composition and operation of the Committee. The Committee comprises Trent Peterson (as Chair), David MacLean and Peter Birtles.

SECTION 3: COMPANY PERFORMANCE – RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND REMUNERATION

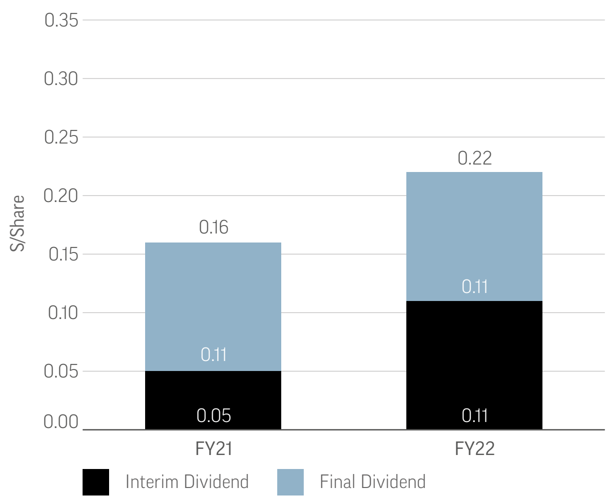
Overview of Our Results and the STI Outcomes for KMP

FY22 is the Company's second annual result since its IPO in November 2020.

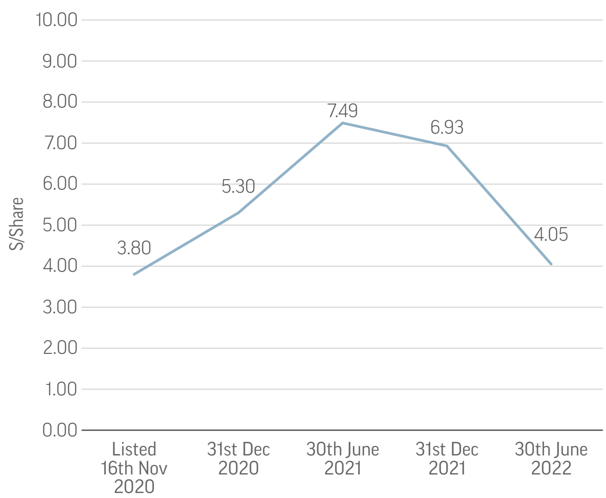
The table below summarises the headline results and the outcomes under the STI plan for our KMP across the last 3 years.

	FY20	FY21	FY22
Sales ($m)	154,869	210,817	207,969
Underlying EBIT ($m)	23,666	44,040	30,943
CEO Fixed Rem ($000's)	430	430	545
CEO Max STI available ($000's)	231	231	327
CEO Actual STI received ($000's)	120	231	–
CFO Fixed Rem ($000's)	320	320	400
CFO Max STI available ($000's)	160	160	200
CFO Actual STI received ($000's)	96	128	–

Shareholder Distributions



UNI Share Price Trend



Executive Director and Senior Executives Remuneration Structure

The Executive Director and Senior Executives are currently remunerated under a total reward structure that consists of both fixed remuneration comprising base salary package (inclusive of superannuation contributions and other allowances) and STI.

The mix of fixed remuneration and STI elements as a percentage of total target remuneration for 30 June 2022 was as follows:

	% of total target remuneration for 30 June 2022	
	Fixed Remuneration	At risk remuneration STI maximum opportunity
Alice Barbery	62%	38%
Renee Jones	67%	33%

Fixed remuneration

The remuneration for Senior Executives includes a fixed component comprised of base salary and employer superannuation contributions that are in line with statutory obligations.

The base salary reflects the base salary for a comparable role in similar sized companies operating in the retail industry, having regard to the experience and expertise of the Senior Executive, their performance, and history with the Company, and other relevant factors. This requires both quantitative and subjective assessment.

Fixed remuneration is reviewed annually by the PRC, with recommendations made to and approved by the Board. Approved changes are usually effective from the commencement of the new financial year.

The CEO and CFO did not receive an increase in base salary in FY21 given the challenges and uncertainty created by COVID-19. However, over the last two years there has been a significant increase in both the scale and sophistication of the Company. As a consequence, the PRC has a plan to reduce this imbalance over the next two years with an increase provided in FY22.

Short-term Incentive Plan

The 30 June 2022 STI plan was assessed following the completion of the performance period from 1 July 2021 to 30 June 2022. The STI plan awarded to each Senior Executive is detailed in the table below:

Senior Executive	Target STI ($)	Actual STI awarded ($)	Actual STI awarded as a % of maximum STI	% of maximum STI award forfeited
Alice Barbery	327,000	–	–	100%
Renee Jones	200,000	–	–	100%

The minimum STI measure for KMP was set at an EBIT level of $37.9 million in FY22. This minimum threshold was not met.

In FY22, we set EBIT targets with an underlying assumption that there would not be any widespread or prolonged period of store closures as a result of COVID-19 in FY22. Unfortunately, this proved to be a false assumption, with mandated store closures in a number of our key markets being a material feature of the trading environment in the first half of FY22. While this was a material contributor to the shortfall in FY22 EBIT relative to target, and it was acknowledged that these events were in all material respects beyond the control of the STI plan participants, the Board did not consider it appropriate to exercise discretion to award an STI to KMP in FY22. The Board (and our KMP) felt awarding a material STI to KMP in FY22 would not represent an outcome for participants that demonstrates alignment with the outcomes of the Company and its shareholders.

The board acknowledge that the STI opportunity for KMP is currently in need of review and appears underweight compared to peers (as a % of total remuneration package). A progressive adjustment and rebalancing of the STI opportunity available to KMP is likely to occur over the next one to two years.

While certain aspects of our results and individual's performance were very pleasing, the Board concluded that the overall performance of the Company in the year did not warrant the Board to exercise their discretion in relation to STI amounts for KMP.

The Board would however like to note that the leadership team again worked exceptionally hard in the period and persevered through unpredictable and difficult conditions. The Board is pleased with the results delivered in this environment. Our team has adapted admirably, shown great skill and resilience, materially progressed our strategic priorities, and driven financial results that in context are pleasing.

Existing Long-term Incentive Plan

The existing LTI scheme was developed and implemented over the five years prior to the IPO which saw various members of the executive leadership team acquire shareholdings in the business. A significant portion of the capital invested by the participants was funded by limited recourse loans from the Company. No further loans were made to participants since the IPO. The loans are accounted for as share-based payments, all of which are fully vested, and no options or rights have been granted during the period.

In the case of the KMP, as at 30 June 2022, the value of the loans owed to the Company are as follows, together with the total number of shares held, and the market value of their shareholding at that date:

KMP	Number of shares held at 30 June 2021	Number of shares held at 30 June 2022	Value of loan outstanding at 30 June 2022^	Market value of shares at 30 June 2022**	Implied LVR (%)*
Alice Barbery	2,230,924	2,162,897	368,583	8,759,733	4.21%
Renee Jones	583,333	583,333	780,545	2,362,499	33.04%
Other management***	4,028,451	3,622,089	87,698	14,669,460	0.60%
Total	**6,842,708**	**6,368,319**	**1,236,826**	**25,791,692**	**4.80%**

^ The loans are accounted for as share-based payments under AASB2 Share-base payments.

* LVR is the ratio of the loan to the market value of the shares as at a date, expressed as a percentage.

** As at close of trade on 30 June 2022, the UNI share price was $4.05 per share.

*** Other management includes 7 team members who are not considered KMP.

For the avoidance of doubt, no Non-Executive member of the Board is a beneficiary of loans from the Company.

Current Plans for a New LTI

Universal Store listed on the ASX in November 2020. As a listed Company the Board believe there is both scope and merit in implementing a new LTI scheme which will supplement (not replace) the existing LTI scheme which in most part was established prior to listing on the ASX.

The final details and mechanics of the plan are being worked through by the Board, and will be set out in the materials provided to shareholders for consideration at the AGM scheduled for 24 November 2022. An overview is set out below:

Instrument	Performance Rights
Quantum	CEO: Target ~100% of TFR* CFO: Target ~70% of TFR Vesting period: 3 year performance period Grant Price: 5 trading day volume weighted average price (VWAP) immediately following the date of release of annual results Performance measure: Earning Per Share growth (100% weight) Shares vest at the end of the Performance period with this tranche vesting upon release of the FY25 results. Straight line pro-rata grading as between Minimum Threshold and Maximum. Threshold for FY25 EPS are per the below:

	Minimum Threshold	Maximum Threshold
FY25 EPS Target	$0.45	$0.60
% of Performance Rights that vest	30%	100%

The performance rights are proposed to be subject to a gateway. EPS will be calculated based on Statutory EPS and may be adjusted where deemed necessary by the Board to deliver a fair outcome for all stakeholders. Adjustments may be made for matters including for material one off items that do not reflect the underlying earnings and therefore EPS of the Company, or where there was a major capital event (e.g. acquisition) changing the Company's capital structure such that statutory EPS did not fairly represent the performance of the Company in FY25. The Board would only make adjustments to Statutory EPS in circumstances where the prima facie result for stakeholders was considered to be unfair or inappropriate in material respects.

* TFR is made up of salary and superannuation.

The Board believes that EPS is a sound measure as an indicator of long-term performance of the Company and management's ability to drive results which we expect to be strongly correlated with shareholder value. We believe that this plan coupled with the existing shareholdings of management together ensure that the participants have a significant focus on and alignment with the share price performance of the Company over the long term.

SECTION 4: DETAILS OF REMUNERATION

Non-Executive and Executive Directors' remuneration

The following annual base fees are payable to Directors:

Director fees	$	Directors in office
Chair	$150,000	Peter Birtles
Non-Executive Directors	$80,000	Kaylene Gaffney
		David MacLean
		Srdjan Dangubic*
		Renee Gamble**
		Trent Peterson

* Srdjan Dangubic was a Non-Executive Director of the Company until 31 December 2021.

** Renee Gamble was appointed as a Non-Executive Director of the Company from 1 December 2021.

The following annual committee fees are payable to the Chair and members of each of the Audit and Risk Management Committee and People and Remuneration Committee:

Committee fees	$	Directors in office
Audit and Risk Management Committee		
Chair	$10,000	Kaylene Gaffney
Non-Executive Directors	$4,000	Peter Birtles
		Srdjan Dangubic*
		Renee Gamble**
People and Remuneration Committee		
Chair	$5,000	Trent Peterson
Non-Executive Directors	$2,000	Peter Birtles
		David MacLean

* Srdjan Dangubic was a Non-Executive Director of the Company until 31 December 2021.

** Renee Gamble was appointed as a Non-Executive Director of the Company from 1 December 2021.

There are no retirement benefit schemes for Non-Executive Directors, other than statutory superannuation contributions.

Details of the remuneration of the Directors and KMP of the Company for the current financial year are set out below.

		Short-term benefits		
Name	Financial year	Board and committee fees $	Super-annuation $	Total $
Non-Executive Directors				
Peter Birtles*	2022	156,000	–	156,000
Srdjan Dangubic*	2022	42,000	–	42,000
Kaylene Gaffney	2022	81,818	8,182	90,000
David MacLean	2022	74,545	7,455	82,000
Trent Peterson*	2022	85,000	–	85,000
Renee Gamble	2022	49,000	–	49,000
Total Non-Executive Directors	**2022**	**488,363**	**15,637**	**504,000**

* Fees paid for Peter Birtles are paid to Trent Bridge Consulting. Fees paid for Trent Peterson are paid to Catalyst Direct Capital Management. Fees paid for Srdjan Dangubic were paid to Five V Capital.

		Short-term benefits		
Name	Financial year	Board and committee fees $	Super-annuation $	Total $
Non-Executive Directors				
Peter Birtles*	2021	104,000	–	104,000
Srdjan Dangubic*	2021	73,990	–	73,990
Kaylene Gaffney	2021	65,899	6,260	72,159
David MacLean	2021	65,537	6,226	71,763
Trent Peterson*	2021	90,666	–	90,666
Nicholas Larkin*	2021	16,199	–	16,199
Total Non-Executive Directors	**2021**	**416,291**	**12,486**	**428,777**

* Fees paid for Peter Birtles are paid to Trent Bridge Consulting. Fees paid for Trent Peterson are paid to Catalyst Direct Capital Management. Fees paid for Srdjan Dangubic were paid to Five V Capital.

Name	Financial year	Short-term benefits Salary & fees $	Cash bonus $	Annual leave $	Long-term benefits Long – service leave $	Post-employment Super-annuation $	Share – based payments Share – based payments $	Total $
Executive Directors and Senior Executives								
Alice Barbery	2022	521,432	–	38,788	30,780	23,568	–	614,568
Renee Jones	2022	376,432	–	18,060	–	23,568	–	418,060
Total Executive Directors and Senior Executives	**2022**	**897,864**	**–**	**56,848**	**30,780**	**47,136**	**–**	**1,032,628**

Name	Financial year	Short-term benefits Salary & fees $	Cash bonus $	Annual leave $	Long-term benefits Long – service leave $	Post-employment Super-annuation $	Share – based payments Share – based payments $	Total $
Executive Directors and Senior Executives								
Alice Barbery	2021	405,000	231,000	2,276	6,785	25,000	150,340	820,401
Renee Jones	2021	192,458	128,000	(16,289)	–	23,310	44,657	372,136
Eddie MacDonald	2021	142,851	45,662	8,169	–	17,909	–	214,591
Total Executive Directors and Senior Executives	**2021**	**740,309**	**404,662**	**(5,844)**	**6,785**	**66,219**	**194,997**	**1,407,128**

Shareholdings of KMP*

Shares held in Universal Store Holdings Limited (number)

	Balance 1 July 2021 Ord	Movements Ord	Balance 30 June 2022 Ord	Held nominally 30 June 2022 Ord
Non-Executive Directors				
Peter Birtles	200,000	–	200,000	–
Kaylene Gaffney	25,000	–	25,000	–
David MacLean	900,000	(250,000)	650,000	–
Trent Peterson	1,575,000	(375,000)	1,200,000	–
Renee Gamble	–	–	–	–
Executive Directors and Senior Executives				
Alice Barbery	2,230,924	(68,027)	2,162,897	–
Renee Jones	583,333	–	583,333	–

* Includes shares and options held directly, indirectly and beneficially by KMP.

\# All equity transactions with KMP other than those arising from the exercise of remuneration options have been entered into under terms and conditions no more favourable than those the Group would have adopted if dealing at arm's length.

Signed in accordance with a resolution of the Directors.

Peter Birtles
Independent Non-Executive Director and Chairman

25 August 2022

AUDITOR'S INDEPENDENCE DECLARATION

Auditor's Independence Declaration

As lead auditor for the audit of Universal Store Holdings Limited for the year ended 30 June 2022, I declare that to the best of my knowledge and belief, there have been:

(a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Universal Store Holdings Limited and the entities it controlled during the period.

Kim Challenor
Partner
PricewaterhouseCoopers

Brisbane
25 August 2022

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CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Revenue from contracts with customers	5.1	207,969	210,817
Cost of sales of goods	5.2	(86,690)	(86,966)
		121,279	123,851
Other income		–	2
Other gain/(loss)		–	(74)
Employee benefits expenses	5.3	(42,468)	(40,048)
Occupancy expenses		(7,167)	(6,962)
Depreciation, amortisation and impairment expense	5.4	(25,114)	(23,872)
Transaction costs associated with IPO	5.5	–	(6,732)
Marketing expenses		(7,634)	(3,583)
Banking and transaction fees		(44)	(41)
Other expenses		(6,863)	(4,500)
Finance costs	5.6	(2,611)	(3,734)
Finance income		100	832
Profit before income tax		**29,478**	**35,139**
Income tax expense	6	(8,904)	(10,770)
Profit for the period		**20,574**	**24,369**
Profit for the year is attributable to:			
Owners of Universal Store Holdings Limited		20,574	24,369
Other comprehensive income		–	–
Total comprehensive income for the year		**20,574**	**24,369**
Total comprehensive income for the period is attributable to:			
Owners of Universal Store Holdings Limited		20,574	24,369
		20,574	**24,369**

Earnings per share			
Basic earnings per share (cents)	7	30.2	39.8
Diluted earnings per share (cents)	7	28.9	36.6

The above consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

	Notes	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and cash equivalents	8	38,768	33,406
Other receivables	9	2,419	2,433
Inventories	10	18,024	17,695
Current tax assets		571	–
Total current assets		**59,782**	**53,534**
Non-current assets			
Plant and equipment	11	10,904	9,159
Right-of-use assets	13	39,833	48,776
Goodwill and intangible assets	12	93,034	92,720
Total non-current assets		**143,771**	**150,655**
Total assets		**203,553**	**204,189**
Liabilities			
Current liabilities			
Trade and other payables	14	17,675	16,966
Lease liabilities	13	19,969	19,222
Contract liabilities	16	1,467	1,188
Provisions	17	1,912	1,558
Current tax liabilities		–	5,121
Total current liabilities		**41,023**	**44,055**
Non-current liabilities			
Borrowings	15	14,865	14,797
Lease liabilities	13	28,589	35,769
Provisions	17	906	828
Deferred tax liabilities	6	6,661	5,764
Total non-current liabilities		**51,021**	**57,158**
Total liabilities		**92,044**	**101,213**
Net assets		**111,509**	**102,976**
Equity			
Contributed Equity	18	92,161	92,161
Share-based payment reserve	19	7,977	4,281
Retained earnings		11,371	6,534
Total equity		**111,509**	**102,976**

The above Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

	Note	Contributed equity (Note 18) $'000	Shared-based payment reserve (Note 19) $'000	Retained earnings $'000	Total equity $'000
At 1 July 2021		**92,161**	**4,281**	**6,534**	**102,976**
Profit for the year		–	–	20,574	20,574
Other comprehensive income		–	–	–	–
Total comprehensive income for the year		**–**	**–**	**20,574**	**20,574**
Transactions with owners in their capacity as owners:					
Dividends paid	20	–	–	(15,737)	(15,737)
MEP loan repayment	19	–	3,696	–	3,696
At 30 June 2022		**92,161**	**7,977**	**11,371**	**111,509**
At 1 July 2020		**56,252**	**361**	**19,900**	**76,513**
Profit for the year		–	–	24,369	24,369
Other comprehensive income		–	–	–	–
Total comprehensive income for the year		**–**	**–**	**24,369**	**24,369**
Transactions with owners in their capacity as owners:					
Dividends paid	20	–	–	(37,735)	(37,735)
Contribution of equity	18	38,353	–	–	38,353
Share-based payment	19	–	561	–	561
MEP loan repayment	19	–	5,158	–	5,158
Buy-back of ordinary shares	18, 19	(838)	(1,799)	–	(2,637)
Transaction costs, net of tax	18	(1,606)	–	–	(1,606)
At 30 June 2021		**92,161**	**4,281**	**6,534**	**102,976**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

	Notes	2022 $'000	2021 $'000
Operating activities			
Receipts from customers (inclusive of GST)		229,354	233,614
Payments to suppliers and employees (inclusive of GST)		(171,229)	(165,210)
Transaction costs		–	(6,732)
Interest received		100	82
Interest paid		(2,497)	(3,770)
Income taxes paid		(13,699)	(10,514)
Net cash flows from operating activities	8	**42,029**	**47,470**
Investing activities			
Proceeds from sale of plant and equipment		945	359
Purchase of plant and equipment	11	(7,118)	(2,866)
Purchase of intangible assets	12	(618)	(429)
Net cash flows used in investing activities		**(6,791)**	**(2,936)**
Financing activities			
Proceeds from issues of shares and other equity securities	18, 19	–	38,353
Payment of principal portion of lease liabilities	8.3	(19,948)	(17,919)
Lease incentives and COVID-19 abatements received in cash		2,160	650
Proceeds from borrowings	8.3	–	15,000
Repayment of borrowings	8.3	–	(51,250)
Upfront finance charge of borrowings		(47)	(272)
Dividends paid to equity holders of the Parent	20	(15,737)	(37,735)
Proceeds from MEP loan repayments		3,696	5,158
Payments for buy-back of ordinary shares		–	(2,637)
Transaction costs with respect to newly issued shares		–	(2,294)
Net cash used in financing activities		**(29,876)**	**(52,946)**
Net increase/(decrease) in cash and cash equivalents		5,362	(8,412)
Cash and cash equivalents at the beginning of the financial year		33,406	41,818
Cash and cash equivalents at end of year	8	**38,768**	**33,406**

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 30 June 2022

1. CORPORATE INFORMATION

The consolidated financial statements of Universal Store Holdings Limited (the "Company" or "Parent") and its controlled entities (the "Group") for the year ended 30 June 2022 were authorised for issue in accordance with a resolution of the Directors on 25 August 2022.

Universal Store Holdings Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia whose shares from 16 November 2020 are publicly traded on the Australian Stock Exchange ('ASX').

The Group is principally engaged in retail operations in the fashion market segment in Australia, and further information on the nature of the operations and principal activity of the Group are described in the Directors' report. Information on the Group's structure is provided in Note 21. Information on other related party relationships of the Group is provided in Note 22.

2. SIGNIFICANT ACCOUNTING POLICIES

2.1 Basis of preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board.

The consolidated financial statements have been prepared on a historical cost basis.

The consolidated financial statements are presented in Australian dollars and all values are rounded to the nearest thousand ($000), except when otherwise indicated under the option available to the Company under *ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191*. The Company is an entity to which this legislative instrument applies.

Compliance with International Financial Reporting Standards (IFRS)

The consolidated financial statements also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

The Directors have the power to amend and reissue the financial statements.

2.2 Changes in accounting policies and disclosures

New and amended standards adopted by the Group

The Group has not applied any new standards or amendments for the first time for their annual reporting period commencing 1 July 2021.

Accounting Standards and Interpretations issued but not yet effective

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Group for the annual reporting year ended 30 June 2022.

AASB 2020-3 Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and other amendments AASB 1, AASB 3, AASB 9, AASB 116, AASB 137 and AASB 141

Effective for annual reporting periods beginning on or after 1 January 2022.

The AASB's assessment of applying the revised definitions of assets and liabilities in the Conceptual Framework to business combinations showed that the problem of day two gains or losses would be significant only for liabilities that an acquirer accounts for after the acquisition date by applying AASB 137 *Provisions, Contingent Liabilities and Contingent Assets* or AASB Interpretation 21 *Levies*. The Board updated AASB 3 in May 2020 for the revised definitions of an asset and a liability and excluded the application of the Conceptual Framework to liabilities and contingent liabilities within the scope of AASB 137 or AASB Interpretation 21.

The amendment also clarifies that before an onerous lease provision can be recognised, an entity must recognise an impairment loss that has occurred on assets used in fulfilling the contract.

These amendments are applied prospectively.

AASB 2020-1 *Amendments to AASs – Classification of Liabilities as Current or Non-current*

Effective for annual reporting periods beginning on or after 1 January 2023.

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 *Presentation of Financial Statements* to clarify the requirements for classifying liabilities as current or non-current. Specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists.
- Management intention or expectation does not affect classification of liabilities.
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

These amendments are applied retrospectively. The Group has not adopted this standard but it is not expected to have a material impact.

AASB 2021-5 *Amendments to Australian Accounting Standards – Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

Effective for annual reporting periods beginning on or after 1 January 2023 with earlier application permitted.

AASB 2021-5 amends AASB 112 *Income Taxes* to clarify that the exemption from recognising deferred tax when recognising assets or liabilities for the first time does not apply to transactions for which entities recognise both an asset and a liability and that give rise to equal and taxable deductible and temporary differences.

AASB 2021-5 also amends AASB 1 *First time adoption of Australian Accounting Standards* to require deferred tax related to leases and decommissioning, restoration and similar obligations to be recognised by first-time adopters at the date of transition to Australian Accounting Standards, despite the exemption set out in AASB 112.

2.3 Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 30 June 2022. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if, and only if, the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee).
- Exposure, or rights, to variable returns from its involvement with the investee.
- The ability to use its power over the investee to affect its returns.

Generally, there is a presumption that a majority of voting rights results in control. To support this presumption and when the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement(s) with the other vote holders of the investee.
- Rights arising from other contractual arrangements.
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated financial statements from the date the Group gains control until the date the Group ceases to control the subsidiary.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

If the Group loses control over a subsidiary, it derecognises the related assets (including goodwill), liabilities, non-controlling interest and other components of equity, while any resultant gain or loss is recognised in profit or loss. Any investment retained is recognised at fair value.

2.4 Summary of significant accounting policies

(a) Current versus non-current classification

The Group presents assets and liabilities in the consolidated statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period, or
- Cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

All other assets are classified as non-current.

A liability is current when:

- It is expected to be settled in the normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period, or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

(b) Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars, which is also the Company's functional currency.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. The gain or loss arising on translation of non-monetary items measured at fair value is treated in line with the recognition of the gain or loss on the change in fair value of the item (i.e., translation differences on items whose fair value gain or loss is recognised in OCI or profit or loss are also recognised in OCI or profit or loss, respectively).

In determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of advance consideration.

(c) Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. The Group treats all stores as a cash generating unit (CGU). An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use. All stores are individual CGUs for the purpose of assessing the recoverability of property, plant and equipment and an aggregation of CGUs for the purpose of assessing the recoverability of goodwill, brand names and other net CGU assets. The recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on most recent budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. A long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses are recognised in the consolidated statement of profit or loss and other comprehensive statement in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the consolidated statement of profit or loss and other comprehensive income unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested annually for impairment at the group of CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(d) Finance income

Interest income is recorded using EIR. The EIR is the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset. Interest income is included in finance income in the consolidated Statement of Profit or Loss and Other Comprehensive Income.

(e) Goods and services tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except:

- When the GST incurred on a sale or purchase of assets or services is not payable to or recoverable from the taxation authority, in which case the GST is recognised as part of the revenue or the expense item or as part of the cost of acquisition of the asset, as applicable; and
- When receivables and payables are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Consolidated Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the Consolidated Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority is classified as part of operating cash flows.

(f) Comparatives

Where necessary, comparative figures have been reclassified to conform with changes in presentation of assets and liabilities but resulting in no impact to the overall profit for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Group's consolidated financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Estimates and assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are described below. The Group based its assumptions and estimates on parameters available when the consolidated financial statements were prepared. Existing circumstances and assumptions about future developments, however, may change due to market changes or circumstances arising that are beyond the control of the Group. Such changes are reflected in the assumptions when they occur.

Leases – Estimating the Incremental Borrowing Rate ('IBR')

The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities.

The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR build-up approach is that the Group provides Australia and New Zealand Banking Group (ANZ) the lease details and ANZ provides the Group with an estimated interest rate.

Make good provisions

Make good provisions are for the estimated cost of the legal obligations of restoring leased premises to their original condition at the end of the lease term. Significant management judgement is required to estimate make good obligations to dismantle, remove and restore items of right-of-use assets and property, plant and equipment.

Coronavirus (COVID-19) pandemic

The ongoing COVID-19 pandemic has increased the uncertainty in the preparation of the consolidated financial statements. The estimation uncertainty is associated with:

- Disruption to the Group's customers and ability to shop in store and therefore, impacts the Group's revenue;
- Inability of the Group's workforce to support operations due to Government enforced regulations and restrictions on movements;
- Unavailability or delay of products and supplies used in Group's operations;
- As to whether there may have been a decline in value of assets; or
- The shape and length of the economic recovery.

The Group has developed various accounting estimates in the consolidated financial statements based on forecasts of economic conditions which reflect expectations and assumptions as at 30 June 2022 about future events that the Directors believe are reasonable in the circumstances. There is a considerable degree of judgement involved in preparing forecasts. The underlying assumptions are also subject to uncertainties which are often outside the control of the Group. Accordingly, actual economic conditions are likely to be different from those forecast since anticipated events frequently do not occur as expected, and the effect of those differences may significantly impact accounting estimates included in the consolidated financial statements.

The significant accounting estimates impacted by these forecasts and associated uncertainties are predominantly related to impairment of assets such as goodwill, right-of-use assets and inventory.

In relation to the Group's liquidity position, the Directors anticipate having sufficient liquidity to make all required payments during the pandemic and to continue as a going concern. The Directors do not foresee a significant impact on the Group's access to capital or the Group's liquidity position as a result of the pandemic.

Key assumptions used for goodwill and brand names impairment testing

The Group tests whether goodwill and brand names have suffered any impairment on an annual basis. The recoverable amount of the CGUs was determined based on fair value less costs of disposal calculations which require the use of assumptions. The calculations use cash flow projections based on financial budgets and projections approved by management covering a five-year period. The budget for the year ending 30 June 2023 assumes all stores are trading for the full year (i.e. no mandated store closure). Cash flows beyond the five-year period are extrapolated using a terminal growth rate of 2.5%. For further information refer to Note 12.

4. OPERATING SEGMENTS

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-maker (CODM's). The CODM's has been identified as the Board of Directors on the basis that they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance.

Key internal reports received by the CODM's, primarily the management accounts, focus on the performance of the Group as a whole. The performance of the operations is based on underlying EBIT (earnings before interest and tax). The accounting policies adopted for internal reporting to the CODM's are consistent with those adopted in the consolidated financial statements.

The Group has considered its internal reporting framework, management and operating structure and the Directors' conclusion is that the Group operates as a single operating segment as a fashion retailer operating within Australia.

The reconciliations of the Group for EBIT to underlying EBIT are as follows:

	2022 $'000	2021 $'000	Change %
Reconciliation to underlying EBIT			
EBIT	**31,989**	**38,041**	**(15.9)**
Transaction costs associated with IPO	–	6,732	–
Incremental standalone public Company costs	–	(108)	–
MEP shares expense	–	561	–
Interest income	–	83	–
AASB 16 adjustments*	(1,670)	(1,269)	31.6
Nundah office onerous lease impairment	624	–	–
Underlying EBIT	**30,943**	**44,040**	**(29.7)**
Underlying EBIT margin	14.9%	20.9%	(28.7)

* Depreciation and occupancy expenses recognised under AASB 16.

5. REVENUE AND EXPENSES

5.1 Revenue from contracts with customers

The Group derives revenue from the transfer of goods at a point in time as follows:

	2022 $'000	2021 $'000
Total revenue from contracts with customers	**207,969**	**210,817**

Within the revenue stream of sales of goods, the Group has two channels of sales being store sales and online sales, at 83% and 17% of the total sales of goods respectively during the year. (2021: 88% store sales and 12% online sales).

Significant accounting policies

Revenue from contracts with customers is recognised when performance obligations are satisfied and the amount of transaction price allocated to satisfied performance obligations. A performance obligation is satisfied by transferring a promised good or service to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services. The Group has generally concluded that it is the principal in its revenue arrangements.

Sales of goods

Store sales

Revenue from store sales is recognised at the point in time when the performance obligation is satisfied, which is generally on handover of the goods.

Online sales

Revenue from sale of goods in online sales is recognised when the Group's performance obligations is satisfied, which is when customers receives the goods.

Rights of return assets and refund liabilities

For online and store sales that permit the customer to return the goods within a specified period, revenue is only recognised to the extent that it is highly probable that a significant reversal will not occur. A refund liability (included in contract liabilities) is recognised for expected sales returns by the customer in relation to sales made until the end of the reporting period. The validity of the assumption and the estimated amount of returns are reassessed at each reporting date.

Contract liabilities

A contract liability is recognised if a payment is received or a payment is due (whichever is earlier) from a customer before the Group transfers the related goods or services. Contract liabilities are recognised as revenue when the Group performs under the contract (i.e., a performance obligation is satisfied by transferring a promised good or service to the customer).

The Group's contract liabilities predominantly relate to gift cards. A contract liability is recognised when payment is made in exchange for a gift card. Revenue is recognised when the gift card is redeemed in exchange for goods.

5.2 Included in materials and consumables used

A net loss of foreign exchange of $153,000 (2021: gain of $51,000) is included in materials and consumables used.

5.3 Employee benefits expense

	2022 $'000	2021 $'000
Employee benefits expense	42,468	41,493
Repayment of net benefit of JobKeeper wage subsidy received	–	3,000
Government grants	–	(4,445)
Net employee benefits expense	**42,468**	**40,048**

On 24 February 2021, the Directors of Universal Store Holdings Limited determined that on the basis of the performance of the Group during H1 FY21 it was appropriate to return the net JobKeeper wage subsidy benefit received from July 2020 to the Australian Government. This represents $3.0 million of subsidised wages. The repayment is recognised as employee benefits expense. The Group acknowledge and appreciate the important role this policy played in enabling the Group to support its team through significant periods of store closures in FY21.

Significant accounting policies

Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed.

Government grants received by the Group consist of JobKeeper payments.

5.4 Depreciation, amortisation and impairment expense

	Note	2022 $'000	2021 $'000
Plant and equipment	11	4,428	4,283
Right-of-use assets	13	19,758	19,171
Intangible assets	12	304	206
Impairment of intangible assets	12	–	212
Impairment of right-of-use assets	13	624	–
Depreciation, amortisation and impairment expense		**25,114**	**23,872**

5.5 Transaction costs

	2022 $'000	2021 $'000
Transaction costs associated with IPO	**–**	**6,732**

5.6 Finance costs

	Note	2022 $'000	2021 $'000
Interest on debt and borrowing		702	1,439
Interest on lease liabilities	13	1,909	2,295
		2,611	**3,734**

Significant accounting policies

Finance costs comprise interest expense on borrowings and other finance charges. Borrowing costs that are not directly attributable to the acquisition, construction or production of a qualifying asset are recognised in profit or loss using the EIR method.

6. INCOME TAX

The major components of income tax expense for the years ended 30 June 2022 and 2021 are:

	2022 $'000	2021 $'000
Current income tax:		
Current income tax expense	7,877	12,900
Under/over provision for income tax	130	(496)
Deferred tax:		
Deferred income tax expense/(benefit)	897	(1,634)
Income tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**8,904**	**10,770**

Reconciliation of tax expense and the accounting profit multiplied by Australia's domestic tax rate for the years ended 30 June 2022 and 2021:

	2022 $'000	2021 $'000
Accounting profit before income tax	**29,478**	**35,139**
At Australia's statutory income tax rate of 30% (2021 – 30%)	8,843	10,542
Adjustments in respect of current income tax of previous years	130	21
Non-deductible expenses for tax purposes		
Sundry items	(69)	207
Income tax expense reported in the Consolidated Statement of Profit or Loss and Other Comprehensive Income	**8,904**	**10,770**

Deferred tax

Deferred tax relates to the following:

	Consolidated Statement of Financial Position		Consolidated Statement of Profit or Loss and Other Comprehensive Income	
	2022 $'000	2021 $'000	2022 $'000	2021 $'000
Right-of-use assets	(11,869)	(14,633)	(2,764)	(3,387)
Property, plant and equipment	(1,769)	(470)	1,299	470
Intangible assets	(10,922)	(10,922)	–	(64)
Prepayments	–	–	–	(2)
Employee benefits	727	555	(172)	(90)
Provisions	441	298	(143)	(95)
Lease liabilities	14,568	16,497	1,930	2,895
Blackhole expenditure	1,975	2,826	851	(1,319)
Other	188	85	(104)	(42)
Deferred tax benefit			**897**	**(1,634)**
Net deferred tax liabilities	**(6,661)**	**(5,764)**		
Reflected in the Consolidated Statement of Financial Position as follows:				
Deferred tax assets	17,899	20,261		
Deferred tax liabilities	(24,560)	(26,025)		
	(6,661)	**(5,764)**		

Reconciliation of deferred tax liabilities, net

	2022 $'000	2021 $'000
As of 1 July	**(5,764)**	**(8,087)**
Tax (expense)/benefit during the year recognised in profit or loss	(897)	1,634
Deferred taxes recognised directly in equity	–	689
As at 30 June	**(6,661)**	**(5,764)**

Offsetting within tax consolidated Group

Universal Store Holdings Limited (formerly US Holdings Pty Ltd) and its wholly-owned Australian subsidiaries have applied the tax consolidation legislation which means that these entities are taxed as a single entity. As a consequence, the deferred tax assets and deferred tax liabilities of these entities have been offset in the consolidated financial statements.

Significant accounting policies

Current income tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in the countries where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the consolidated statement of profit or loss and Other Comprehensive Income. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred tax

Deferred tax is provided using the liability method on temporary differences between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes at the reporting date.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- When the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carry forward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised, except:

- When the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are recognised only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are re-assessed at each reporting date and are recognised to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax benefits acquired as part of a business combination, but not satisfying the criteria for separate recognition at that date, are recognised subsequently if new information about facts and circumstances change. The adjustment is either treated as a reduction in goodwill (as long as it does not exceed goodwill) if it was incurred during the measurement period or recognised in profit or loss.

The Group offsets deferred tax assets and deferred tax liabilities if and only if it has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Tax consolidation legislation

Universal Store Holdings Limited (formerly US Holdings Pty Ltd) and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Universal Store Holdings Limited (formerly US Holdings Pty Ltd) and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Universal Store Holdings Limited (formerly US Holdings Pty Ltd) also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

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

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

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

7. EARNINGS PER SHARE (EPS)

Basic EPS is calculated by dividing profit for the year attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Company by the weighted average number of ordinary shares outstanding during the year plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into ordinary shares.

The following table reflects the income and share data used in the basic and diluted EPS computations:

	2022 $'000	2021 $'000
Profit attributable to ordinary share holders	**20,574**	**24,369**

	2022	2021
Weighted average number of ordinary shares for basic earnings per share	68,046,034	61,298,061
Effect of dilution from:		
MEP shares	3,066,509	5,336,531
Weighted average number of ordinary shares adjusted for the effect of dilution	**71,112,543**	**66,634,592**

	2022 Cents	2021 Cents
Basic earnings per share	30.2	39.8
Diluted earnings per share	28.9	36.6

8. CASH AND CASH EQUIVALENTS

	2022 $'000	2021 $'000
Cash on hand	54	54
Cash at bank	38,714	33,352
	38,768	**33,406**

	2022 $'000	2021 $'000
Cash flow reconciliation		
Profit after tax	20,574	24,369
Adjustments to reconcile profit before tax to net cash flows:		
Depreciation of plant and equipment	4,428	4,283
Depreciation of right-of-use assets	19,758	19,171
Amortisation of intangible assets	304	206
Impairment of intangible assets	–	212
Non-cash share-based payment	–	561
Amortisation of debt issue costs	115	514
(Gain)/loss on derivatives	–	(243)
Loss on disposal of assets	–	74
Non-cash finance income	–	(750)
Impairment of right-of-use assets	624	–
Working capital adjustments:		
Decrease in trade and other receivables	14	610
Increase in inventories	(329)	(3,991)
Increase/(Decrease) in deferred tax liabilities	897	(1,635)
Increase in trade and other payables	989	1,906
(Decrease)/Increase in current tax liabilities	(5,692)	1,891
Increase in other provisions	347	292
Net cash flows from operating activities	**42,029**	**47,470**

8.1 Non-cash investing and financing activities

Non-cash investing and financing activities disclosed in other notes are:

- Acquisition of right-of-use assets – Note 13.

8.2 Net debt reconciliation

	Note	2022 $'000	2021 $'000
Net debt			
Cash and cash equivalents	8	38,768	33,406
Lease liabilities	13	(48,558)	(54,991)
Borrowings – repayable after one year	15	(14,865)	(14,797)
		(24,655)	**(36,382)**

8.3 Changes in liabilities arising from financing activities

	1 July 2021 $'000	Cash inflows $'000	Cash outflows $'000	Amortisation of debt issue costs $'000	Non-cash additions and modifications of lease liabilities $'000	Other $'000	30 June 2022 $'000
Borrowings	15,000	–	–	–	–	–	15,000
Debt issue costs	(203)	–	(47)	115	–	–	(135)
Lease liabilities	54,991	–	(19,948)	–	13,515	–	48,558
Total liabilities from financing activities	**69,788**	**–**	**(19,995)**	**115**	**13,515**	**–**	**63,423**

	1 July 2020 $'000	Cash inflows $'000	Cash outflows $'000	Amortisation of debt issue costs $'000	Non-cash additions and modifications of lease liabilities $'000	Other $'000	30 June 2021 $'000
Borrowings	52,000	15,000	(51,250)	–	–	(750)	15,000
Debt issue costs	(445)	–	(272)	514	–	–	(203)
Lease liabilities	64,639	–	(17,919)	–	8,271	–	54,991
Total liabilities from financing activities	**116,194**	**15,000**	**(69,441)**	**514**	**8,271**	**(750)**	**69,788**

Significant Accounting Policy – Cash and cash equivalents

Cash and cash equivalents in the Consolidated Statement of Financial Position comprise of cash at banks and on hand.

For the purpose of the Consolidated Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents, as defined above, net of outstanding bank overdrafts as they are considered an integral part of the Group's cash management.

9. OTHER RECEIVABLES

	2022 $'000	2021 $'000
Other receivables	1,208	1,419
Prepayments and deposits	1,211	1,014
	2,419	**2,433**

Significant Accounting policy

A receivable represents the Group's right to an amount of consideration that is unconditional (i.e., only the passage of time is required before payment of the consideration is due). Other receivables are recognised initially at the amount of consideration that is unconditional unless they contain significant financing components, when they are recognised at fair value. The Group holds the other receivables with the objective of collecting the contractual cash flows and therefore measures them subsequently at amortised cost using the effective interest rate (EIR) method.

10. INVENTORIES

	2022 $'000	2021 $'000
Stock on hand at cost	18,820	18,701
Inventory provision	(796)	(1,006)
	18,024	**17,695**

Inventories recognised as an expense during the year ended 30 June 2022 amount to $77.9 million (2021: $79.1 million). Write-downs of inventories to net realisable value recognised as an expense during the year ended 30 June 2022 amounted to $531,000 (2021: $949,000). These were included in materials and consumables used.

Agenda Decision – IAS 2 Inventories paragraph 28

During June 2021, the IFRS Interpretations Committee concluded that when determining the net realisable value (NRV) of inventories entities must estimate all costs necessary to make the sale in the ordinary course of business. Entities are required to use judgement to determine which of its cost are necessary to sell inventories.

Management have assessed the agenda decision to not have a material impact on these financial statements.

Significant accounting policies

Inventory is stated at the lower of cost and net realisable value. Costs of purchased inventory are determined after deducting rebates and discounts and are assigned to quantities of inventory on hand on a weighted average costing basis. During June 2021, the IFRS Interpretations Committee concluded that when determining the net realisable value (NRV) of inventories, entities must estimate all costs necessary to make the sale in the ordinary course of business. Entities are required to use judgement to determine which of its costs are necessary to sell inventories.

11. PLANT AND EQUIPMENT

	Fixtures and fittings $'000	Leasehold improvements $'000	Plant and equipment $'000	Total $'000
Cost				
At 1 July 2020	2,783	9,957	3,295	16,035
Additions	836	1,394	636	2,866
Disposals	(44)	(813)	(47)	(904)
At 30 June 2021	**3,575**	**10,538**	**3,884**	**17,997**
Additions	722	5,298	1,098	7,118
Disposals	–	(945)	–	(945)
At 30 June 2022	**4,297**	**14,891**	**4,982**	**24,170**
Depreciation				
At 1 July 2020	1,184	2,352	1,490	5,026
Depreciation charge for the year	509	3,185	589	4,283
Disposals	(31)	(410)	(30)	(471)
At 30 June 2021	**1,662**	**5,127**	**2,049**	**8,838**
Depreciation charge for the year	621	3,084	723	4,428
At 30 June 2022	**2,283**	**8,211**	**2,772**	**13,266**
Net book value				
At 30 June 2021	1,913	5,411	1,835	9,159
At 30 June 2022	**2,014**	**6,680**	**2,210**	**10,904**

Significant accounting policies

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

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting year in which they are incurred.

Depreciation is calculated using the straight-line method to allocate the cost or revalued amounts of the assets, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter lease term as follows:

Fixtures and fittings	1 to 10 years
Leasehold improvements	2 to 10 years
Other equipment	1 to 12 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting year.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.4(c)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in profit or loss.

12. GOODWILL AND INTANGIBLE ASSETS

	Goodwill $'000	Brand names $'000	Software $'000	Total $'000
Cost				
At 1 July 2020	55,516	36,620	733	92,869
Additions	–	–	429	429
Disposals	–	–	(3)	(3)
At 30 June 2021	**55,516**	**36,620**	**1,159**	**93,295**
Additions	–	–	618	618
At 30 June 2022	**55,516**	**36,620**	**1,777**	**93,913**
Amortisation				
At 1 July 2020	–	–	157	157
Amortisation	–	–	206	206
Impairment	–	212	–	212
At 30 June 2021	**–**	**212**	**363**	**575**
Amortisation	–	–	304	304
At 30 June 2022	**–**	**212**	**667**	**879**
Net book value				
At 30 June 2022	**55,516**	**36,408**	**1,110**	**93,034**
At 30 June 2021	55,516	36,408	796	92,720

Impairment testing of goodwill and brand names

Goodwill and brand names are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired.

The recoverable amount of CGUs is the greater of its value in use and its fair value less costs to sell.

Impairment testing was carried out as a group of cash-generating units (CGUs), based on fair value less cost of disposal (FVLCD) calculations with management performing sensitivity analysis on the key assumptions used in the impairment model. Management has considered possible changes in key assumptions that would cause the carrying amount of goodwill to exceed its FVLCD.

Cash flow forecasts are based on the Group's most recent plans. Revenue for the purposes of impairment testing was based on expectations of future outcomes having regard to available market information and past experience. Cash flow forecasts are modelled over a five year forecast period with a terminal growth rate at the end of year five discounted to present value.

The key assumptions at the Group level are as follows:

- WACC (post tax) 11.5% (2021: 11%);
- Terminal growth rate of 2.5% (2021: 2.5%);
- Year 1 forecast based on most recent sales profile by store;
- Year 2-5 forecasted at Group level with existing store revenue growth at 4%; and
- Ten new stores per annum.

Further, the Group has taken into account current market and economic conditions, placing caution on the recovery of the Australian economy given the global uncertainty resulting from COVID-19, with forecast scenarios including low, medium and high impacts should further COVID-19 outbreaks or disruptions to trade occur throughout FY23. Goodwill and brand names are not impaired at balance date under FVLCD model.

No reasonable possible changes in these assumptions would lead to a reduction in recoverable amount below carrying value.

Significant accounting policies

(i) Goodwill

Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

For the purposes of managing goodwill, the Group treats all stores and the central distribution centre as a single cash-generating unit (CGU) or aggregation of CGUs.

(ii) Brand names

Separately acquired brand names are shown at historical cost. Brand names acquired in a business combination are recognised at fair value at the acquisition date. They have an indefinite useful life and are assessed annually for impairment.

(iii) Software

Software-as-a-Service (SaaS) arrangements

Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the Group has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract.

Software costs associated with maintaining software programmes are recognised as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the Group are recognised as intangible assets where the following criteria are met:

- it is technically feasible to complete the software so that it will be available for use;
- management intends to complete the software and use or sell it;
- there is an ability to use or sell the software;
- it can be demonstrated how the software will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software are available; and
- the expenditure attributable to the software during its development can be reliably measured.

Directly attributable costs that are capitalised as part of the software include employee costs and an appropriate portion of relevant overheads. Capitalised development costs are recorded as intangible assets and amortised from the point at which the asset is ready for use. Software is amortised of a period of five years.

13. LEASES

Group as a lessee

The Group has lease contracts for various properties used in its operations. Leases of properties generally have lease terms between one to seven years. The Group's obligations under its leases are secured by the lessor's title to the leased assets. Generally, the Group is restricted from assigning and subleasing the leased assets and some contracts require the Group to maintain certain financial ratios.

Set out below are the carrying amounts of right-of-use assets recognised and the movements during the period:

	Properties $'000
At 1 July 2020	**60,311**
Additions*	6,120
Modifications	1,516
Depreciation expense	(19,171)
At 30 June 2021	**48,776**
Additions*	10,641
Modifications**	798
Depreciation expense	(19,758)
Impairment of ROU	(624)
At 30 June 2022	**39,833**

* The amount includes rent incentives received of $2,160,000 in 2022 (2021: $650,000).

** COVID-19 abatement received of $898,000 in 2022 (2021: $758,000).

Set out below are the carrying amounts of lease liabilities and the movements during the period:

	2022 $'000	2021 $'000
At 1 July	**54,991**	**64,639**
Additions	10,897	6,753
Modifications	1,696	2,276
Accretion of interest	1,909	2,295
Payments	(20,905)	(20,972)
At 30 June	**48,558**	**54,991**
Current	19,969	19,222
Non-current	28,589	35,769

The following are the amounts recognised in profit or loss:

	2022 $'000	2021 $'000
Depreciation expense of right-of-use assets	19,758	19,171
Interest expense on lease liabilities	1,909	2,295
Expense relating to variable lease payments not included in lease	8,760	7,297
Short-term rental reliefs received	(393)	(335)
Total amount recognised in profit or loss	**30,034**	**28,428**

The Group had total cash outflows for leases of $31.1 million in 2022 (2021: $27.9 million). The Group also had non-cash additions to right-of-use assets of $11.4 million (2021: $7.6 million) and to lease liabilities of $14.4 million (2021: $9.0 million) in 2022.

Lease payments that depend on sales or usage

Some property leases contain variable payment terms that are linked to sales generated from a store. For individual stores, up to 100% of lease payments are on basis of variable payment terms with percentages ranging from 10% to 15% of sales. Variable payment terms are used for a variety of reasons, including minimising the fixed costs base for newly established stores and for mitigating the financial risks associated with COVID-19. Variable lease payments that depend on sales are recognised in profit or loss in the period in which the condition that triggers those payments.

Significant accounting policies

The Group has lease contracts for various properties used in its operations. The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as a lessee

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

(i) Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, make good provision, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the shorter of the lease term and the estimated useful lives of the assets, as follows:

- Properties (offices, warehouses, retail stores and equipment) 1 to 7 years.

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the leases if it is reasonably certain to be exercised, or any periods covered by an option to terminate the leases, if it is reasonably certain not to be exercised.

If ownership of the leased asset transfers to the Group at the end of the lease term or the cost reflects the exercise of a purchase option, depreciation is calculated using the estimated useful life of the asset.

The right-of-use assets are also subject to impairment. Refer to the accounting policies in Note 2.4(c) Impairment of non-financial assets.

Make good provision

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with returning the premises to its original condition. The calculation of this provision requires assumptions such as expected lease expiry dates, and cost estimates. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each leased premises is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the Consolidated Statement of Financial Position by adjusting both the expense or asset (if applicable) and provision.

(ii) Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include lease components, fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating the lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses (unless they are incurred to produce inventories) in the period in which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate ("IBR") at the lease commencement date because the interest rate implicit in the lease is not readily determinable. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

(iii) Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of equipment (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered to be low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

(iv) Variable lease payments

Some property leases contain variable payment terms that are linked to sales generated from a store. Variable lease payments that depend on sales are recognised in profit or loss in the year in which the condition that triggers those payments occurs.

Future cash outflows to which the lessee is potentially exposed are not reflected in the measurement of lease liabilities. This includes exposure arising from variable lease payments.

(v) Lease modification

Modification accounting as applicable for lessees is defined by AASB 16. A lease modification (as considered in these financial statements, which does not address changes in the leased asset, such as decreases in leased space) arises when the lease contract is altered such that future cash flows and/or the scope of the lease change. Where an increase in scope occurs, the lease payments are adjusted to the commensurate market rates.

Otherwise, the original lease is remeasured by:

- Identifying a revised IBR appropriate to the revised lease term, underlying asset and the lessee;
- Determining the net present value of future cash outflows using that revised IBR; and
- Adjusting the remaining right-of-use asset for the increase or decrease in the lease liability. If the adjustment exceeds the carrying value of the right-of-use asset, this excess is recognised as a gain in profit or loss.

AASB 2020-4 *Amendments to AASs – COVID-19-Related Rent Concessions*

Due to the COVID-19 pandemic, many lessors have granted rent concessions to lessees that impact lease payments. Consequently, AASB 16 was amended, allowing lessees to not account for rent concessions as lease modifications, provided certain conditions are met.

The practical expedient applies only to rent concessions occurring as a direct consequence of the COVID-19 pandemic, and only if all of the following conditions are met:

- The change in lease payments results in revised consideration for the lease that is substantially the same as, or less than, the consideration for the lease immediately preceding the change;
- Any reduction in lease payments affects only payments originally due on or before 30 June 2022; and
- There is no substantive change to other terms and conditions of the lease.

Similar relief was not provided to lessors for several reasons, including the fact that AASB 16 did not introduce significant changes to lessor accounting.

14. TRADE AND OTHER PAYABLES

	2022 $'000	2021 $'000
Current		
Trade payables	9,621	10,423
GST payable	1,042	678
Accrued expenses	7,012	5,865
	17,675	**16,966**

The carrying amounts of trade and other payables are considered to be the same as their fair values, due to their short-term nature.

Significant accounting policies

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the EIR method.

15. BORROWINGS

	2022 $'000	2021 $'000
Non-current		
Bank borrowings (Facility A)*	14,865	14,797

* The amount includes borrowing costs of $135,000 for the current year (2021: $203,000).

The Group has the following debt facilities with ANZ:

- Facility A for $15.0 million which is reviewed annually in line with business cash requirements.
- Facility D, a $8.5 million revolving working capital facility, which is undrawn.
- Facility E, a $5.0 million standby letter of credit/guarantee facility.

Facilities A and D were amended and the expiry date was extended to April 2025. Facility E is reviewed annually.

Facilities are secured by a General Security Agreement (GSA) and Corporate Guarantee provided by Universal Store Holdings Limited, US 1A Pty Ltd, US 1B Pty Ltd, US Australia Pty Ltd and Universal Store Pty Ltd. A negative pledge has been provided by all parties via the ANZ Facility Agreement.

The Group has complied with all of the financial covenants of its borrowing facilities during the 2022 and 2021 reporting period and continues to have significant headroom.

Significant accounting policies

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the year of the borrowings using the EIR method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the year of the facility to which it relates.

Borrowings are removed from the Consolidated Statement of Financial Position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

16. CONTRACT LIABILITIES

	2022 $'000	2021 $'000
Gift cards	1,346	1,100
Other contract liabilities	121	88
	1,467	**1,188**

	Gift cards $'000	Other contract liabilities $'000	Total $'000
At 1 July 2020	**480**	**13**	**493**
Deferred during the year	3,707	233	3,940
Recognised as revenue during the year	(3,087)	(158)	(3,245)
At 30 June 2021	**1,100**	**88**	**1,188**
Deferred during the year	3,535	114	3,649
Recognised as revenue during the year	(3,289)	(81)	(3,370)
At 30 June 2022	**1,346**	**121**	**1,467**

17. PROVISIONS

	2022 $'000	2021 $'000
Current		
Employee benefits	1,912	1,558
Non-current		
Employee benefits	226	233
Make good provision	680	595
	906	**828**

(a) Information about individual provisions and significant estimates

Make good provision

The Group is required to restore the leased premises of its retail stores to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the right-of-use asset and are amortised over the lease term.

(b) Movements in provisions

Movements in each class of provision during the financial year are set out below:

	Make good provision $'000	Employee benefits $'000	Total $'000
At 1 July 2020	578	1,499	2,077
Additional provision charged to right-of-use asset	34	–	34
Charged to profit or loss	(17)	292	275
At 30 June 2021	**595**	**1,791**	**2,386**
Additional provision charged to right-of-use asset	85	–	85
Charged to profit or loss	–	347	347
At 30 June 2022	**680**	**2,138**	**2,818**

Significant accounting policies

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. When the Group expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognised as a separate asset, but only when the reimbursement is virtually certain. The expense relating to a provision is presented in the consolidated statement of profit or loss and other comprehensive income net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects, when appropriate, the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a finance cost.

Wages, salaries and sick leave

Liabilities for wages and salaries, including non-monetary benefits and accumulating sick leave which are expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Expenses for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Long service leave and annual leave

The Group does not expect its long service leave or annual leave benefits to be settled wholly within 12 months of each reporting date. The Group recognises a liability for long service leave and annual leave measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

18. CONTRIBUTED EQUITY

	2022 $'000	2021 $'000
Ordinary shares	92,161	92,161

Ordinary shares issued and fully paid	Number of shares '000	$'000
At 1 July 2020	**64,221**	**56,252**
Issuance of shares on IPO	10,093	38,353
Transaction costs, net of tax	–	(1,606)
Buy-back of ordinary shares	(1,119)	(838)
At 30 June 2021	**73,195**	**92,161**
At 30 June 2022	**73,195**	**92,161**

18.1 Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Group in proportion to the number of shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

Ordinary shares have no par value. The Group does not have a limited amount of authorised capital.

The movement in share capital during the prior period was due to the IPO where an additional 10.1 million shares were issued on 16 November 2020, at a value of $38.4 million. Transaction costs on the issue of these shares, net of tax, amount to $1.6 million.

Share-based payments awards which vested during the period resulting in the IPO amount to seven million shares, with a remaining share-based payment expense of $561,000 that was accelerated upon IPO.

18.2 Related party disclosures

Management sale of MEP shares

On 25 September 2020, a former key management personnel ("KMP") exited the Company and sold 1,593,519 MEP shares back to US Holdings Pty Ltd and other KMPs at market value. 1,118,519 of the 1,593,519 shares were sold back to US Holdings Pty Ltd and were cancelled immediately. The remaining number of shares that were bought back by the following Directors and KMPs on that date are as follows:

- K Gaffney 25,000 shares
- P Birtles 200,000 shares

On the same date, R Jones was issued with 250,000 shares, of which 200,000 were issued under the MEP.

No further MEP shares were issued in FY22.

MEP shares – accelerated vesting

At the beginning of the period, there were no MEP shares outstanding which had yet to vest.

On 16 November 2020, 100% of these MEP shares vested due to the IPO being considered an "exit event" with the exception of the 1,118,519 MEP shares that had already been repurchased by US Holdings Pty Ltd in September 2020 (as described above). This resulted in a share-based payment charge of $561,000 for the period, which has been recognised as an expense in the income statement.

The limited recourse loans relating to these MEP shares were reissued, and will only be repayable if/when one of the following exit events occurs:

- Shares are sold.
- Dividends from these shares are paid to the individual.
- Employee ceases work with the Company.

There were no other MEP arrangements issued during the period. The MEP arrangements are in substance a share based arrangement and accounted for as a share-based payment transaction. The number of MEP shares vested at 30 June 2022 is 3,124,124 with an exercise price of $1.00 (2,435,790 MEP shares), $1.50 (488,334 MEP shares) and $2.00 (200,000 MEP shares).

All MEP shares have vested at 30 June 2022.

Significant accounting policies – Contributed equity

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

Limited recourse loans have been provided to employees under a MEP with equity issued in Universal Store Holdings Limited. The limited recourse loans are accounted for as a share-based payment which is recognised as an expense over time (until vesting).

19. SHARE-BASED PAYMENT RESERVE

	Share options $'000
At 1 July 2020	**361**
Share-based payment	561
MEP loan repayment	5,158
Buy-back of ordinary shares	(1,799)
At 30 June 2021	**4,281**
MEP loan repayment	3,696
At 30 June 2022	**7,977**

19.1 Nature and purpose of share-based payment reserve

The share-based payment reserve is used to record the fair value of the option attached to the limited recourse loans provided to management.

Limited recourse loans have been provided to employees under a MEP. These transactions are accounted for as a share-based payment in-substance arrangement.

20. DIVIDENDS

20.1 Ordinary shares

A pre-IPO dividend for the year ended 30 June 2020 of $34.1 million was paid on 18 November 2020 (54 cents per share).

In respect of the half-year ended 31 December 2021, an interim dividend of $8.1 million was declared on 23 February 2022 and paid on 28 March 2022 (11 cents per share) (2021: $3.7 million) .

On 25 August 2022, the Directors declared a final dividend of $7.7 million to be paid on 29 September 2022 (10.5 cents per share) (2021: $7.7 million).

20.2 Franked dividends

The final dividends declared after 30 June 2022 will be fully franked out of existing franking credits, or out of franking credits that arose from the payment of income tax during the year ended 30 June 2022.

	2022 $'000	2021 $'000
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
Franking account balance as at the end of the financial year at 30%	15,137	8,183

The above amounts are calculated from the balance of the franking account as at the end of the reporting year, adjusted for franking credits and debits that will arise from the settlement of liabilities or receivables for income tax and dividends after the end of the year.

The payment of the dividend proposed subsequent to year end is expected to give rise to franking debits of $3.3 million.

Significant accounting policies

The Company recognises a liability to pay a dividend when the distribution is authorised, and the distribution is no longer at the discretion of the Company. As per the corporate laws of Australia, a distribution is authorised when it is approved by the shareholders. A corresponding amount is recognised directly in equity.

21. INTERESTS IN OTHER ENTITIES

Material subsidiaries

The Group's principal subsidiaries at 30 June 2022 are set out below. Unless otherwise stated, they have share capital consisting solely of ordinary shares that are held directly by the Group, and the proportion of ownership interests held equals the voting rights held by the Group. The country of incorporation or registration is also their principal place of business.

		Ownership interest held by the Group	
Name of entity	Place of business/country of incorporation	2022 %	2021 %
Universal Store Pty Ltd	Australia	100	100
US Australia Pty Ltd	Australia	100	100
US 1B Pty Ltd	Australia	100	100
US 1A Pty Ltd	Australia	100	100

Pursuant to *ASIC Corporations (Wholly-owned Companies) Instrument 2016/785*, the Company and its controlled entities have entered into a deed of cross guarantee on 12 May 2021. The effect of the deed is that the Company has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities have also given a similar guarantee in the event that the Company is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The above companies represent a 'closed group' for the purposes of the deed of cross guarantee that are controlled by Universal Store Holdings Limited, they also represent the extended closed group.

22. RELATED PARTY TRANSACTIONS

22.1 Key management personnel compensation

	2022 $	2021 $
Short-term employee benefits	1,443,075	1,555,418
Long-term employee benefits	30,780	6,785
Post-employment benefits	62,773	78,705
Share-based payments	–	194,997
	1,536,628	**1,835,905**

22.2 Transactions with other related parties

	2022 $	2021 $
Subscription of new ordinary shares by KMP	–	100,000
Repayment of MEP loans by KMP	(1,097,583)	(1,480,527)
	(1,097,583)	**(1,380,527)**
Amounts paid to KMP as shareholders		
Dividends	**1,021,270**	**4,414,562**

Five V Capital Pty Ltd was a related party as it is jointly controlled by Srdjan Dangubic (resigned 31 Dec 2021) and Five V Capital Pty Ltd manages the Five V funds who own shares in Universal Store Holdings Limited.

23. FINANCIAL RISK MANAGEMENT

23.1 Interest rate

The Group's main interest rate risk arises from long-term borrowings with variable interest rates, which exposes the Group to cash flow interest rate risk. The Group's interest rate swap was settled during February 2021. Interest rate risk is monitored at the board level.

23.2 Foreign exchange risk

Foreign currency risk is the risk that the fair value or future cash flows of an exposure will fluctuate because of changes in foreign exchange rates. The Group made some purchases in USD and its exposure to the risk of changes in foreign exchange rates relates primarily to the Group's operating activities (when revenue or expense is denominated in a foreign currency). The Group's exposure to foreign currency risk is not significant.

23.3 Liquidity risk

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	2022 $'000	2021 $'000
Floating rate		
Expiring beyond one year (bank loans)	8,500	8,500

Maturities of financial liabilities

The table below summarises the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

Year ended 30 June 2022	Less than 6 months $'000	6 to 12 months $'000	1 to 2 years $'000	2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000
Trade payables	9,621	–	–	–	–	9,621
Borrowings	–	–	–	15,000	–	15,000
Lease liabilities	11,039	10,092	14,469	15,190	–	50,790
	20,660	**10,092**	**14,469**	**30,190**	**–**	**75,411**

Year ended 30 June 2021	Less than 6 months $'000	6 to 12 months $'000	1 to 2 years $'000	2 and 5 years $'000	Over 5 years $'000	Total contractual cash flows $'000
Trade payables	10,423	–	–	–	–	10,423
Borrowings	–	–	15,000	–	–	15,000
Lease liabilities	10,515	10,432	17,878	19,334	264	58,423
	20,938	**10,432**	**32,878**	**19,334**	**264**	**83,846**

Risk concentration

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographical region, or have economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry. The Group's key risk concentration is in relation to its suppliers, with the majority of its suppliers being based in China. This was highlighted at the beginning of the COVID-19 pandemic when boarder closures resulted in significantly limited stock being available for sale to customers. The Group is working to mitigate this risk by creating a diversified portfolio of supplier based both locally and internationally.

23.4 Credit risk

Credit risk arises from cash and cash equivalents, deposits with banks and financial institutions, as well as credit exposures to wholesale and retail customers, including outstanding receivables.

(a) Risk management

Credit risk is managed on a group basis. For banks and financial institutions, only independently rated parties with a minimum rating of 'A' are accepted. Sales to retail customers are required to be settled in cash, major credit cards and Afterpay, mitigating credit risk. There are no significant concentrations of credit risk, whether through exposure to individual customers, specific industry sectors and/or regions.

23.5 Derivatives

The Group has the following derivative financial instruments in the following line items of the balance sheet:

	2022 $'000	2021 $'000
Current liabilities		
Total current derivative financial instrument liabilities	–	–

The interest rate swap is settled by cash in February 2021. A net income of $0 (2021: net income of $161,000) has been recognised through profit or loss during the year ended 30 June 2022.

24. CAPITAL RISK MANAGEMENT

Risk management

The Group's objectives when managing capital are to:

- safeguard their ability to continue as a going concern, so that they can continue to provide returns for shareholders and benefits for other stakeholders; and
- maintain an optimal capital structure to reduce the cost of capital.

The capital structure of the Group consists of cash and cash equivalents, trade and other receivables, inventories, intangibles and net working capital. The equity issued to equity holders of the Parent entity comprises issued capital and reserves and retained earnings.

Management manages the capital position by assessing the Group's financial risk and ensuring due diligence on all capital investments, adjusting the capital structure in response to any risks or changes in market conditions. These responses include the ability to adjust debt levels, distributions to shareholders and share issues.

The Group monitors capital on the basis of a gearing ratio which is net debt divided by total equity. Included in net debt are: interest bearing loans and borrowings, less cash and short-term deposits. Lease liabilities are excluded from the net debt calculation.

	Note	2022 $'000	2021 $'000
Borrowings	15	14,865	14,797
Less: cash and cash equivalents	8	(38,768)	(33,406)
Net debt		**(23,903)**	**(18,609)**
Total Equity		**110,342**	**102,976**
Net debt to equity ratio		**(22)%**	**(18)%**

The Group had access to the following undrawn debt facilities at the end of the reporting period:

	2022 $'000	2021 $'000
Working capital facility	8,500	8,500
Bank guarantee facility	1,457	2,145
	9,957	**10,645**

25. FAIR VALUE MEASUREMENT

The Group did not have any fair value measurement of Groups assets and liabilities as at 30 June 2022 or 30 June 2021.

Valuation techniques used to determine fair value

If one or more of the significant inputs is not based on observables market date, the instrument is included in level 3. This is the case for bank loans at FVPL and warrants where the fair values have been determine based on underlying EBITDA multiples or contractual minimum values as applicable.

Fair value measurements using significant observable inputs (level 2)

	Derivative liabilities $'000
At 1 July 2020	**243**
Changes in fair value	(162)
Repayment	(81)
At 30 June 2021	**–**
At 30 June 2022	**–**

There were no transfers between Level 1 and Level 2 during 2022 (2021: $nil).

26. COMMITMENTS AND CONTINGENCIES

The Group had contingent liabilities at 30 June 2022 in respect of:

Guarantees

The Group has given guarantees in respect of various retail tenancies amounting to $3,543,000 (2021: $2,855,385).

Upon signing certain leases, the Group has received a fixed contribution towards costs of fit-outs. Some of these leases contain repayment clauses should certain default events occur.

Lease commitments

The Group has signed a 10 year lease with TradeCoast Central Pty Ltd to build and relocate the Group's support office and distribution centre, with an anticipated relocation date of September 2022. As at the 30 June 2022 the Group is still negotiating final contract terms in relation to lease terms and capital expenditure.

The Group has also signed new lease commitment amounting to $1,694,565 for new store opening in FY23.

Capital commitments

The Group has committed capital expenditure of $630,000 for the new store opening for FY23.

27. AUDITOR'S REMUNERATION

The auditor of Universal Store Holdings Limited is PwC.

	2022 $	2021 $
Amounts paid or payable to PwC for:		
Audit and other assurance services:		
Audit services – Group audit and half-year review	250,000	264,852
Tax compliance services	15,500	34,578
Tax advisory services, including IPO advisory services	2,024	211,140
Other non-audit services		
Modern slavery and chain of responsibility	–	34,350
Modern slavery training workshop	–	9,990
Total remuneration of PwC Australia	**267,524**	**554,910**

28. EVENTS AFTER THE REPORTING PERIOD

Subsequent to the reporting date the following events have occurred:

The Group signed a Heads of Agreement with TradeCoast Central Pty Ltd in 2021 financial year to build and relocate the support office and distribution centre, with an anticipated relocation date of October 2022 for an initial term of 10 years.

On 25 August 2022, the Directors of Universal Store Holdings Limited declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is $7.7 million to be paid on 29 September 2022.

There were no other significant events occurring after the balance date which may affect either the Group's operations or results of those operations or the Group's state of affairs.

29. INFORMATION RELATING TO UNIVERSAL STORE HOLDINGS LIMITED (FORMERLY US HOLDINGS PTY LTD) (THE PARENT)

	2022 $'000	2021* $'000
Current assets	2,851	2,271*
Non-current assets	118,043	119,166*
Total assets	**120,894**	**121,437**
Current liabilities	13	5,121
Non-current liabilities	14,866	14,797
Total liabilities	**14,879**	**19,918**
Contributed equity	92,161	92,161
Retained earnings	5,877	5,077*
Share-based payment reserve	7,977	4,281
Total equity	**106,015**	**101,519**
Profit/(loss) of the Parent entity	16,537	43,172
Total comprehensive income/(loss) of the Parent entity	16,537	43,172

* Restated due to intercompany tax adjustments made in 2022.

The Parent entity did not have any contingent liabilities or commitments as at 30 June 2022 or 30 June 2021.

The financial information for the Parent entity has been prepared on the same basis as the consolidated financial statements.

DIRECTORS' DECLARATION

In accordance with a resolution of the Directors of Universal Store Holdings Limited (formerly US Holdings Pty Ltd), I state that:

In the Directors' opinion:

(a) the consolidated financial statements and notes of Universal Store Holdings Limited (formerly US Holdings Pty Ltd) for the financial year ended 30 June 2022 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date, and

  (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*;

(b) the consolidated financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2.1; and

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

This declaration has been made after receiving the declarations required to be made to the Directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the financial year ended 30 June 2022.

On behalf of the Board

Peter Birtles
Independent Non-Executive Director and Chairman

25 August 2022

INDEPENDENT AUDITOR'S REPORT

To the members of Universal Store Holdings Limited

pwc

Independent auditor's report

To the members of Universal Store Holdings Limited

Report on the audit of the financial report

Our opinion

In our opinion:

The accompanying financial report of Universal Store Holdings Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

(a) giving a true and fair view of the Group's financial position as at 30 June 2022 and of its financial performance for the year then ended

(b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

What we have audited

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2022
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the consolidated statement of profit or loss and other comprehensive income for the year then ended
- the notes to the consolidated financial statements, which include significant accounting policies and other explanatory information
- the directors' declaration.

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

Independence

We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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.

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Our audit approach

An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.

Materiality

- For the purpose of our audit we used overall Group materiality of $1.45 million, which represents approximately 5% of the Group's profit before tax.
- We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.
- We chose Group profit before tax because, in our view, it is the benchmark against which the performance of the Group is most commonly measured.
- We utilised a 5% threshold based on our professional judgement, noting it is within the range of commonly acceptable thresholds.

Audit Scope

- Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit 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. Further, any commentary on the outcomes of a particular audit procedure is made in that context.

Key audit matter	How our audit addressed the key audit matter
Valuation of indefinite life intangibles: Goodwill and Brand names *(Refer to note 12 and note 3) Goodwill: $55.5 million, Brand names $36.4 million* The valuation of Goodwill and Brand names was a key audit matter due to their size and the judgement involved in estimating the cash flow forecasts, including consideration of revenue growth, new store openings, the discount rate and terminal growth rate.	Among other procedures, we performed the following in relation to the impairment assessment: • Obtained an understanding of and evaluated the Group's process and controls relating to the annual impairment test. • Evaluated the Group's assessment that the indefinite life assumption for brand names remained appropriate with respect to the period over which the Group expects to generate cashflows. • Assessed the appropriateness of the Group's identification of CGUs with respect to Goodwill and Brand names. • For a sample of calculations, tested the mathematical accuracy of the model. • Compared actual results with historical forecasts to assess the Group's ability to reliably make forecasts used in the cash flow models. • Based on our knowledge of the Group's operations, assessed whether the carrying value of the CGU included all assets and liabilities directly attributable to the CGU and that the impairment model included all cashflows directly attributable to the CGU. • Compared the cash flow forecasts for FY2023 in the impairment model to the Board-endorsed FY2023 budget. • Considered alternative assumptions to those presented by the Group with respect to revenue growth. • Together with our valuation experts, assessed the valuation methodology of the model and compared the discount rate, terminal growth rate and terminal value assumptions to market observable inputs.

pwc

Key audit matter	How our audit addressed the key audit matter
	• Evaluated the adequacy of the disclosures made in the financial report, in light of the requirements of Australian Accounting Standards.
Accounting for AASB 16 Leases *(Refer to note 13 and note 3) Right of use asset $39.8 million, Lease liabilities $48.6 million* Accounting for AASB 16 Leases was a key audit matter due to the size of the balances included in the financial report, and the judgements involved in determining the balances, including the incremental borrowing rate used for discounting, accounting for lease incentives and treatment of modifications during this COVID-19 affected period.	Among other procedures, we performed the following: • Obtained an understanding of and evaluated the Group's process and controls. • Assessed whether the Group's accounting policies are in accordance with the requirements of AASB 16 Leases. • Evaluated the adequacy of the disclosures made in Note 13 in light of the requirements of Australian Accounting Standards. For a sample of lease agreements, we: • Compared the inputs of the lease calculation to the original lease agreement, including lease incentives and onerous contracts where applicable. • Assessed the Group's application of the Australian Accounting Standards to these leases to evaluate whether they had been accounted for appropriately. • Tested the mathematical accuracy of the lease calculations.

Other information

The directors are responsible for the other information. The other information comprises the information included in the annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly 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 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.

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 have 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 the 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

Our opinion on the remuneration report

We have audited the remuneration report included in pages 43 to 56 of the directors' report for the year ended 30 June 2022.

In our opinion, the remuneration report of Universal Store Holdings Limited for the year ended 30 June 2022 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.

PricewaterhouseCoopers

Kim Challenor
Partner

Brisbane
25 August 2022

ASX ADDITIONAL INFORMATION

In accordance with ASX Listing Rule 4.10, the Company provides the following information not otherwise disclosed in this Annual Report. The information is current as at 29 July 2022.

(A) DISTRIBUTION OF EQUITY SECURITIES

Ordinary share capital

- 73,195,836 fully paid ordinary shares are held by 1,578 individual shareholders.

All issued ordinary shares carry one vote per share and carry the rights to dividends. There is one class of share, being fully paid ordinary shares. The number of shareholders, by size of holding is:

	Number of shareholders	%
1 – 1000	627	39.73
1,001 – 5,000	683	43.28
5,001 – 10,000	145	9.19
10,001 – 100,000	101	6.40
100,001 and over	22	1.39
	1,578	**100**
Holding less than a marketable parcel	120	

(B) SUBSTANTIAL SHAREHOLDERS

	Fully paid	
	Number	%
Bennelong Funds Management Group Pty Ltd	11,535,654	15.76
Spheria Asset Management Pty Ltd	6,079,948	8.31
Challenger Limited*	5,816,458	7.95
Perpetual Limited	4,042,282	5.52
Pendal Group Limited	3,934,637	5.38
Milford Asset Management Limited	3,685,289	5.05
	35,094,268	**47.97**

* Challenger Limited is an affiliated company of Lenox Capital Partners.

(C) TWENTY LARGEST HOLDERS OF QUOTED EQUITY SECURITIES

Twenty largest quoted equity security holders

	Fully paid	
	Number	%
Citicorp Nominees Pty Limited*	21,759,279	29.73
HSBC Custody Nominees (Australia) Limited*	11,553,505	15.78
National Nominees Limited*	11,250,115	15.37
J P Morgan Nominees Australia Pty Limited	7,653,389	10.46
Rayra Pty Ltd	3,100,000	4.24
Hoang George Minh Do	2,230,924	3.05
Dorothy Alice Barbery	2,162,897	2.95
BNP Paribas Noms Pty Ltd*	1,635,178	2.23
BNP Paribas Nominees Pty Ltd*	1,591,128	2.17
Catalyst Direct Capital	1,200,000	1.64
James Cameron	982,096	1.34
David Maclean	650,000	0.89
Renee Jones	583,333	0.80
Stephen Harris & Monique Harris	540,532	0.74
Flocolo 1 Pty Ltd	252,500	0.34
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd*	203,559	0.28
Peter Birtles	200,000	0.27
Morgan Hendry	116,667	0.16
Bond Street Custodians Limited*	92,113	0.13
Grant Bryce Bourke	78,340	0.11
	67,835,555	**92.68**

* Grouped Investor Holdings.

(D) SHARES UNDER VOLUNTARY ESCROW ARRANGEMENTS

3,421,351 of the Company's shares are held under voluntary escrow, which prevents the shareholder from disposing of their respective escrowed shares until the applicable escrow period is complete. For the 3,421,351 shares, the voluntary escrow period will be complete upon the release of the Company's financial results for FY22.

(E) USE OF PROCEEDS

In accordance with listing rule 4.10.19, the Company confirms that it has used its cash and assets in a form readily convertible to cash in a way consistent with its business objectives at the time of admission.

CORPORATE INFORMATION

ABN 94 628 836 484

DIRECTORS

Peter Birtles, Independent Non-Executive Director and Chairman

Alice Barbery, Managing Director and Chief Executive Officer

Kaylene Gaffney, Independent Non-Executive Director

David MacLean, Independent Non-Executive Director

Trent Peterson, Non-Executive Director

Srdjan Dangubic, Non-Executive Director
(resigned 31 December 2021)

Renee Gamble, Independent Non-Executive Director
(appointed 1 December 2021)

COMPANY SECRETARIES

Renee Jones	(Appointed: 27 October 2020)
Clare Craven	(Appointed: 13 May 2022)
Anne Maree Cresswell	(Appointed: 19 April 2021) (Resigned: 13 May 2022)

REGISTERED OFFICE

Unit 6, 2 Jenner Street
Nundah QLD 4012
Australia

Phone: 1300 553 520

PRINCIPAL PLACE OF BUSINESS

Unit 6, 2 Jenner Street
Nundah QLD 4012
Australia

Phone: 1300 553 520

SHARE REGISTRY

Link Market Services Limited

Level 12, 680 George Street
Sydney NSW 2000
Australia

Phone: 1300 554 474

Universal Store Holdings Limited
(formerly US Holdings Pty Ltd) shares are
listed on the Australian Stock Exchange (ASX)

SOLICITORS

Gilbert + Tobin

Level 35, Tower Two International Towers Sydney
200 Barangaroo Avenue
Barangaroo NSW 2000
Australia

BANKERS

Australia and New Zealand Banking Group Ltd

324 Queen Street
Brisbane QLD 4000
Australia

AUDITORS

PwC

480 Queen Street
Brisbane QLD 4000
Australia

www.colliercreative.com.au #UVS0009

Universal Store

www.universalstore.com