

SPECIALTYFASHION | GROUP
ANNUAL REPORT

2010

Katies

Georgie Parker, actress
and Katies ambassador.



Our Brands

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Specialty Fashion Group Limited

ABN 43 057 569 169

millers

Katies

crossroads

AUTOGRAPH

city chic

QUEENSPARK

Our Highlights.

\$572m

Sales growth of 2.1% to \$572.2m

\$60m

EBITDA of \$60.1m up from \$53.2m in the prior year

\$30m

NPAT of \$30.4m, up from \$22.6m in prior year

25.2%

Operating cash flows up 25.2% to \$49.6m

35.6%

Basic EPS 16.0 cents, 35.6% year on year growth

8 cents

Final dividend of 4 cents declared, bringing annual dividends to 8 cents



*A*UTOGRAPH

Julie Goodwin, MasterChef celebrity and Autograph ambassador.

crossroads



Our Vision.

“...to be Australia’s leading multi-branded women’s specialty fashion business...”

Through our brands we aim to offer women of all ages and sizes contemporary fashion at competitive prices. By enhancing the in-store experience and adopting business best practice, we aim to build customer loyalty while achieving maximum returns for

our shareholders. Recognising the value of our people to achieve this vision, we aim to create a unique work environment driving our goal to be an employer of choice.

Our Culture.

S ervice

H umility

I ntegrity

R espect

T rust

S.H.I.R.T is at the very core of Specialty Fashion Group. It stands for Service, Humility, Integrity, Respect and Trust. S.H.I.R.T values drive every interaction at Specialty Fashion Group; internally with each other, externally with our business partners and most importantly, with our customers.

The highest honour at Specialty Fashion Group is to be awarded the annual S.H.I.R.T Award. The winners are proudly displayed on a framed shirt in our reception.





millers

Our Presence.



	2010	2009
Millers	367	371
Crossroads	138	138
Katies	143	145
Autograph	118	122
City Chic	49	46
Queenspark	22	21
Total	837	843

	2010	2009
AUS	810	816
NZ	27	27
Total	837	843

Our Growth.

Specialty Fashion Group is the largest women's apparel retail Group in Australia, and we seek to maintain our market leading position by focusing on growth along four key dimensions – optimising the existing portfolio of brands, optimising our geographic footprint, expanding channels to market and acquiring new brands.

During fiscal 2010 we focused on the consolidation of our store portfolio to the most profitable sites in the best locations, ending the year with 837 stores. Approximately 70 new stores are planned to be opened in the 2011 fiscal year, including the rollout of new store designs for City Chic, Millers, Crossroads, Katies and La Senza. We will also continue our program of closing underperforming stores which is expected to be approximately 20 stores in fiscal 2011.

Our strategy of continually refreshing the customer experience through store refurbishments will also drive growth. There were 52 store refurbishments in fiscal 2010, and approximately 100 refurbishments are planned for fiscal 2011. These investments will deliver superior returns in future years.

Online stores now cater for the customers of Katies, City Chic, Autograph, Crossroads and Queenspark. Through this additional sales channel we are attracting incremental revenue from new and regular customers. Our online stores are becoming increasingly important as we seek to attract the growing number of internet savvy consumers, in local and international markets.

Expansion of our brand portfolio is a key driver of growth in the future. The addition of La Senza to the Group in August 2010 brings with it an expansion of our reach to women shoppers through its niche in intimate apparel, and a brand image that appeals to the youth market.

Most importantly, we recognise the necessity to have the right team in place to support the Group as we grow. We continue to invest in our people in Australia, New Zealand and China, particularly in the strategic areas of buying, planning, design and production.



LaSENZA



Katies

Katies is the first-choice destination for women aged 'forever 40' for style, fashion and value.

143 Stores across Australia.

www.katies.com.au

Style | Fashion | Value

Katies has been a value priced brand for the past 50 years, providing Australian women with fashionable, wearable and affordable clothing that makes them look and feel their best.

Since Katies launched in 1956, the brand has experienced great expansion, and now operates 143 stores within Australia.

It started with a new generation of women, determined to find clothing that was fashionable, functional and suited to their ever versatile lifestyles. The Katies customer is 'forever 40' in the way she presents herself and her attitude on life, and needs a fashion brand that is focused on providing great fashion she can understand and wear with confidence at affordable prices.

Since 2009, Australian TV personality Georgie Parker has been the Ambassador for Katies, resonating with the brand's customer in Katies TV and print ad campaigns. Georgie wore a stunning evening gown made exclusively by Katies to the 2010 Logies awards which garnered much media attention. The '\$99 dress' has since been made available to purchase to reinforce to our customers and the market the Katies brand mantra; Style | Fashion | Value.

In August 2010 Katies ushered in a new era of retailing with the launch of an interactive website and online store, allowing our customers to shop at her convenience and increasing the reach of the brand nationwide.



city chic



city chic

Fashion forward brand that operates in the size 14+ market aimed at ages 18-35.

49 Stores across Australia and New Zealand.

www.citychiconline.com

Be Bold, Be Sexy, Be Glam, Be Chic.

Our customer is all of this and more, with an outgoing personality and a hectic but fun lifestyle. She lives for fashion.

City Chic is the plus size destination for fashion, denim and dresses in sizes 14-24. The plus size clothing store for curvy girls who want to look hot with what they've got!

We cater for every aspect of a busy lifestyle, from clubbing on a Saturday night to relaxing with friends, from a

formal occasion to a BBQ. With new styles in-store every day there is always something new for our customers.

We make our stores a destination, a place customers can have a bit of fun, try on a few new looks and find the outfit that is right for them. Our style team love the fashion just as much as customers do, and will provide them with all the latest style tips to keep a 'city' girl looking 'chic' at all occasions.



Millers

Great value fashion and everyday wardrobe essentials for the fun and modern thinking mature woman.

367 Stores across Australia and New Zealand.

www.millers.net.au

Millers is all about friendly service and helping our customers to look and feel their very best at any age.

Our extensive range covers all of her wardrobe needs from seasonal fashion, key basics, wardrobe essentials, leisure wear, denim, casual weekend wear, better dressing, swimwear, sleepwear and accessories.

Established in 1993, the Millers brand has grown to 367 stores across Australia and New Zealand and now dominates the mature ladies market with a database of over 2.5 million members.

Millers is driving success through a refreshed and exciting new way in communicating with our customers. New store design, broader product range, innovative marketing and in-store visuals are all aimed at appealing to our customer. The store portfolio now includes some 80 plus fresh, new, modern Millers stores promoting the revitalised brand and our new way forward.



crossroads

Crossroads offers fun, affordable fashion for the 'forever 30' woman in sizes 8-22.

138 stores across Australia.

www.crossroads.com.au

At Crossroads we offer a wide range of product from casual to occasion and everything in between.

We have the perfect cargo's for running around, a sexy top for Saturday night, fancy outfit for a wedding, a dress for the Sunday BBQ or versatile work wear. And accessories to complete the outfit.

In the next two years we have plans to open 40 new stores and refurbish 67 stores, to ensure consistent branding and an exciting shopping experience.

We have also successfully launched xrd denim and eXclusive occasion wear this year.

At Crossroads our customer can shop fashion to suit her busy lifestyle, show off her shape and fit her budget.



AUTOGRAPH

AUTOGRAPH

Plus size fashion for the value conscious woman. Autograph is a lifestyle brand catering to the 'forever 40' woman in sizes 14-26.

118 stores across Australia.

www.autographfashion.com.au

At Autograph we cater to all of our customers' apparel needs with casual wear such as basic pants and tees, smart casual, for the special top to wear to the dinner party, work wear for the versatile desk to drinks outfit and occasion wear for the perfect dress for a wedding. We also range swimwear, pyjamas and accessories. We ensure that we always offer the latest in fashion in the right styles to flatter all body shapes.

We are excited to introduce MasterChef's Julie Goodwin as a brand ambassador as Julie is a loyal Autograph customer and has been wearing our product since the brand was founded.

Julie not only brightens up our stores but has given us invaluable feedback on her wardrobe challenges and how we can improve the product offering.

Autograph is a one stop shop. We understand the importance of privacy and ensure that we offer a comfortable shopping experience with exceptional customer service.



QUEENSPARK

Women and mens wear for the modern, fashionable and contemporary customer.

22 Stores across Australia.

www.queenspark.com.au

Queenspark is a dynamic fashion retailer offering a broad selection of casual and classic ranges for women and men with a varied accessories collection.

Since its arrival in Australia in 2001, Queenspark has opened 22 stores trading in New South Wales, Australian Capital Territory, Queensland, South Australia and Victoria.

It has always been, and will always be a priority to give Queenspark customers excellent choices, with new product in-store every 10 days.

With a reputation for providing beautifully designed high quality garments in exciting seasonal themes, Queenspark is devoted to ensuring that customers enjoy their fashion shopping experience – whether it be in-store, online, or via catalogue.

At Queenspark we strive to develop lifetime relationships with our customers and to deliver outstanding service and quality products.

Chairman's Report.

I am pleased to report to shareholders a strong financial performance in a year of two distinct halves.

The past financial year has been characterised by very different macro economic factors influencing each season. The final government stimulus payments were made in June 2009, and there is no doubt that the additional cash available for discretionary spend, combined with historically low interest rates drove high consumer confidence during most of the summer 2009 season. We, along with other clothing retailers, certainly benefited from consumers' high propensity to shop for discretionary items.

The second half of the year was a complete contrast. Action taken by the Reserve Bank since October 2009 to lift the base interest rate has had an adverse effect on spending since December 2009. The whole of the winter 2010 season was tough as six consecutive interest rate increases and the instability in international financial markets dampened consumer confidence. Like many retailers we were caught by the severity of the swing in consumer confidence, and there was unprecedented discounting as competitors fought to attract reluctant consumers and cycle the prior year's stimulus effect.

Although the trading environment was very challenging, the Company was and is in a strong position. We have continued to improve the brands' underlying performance as evidenced by our growing customer base and the improved profitability of the Group.

The strategic initiatives we have been undertaking the past three years to reposition the brands has been supplemented by a major change in our direct sourcing strategy. Gary will elaborate on this in his CEO Report. The positive impact of this particular initiative is significant, the results of which will become evident in the second half of fiscal 2011.

Essentially, we are focused on three key points of differentiation that gives us, and will continue to give us, a competitive advantage. Our S.H.I.R.T. culture enables us to attract and retain the best talent in the industry; our sophisticated marketing strategies are enabling us to more effectively communicate with our customers; and our direct sourcing will enable us to design and source unique products specific to our customers. The combination of these differentiators and sound operating practices will enable our brands to stand out in their target markets regardless of the trading environment.

We have prudently managed our balance sheet, reducing our net debt to \$5.3 million, from \$25.8 million a year ago. Our operating cash flows rose to \$49.6 million for the year ended 30 June 2010, a \$10 million, or 25.2% improvement compared to the previous corresponding period.

We have secured new debt facilities of \$100 million which are available for three years, giving us the working capital headroom which we may require as we expand and funding for potential new growth opportunities.

Given the sound financial position of the Company, we have decided to pay a final dividend of four cents per share, which brings the annual dividend to eight cents per share fully franked. This represents a payout of 50% of net profit. We believe that this level of payout is appropriate whilst the Company has investment plans for the current portfolio and consumer confidence is uncertain. Going forward, we will review our operating results at the end of each half and make the appropriate decisions regarding dividend payments at that point in time.

The addition of La Senza to the Group in August this year is a very exciting development for the Company. We can leverage our Group capabilities whilst developing competencies in a new niche and as an international licensee. The importance of partnering with the global leader Limited Brands cannot be underestimated. We will be able to learn from one of the world's pre-eminent retail brand builders and have access to a world class intimate apparel supply chain.

John Murphy retires as a non-executive director at the completion of his second term and I would like to pay tribute to him for his wise counsel and valuable contribution and thank him for his dedicated service to our Company. We are currently in the process of interviewing suitable candidates to join the Board.


Finally, I would like, on behalf of the Board, to acknowledge the excellent execution by the leadership team at Specialty Fashion Group. The Board looks forward to continuing to work with our tireless CEO, Gary Perlstein and his team during what we expect to be an exciting period of growth for the Company and prosperity for our staff and shareholders.



Geoffrey Levy AO
Chairman



**“The Company
is in a strong
position”**



**“La Senza is
an excellent
addition to
our Group”**

CEO's Report.

I am pleased to report to shareholders that we achieved a 34.8% rise in net profit after tax to \$30.4 million. Annual sales rose by 2.1% to \$572.2 million whilst our store portfolio at the end of the year was 837, down from 843 at the same time a year earlier.

The significant improvement in profitability was driven by increased store optimisation and well controlled costs.

Our focus on improving the returns from our investment in stores has been all encompassing. During fiscal 2010, we opened 20 new stores and closed 26 underperforming stores. We also undertook 77 store refurbishments and relocations. A combination of improvements in management of our property portfolio, products and store operations has led to uplifts in-store performance. We are very encouraged by the better returns we have achieved and plan to increase our investments in stores in the 2011 fiscal year.

All our brands are profitable and a very strong performance by the Group in the first half of the fiscal 2010 year highlighted the positive impact of the government stimulus and how much progress has been made in repositioning the brands in recent years. As Geoff explained, the second half of the year was a contrast due to the changes in macro economic factors. However, we remained focused on the ongoing improvements we are making in our brands, and increased our customer numbers as well as transactions.

Our customer relationship database of over five million customers is one of our most valuable assets. We have the ability to reach over 85% of women shoppers in Australia. During fiscal 2011 we have increased the sophistication of our marketing programs and through this the response rate of our customers. We are in the process of enhancing our customer relationship management systems, and aim to be a market leader in this field.

Three years ago we commenced sourcing products directly from factories of Asian suppliers to increase our gross margins, and we are in a position today where half of our products are sourced this way. Whilst this change has resulted in improved gross margins, we recognised that further changes to our direct sourcing strategy were required if we were to maximise the benefits of our scale and in-house design and sourcing capabilities. In the second half of fiscal 2010 we commenced a significant change management program to integrate our planning, buying, design and sourcing processes. We have expanded our team to broaden our skills, and invested in systems improvements. The intention is to plan further ahead whilst buying product closer to market, which will ultimately lead to better buying terms with our suppliers, and we will be able to offer to our customers products with a unique point of

differentiation. Following full implementation in the second half of fiscal 2011 we expect to see further improvements in our gross margins.

Our S.H.I.R.T. culture is one of the key success factors that underpins our ability to undertake these significant changes to our business, whilst at the same time manage the business during such tough trading conditions. Even in times of stress, our people are able to work effectively because we live our values of Service, Humility, Integrity, Respect and Trust. It is increasingly becoming a differentiator for us within our sector as we become known as an employer of choice.

Whilst we remain committed to continuing our journey of continuous improvement, we have increased our focus on new growth opportunities for the Group. We have the resources and capital to invest in new brands, and new geographies, but will only invest in profitable opportunities which are a clear strategic fit for our Group. Our intention is to expand our core competency in women's fashion retail, and leverage our Group's scale.

La Senza is an excellent addition to our Group. We believe that there is a gap in the Australian market for a new specialty intimate apparel retailer, and that La Senza's unique brand image will stand out and attract women that want mid-priced, fashionable, intimate apparel. It broadens our reach through appealing to the youth market and we will be able to attract the customers of our other brands. Partnering with Limited Brands provides a number of advantages, including the ability to open new stores quickly with a tried and tested global brand. We believe the potential to become a licensee for other international brands is also a strategic advantage of this relationship.

Consumer confidence has been subdued at the beginning of fiscal 2011, however the quality of our brands – Millers, Crossroads, Katies, Autograph, City Chic, Queenspark and La Senza – is such that we are well placed to take advantage of the upturn in discretionary spend when consumer confidence returns. We are looking forward to the growth opportunities ahead.

I would like to thank everyone at Specialty Fashion Group for their passion and persistence over this past year. The exemplary efforts of our whole 5,000 plus team, to deliver improved returns for our shareholders and the best experience for our customers place the Company in a strong position for the future.



Gary Perlstein
CEO

Board of Directors.

Geoff Levy AO **B.Comm, LLB,** **FFIN, MAICD**

Geoff Levy was appointed a Director of the Company in April 2005 and is currently Chairman of the Company. He retired as Executive Chairman of Investec Bank (Australia) Limited ("Investec") on 1 January 2008 and assumed the non executive position of Deputy Chair. Geoff was previously CEO of Investec, a principal of Wentworth Associates and before that a partner in the leading law firm, Freehills. He has over two decades of experience in the corporate advisory environment where he is regarded as an expert in mergers and acquisitions, capital raisings and general corporate commercial law. Geoff was appointed an Officer of the Order of Australia in the 2005 Queen's Birthday Honours List. Geoff has been a director on a number of public and government boards and is currently a non-executive Chairman of Cromwell Group Limited as well as a number of Investec subsidiaries. In the last three years, he previously served on the boards of listed companies, Mirvac, Ten Network Holdings and STW Group Limited. Geoff holds 2,365,564 ordinary shares in Specialty Fashion Group Limited.

Gary Perlstein **B.Bus**

Gary Perlstein has played an integral role both in the establishment and growth of Specialty Fashion Group since it was founded in 1993. Gary has been a Director of Specialty Fashion Group since 1995 and he was appointed CEO in October 2003. Gary has 19 years retailing experience in Australia.

Gary does not hold any other listed Company directorships and has not held any other listed Company directorships in the last three years. He holds 17,862,814 ordinary shares and 1,400,000 share rights in Specialty Fashion Group Limited.

Joel Bloom **B.Comm**

Joel Bloom joined the Specialty Fashion Group Board in March 2005. Joel is a Chartered Accountant by training and was the joint founder of Go Lo, a national chain of Discount Variety Stores. He has over 20 years of retailing experience in Australia.

Joel does not hold any other listed Company directorships and has not held any other listed Company directorships in the last three years. He holds 200,000 ordinary shares in Specialty Fashion Group Limited.

Ian Miller **B.Comm**

Ian Miller co-founded Specialty Fashion Group in 1993 and was its Managing Director until October 2003. Ian has over 35 years of retailing experience. Ian was an Executive Director from 1993 until 1 January 2007 when he moved to being a non-executive Director. Ian does not hold any other listed Company directorships and has not held any other listed Company directorships in the last three years. He holds 14,509,906 ordinary shares in Specialty Fashion Group Limited.

John Murphy **B.Comm, M Comm,** **F CPA, CA**

John Murphy joined the Specialty Fashion Group Board in February 2005. He is the Managing Director of Investec Wentworth Private Equity Limited and is a board member of the following listed companies: Ariadne Australia Limited, Staging Connections Group Limited, Gale Pacific Limited and Clearview Wealth Limited. John is also a non-executive Director of First Opportunity Fund Limited and Investec Bank (Australia) Limited.

In the last three years, he previously served on the Board of Australian Pharmaceutical Industries. He holds 50,000 ordinary shares in Specialty Fashion Group Limited

Anne McDonald **B.Ec, FCA, GAICD**

Anne McDonald joined the Specialty Fashion Group Board in April 2007. Anne is a Chartered Accountant by training and was a partner with Ernst & Young for 15 years until 2005. During that time she served as a member of the Board of Ernst & Young Australia for seven years. Anne is currently a Director of the GPT Group, Spark Infrastructure Group, Westpac's Life Insurance and General Insurance Businesses, Health Super Pty Ltd (as trustee of Health Superannuation Fund). She chairs the Audit Committee for a number of those entities. Anne has not held any other listed Company directorships in the last three years. She holds 15,000 ordinary shares in Specialty Fashion Group Limited.



Back row: Gary Perlstein, Geoff Levy and John Murphy.
Front row: Anne McDonald, Ian Miller and Joel Bloom.



city chic

Corporate Directory.

Directors

G Levy AO
G Perlstein
A I Miller
J Murphy
J Bloom
A McDonald

Company Secretary

A Henriksen

Notice of Annual General Meeting

The annual general meeting of Specialty Fashion Group Limited will be held at:

The Sebel Surry Hills
28 Albion Street
Surry Hills

Time: 2pm

Date: 28 October 2010

Principal Registered Office in Australia

151 – 163 Wyndham Street
Alexandria NSW 2015

Telephone: (02) 9310 2233

Facsimile: (02) 9310 2255

Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Telephone: (02) 8280 7111

Facsimile: (02) 9287 0303

Auditor

PricewaterhouseCoopers
Chartered Accountants
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

Solicitors

Freehills
Level 38, MLC Centre
19 – 29 Martin Place
Sydney NSW 2000

Bankers

National Australia Bank
255 George Street
Sydney NSW 2000

Stock Exchange Listings

Specialty Fashion Group Limited shares are listed on the Australian Stock Exchange (ASX code: SFH)

Website Address

www.specialtyfashiongroup.com.au

QUEENSPARK



Financial Report.

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Directors' Report.

30 June 2010

Your Directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Specialty Fashion Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2010.

DIRECTORS

The following persons were directors of Specialty Fashion Group Limited during the whole of the financial year and up to the date of this report unless otherwise stated:

- G Levy AO
- G Perlstein
- A I Miller
- J Murphy
- J Bloom
- A McDonald

Information on the qualifications, experience, special responsibilities and particulars of interests in shares and options of the Board of Directors is set out on page 24.

PRINCIPAL ACTIVITIES

During the year the principal activity of the Group consisted of the retailing of women's fashion in Australia and New Zealand.

DIVIDENDS

Details of dividends in respect of the current year are as follows:

	2010 \$'000	2009 \$'000
Interim ordinary dividend for the year ended 30 June 2010 of 4.0 cents (2009 – nil) per fully paid share paid on 23 March 2010	7,724	–
No final ordinary dividend was declared for the year ended 30 June 2009 (2008 – 2.0 cents per fully paid share paid on 18 September 2008)	–	3,830
	7,724	3,830

In addition to the above dividend, since the end of the financial year the directors have recommended the payment of a final ordinary dividend of \$7,724,302 (4.0 cents per fully paid share) fully franked. The aggregate amount of proposed dividend is expected to be paid on 27 October 2010 out of profits for the year ended 30 June 2010, but not recognised as a liability at year end.

REVIEW OF OPERATIONS

Specialty Fashion Group Limited achieved strong earnings growth of 35% for the year ended 30 June 2010. This was achieved through revenue growth of 2%, an improvement in gross profit margin to 57.4% (up 20 basis points from 2009) and well controlled costs of doing business. A 25% increase in operating cash flows enabled the Group to reduce net debt by \$20.5 million to \$5.3 million.

As at 30 June 2010, store numbers were 837, which is a net decrease of 6 stores in the year.

EARNINGS PER SHARE

	2010 CENTS	2009 CENTS
(a) Basic earnings per share		
Basic earnings per share from continuing operations	16.0	11.8
Basic earnings per share attributable to the ordinary equity holders of the Company	16.0	11.8
(b) Diluted earnings per share		
Diluted earnings per share from continuing operations	15.7	11.7
Diluted earnings per share attributable to the ordinary equity holders of the Company	15.7	11.7

SIGNIFICANT CHANGES IN STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

An agreement with Limited Brands was signed on the 20th August 2010 which will allow Specialty Fashion Group Limited to be the exclusive La Senza licensee in Australia and New Zealand until August 2020, with a further 10 year option to renew.

La Senza is a global women's intimate apparel retail brand owned by Limited Brands.

Except for the above there is no matter or circumstance that has arisen since 30 June 2010 that has significantly affected, or may significantly affect:

Directors' Report (cont.)

30 June 2010

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- (a) the Group's operations in future financial years; or
 (b) the results of those operations in future financial years; or
 (c) the Group's state of affairs in future financial years.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

The Group intends to continue its principal activity of retailing of women's fashion in Australia and New Zealand while focusing on improvements in brand performance, direct sourcing integration and cost management. The Group is also seeking to expand its store portfolio. Further information on likely developments in the operations of the Group and expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

ENVIRONMENTAL REGULATION

The Group has assessed whether there are any particular environmental regulations that apply to it and has determined that there are none.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2010, and the numbers of meetings attended by each director were:

	BOARD OF DIRECTORS		AUDIT COMMITTEE	
G Levy	18	19	*	*
G Perlstein	18	19	*	*
A I Miller	19	19	*	*
J Murphy	17	19	3	4
J Bloom	19	19	4	4
A McDonald	18	19	4	4

A = Number of meetings attended

B = Number of meetings held during the time the director held office or was a member of the committee during the year

* = Not a member of the relevant committee

CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution, all directors stand for re-election every three years.

COMPANY SECRETARY

The Company secretary is Alison Henriksen B.Comm, ACA. Alison was appointed to the position of Company Secretary in July 2010. She is also the Chief Financial Officer of Specialty Fashion Group Limited, appointed in August 2009 and has over 20 years commercial experience.

REMUNERATION REPORT

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share-based compensation
- E Additional information

The information provided in this remuneration report have been audited as required by section 308 (3C) of the *Corporations Act 2001*.

A Principles used to determine the nature and amount of remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests is ensured through:

- having economic profit as a core component of plan design
- focus on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives.

Alignment to executives' interests is ensured through:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards
- providing recognition for contribution.

The framework provides a mix of fixed and variable pay, and a blend of short and long-term incentives. As executives gain seniority with the Group, the balance of this mix shifts to a higher proportion of "at risk" rewards.

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the directors. Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-Executive Directors do not receive share options.

Directors' fees

The current base remuneration was last reviewed with effect from July 2009. In recognition of the difficulties faced by the Company during the global financial crisis, the Board approved in December 2008 a reduction in Directors' fees and a reduction in the salary of Gary Perlstein, Chief Executive Officer. These reductions have been reversed to reinstate their previously approved Directors' fees and salary during the year ended 30 June 2010.

Non-Executive Directors' fees are determined by the Board within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum directors' fee pool limit currently stands at \$450,000 which was approved by shareholders at the 2007 Annual General Meeting held on 27 November 2007.

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation
- short-term performance incentives, and
- long-term incentives through participation in the Specialty Fashion Group Limited Senior Executive Option Plan and Specialty Fashion Group Limited Long-term Incentive Plan.

The combination of these comprises the executive's total remuneration.

Base pay and benefits

Structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Benefits

Executives receive benefits including car allowances.

Short-term incentives

Should the Group achieve pre-determined targets set by the Board, then short-term incentives (STI) are available for executives and employees. Cash incentives (bonuses) are payable following finalisation and announcement of the full year audited results. Using value creation targets ensures variable awards are only available when value has been created for shareholders and when profit is consistent with the business plan. The incentives are leveraged for performance above the threshold to provide an incentive for executive and employee out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation. The STI target annual payment is reviewed annually.

Each year, the remuneration committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2010, the KPIs linked to short-term incentive plans were based on Group or individual business objectives where appropriate to the executive's role and their impact on the Group's performance. The KPIs required performance in maximising sales and margins, reducing operating costs and achieving specific targets in relation to return on assets, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods.

The short-term bonus payments are adjusted in line with the degree of over achievement against the target performance levels.

Long-term incentives

Information on the Specialty Fashion Group Limited Senior Executive Option Plan and Specialty Fashion Long-term Incentive plan is set out later in this Note.

Directors' Report (cont.)

30 June 2010

B Details of remuneration

Amounts of remuneration

Details of the remuneration of the directors, the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) of Specialty Fashion Group Limited are set out in the following tables.

The key management personnel of the Group are the directors of Specialty Fashion Group Limited and those executives that report directly to the managing director. The executives are:

- Gary Perlstein – Chief Executive Officer
- Howard Herman – Executive General Manager

- Alison Henriksen – Chief Financial Officer (appointed 31 August 2009) and Company Secretary (appointed 29 July 2010)

- Sonia Moura – General Manager of Human Resources

The above key management personnel of the Group are also the key management personnel of Specialty Fashion Group Limited for the year ended 30 June 2010. Other than the resignation of Mr Herman as Company Secretary on 29 July 2010, there has been no change to the directors or key management personnel disclosed above since 30 June 2010 up to the date of this report.

Key management personnel of the Group

2010 NAME	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS		TOTAL \$
	CASH, SALARY AND FEES \$	CASH BONUS \$	OTHER BENEFITS \$	SUPERANNUATION \$	SHARE RIGHTS \$		
Non-Executive Directors							
G Levy	90,000	–	–	8,100	–	–	98,100
A I Miller	60,000	–	–	5,400	–	–	65,400
J Murphy	60,000	–	–	–	–	–	60,000
J Bloom	60,000	–	–	5,400	–	–	65,400
A McDonald	60,000	–	–	5,400	–	–	65,400
Sub-total Non-Executive Directors	330,000	–	–	24,300	–	–	354,300
Executive Directors							
G Perlstein	700,000	210,000	83,166	81,900	292,440	–	1,367,506
Other key management personnel							
H Herman	315,000	–	40,250	28,350	–	–	383,600
A Henriksen	272,731	93,000	–	32,916	104,443	–	503,090
S Moura	140,787	48,000	17,527	30,375	31,333	–	268,022
Total key management personnel compensation (Group)	1,758,518	351,000	140,943	197,841	428,216	–	2,876,518

The above key management personnel of the Group are also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2010.

2009 NAME	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	TOTAL \$
	CASH, SALARY AND FEES \$	CASH BONUS \$	OTHER BENEFITS \$	SUPERANNUATION \$	OPTIONS \$	
Non-Executive Directors						
G Levy	79,500	–	–	7,155	–	86,655
A I Miller	53,000	–	–	4,770	–	57,770
J Murphy	53,000	–	–	–	–	53,000
J Bloom	53,000	–	–	4,770	–	57,770
A McDonald	53,000	–	–	4,770	–	57,770
Sub-total Non-Executive Directors	291,500	–	–	21,465	–	312,965
Executive Directors						
G Perlstein	659,167	–	71,500	59,325	–	789,992
Other key management personnel						
H Herman	304,500	–	35,000	27,405	–	366,905
Total key management personnel compensation (Group)	1,255,167	–	106,500	108,195	–	1,469,862

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed Short-term incentives above. All other elements of remuneration are not directly related to performance.

The above key management personnel of the Group are also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2009.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

NAME	FIXED REMUNERATION		AT RISK-STI		AT RISK-LTI	
	2010	2009	2010	2009	2010	2009
G Perlstein	62	100	17	–	21	–
Other key management personnel of Group						
H Herman	100	100	–	–	–	–
A Henriksen	59	–	20	–	21	–
S Moura	68	–	20	–	12	–

Directors' Report (cont.)

30 June 2010

C Service agreements

The following table summarises the individual details of service agreements that are in place for Specialty Fashion Group Limited's directors as well as for key management personnel.

NAME	OFFICE HELD	TERM OF AGREEMENT	NOTICE PERIOD	SEVERANCE PERIOD	REMUNERATION REVIEW PERIOD	ELIGIBLE FOR STI?	ELIGIBLE FOR LTI?	ELIGIBLE FOR TERMINATION BENEFIT?	ELIGIBLE FOR OTHER BENEFIT?
Executive Directors									
G Perlstein	Chief Executive Officer	No term	1 month	None	12 months	Yes	Yes	No	Yes
Non-Executive Directors									
G Levy	Chairman Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A I Miller	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
J Bloom	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
J Murphy	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A McDonald	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
Other key management personnel									
H Herman	Executive General Manger	No term	1 month	None	12 months	Yes	Yes	No	Yes
A Henriksen	Chief Financial Officer and Company Secretary	No term	3 months	None	12 months	Yes	Yes	No	No
S Moura	General Manager of Human Resources	No term	3 months	None	12 months	Yes	Yes	No	Yes

D Share-based compensation

Options

Options are granted under the Specialty Fashion Group Limited Senior Executive Option Plan. Staff eligible to participate in the plan are those of supervisor level and above (including Executive Directors).

Options are granted under the plan for no consideration. Options are granted for a three year period, and 1/3 of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE
04/01/2005	1/3 after June 2006, 1/3 after June 2007, 1/3 after June 2008	31/08/2011	\$1.13	\$0.11
09/06/2006	1/3 after June 2007, 1/3 after June 2008, 1/3 after June 2009	31/08/2012	\$1.86	\$0.51

Options granted under the plan carry no dividend or voting rights.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

Details of options over ordinary shares in the Company provided as remuneration to each director of Specialty Fashion Group Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Specialty Fashion Group Limited. Further information on the options is set out in Note 37 to the financial statements.

NAME	NUMBER OF OPTIONS GRANTED DURING THE YEAR		NUMBER OF OPTIONS VESTED DURING THE YEAR	
	2010	2009	2010	2009

Other key management personnel of the Group

H Herman	-	-	-	333,444
----------	---	---	---	---------

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

There were no options granted to Directors or other key management personnel of the Group during the year ended 30 June 2010 or 30 June 2009.

Shares provided on exercise of remuneration options

Details of ordinary shares in the Company provided as a result of the exercise of remuneration options to each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below:

NAME	DATE OF EXERCISE OF OPTIONS	NUMBER OF ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	VALUE AT EXERCISE DATE
Other key management personnel of the Group			
H Herman	5 March 2010	333,444	\$1.34

Directors' Report (cont.)

30 June 2010

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise was \$1.13.

No amounts are unpaid on any shares issued on the exercise of options.

No options were exercised during the 2009 financial year.

Share rights

The numbers of share rights over ordinary shares in the Group held during the financial year by each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below.

2010	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	–	1,400,000	–	–	1,400,000	–	1,400,000
Other key management personnel of the Company							
A Henriksen	–	500,000	–	–	500,000	–	500,000
S Moura	–	150,000	–	–	150,000	–	150,000

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables above, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

NAME	PAID %	BONUS FORFEITED %
G Perlstein	100	–
H Herman	–	100
A Henriksen	100	–
S Moura	100	–

Share options granted to directors and the most highly remunerated officers

There were no options over unissued ordinary shares of Specialty Fashion Group Limited granted during or since the end of the financial year to the directors or other key management personnel of the Company as part of their remuneration.

Shares under option

Unissued ordinary shares of Specialty Fashion Group Limited under option at the date of this report are as follows:

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
04/01/2005	31/08/2011	\$1.13	1,529,665
09/06/2006	31/08/2012	\$1.86	280,000
			1,809,665

No option holder has any right under the options to participate in any other share issue of the Company or any other entity.

Restricted share rights

In September 2007, the Group established the Specialty Fashion Group Limited Long-term Incentive Plan. Under this plan restricted share rights over shares in the Company can be issued to executive officers, senior executives and senior staff members selected by the directors. Up to the date of this report, 2,142,857 performance rights had been issued under this plan.

Rights granted under the plan give the employee the right to receive a share at a future point in time upon meeting specified vesting conditions with no exercise price payable. The rights are granted at no consideration. Upon meeting the vesting conditions, the right may be exercised up to one year following the end of the vesting period.

Performance rights over ordinary shares

In January 2010, under the terms of the Specialty Fashion Group Limited Long-Term Incentive Plan announced on the 28 September 2009, the Company issued rights over ordinary shares to employees. Up to the date of this report, 6,865,000 performance rights had been issued under the terms of this plan and the fair value of each share right on the date of issue was 98 cents.

Rights granted under the plan are granted for nil consideration and give the employee the right to receive a restricted share at a future point in time when the rights vest. In order for the rights to vest, specified vesting conditions must be met including a continuous period of service and specified performance hurdles.

Shares issued on the exercise of options

444,109 (2009:nil) ordinary shares of Specialty Fashion Group Limited were issued during the year ended 30 June 2010 and up to the date of this report on the exercise of options under the Specialty Fashion Group Limited Senior Executive Option Plan. No amounts are unpaid on any of the shares.

E Additional information

Loans to executives

Information on loans to executives, including amounts, interest rates and repayment terms are set out in Note 27 to the financial statements.

INSURANCE OF OFFICERS

During the financial year, Specialty Fashion Group Limited insured certain officers of the Group and related bodies corporate. The insurance policy prohibits the disclosure of the premium amount.

The officers of the Company covered by the insurance policy include any director, secretary, executive officer or employee of Specialty Fashion Group Limited and its controlled entities.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the Group.

PROCEEDINGS ON BEHALF OF THE COMPANY

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

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

NON-AUDIT SERVICES

The Group may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in Note 28.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non-audit services is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 *Code of Ethics for Professional Accountants*.

Directors' Report (cont.)

30 June 2010

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 41.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

This report is made in accordance with a resolution of directors.



G Perlstein
Director



G Levy AO
Director

Sydney
20 August 2010

Auditor's Independence Declaration.



PricewaterhouseCoopers
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AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Specialty Fashion Group Limited for the year ended 30 June 2010, 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 Specialty Fashion Group Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads "K. Stubbins".

K Stubbins
Partner
PricewaterhouseCoopers

Sydney
20 August 2010

Corporate governance statement.

30 June 2010

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Company and its controlled entities and to best addressing the directors' accountability to shareholders and other stakeholders. In formulating the governance principles that guide the operations of the Company, the directors have taken into account the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. This is supported by an overriding organisation wide commitment to the highest standards of legislative compliance and financial and ethical behaviour.

A description of the Company's main corporate governance practices is set out below.

ROLES AND RESPONSIBILITIES

The directors' overriding objective is to increase shareholder value within an appropriate framework which protects the rights and interests of shareholders and ensures the Company and its controlled entities are properly managed.

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

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

THE BOARD OF DIRECTORS

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

Size and composition of the Board

Board membership is regularly reviewed. Recommendations on the appropriate skill mix, personal qualities, expertise and diversity of each position are made. When a vacancy exists or there is a need for particular skills, the selection criteria based on the skills deemed necessary are identified. Suitable candidates are interviewed and appointed by the Board. New Board members must stand for election at the next general meeting of shareholders.

The Board currently comprises five Non-Executive Directors, four of whom are deemed independent under the principles set out below and one Executive Director, the Chief Executive Officer, at the date of signing the directors' report.

The Chairman of the Board is a Non-Executive Director who is elected by the full Board. The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the Company's senior executives. The CEO is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people. An annual review of the performance of the Chief Executive Officer is conducted.

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

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out on pages 24 and 25.

Director's independence

Any past or present relationship with the Company is carefully examined to assess the likely impact on a director's ability to be objective and exercise independent judgement. The Board review any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed.

Board committees

The Board has established committees to assist in the execution of its duties and to allow detailed consideration of complex issues. A current committee of the Board is the Audit Committee consisting of Non-Executive Directors. As the Company has a relatively small number of directors, the full Board effectively acts as a Nominations Committee and the Remuneration Committee. Each committee has its own charter setting out the authority delegated to it by the Board and the manner in which the committee is to operate. The committee structure and membership is reviewed on an annual basis.

The Board considers remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for Executive Directors and other senior executives. The Board, having regard to performance, relevant comparative information and independent expert advice, reviews executive remuneration and other terms of employment annually. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses and fringe benefits. Senior Executives are also eligible to participate in the option plan and long term incentive share rights plan. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

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

Audit committee

The audit committee consists of the following Non-Executive Directors:

- A McDonald (Chairperson)
- J Murphy
- J Bloom

The functions of the audit committee are clearly defined in the Company's Audit Committee Charter which includes responsibility for:

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

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

In fulfilling its responsibilities the Committee receives regular reports from management and external auditors. It also meets with the external auditors at least twice a year, more frequently

if necessary. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman of the Board.

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

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

Financial report accountability

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

Performance evaluation

The process of evaluating the performance of the Board as a whole is the responsibility of the Board under the direction of the Chairman. The process has been informally done up until now due to the high frequency of meetings conducted. We are currently updating our board charter and as part of that process we will introduce a more formal evaluation going forward.

DISCLOSURE

The Company satisfies its continuous disclosure obligations as required by the Listing Rules of the Australian Stock Exchange and the Corporations Law by adhering to its External Communications policy which requires information to be disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company.

The Company's annual and half year reports, media and analysts' presentations and press releases and other information disclosed to the ASX and the Company's Code of Conduct are posted on the Company's website (www.specialtyfashiongroup.com.au).

Corporate governance statement (cont.)

30 June 2010

Auditor Attendance at the annual general meeting

The external audit firm partner in charge of the Specialty Fashion Group Limited audit is available to answer shareholder questions at the Company's annual general meeting.

RISK MANAGEMENT

The Board has ultimate responsibility for the Company's system of internal control and for regularly reviewing its effectiveness. The main aim of the system of internal control is the management of business risks. The focus of the Company's risk management and internal control system is on maintaining a high level of risk awareness across the organisation at strategic and operational levels. The philosophy towards risk is not to be risk averse and thus potentially constrain prospects for growth, but to enable risks to be identified, discussed, mitigated and monitored in a balanced manner.

The Company has updated its risk management strategy and has implemented a formalised risk management system incorporating an integrated risk management programme aimed at ensuring risks are identified, assessed and appropriately managed. The Company faces a range of risks as a Company operating in the retail and wholesale apparel markets. The key areas of risk for the Company include risks relating to changes in the industry and competitive environment, strategic growth, relationships with and reliance on key employees, operational controls, supply chain continuity, development and use of information systems, financial reporting and regulatory compliance.

Risk management accountability

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

CODE OF CONDUCT

The Company's Code of Conduct applies to all employees of the organisation and formalises the obligation of directors and employees to act honestly and professionally, comply with all laws and regulations and use their powers of office for a proper purpose. This includes declaring any vested interest in any transactions undertaken by the Company.

Unethical conduct will not be tolerated and will be investigated and dealt with immediately by the appropriate level of management. The Group intends that the spirit of the Code be adopted as well as the letter of the standards therein.

The Code will be regularly reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

Trading in Specialty Fashion Group Shares

Directors and senior executives of the Company are subject to the *Corporations Act 2001*, which prohibits buying, selling or subscribing for shares in the Company if they are in possession of inside information. The Company has a Securities Trading Policy which stipulates it is contrary to Company policy for employees to be engaged in short-term trading of the Company's securities. Appropriate time for directors and employees to acquire or sell the Company's shares is when they are not in possession of price sensitive information which is not generally available to the market. Under the policy directors and employees must not deal in the Company's shares during the period between January 1 and 24 hours after the release of the Company's half-yearly results or the period between July 1 and 24 hours after the release of the Company's yearly results. It is contrary to Company policy for directors and employees to deal in a derivative, the value of which is determined by reference to any unvested security held, until that security has fully and unconditionally vested.

Consolidated income statement.

For the year ended 30 June 2010

	NOTES	CONSOLIDATED	
		2010 \$'000	2009 \$'000
Revenue from continuing operations	5	572,228	560,554
Changes in inventories of finished goods and consumables		1,818	(1,874)
Finished goods and consumables		(245,848)	(238,106)
Employee benefits expense		(132,220)	(127,668)
Depreciation and impairment expense	6	(16,105)	(17,611)
Other expenses from ordinary activities		(38,102)	(41,238)
Rental expense relating to operating leases	6	(97,447)	(98,174)
Insurance recoveries relating to fraudulent expenditure		–	5,000
Fraudulent expenditure		–	(6,827)
Finance costs	6	(1,527)	(3,243)
Profit before income tax		42,797	30,813
Income tax expense	8	(12,386)	(8,250)
Profit from continuing operations		30,411	22,563
Profit for the year		30,411	22,563
		2010 CENTS	2009 CENTS
Earnings per share for profit from ordinary activities:			
Basic earnings per share	36	16.0	11.8
Diluted earnings per share	36	15.7	11.7

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated statement of comprehensive income.

For the year ended 30 June 2010

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Profit for the year	30,411	22,563
Other comprehensive income		
Changes in the fair value of cash flow hedges	4,520	4,784
Exchange differences on translation of foreign operations	185	109
Other comprehensive income for the year, net of tax	4,705	4,893
Total comprehensive income for the year	35,116	27,456
Total comprehensive income for the year is attributable to:		
Owners of Specialty Fashion Group Limited	35,116	27,456
	35,116	27,456

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet.

As at 30 June 2010

	NOTES	CONSOLIDATED	
		2010 \$'000	2009 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	9	2,705	8,044
Trade and other receivables	10	3,967	10,388
Inventories	11	45,802	43,985
Derivative financial instruments	12	2,941	–
Total current assets		55,415	62,417
Non-current assets			
Property, plant and equipment	13	79,881	73,261
Deferred tax assets	14	400	4,648
Intangible assets	15	11,806	11,806
Total non-current assets		92,087	89,715
Total assets		147,502	152,132
LIABILITIES			
Current liabilities			
Trade and other payables	16	47,218	53,429
Derivative financial instruments	12	–	3,515
Current tax liabilities	19	3,100	3,909
Provisions	18	13,157	13,039
Borrowings	17	–	33,800
Other current liabilities	20	2,600	2,418
Total current liabilities		66,075	110,110
Non-current liabilities			
Borrowings	21	8,000	–
Provisions	22	6,289	5,292
Other non-current liabilities	23	6,547	5,959
Total non-current liabilities		20,836	11,251
Total liabilities		86,911	121,361
Net assets		60,591	30,771
EQUITY			
Contributed equity	24	132,492	131,993
Reserves	25(a)	3,653	(2,981)
Accumulated losses	25(b)	(75,554)	(98,241)
Total equity		60,591	30,771

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity.

For the year ended 30 June 2010

ATTRIBUTABLE TO MEMBERS OF SPECIALTY FASHION GROUP LIMITED					
	NOTES	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	ACCUMULATED LOSSES \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2008		131,680	(7,661)	(116,974)	7,045
Profit for the year		–	–	22,563	22,563
Cash flow hedges		–	4,784	–	4,784
Exchange differences on translation of foreign operations		–	109	–	109
Total comprehensive income for the year		–	4,893	22,563	27,456
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	24	313	–	–	313
Dividends provided for or paid	26	–	–	(3,830)	(3,830)
Employee share based payments	37	–	150	–	150
Shares to be issued		–	(363)	–	(363)
		313	(213)	(3,830)	(3,730)
Balance at 30 June 2009		131,993	(2,981)	(98,241)	30,771
	NOTES	CONTRIBUTED EQUITY \$'000	RESERVES \$'000	ACCUMULATED LOSSES \$'000	TOTAL EQUITY \$'000
Balance at 1 July 2009		131,993	(2,981)	(98,241)	30,771
Profit for the year		–	–	30,411	30,411
Cash flow hedges		–	4,520	–	4,520
Exchange differences on translation of foreign operations		–	185	–	185
Total comprehensive income for the year		–	4,705	30,411	35,116
Transactions with owners in their capacity as owners:					
Contributions of equity, net of transaction costs	24	499	–	–	499
Dividends provided for or paid	26	–	–	(7,724)	(7,724)
Employee share based payments	37	–	1,929	–	1,929
		499	1,929	(7,724)	(5,296)
Balance at 30 June 2010		132,492	3,653	(75,554)	60,591

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 2010

	NOTES	CONSOLIDATED	
		2010 \$'000	2009 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		628,846	616,315
Payments to suppliers and employees (inclusive of goods and services tax)		(572,208)	(569,988)
		56,638	46,327
Interest received		293	268
Borrowing costs		(1,527)	(3,243)
Income taxes paid		(10,841)	(3,778)
Insurance recovery received		5,000	–
Net cash inflow from operating activities	35	49,563	39,574
Cash flows from investing activities			
Payments for property, plant and equipment		(22,309)	(23,589)
Proceeds from sale of property, plant and equipment		432	–
Net cash outflow from investing activities		(21,877)	(23,589)
Cash flows from financing activities			
Shares issued		499	–
Repayment of borrowings		(33,800)	(11,200)
Proceeds from borrowings		8,000	–
Dividends paid to Company's shareholders		(7,724)	(3,830)
Net cash outflow from financing activities		(33,025)	(15,030)
Net (decrease) / increase in cash and cash equivalents		(5,339)	955
Cash and cash equivalents at the beginning of the financial year		8,044	7,089
Cash and cash equivalents at end of year	9	2,705	8,044

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 2010

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial report is only for the consolidated entity consisting of Specialty Fashion Group Limited and its subsidiaries. These financial statements are the consolidated financial statements of the consolidated entity consisting of Specialty Fashion Group Limited and its subsidiaries. The financial statements are presented in the Australian currency.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Comparative balances have been reclassified where necessary for consistency with current year disclosures.

The Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements are disclosed in Note 3.

Financial statement presentation

The Group has applied the revised AASB 101 *Presentation of Financial Statements* which became effective on 1 January 2009. The revised standard requires the separate presentation of a statement of comprehensive income and a statement of changes in equity. All non-owner changes in equity must now be presented in the statement of comprehensive income. As a consequence, the Group had to change the presentation of its financial statements. Comparative information has been re-presented so that it is also in conformity with the revised standard.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Specialty Fashion Group Limited ("Company" or "parent entity") as at 30 June 2010 and the results of all controlled entities for the year then ended. Specialty Fashion Group Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(i) Employee Share Trust

The Group has a trust to administer the Group's Long Term Incentive Plan. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and the Board of Directors.

Management are of the opinion that Specialty Fashion Group Limited has one reportable segment being fashion retail.

Change in accounting policy

The Group has adopted AASB 8 *Operating Segments* from 1 July 2009. AASB 8 replaces AASB 114 *Segment Reporting*. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. There has been no impact on the measurement of the Group's assets and liabilities.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ("the functional currency"). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Retail sales

Revenue is recognised at the point of sale when delivery takes place.

(ii) Lay-by sales

Lay-by sales are recognised at the point of sale when a significant deposit is received. The cash outstanding at balance date is shown as a debtor.

(iii) Interest Revenue

Interest revenue is recognised when it is earned.

(iv) Customer loyalty programme

The Group operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value. Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 24 months after the initial sale.

(v) Insurance recoveries

Insurance recoveries revenue is recognised when the income is virtually certain.

(f) Income tax

The income tax expense for the period is the tax payable on the current period's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax losses of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowance

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. During the year ended 30 June 2010 the Group had no such leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (Note 30). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight line basis over the period of the lease.

(h) Business combinations

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at

the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred the amount of any non controlling interest in the acquiree and the acquisition date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Change in accounting policy

A revised AASB 3 *Business Combinations* became operative on 1 July 2009. While the revised standard continues to apply the acquisition method to business combinations, there have been some significant changes.

All purchase consideration is now recorded at fair value at the acquisition date. Contingent payments classified as debt are subsequently remeasured through profit or loss. Under the Group's previous policy, contingent payments were only recognised when the payments were probable and could be measured reliably and were accounted for as an adjustment to the cost of acquisition.

Acquisition-related costs are expensed as incurred. Previously, they were recognised as part of the cost of acquisition and therefore included in goodwill.

Non-controlling interests in an acquiree are now recognised either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets. This decision is made on an acquisition-by-acquisition basis. Under the previous policy, the non-controlling interest was always recognised at its share of the acquiree's net identifiable assets.

If the Group recognises previous acquired deferred tax assets after the initial acquisition accounting is completed there will no longer be any adjustment to goodwill. As a consequence, the recognition of the deferred tax asset will increase the Group's net profit after tax.

The changes were implemented prospectively from 1 July 2009 but had no effect in the current year.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(k) Trade receivables

Trade receivables are recognised at the amounts receivable and are due for settlement in 30 days. Layby debtors are also recognised at the amounts receivable and are due for settlement in 60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

(i) Loans receivable

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans are recognised at amortised cost using the effective interest method. Loans receivable mature within 12 months and are included in current trade and other receivables in the balance sheet.

(l) Inventories

Finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes transfer from equity of any gains / losses on qualifying cash flow hedges relating to purchases of inventories.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in Note 12. Movements in the hedging reserve in shareholders' equity are shown in Note 25. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast purchase that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in profit or loss within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in profit or loss within 'cost of goods sold'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(n) Property, plant and equipment

Property, plant and equipment and land and buildings is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation is calculated using the straight line method to allocate the cost or revalued asset amounts, net of the residual values, over the estimated lives, ranging from 4 to 14 years. Buildings are depreciated over 50 years.

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

An assets' carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary / associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill 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.

Goodwill is allocated to cash-generating units for the purpose of impairment testing.

(p) Trade and other payables

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.

(q) Borrowings

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 period of the borrowings using the effective interest 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 period of the facility to which it relates.

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.

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are incurred in refinancing the Group's funding arrangements. These costs are capitalised and amortised over the term of the funding arrangements.

(s) Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(t) Employee benefits**(i) Short-term obligations**

Liabilities for wages and salaries, including non monetary benefits and annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised as liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

(ii) Long-term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. 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 national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

The Group makes superannuation contributions on behalf of its employees to a number of accumulation type superannuation funds.

Contributions to the funds are recognised as an expense as they become payable.

(iv) Share-based payments

Share-based compensation benefits are provided to employees via the Specialty Fashion Group Limited Senior Executive Option and Restricted Share Rights Plan.

The fair value of options / rights granted under the Specialty Fashion Group Limited Senior Executive Option Plan and Restricted Rights Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options / rights.

The fair value at grant date is independently determined using a Black Scholes option pricing model that takes into account the exercise price, the term of the option / right, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option / right, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option / right.

The fair value of the options / rights granted excluded the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options / rights that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

Upon the exercise of options / rights, the balance of share-based payments reserve relating to those options / rights is transferred to share capital.

(v) Bonus plans

The Group recognises a liability and an expense for bonuses based on a certain performance targets. The Group recognises a provision where contractually obliged.

(u) 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. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

(w) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

(y) Rounding of amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the "rounding off" of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2010 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 2009-8 *Amendments to Australian Accounting Standards Group Cash Settled Share based Payment Transactions from AASB2* (effective from 1 January 2010)

The amendments made by the AASB to AASB 2 confirm that an entity receiving goods or services in a group share-based payment arrangement must recognise an expense for those goods or services regardless of which entity in the Group settles the transaction or whether the transaction is settled in shares or cash. They also clarify how the Group share-based payment arrangement should be measured, that is, whether it is measured as an equity or a cash-settled transaction. The Company will apply these amendments for the financial reporting

period commencing on 1 July 2010. However, as the amendments only affect the accounting in the individual entities there will be no impact on the financial statements of the Group.

(ii) AASB 2009-10 *Amendments to Australian Accounting Standards Classification of Rights Issues from AASB 132* (effective from 1 February 2010)

In October 2009 the AASB issued an amendment to AASB 132 *Financial Instruments: Presentation* which addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment must be applied retrospectively in accordance with AASB 108 *Accounting Policies, Changes in Accounting Estimates and Errors*. The Group will apply the amended standard from 1 July 2010. As the Group has not made any such rights issues, the amendment will not have any effect on the Group's financial statements.

(iii) AASB 9 *Financial Instruments* and AASB 2009-11 *Amendments to Australian Accounting Standards arising from AASB 9* (effective from 1 January 2013)

AASB 9 *Financial Instruments* addresses the classification and measurement of financial assets and is likely to affect the Company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact but do not expect a significant impact on the Group's financial statements.

(iv) Revised AASB 124 *Related Party Disclosures* and AASB 2009-12 *Amendments to Australian Accounting Standards* (effective from 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 *Related Party Disclosures*. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. There will be no impact on any of the amounts recognised in the Group's financial statements.

(v) **AASB Interpretation 19 *Extinguishing Financial Liabilities with Equity Instruments* and AASB 2009-13 *Amendments to Australian Accounting Standards arising from Interpretation 19*** (effective from 1 July 2010)

AASB Interpretation 19 clarifies the accounting when an entity renegotiates the terms of its debt with the result that the liability is extinguished by the debtor issuing its own equity instruments to the creditor (debt for equity swap). It requires a gain or loss to be recognised in profit or loss which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. The Group will apply the interpretation from 1 July 2010. It is not expected to have any impact on the Group's financial statements since it is only retrospectively applied from the beginning of the earliest period presented (1 July 2009) and the Group has not entered into any debt for equity swaps since that date.

(vi) **AASB 2009-14 *Amendments to Australian Interpretation Prepayments of a Minimum Funding Requirement*** (effective from 1 January 2011)

In December 2009, the AASB made an amendment to Interpretation 14 *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*. The amendment removes an unintended consequence of the interpretation related to voluntary prepayments when there is a minimum funding requirement in regard to the entity's defined benefit scheme. It permits entities to recognise an asset for a prepayment of contributions made to cover minimum funding requirements. The Group does not make any such prepayments. The amendment is therefore not expected to have any impact on the Group's financial statements. The Group intends to apply the amendment from 1 July 2011.

(aa) Parent entity financial information

As a result of changes made to the *Corporations Act 2001* and the *Corporations Regulations 2010* in June 2010, separate parent entity financial statements are not required in consolidated financial statements.

The financial information for the parent entity, Specialty Fashion Group Limited, disclosed in Note 38 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) **Investments in subsidiaries, associates and joint venture entities**

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Specialty Fashion Group Limited. Dividends

received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) **Tax consolidation legislation**

Specialty Fashion Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Specialty Fashion Group Limited, 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, Specialty Fashion Group Limited 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 Specialty Fashion Group Limited for any current tax payable assumed and are compensated by Specialty Fashion Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Specialty Fashion Group Limited 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 Company.

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.

(ab) Other information

Specialty Fashion Group Limited is a Company limited by shares, incorporated and domiciled in Australia. It's registered office and principal place of business is:

151 – 163 Wyndham Street
Alexandria NSW 2015

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

2 FINANCIAL RISK MANAGEMENT

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The Group uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks.

The Group identifies, evaluates and hedges financial risks. Identified risks are recorded on the entity's risk management framework document and action plans to mitigate these risks are formulated by senior management in consultation with the Board. The Board oversees principles for overall risk management as well as specific areas, such as mitigating foreign exchange and interest rates and credit risks, use of derivative financial information and investing excess liquidity.

The Group hold financial assets in the form of cash and cash equivalents (refer Note 9), derivative financial instruments (refer Note 12) and trade and other receivables (refer to Note 10). The Group holds financial liabilities in the form of trade and other payables and borrowings (refer Note 16 and 21) and derivative financial instruments (refer Note 12).

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar, NZ dollar, and South African rand.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The only financial assets or liabilities which are exposed to foreign currency risk are trade payables.

Forward contracts are used to manage foreign exchange risk.

The Group's risk management policy is to hedge at least all of anticipated purchases in US dollars for the subsequent 6 months. Approximately 100% (2009: 100%) of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes.

Given the Group's fully hedged position at 30 June 2010, movements in the Australian dollar against the US Dollar with all other variables held constant, post-tax profit for the year would not have been impacted. Equity would have been \$3.1 million higher / \$3.8 million lower (2009: \$2.8 million higher / \$3.5 million lower) had the Australian dollar weakened / strengthened by 10% against the US dollar, arising mainly from foreign forward exchange contracts designated as cash flow hedges.

The impact of fluctuations in NZ dollar and South African rand against the Australian dollar on post-tax profit and other balance sheet items would not be significant. This position has not changed from 2009.

(ii) Price risk

The Group is not exposed to commodity or equity securities price risk.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks. Sales to retail customers are settled in cash or using major credit card, mitigating risk. Banks only accept independently rated parties with a minimum rating of "AA". The maximum exposure to credit card risk at reporting date is the carrying amount of the financial assets mentioned above.

(iv) Cash flow and fair value interest rate risk

The Group's main interest rate risk arises from long-term borrowings, which are denominated in Australian Dollars. Borrowings are issued at variable rates and expose the Group to cash flow interest rate risk. The Group takes out commercial bills under pre-arrangement facilities in order to have the flexibility to meet the entity's working capital and cash flow needs and keep borrowings at a minimum and minimise exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternate financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. This analysis is done on a half-yearly basis to verify that the maximum loss potential is within the limit given by the management.

At 30 June 2010, if interest rates had changed by 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$0.2 million lower / higher (2009: change of +/- 100 bps: \$0.6 million lower / higher). The weighted average interest rate at 30 June 2010 is 7% (2009: 4.15%).

(b) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement and for disclosure purposes.

As of 1 July 2009, Specialty Fashion Group Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* which requires disclosure of fair value measurements according to the following fair value measurement hierarchy:

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

All financial assets and liabilities measured at fair value (being derivative financial instruments) are level 2 and use quoted prices in an active market for valuation.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. The Group's approach to managing liquidity is to ensure, that it will always have sufficient cash flow to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group's reputation.

Inventory management methods and established supplier relationships assist management to prepare rolling forecasts

of the Group's cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the Group ensures that it has sufficient cash on demand to meet expected operational expenses for the period of 12 months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disaster. In addition, the Group maintains the following lines of credit:

Bank loan facilities that comprise of working capital facilities to the value of \$40 million (2009: \$61 million) that can be drawn. \$30 million of the working capital facilities may be drawn at any time, a further \$10 million of working capital facilities is available during periods of inventory build. A \$60 million investment facility is also available for drawdown. The facilities are drawn down upon through 30-day maturity commercial bills that renews automatically at the discretion of the Group. Interest is payable at the variable interest rate applicable at renewal date. This is a three-year facility which expires in April 2013.

For additional information on borrowings refer Note 21.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The fair value of financial instruments is based on quoted market prices at the reporting date.

AT 30 JUNE 2010	LESS THAN 1 YEAR \$'000	BETWEEN 1-2 YEARS \$'000	BETWEEN 2-5 YEARS \$'000	OVER 5 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES \$'000
Non derivatives						
Trade and other payables	47,218	-	-	-	47,218	47,218
Borrowings	-	-	8,000	-	8,000	8,000
Total non-derivatives	47,218	-	8,000	-	55,218	55,218
Derivatives						
Gross Settled						
(inflow)	(49,377)	-	-	-	(49,377)	(2,941)
outflow	46,436	-	-	-	46,436	-
Total derivatives	(2,941)	-	-	-	(2,941)	(2,941)

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

AT 30 JUNE 2009	LESS THAN 1 YEAR \$'000	BETWEEN 1-2 YEARS \$'000	BETWEEN 2-5 YEARS \$'000	OVER 5 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES \$'000
Non derivatives						
Trade and other payables	53,429	-	-	-	53,429	53,429
Borrowings	33,800	-	-	-	33,800	33,800
Total non-derivatives	87,229	-	-	-	87,229	87,229
Derivatives						
Gross Settled						
(inflow)	(45,389)	-	-	-	(45,389)	-
outflow	48,904	-	-	-	48,904	3,515
Total derivatives	3,515	-	-	-	3,515	3,515

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and other assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in Note 1(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to Note 15 for details of these assumptions and the potential impact of changes to the assumptions.

Store assets are tested for impairment as the individual store is assessed to be the cash generating unit (refer Note 1(i)) based on value in use calculations. These assets are also assessed for reversal annually. These assessments require the use of assumptions including forecast future cash flows.

(ii) Provisions

There are provisions required by the Group that are subject to estimations and assumptions. The Group ensures provisions are reasonable considering historical events and future expectations.

4 SEGMENT INFORMATION

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers have been identified as the Chief Executive Officer and the Board of Directors.

Management are of the opinion that Specialty Fashion Group Limited has one reportable segment being fashion retail.

There is no revenue that is significant to a particular customer. Segment revenue from external parties, assets and liabilities are all reported to the Chief Executive Officer and Board of Directors in a manner consistent with the financial statements.

The Chief Executive Officer and Board of Directors assesses the performance of the operating segments based on a measure of EBITDA and net profit before tax.

A reconciliation of EBITDA to profit before income tax is provided as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
EBITDA	60,136	51,399
Interest revenue	293	268
Finance costs	(1,527)	(3,243)
Depreciation and impairment expense	(16,105)	(17,611)
Profit before income tax	42,797	30,813

5 REVENUE

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
From continuing operations		
<i>Sales revenue</i>	571,245	559,948
Sale of goods		
<i>Other revenue</i>	293	268
Interest	690	338
Other revenue	572,228	560,554

6 EXPENSES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Profit before income tax includes the following specific expenses:		
Depreciation and impairment of property, plant and equipment (a)	16,105	17,611
Superannuation expense	9,083	8,280
Borrowing costs	1,527	3,243
Rental expense relating to operating leases	97,447	98,174
Net foreign exchange losses / (gains)	300	(58)
(Profit) / Loss on sale of PPE	(67)	74

(a) Includes an impairment charge of \$2,641,432 and impairment reversal of \$1,918,849 – net-impairment of \$722,583 (2009: net-impairment – \$5,357,754)

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

7 FRAUDULENT EXPENDITURE

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Asset write off	-	3,718
Other P&L expenditure	-	3,109
Insurance Recoveries	-	(5,000)
	-	1,827

In the financial year ended 30 June 2009 the Group became aware that over the prior five years approximately \$16.7 million (including \$1.5 million GST) of expenditure had been falsely charged to the Group, out of total property expenditures amounting to approximately \$150 million for that period. This resulted in the Group making cash payments of approximately \$16.7 million during this five year period. The Group recovered \$5 million in August 2009 through an insurance claim.

In reviewing the accounting impact of the \$15.2 million (ex GST), approximately \$10.8 million had been capitalised to fixed assets over the period and \$4.4 million had been accounted for through profits over the prior five years. In the year ended 30 June 2009, \$3.7 million had been capitalised to fixed assets and \$3.1 million had been accounted for through profits.

8 INCOME TAX EXPENSE

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(a) Income tax expense		
Current tax	9,848	6,139
Deferred tax	2,939	2,238
Over provision in prior year	(401)	(127)
	12,386	8,250
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	42,797	30,813
Tax at the Australian and New Zealand tax rate of 30% (2009 – 30%)	12,839	9,244
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Investment allowance	(195)	(913)
Share options	-	45
Sundry items	142	-
Over provision prior year	(400)	(126)
	12,386	8,250

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
(c) Amounts recognised directly in equity		
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.		
Net deferred tax charged directly to equity (Note 14)	(1,937)	(2,051)

(d) Tax consolidation legislation

Specialty Fashion Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in Note 1(aa).

9 CURRENT ASSETS – CASH AND CASH EQUIVALENTS

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Cash at bank and in hand	2,705	8,044

(a) Risk exposure

The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10 CURRENT ASSETS – TRADE AND OTHER RECEIVABLES

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Other receivables	3,317	9,263
Prepayments	650	1,125
	3,967	10,388

(a) Due to the short-term nature of these receivables their carrying amount is assumed to approximate their fair value (Note 2).

(b) In 2009 Other receivables included \$1,045,000 of staff loans. These loans have been repaid at 30 June 2010. Refer Note 27.

11 CURRENT ASSETS – INVENTORIES

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Inventories on hand at lower of cost and net realisable value	45,802	43,985

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

12 DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Current assets		
Forward foreign exchange contracts – cash flow hedges	2,941	–
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	–	3,515

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates. (refer to Note 2).

(i) Forward exchange contracts – cash flow hedges

In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US Dollars (2009: US Dollars).

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. The contracts are timed to mature when payments for major shipments of inventory are scheduled to be made. The fair value of forward exchange contracts is determined using forward exchange market rates at reporting date.

The cash flows are expected to occur within one year from the balance date. At balance date, the details of outstanding contracts are:

	AUSTRALIAN DOLLARS		AVERAGE EXCHANGE RATE	
	2010 \$'000	SELL 2009 \$'000	2010 \$'000	2009 \$'000
Buy US Dollars				
Maturity less than 1 year	46,436	48,904	0.8791	0.7489

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. When the cash flow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount from other comprehensive income.

(b) Risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At reporting date \$ 2,941,000 is receivable (Australian dollar equivalents) for the Group from forward foreign exchange contracts (2009 – \$ 3,515,000 was payable). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of derivative financial asset mentioned above.

(c) Interest rate risk exposure

Refer Note 2 for the Group's exposure to interest rate risk.

13 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	LAND AND BUILDINGS \$'000	PLANT AND EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
At 1 July 2008				
Cost	–	134,468	3,566	138,034
Accumulated depreciation and impairment	–	(69,029)	(981)	(70,010)
Net book amount	–	65,439	2,585	68,024
Year ended 30 June 2009				
Opening net book amount	–	65,439	2,585	68,024
Additions	–	22,877	–	22,877
Exchange differences	–	(29)	–	(29)
Depreciation and impairment charge	–	(17,254)	(357)	(17,611)
Closing net book amount	–	71,033	2,228	73,261
At 30 June 2009				
Cost	–	153,865	3,566	157,431
Accumulated depreciation and impairment	–	(82,832)	(1,338)	(84,170)
Net book amount	–	71,033	2,228	73,261
Year ended 30 June 2010				
Opening net book amount	–	71,033	2,228	73,261
Additions	2,655	20,429	–	23,084
Disposals	–	(365)	–	(365)
Exchange differences	–	6	–	6
Depreciation and impairment charge	(21)	(15,727)	(357)	(16,105)
Closing net book amount	2,634	75,376	1,871	79,881
At 30 June 2010				
Cost	2,655	165,121	3,566	171,342
Accumulated depreciation and impairment	(21)	(89,745)	(1,695)	(91,461)
Net book amount	2,634	75,376	1,871	79,881

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

14 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
The balance comprises temporary differences attributable to:		
Employee benefits	3,856	3,615
Other provisions and accruals	3,777	5,857
Deferred lease incentives	2,043	1,723
Tax losses*	130	271
Inventories	(223)	(85)
Lay-by debtors	(111)	(179)
Depreciation	(8,823)	(6,105)
Insurance recovery	–	(1,500)
Share rights reserve	633	–
	1,282	3,597
<i>Amounts recognised directly in equity</i>		
Cash flow hedges	(882)	1,051
Total deferred tax assets	400	4,648
Movements:		
Opening balance at 1 July	4,648	9,951
Charged to the income statement	(2,939)	(3,252)
Charged to equity	(1,937)	(2,051)
Reclass from provision	628	–
Closing balance at 30 June	400	4,648

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

15 NON-CURRENT ASSETS – INTANGIBLE ASSETS

	CONSOLIDATED	
	GOODWILL \$'000	TOTAL \$'000
At 1 July 2008		
Cost	11,855	11,855
Accumulated impairment	–	–
Net book amount	11,855	11,855
Year ended 30 June 2009		
Opening net book amount	11,855	11,855
Earnout Agreement	(49)	(49)
Closing net book amount	11,806	11,806
At 30 June 2009		
Cost	11,806	11,806
Accumulated impairment	–	–
Net book amount	11,806	11,806
Year ended 30 June 2010		
Opening net book amount	11,806	11,806
Closing net book amount	11,806	11,806
At 30 June 2010		
Cost	11,806	11,806
Accumulated impairment	–	–
Net book amount	11,806	11,806

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs) identified according to business segment.

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use one year cash flow projections based on financial budgets approved by management.

The weighted average growth rates used are consistent with forecasts used in industry reports. The discount rates used are pre tax and reflect specific risks related to the relevant segments. The assumptions that have been used for the analysis of each CGU within the business segment are as follows:

Growth rate – 2% (2009:2%)

Discount rate – 10.2% (2009: 11.1%)

(b) Impairment charge

There has been no impairment charge taken in the current year in relation to goodwill (2009: nil).

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

16 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Trade payables	15,503	13,966
Other payables	31,715	39,463
	47,218	53,429

Due to the short-term nature of these payables their carrying amount is assumed to approximate their fair value.

17 CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Secured		
Bank loans	–	33,800
Total current borrowings	–	33,800

18 CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Employee benefits	11,208	10,605
Other provisions	1,949	2,434
	13,157	13,039

(a) Movements in provisions

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

2010 CURRENT	OTHER PROVISIONS \$'000
Carrying amount at start of year	2,434
Amounts used during the year	(485)
Carrying amount at end of year	1,949

19 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Income tax	3,100	3,909

20 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Deferred lease incentives	2,173	1,966
Deferred income	427	452
	2,600	2,418

21 NON-CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Bank loans	8,000	–

(a) Total secured liabilities

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

Bank loans	8,000	33,800
------------	-------	--------

(b) Financing arrangements

The Group had access to the following undrawn borrowing facilities at the reporting date:

Credit standby arrangements

Total facilities

Bank loans	100,000	61,048
Bank overdrafts	–	2,000
Visa, encashment and guarantee facilities	655	2,017
	100,655	65,065

Used at balance date

Bank loans	380	438
Visa, encashment and guarantee facilities	8,380	34,238

Unused at balance date

Bank overdraft, bank loans and bill facilities	92,000	29,248
Visa, encashment and guarantee facilities	275	1,579
	92,275	30,827

Bank loan facilities

Total facilities	100,655	65,065
Used at balance date	8,380	34,238
Unused at balance date	92,275	30,827

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

The bank finance arrangements are secured by a cross guarantee and a mortgage debenture given by certain group companies consisting of fixed and floating charges over all present and future assets of these companies.

The bank loan facilities comprise of working capital facilities and strategic investment facilities, which may be drawn at any time.

The current interest rate is 7.00% on the bank loans (2009: 4.15%). The bank loan facilities have a three year term, maturing May 2013.

(c) Interest rate risk exposures

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

2010	FLOATING INTEREST RATE \$'000	NON INTEREST BEARING \$'000	TOTAL \$'000
Cash and deposits (Note 9)	2,705	–	2,705
Receivables (Note 10)	–	3,967	3,967
Bank loans (Note 21)	(8,000)	–	(8,000)
Trade and other payables (Note 16)	–	(47,218)	(47,218)
Net financial liabilities	(5,295)	(43,251)	(48,546)

2009	FLOATING INTEREST RATE \$'000	NON INTEREST BEARING \$'000	TOTAL \$'000
Cash and deposits (Note 9)	8,044	–	8,044
Receivables (Note 10)	–	10,388	10,388
Bank loans (Note 17)	(33,800)	–	(33,800)
Trade and other payables (Note 16)	–	(53,429)	(53,429)
Net financial liabilities	(25,756)	(43,041)	(68,797)

Weighted average interest rate on the cash and deposits is 4.40% (2009: 2.5%) and on the loans is 7.00% (2009: 4.15%).

(d) Fair Value

The carrying value of all financial assets and liabilities reflect their fair values as at balance sheet date.

22 NON-CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Employee benefits – long service leave	1,776	1,590
Other provisions	4,513	3,702
	6,289	5,292

(a) Movements in provisions

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

	CONSOLIDATED
	2010
	\$'000
Carrying amount at start of year	3,702
Additional provisions recognised	811
Carrying amount at end of year	4,513

23 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	CONSOLIDATED	
	2010	2009
	\$'000	\$'000
Deferred lease incentives	6,442	5,959
Other non current liabilities	105	–
	6,547	5,959

24 CONTRIBUTED EQUITY

	PARENT ENTITY		PARENT ENTITY	
	2010	2009	2010	2009
	SHARES	SHARES	SHARES	SHARES
(a) Share capital				
Ordinary shares				
Fully paid	190,964,693	190,520,581	132,492	131,993

(b) Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF SHARES	\$'000
1 July 2008	Opening balance	190,095,019	131,680
29 September 2008	Earnout Issue	425,562	313
30 June 2009	Balance	190,520,581	131,993
1 July 2009	Opening balance	190,520,581	131,993
5 March 2010	Proceeds received	444,112	499
30 June 2010	Balance	190,964,693	132,492

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the Company in proportion to the number of and amounts paid on the 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.

(d) Options

Information relating to the Specialty Fashion Group Limited Senior Executive Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in Note 37.

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

(e) Restricted share rights

Information relating to the Specialty Fashion Group Limited Employee Share Plan, including details of restricted share rights issued during the financial year is set out in Note 37.

(f) Capital risk management

The capital structure of the Group consists of equity attributable to the equity holders and debt. The Group manages its capital with the objective of maintaining an efficient structure to minimise the cost of capital by managing the level of debt that is prudent, facilitates the execution of the operation plan and provides flexibility for growth, and managing the amount of equity and expectation of return for dividends.

As part of its strategy for delivering long term sustainable growth in earnings per share, the Group has been returning capital to shareholders by way of dividends. The Group is in compliance with its debt covenants with formal notification of this compliance confirmed on a bi-annual basis.

There were no changes in the Company's approach to capital management during the year.

25 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(a) Reserves		
<i>Hedging reserve – cash flow hedges</i>	2,059	(2,461)
Share-based payments reserve	2,490	561
Foreign currency translation reserve	(896)	(1,081)
	3,653	(2,981)
Movements:		
<i>Hedging reserve – cash flow hedges</i>		
Balance 1 July	(2,461)	(7,243)
Revaluation	2,059	(2,461)
Transfer to net profit – net of tax	2,461	7,243
Balance at 30 June	2,059	(2,461)
Movements:		
<i>Share-based payments reserve</i>		
Balance 1 July	561	411
Restricted share rights plan expense	1,929	150
Balance at 30 June	2,490	561
Movements:		
<i>Foreign currency translation reserve</i>		
Balance 1 July	(1,081)	(1,191)
Currency translation differences arising during the year	185	110
Balance at 30 June	(896)	(1,081)

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Opening accumulated losses	(98,241)	(116,974)
Net profit for the year	30,411	22,563
Dividends paid	(7,724)	(3,830)
Balance 30 June	(75,554)	(98,241)

(c) Nature and purpose of reserves**(i) Hedging reserve – cash flow hedges**

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that are recognised in other comprehensive income, as described in Note 1(m). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(ii) Share based payments reserve

The share based payments reserve is used to recognise the fair value of options and restricted share rights issued.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in Note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

26 DIVIDENDS

	PARENT ENTITY	
	2010 \$'000	2009 \$'000
(a) Ordinary shares		
Dividends paid during the year (all fully franked)		
Interim dividend for the year ended 30 June 2010 of 4.0 cents (2009 – nil) per fully paid share paid on 23 March 2010.	7,724	–
No final dividend was declared for the year ended 30 June 2009 (2008 – 2.0 cents per fully paid share).	–	3,830

(b) Dividends not recognised at year end

In addition to the above dividends, since year end the directors have recommended the payment of a final ordinary dividend of 4.0 cents per fully paid ordinary share, fully franked. The aggregate amount of the proposed dividend expected to be paid on 27 October 2010 out of profits for the year ended 30 June 2010, but not recognised as a liability at year end, is \$7,724,302.

(c) Franked dividends

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2009 – 30%)	39,288	28,823

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

- (i) franking credits that will arise from the payment of the amount of the provision for income tax
- (ii) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (iii) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

The impact on the franking account of the dividends recommended by the directors since year end, but not recognised as a liability at year end, is \$3,310,415.

27 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Short-term employee benefits	2,250,461	1,361,667
Post-employment benefits	197,841	108,195
Share-based payments	428,216	–
	2,876,518	1,469,862

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 32 to 36.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on the exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of such options, can be found in section D of the remuneration report.

(ii) Option holdings

The numbers of options over ordinary shares in the Group held during the financial year by key management personnel of the Group are set out below.

2010	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	EXECUTIVE RESIGNATION	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Other key management personnel of the Group							
H Herman	333,444	–	(333,444)	–	–	–	–

All vested options are exercisable at the end of the year.

No options are held by any of the directors of Specialty Fashion Group Limited.

2009	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	EXECUTIVE RESIGNATION	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Other key management personnel of the Group							
H Herman	333,444	–	–	–	333,444	333,444	–

(iii) Share rights

The numbers of share rights over ordinary shares in the Group held during the financial year by each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below.

2010	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	EXECUTIVE RESIGNATION	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	–	1,400,000	–	–	1,400,000	–	1,400,000
Other key management personnel of the Company							
A Henriksen	–	500,000	–	–	500,000	–	500,000

(iv) Share holdings

The numbers of shares in the Company held during the financial year by each director of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2010	BALANCE AT THE START OF THE YEAR	MOVEMENTS DURING THE YEAR	BALANCE AT THE END OF THE YEAR
<i>Directors of Specialty Fashion Group Limited</i>			
Ordinary shares			
G Perlstein	17,862,814	–	17,862,814
A I Miller	14,419,906	90,000	14,509,906
G Levy	2,365,564	–	2,365,564
J Murphy	–	50,000	50,000
J Bloom	–	200,000	200,000
A McDonald	15,000	–	15,000
<i>Other key management personnel of the Company</i>			
Ordinary shares			
H Herman	731,727	(711,751)	19,976
2009			
<i>Directors of Specialty Fashion Group Limited</i>			
Ordinary shares			
G Perlstein	17,862,814	–	17,862,814
A I Miller	14,419,906	–	14,419,906
G Levy	699,398	1,666,166	2,365,564
A McDonald	15,000	–	15,000
<i>Other key management personnel of the Company</i>			
Ordinary shares			
H Herman	731,727	–	731,727

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

(c) Loans to key management personnel

Details of loans made to directors of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

GROUP	BALANCE OF LOANS AT THE START OF THE YEAR \$	INTEREST PAID AND PAYABLE FOR THE YEAR \$	REPAYMENT \$	BALANCE AT THE END OF THE YEAR \$	NUMBER IN GROUP AT THE END OF THE YEAR
2010	1,044,676	61,550	(1,106,226)	–	–
2009	993,011	51,665	–	1,044,676	3

(d) Other transactions with directors

A I Miller and G Perlstein are directors and shareholders of companies that own the business premises at 151 – 163 Wyndham Street, Alexandria which is leased to the Group. During the 2004 year, the Group committed to undertake building improvements at these premises to convert warehouse space to office space. The Non-Executive Directors at the time considered the impact these improvements would have on the market value of the property owned by these directors. On this basis, lower than market rental for these premises was agreed to commercially offset the benefits to these directors of the improvements to this property. The Non-Executive Directors were satisfied that the overall arrangement is in the best interests of all shareholders.

Aggregate amounts of each of the above types of other transactions with directors of the Group:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have an interest	457,950	467,711

28 REMUNERATION OF AUDITORS

During the year the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(a) Audit services		
<i>PricewaterhouseCoopers Australian firm</i>		
Audit and review of financial reports	326,833	358,929
Accounting advice and assistance	3,667	5,238
Total remuneration for audit and other assurance services	330,500	364,167
<i>Taxation services</i>		
Tax compliance services, including review of Company income tax returns	31,000	31,000
Tax advisory services	52,715	23,730
Total remuneration for taxation services	83,715	54,730
Total remuneration of PricewaterhouseCoopers Australia	414,215	418,897

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(b) Related practices of PricewaterhouseCoopers Australia		
<i>Taxation services – New Zealand</i>		
Tax compliance services including review of Company income tax returns	16,227	11,080
Tax advisory services	4,897	19,052
Total remuneration for taxation services	21,124	30,132
Total remuneration of related practices of PricewaterhouseCoopers Australia	21,124	30,132
Total auditors' remuneration	435,339	449,029

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

29 CONTINGENCIES

(a) Contingent liabilities

The Company and the Group had contingent liabilities at 30 June 2010 in respect of:

Cross guarantees by and between Specialty Fashion Group Limited, Millers Fashion Club (QLD) Pty Limited, Millers Fashion Club (VIC) Pty Limited, Millers Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited. These are described in Note 34. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in Note 21.

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

30 COMMITMENTS

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
<i>Property, plant and equipment</i>		
Within one year	8,560	5,028
	8,560	5,028

(b) Lease commitments

(i) Non-cancellable operating leases

The Group leases various retail stores under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Commitments for minimum lease payments in relation to non cancellable operating leases are payable as follows:		
Within one year	57,931	59,918
Later than one year but not later than five years	125,631	124,049
Later than five years	16,227	11,239
	199,789	195,206

Not included in the above commitments are contingent rental payments which may arise in the event that sales revenue exceeds a pre-determined amount.

31 RELATED PARTY TRANSACTIONS

(a) Parent entities

The ultimate parent entity in the wholly owned group is Specialty Fashion Group Limited.

(b) Subsidiaries

All transactions and balance within the wholly owned group have been eliminated on consolidation. Interests in subsidiaries are set out in Note 33.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 27.

32 BUSINESS COMBINATION

The Group did not make any acquisitions in the current or prior year.

33 SUBSIDIARIES

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

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2010 %	2009 %
Miller's Fashion Club (QLD) Pty Limited*	Australia	Ordinary	100	100
Miller's Fashion Club (VIC) Pty Limited*	Australia	Ordinary	100	100
Miller's Fashion Club (WA) Pty Limited*	Australia	Ordinary	100	100
Specialty Fashion Group No. 1 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 2 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 3 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 4 Pty Limited	Australia	Ordinary	100	100
Yip Eks Pty Limited	Australia	Ordinary	100	100
H&H Corporation Pty Limited	Australia	Ordinary	100	100
McSeveny DA Pty Limited	Australia	Ordinary	100	100
GIP Fashions Pty Limited*	Australia	Ordinary	100	100
Queenspark Australia Pty Limited	Australia	Ordinary	100	100
Selbourne Australia Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group New Zealand Limited	New Zealand	Ordinary	100	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to Note 34.

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

34 DEED OF CROSS GUARANTEE

Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited are parties to a deed of cross guarantee under which each Company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission.

(a) Consolidated income statement, statement of comprehensive income and summary of movements in consolidated retained earnings

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the deed of cross guarantee that are controlled by Specialty Fashion Group Limited, they also represent the 'extended closed group'.

Set out below is a consolidated income statement for the year ended 30 June 2010 of the Closed Group consisting of Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited.

	2010 \$'000	2009 \$'000
Income Statement		
Revenue from continuing operations	557,375	546,358
Changes in inventories of finished goods and consumables	7,686	(467)
Finished goods and consumables	(244,427)	(233,103)
Employee benefits expense	(130,051)	(125,328)
Depreciation and impairment expense	(15,470)	(17,395)
Other expenses	(36,480)	(39,142)
Rental expense relating to operating leases	(94,901)	(95,906)
Fraudulent Expenditure	–	(6,652)
Other income – fraudulent expenditure	–	5,000
Borrowing costs	(1,526)	(3,243)
Profit before income tax	42,206	30,122
Income tax expense	(11,945)	(7,904)
Profit for the year	30,261	22,218
Statement of comprehensive income		
Profit for the year	30,261	22,218
Other comprehensive income		
Changes in fair value of cash flow hedges	4,520	4,784
Other comprehensive income for the year, net of tax	4,520	4,784
Total comprehensive income for the year	34,781	27,002
Accumulated losses at the beginning of the financial year	(111,642)	(130,030)
Profit for the year	30,261	22,218
Dividends provided for or paid	(7,724)	(3,830)
Accumulated losses at the end of the financial year	(89,105)	(111,642)

(b) Balance sheet

Set out below is a consolidated balance sheet as at 30 June 2010 of the Closed Group consisting of Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited.

	2010 \$'000	2009 \$'000
Current assets		
Cash and cash equivalents	2,339	7,632
Trade and other receivables	1,056	10,301
Inventories	44,052	42,756
Derivative financial instruments	2,941	–
Total current assets	50,388	60,689
Non-current assets		
Property, plant and equipment	78,018	71,347
Intangible assets	2,006	2,006
Deferred tax assets	400	4,648
Other financial assets	2,911	2,911
Total non-current assets	83,335	80,912
Total assets	133,723	141,601
Current liabilities		
Trade and other payables	46,970	55,798
Borrowings	–	33,800
Provisions	12,973	12,853
Derivative financial instruments	–	3,515
Current tax liabilities	2,672	3,712
Other current liabilities	2,563	2,418
Total current liabilities	65,178	112,096
Non-current liabilities		
Borrowings	8,000	–
Provisions	6,215	5,234
Other non-current liabilities	6,395	5,821
Total non-current liabilities	20,610	11,055
Total liabilities	85,788	123,151
Net assets	47,935	18,450
Equity		
Contributed equity	132,492	131,993
Reserves	4,548	(1,901)
Accumulated losses	(89,105)	(111,642)
Total equity	47,935	18,450

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

35 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Profit for the year	30,411	22,563
Depreciation and impairment	16,105	17,611
Share based payments	1,929	150
Profit on sale of assets	(67)	–
Net exchange differences	185	110
Decrease / (Increase) in trade debtors	6,415	(6,472)
Increase in inventories	(1,817)	(2,409)
Decrease in deferred tax benefit	2,941	3,256
(Decrease) / Increase in trade creditors and other liabilities	(4,715)	1,117
(Decrease) / Increase in provision for income taxes payable	(1,441)	1,215
(Decrease) / Increase in other provisions and other liabilities	(383)	2,433
Net cash inflow from operating activities	49,563	39,574

36 EARNINGS PER SHARE

	CONSOLIDATED	
	2010 CENTS	2009 CENTS
(a) Basic earnings per share		
Basic EPS from ordinary activities	16.0	11.8
(b) Diluted earnings per share		
Diluted EPS from ordinary activities	15.7	11.7

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
(c) Reconciliations of earnings used in calculating earnings per share		
<i>Basic earnings per share</i>		
Profit from ordinary activities	30,411	22,563
<i>Diluted earnings per share</i>		
Profit from ordinary activities attributable to the ordinary equity holders of the Company used in calculating diluted earnings per share	30,411	22,563

	CONSOLIDATED	
	2010 NUMBER	2009 NUMBER
(d) Weighted average number of shares used as the denominator		
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	190,664,157	190,415,360
Adjustments for calculation of diluted earnings per share:		
Options and share rights	3,210,343	2,142,857
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	193,874,500	192,558,217

(e) Information concerning the classification of securities**(i) Options**

Options granted to employees under the Specialty Fashion Group Limited Senior Executive Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in Note 37.

(ii) Restricted share rights

Restricted share rights granted to employees under the Specialty Fashion Group Limited Long-term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The restricted share rights have not been included in the determination of basic earnings per share. Details relating to the restricted share rights are set out in Note 37.

37 SHARE-BASED PAYMENTS**(a) Senior Executive Option Plan**

The establishment of the Specialty Fashion Group Limited Senior Executive Option Plan was approved by shareholders at the 2001 annual general meeting. Staff eligible to participate in the plan are those of supervisor level and above (including Executive Directors).

Options are granted under the plan for no consideration. Options are granted for a three year period, and 1/3 of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share after the release of the annual financial results of the Group.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange (ASX) during the week up to and including the date of the grant.

Set out below are summaries of options granted under the plan:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE	GRANTED	EXERCISED	EXPIRED	BALANCE AT	VESTED AND	
			AT START OF THE YEAR	DURING THE YEAR	DURING THE YEAR	DURING THE YEAR	END OF THE YEAR	AT END OF THE YEAR	
			NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	
Consolidated entity – 2010									
4 January 2005	31 August 2011	\$1.13	1,973,774	–	(444,109)	–	1,529,665	1,529,665	
9 June 2006	31 August 2012	\$1.86	280,000	–	–	–	280,000	280,000	
Total			2,253,774	–	(444,109)	–	1,809,665	1,809,665	
Weighted average exercise price			\$1.21						\$1.24

Notes to the consolidated financial statements (cont.)

For the year ended 30 June 2010

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	VESTED AND EXERCISABLE AT END OF THE YEAR NUMBER
Consolidated entity – 2009								
4 January 2005	31 August 2011	\$1.13	1,973,774	–	–	–	1,973,774	1,973,774
9 June 2006	31 August 2012	\$1.86	280,000	–	–	–	280,000	280,000
Total			2,253,774	–	–	–	2,253,774	2,253,774
Weighted average exercise price			\$1.21		\$1.21			

Fair value of options granted

No options were granted during the years ended 30 June 2010 or 30 June 2009. The fair value of options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(b) Restricted share rights

In September 2007, the Group established the Specialty Fashion Group Limited Employee Share Plan. Under this plan restricted share rights over shares in the Company can be issued to executive officers, senior executives and senior staff members selected by the directors.

In September 2007, the Specialty Fashion Group Trust was formed to administer the restricted share rights plan. This Trust has been consolidated in accordance with Note 1(b)(i).

Rights granted under the plan give the employee the right to receive a share at a future point in time upon meeting specified vesting conditions with no exercise price payable. The rights are granted at no consideration. Upon meeting the vesting conditions, the right may be exercised up to 1 year following the end of the vesting period.

During the year 6,865,000 restricted share rights were issued at a fair value of 98 cents each. None of the restricted share rights have been exercised during the year.

	CONSOLIDATED	
	2010 NUMBER	2009 NUMBER
Rights issued under the plan to participating employees in September 2007 and January 2010	9,007,857	2,142,857

(c) Expenses arising from share-based payment transactions

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

	CONSOLIDATED	
	2010 \$'000	2009 \$'000
Restricted share rights issued under employee share plan	1,929	150

38 PARENT ENTITY FINANCIAL INFORMATION

	PARENT ENTITY	
	2010 \$'000	2009 \$'000
Balance sheet		
Current assets	50,388	60,689
Non-current assets	83,335	80,912
Total assets	133,723	141,601
Current liabilities	65,178	112,096
Non-current liabilities	20,610	11,055
Total liabilities	85,788	123,151
<i>Shareholders' equity</i>		
Contributed equity	132,492	131,993
Reserves	4,548	(1,901)
Accumulated losses	(89,105)	(111,642)
	47,935	18,450
Profit for the year	30,261	22,218
Other comprehensive income for the year	4,520	4,784

39 EVENTS OCCURRING AFTER THE REPORTING PERIOD

An agreement with Limited Brands was signed on the 20th August 2010 which will allow Specialty Fashion Group Limited to be the exclusive La Senza licensee in Australia and New Zealand until August 2020, with a further 10 year option to renew.

La Senza is a global women's intimate apparel retail brand owned by Limited Brands.

Directors' declaration.

30 June 2010

In the directors' opinion:

- (a) the financial statements and notes set out on pages 45 to 84 are in accordance with the *Corporations Act 2001*, including:
- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements, and
 - (ii) giving a true and fair view of the Company's and consolidated entity's financial position as at 30 June 2010 and of their performance for the financial year ended on that date; and
- (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable, and
- (c) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in Note 34 will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in Note 34.

Note 1(a) confirms that the financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



G Perlstein
Director



G Levy AO
Director

Sydney
20 August 2010

Independent auditor's report.

30 June 2010



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Independent auditor's report to the members of Specialty Fashion Group Limited

Report on the financial report

We have audited the accompanying financial report of Specialty Fashion Group Limited (the company), which comprises the balance sheet as at 30 June 2010, and the income statement, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for the Specialty Fashion Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

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

Liability limited by a scheme approved under Professional Standards Legislation

Independent auditor's report (cont.)

30 June 2010



Independent auditor's report to the members of Specialty Fashion Group Limited (continued)

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Specialty Fashion Group Limited is 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 2010 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report and notes also comply with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the remuneration report included in pages 9 to 15 of the directors' report for the year ended 30 June 2010. 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.

Auditor's opinion

In our opinion, the remuneration report of Specialty Fashion Group Limited for the year ended 30 June 2010, complies with section 300A of the *Corporations Act 2001*.

Matters relating to the electronic presentation of the audited financial report

This auditor's report relates to the financial report and remuneration report of Specialty Fashion Group Limited (the company) for the year ended 30 June 2010 included on Specialty Fashion Group Limited web site. The company's directors are responsible for the integrity of the Specialty Fashion Group Limited web site. We have not been engaged to report on the integrity of this web site. The auditor's report refers only to the financial report and remuneration report named above. It does not provide an opinion on any other information which may have been hyperlinked to/from the financial report or the remuneration report. If users of this report are concerned with the inherent risks arising from electronic data communications they are advised to refer to the hard copy of the audited financial report and remuneration report to confirm the information included in the audited financial report and remuneration report presented on this web site.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

K Stubbins
Partner

Sydney
20 August 2010

Specialty Fashion Group Limited ABN 43 057 569 169
151-163 Wyndham Street, Alexandria NSW 2015
www.specialtyfashiongroup.com.au

Shareholder information.

30 June 2010

The shareholder information set out below was applicable as at 18 August 2010.

A. DISTRIBUTION OF EQUITY SECURITIES

Analysis of numbers of equity security holders by size of holding:

HOLDING	CLASS OF EQUITY SECURITY ORDINARY SHARES	
	SHARES	OPTIONS
1 – 1,000	1,467	–
1,001 – 5,000	2,997	–
5,001 – 10,000	996	–
10,001 – 100,000	911	5
100,000 and over	93	4
Total	6,464	9

There were 340 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

NAME	NUMBER HELD	PERCENTAGE OF ISSUED SHARES
NAAH Pty Limited	37,913,596	19.85%
National Nominees Limited	22,432,011	11.75%
Citicorp Nominees Pty Limited	21,820,438	11.43%
HSBC Custody Nominees (Australia) Limited	8,345,419	4.37%
J P Morgan Nominees Australia Limited	7,454,431	3.90%
Landcharm Pty Limited	7,277,760	3.81%
Landpeak Pty Limited	7,122,240	3.73%
ANZ Nominees Limited	4,241,595	2.22%
Cogent Nominees Pty Limited	3,733,706	1.96%
Ligon 205 Pty Limited	3,221,823	1.68%
RBC Dexia Investor Services Australia Nominees Pty Limited	2,401,669	1.26%
AMP Life Limited	1,971,347	1.03%
GDL Investments Pty Limited	1,955,564	1.02%
Citicorp Nominees Pty Limited	1,659,173	0.87%
Rye Holdings Pty Limited	1,407,420	0.74%
Wallbay Pty Limited	1,095,861	0.57%
Mr Anthony Koroman & Mrs Deley Sangmo Bhutia	1,075,000	0.56%
Mr David Alan McSeveny	983,271	0.51%
NAAH Investments Pty Limited	768,000	0.40%
Mr Trent Peterson	705,000	0.37%
Total	137,585,324	72.05%

Shareholder information (cont.)

30 June 2010

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unquoted equity securities		
Options issued under the Specialty Fashion Group Limited Senior Executive Option Plan to take up ordinary shares	1,809,665	9

The number of unissued ordinary shares under these options is 8,639,902. No person holds 20% or more of these securities.

C. SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	NUMBER HELD	PERCENTAGE
Ordinary shares		
NAAH Pty Ltd (NAAH Unit Trust)	37,913,596	19.85%
Mr G Perlstein and controlled entities	17,862,814	9.35%
Mr I Miller / Landcharm	14,509,906	7.60%
Lazard Asset Management Pacific	12,625,177	6.61%

D. VOTING RIGHTS

The voting rights attaching to each class of equity securities are set out below:

(a) Ordinary shares

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

(b) Options

No voting rights.