

**2010 Annual General Meeting
28 October 2010**

Chairman's Address

Ladies and Gentlemen,

Welcome to our Annual General Meeting.

Specialty Fashion Group is one of Australia's leading multi-branded women's specialty fashion businesses. Your Company is in a strong market position and has commenced an exciting period of growth, and we remain committed to increasing value for our shareholders.

With that in mind, let me take a moment to reflect on the 2010 fiscal year.

The past year has certainly been characterised by very different trading conditions in each season.

There is no doubt that the government's stimulus payments, combined with historically low interest rates had a very positive impact on consumer confidence during 2009 and we benefited in the first half of our financial year from consumers' high propensity to shop for discretionary items.

However, the second half of the financial year was a complete contrast as increasing interest rates and instability in international financial markets dampened consumer confidence. We fought with our competitors to attract reluctant consumers and the whole winter season was tough.

Although the trading environment was challenging our brands continued to improve their underlying performance and the Group delivered a commendable 34.8% rise in Net Profit after Tax to \$30.4 million.

A consequence of the Company's strong trading performance was operating cash flows rising 25.2% to \$49.6 million for the year, resulting in our net debt being reduced to only \$5.3 million at 30 June, the lowest it has been for several years.

With our strong balance sheet we secured new bank facilities of \$100 million to May 2013. This gives us potential funding for new growth opportunities as well as the working capital headroom which we may require as we expand.

Since the end of the fiscal year we have made changes to the brand portfolio mix through the addition of La Senza to the Group and the sale of Queenspark. These changes were made as we are seeking to improve the

return on invested capital thus maximising “bang for our buck” and constantly improving the position of the Group for growth. The \$4 million received on completion of the sale of Queenspark will be redeployed in rolling out new stores for our other brands at a more favourable ROI for the Group.

Given the sound financial position of the Company, we decided to pay a final dividend of four cents per share, which brings the annual dividend to eight cents per share fully franked. Your Board believes that the dividend payout ratio at 50% of net profit is appropriate whilst the Company has investment plans for the current portfolio and consumer confidence remains relatively uncertain.

Changes to the Board

As I told you in my report, John Murphy’s term as a non executive director has ended and he retires from our Board today after five years of invaluable service. I would like to take this opportunity to thank John for his sage advice, dedication and overall contribution to our Company.

I am also pleased to introduce Wai Tang as our forthcoming new non-executive director. She has joined us here today and subject to completion of the relevant formalities will be officially appointed to the Board on the 1st November. Wai brings a wealth of experience to the Board having spent 23 years in retail, wholesale, and manufacturing businesses including as the Group Operations Director for the Just Group, and General Manager of Business Development for Pacific Brands. We look forward to working with Wai and are confident her contribution will be greatly valued.

Looking Ahead

Specialty Fashion Group has experienced considerable positive change in the past year and your Board has high expectations of the Company entering an exciting period of growth. This could not have been nor will it be achieved without our outstanding team of dedicated staff. On behalf of the Board, I would like to thank Gary and his leadership team in particular for remaining focused on excellent execution during a year when the macroeconomic factors were unpredictable to say the least.

That concludes my address. It now gives me great pleasure to hand over to Gary for the CEO’s address.

CEO's Address

Thank you, Geoff.

Good afternoon and welcome.

As Geoff pointed out, fiscal 2010 was a year of two halves from a macroeconomic perspective. However, it was a breakaway year for the Company. We delivered a significant improvement in profitability through an all encompassing focus on improving the returns from our investment in stores, and this has put us in the best position to pursue new growth opportunities.

Annual sales rose 2.1% to \$572.2 million, whilst our store portfolio was 837 at the end of the fiscal year, down from 843 in the prior year as we continued to close underperforming stores. Our full year EBITDA rose 17% to \$60.1 million.

All our brands are profitable and this reflects a combination of improvements in our property portfolio, products and store operations, as well as the increased sophistication of our marketing programs. Even during the tougher period in the second half of fiscal 2010, we increased our customer numbers as well as transactions.

As I told you last year, supply chain has been a key area of investment. In the past three years we have shifted half of our product sourcing directly to factories of Asian suppliers, and through doing so protected our gross margins. However, in the second half of fiscal 2010 we undertook a significant change management program to maximise the benefits of our scale and in-house design and sourcing capabilities. It has involved an integration of our planning, buying, design and sourcing processes, expansion of our team and investment in our systems. The intention is that the majority of our products will be sourced directly, and we will be able to offer our customers products that are unique to our brands. Ultimately, we should see further improvements in our gross margins. Full implementation is planned for the second half of fiscal 2011.

Whilst we remain committed to 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. We are intent on expanding our core competency in women's fashion retail, and to leverage our Group's scale.

La Senza

I would now like to show you a short video of our newest brand, La Senza, which we have acquired under a licensing agreement with Limited Brands. We believe that there is a gap in the Australian market for a new specialty intimate apparel retailer, and as you will see in the video La Senza has a unique brand image that stands out.

La Senza is an excellent addition to our Group for a number of reasons. It broadens our reach through appealing to the youth market, and the partnership with Limited Brands enables us 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.

[SHOW VIDEO]

You have just seen La Senza's new store design which we will rollout in our new La Senza stores next year. There has been great interest from landlords and we expect to achieve our target of opening 10 new stores in the second half of this year.

Outlook

I will now turn to the outlook.

Whilst the trading conditions have improved since July, we have not experienced the strong consumer discretionary spending that was prevalent this time last year. Consumer confidence has been subdued, and our brands have needed to be inventive in their offers to attract their customers. There is no room for error and this is what we expected. The significant Christmas trading period is still ahead of us, and whilst we hope shoppers will come out in force, the threat of another increase in the base interest rate in the next two months creates significant uncertainty for consumers and retailers alike.

We believe we are well prepared to manage trading through whatever market conditions prevail, but it would not be prudent to deliver estimates for the first-half or the full-year at this stage.

In the medium term consumer confidence will return and I am confident that the quality of our brands – City Chic, La Senza, Autograph, Crossroads, Katies and Millers – is such that we are well placed to take advantage of that upturn.

We are very excited by the growth opportunities that lie ahead for the Group, but won't lose sight of the need to continue to deliver the absolute best value and service to our customers.

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Finally, I would like to thank our 5,000 strong team at Specialty Fashion Group for their passion and persistence, and our Board for their ongoing support and encouragement.

This has been a defining year, and we are looking forward to the future with energy, passion and confidence.

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