SPECIALTYFASHION | GROUP

2011 Annual General Meeting
10 November 2011

Chairman's Address

Ladies and Gentlemen,

Welcome to our Annual General Meeting.

2011 has been an extremely difficult year for retail. I don't think it would be an exaggeration to say we are experiencing the longest retail cyclical trough for decades. It is certainly the longest in Specialty Fashion Group's history. Our customers have been particularly sensitive to interest rates and the continued uncertainty surrounding global economies. Despite this, the company increased sales from continuing operations to $570.3 million.

The past year has been characterised by prevalent and consistent promotional discounting, and we're seen in the past year some retailers collapse under the burden of debt. Your Company, however, delivered operating cash flows of $33.8 million for the year, resulting in net debt being only $16.4 million at 30 June, with further bank facilities of $78 million remaining undrawn and available.

La Senza joined the Group in August 2010 and we now have 16 stores. We opened La Senza's flagship store in Westfield's Pitt Street mall in July.
As previously reported, Queenspark was sold to private investors in October 2010. This sale was made to improve the return on invested capital and help deliver improved medium term profit growth for the Group.

During the year, apparel retailers such as ourselves have had to deal with exceptionally high product cost inflation, primarily driven by increased yarn prices following record cotton prices. Fortunately, whilst not in equal proportions, we have at the same time, benefited from a higher Australian dollar to make our purchases. We have increased our investment in product design and direct sourcing as a way to combat cost price inflation and enable us to further differentiate our product in the market place.

Ecommerce has been a particular focus for the group during the year and at year end we had six online portals. Millers Online has since been launched in October. Online retail has gained a lot of momentum in the last year in Australia and we expect this trend to continue. It will be a period of very interesting change as we expand as a multi-channel retailer.

Gary will expand on the progress that has been made in both of these areas.

The Board decided not to pay a final dividend, which means the annual dividend was equal to the interim dividend, being four cents per share, fully franked. Your Board believes that the dividend payout ratio of approximately 50% of net profit was appropriate at a time when there is no certainty of an upturn in consumer confidence.

Looking Ahead

We have positioned ourselves during the course of the year to capitalise on what we believe will be a period of structural shifts in Australian retail. These shifts will force changes in the competitive landscape and in retailer's business models, and we are confident that the strategic decisions that the Company has made, particularly its investment in ecommerce, will keep it in a strong position and bring favourable returns for our shareholders.

We are confident there we are generally well placed to leverage significantly off any upturn in consumer confidence.

The Board looks forward to continuing to work with our outstanding CEO, Gary Perlstein and his dedicated team. On behalf of the Board, I would like to thank Gary and his leadership team in particular for navigating through such a challenging year.

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

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CEO's Address

Thank you, Geoff.

Good afternoon and welcome.

As Geoff pointed out, the past year has been an extremely difficult year for retail, and regrettably net profit after tax was only $14.2 million. The decline in profitability primarily reflects the increased store rent and wages needed to achieve sales growth from the larger portfolio, inflation, and investments in people which we have made to support our growth strategies. However, our 900 strong store portfolio, coupled with our other multi channel initiatives put us in a strong position to capitalise on consumer confidence when it eventually returns.

The Company's established brands have all remained profitable and the La Senza brand has performed as expected during its start up phase. The brands have exhibited remarkable resilience in dealing with falling consumer sentiment and increasing costs of doing business.

We had our annual conference in September where we brought together 150 of our team members from store operations and support services. It is an extremely important event in our calendar for sharing with our team our strategy, and celebrating past achievements. I would like to show to you the video we shared to open the conference as I think it illustrates how we view the past year.

[SHOW VIDEO]

As you saw, despite the challenging conditions there have been many achievements. We celebrated with the team our new mission of "Making women everywhere look good and feel great". It defines who we are and what we are aspiring to be, and has been embraced by our predominantly female team.

Aside from the macro economics that influence the retail sector, I believe there are permanent structural shifts that are occurring that will force changes in the competitive landscape and in retailer's business models. The advent of global retail, adoption of online retail by consumers, acceleration of China's economic development and Australia's increasingly high cost labour structure all present opportunities as well as threats.

The strategies we have employed and continue to prioritise are all focused towards capitalising on the opportunities and minimise the impact of threats to become a leading international multi-channel retailer. These strategies are: investment in our existing store portfolio and global brands, differentiating through our unique product, diversifying our supplier base, leveraging our customer relationship database, and expanding our Ecommerce capabilities.

There will always be a place for bricks and mortar retail, however in anticipation of the acceleration of online retail we are considering very carefully the future investments we make. We will look to further increase our store portfolio in 2012, but are also prioritising investment in our online platform. As Geoff explained, we now have seven online stores. Our online sales were 1% of sales in the 2011 financial year; however we will be aggressively pursuing opportunities to expand our ecommerce sales and stay ahead as a multi channel retailer. We now have ecommerce managers supporting each of our brands and are investing in our online platform and logistics infrastructure in the 2012 financial year.

As I explained last year, supply chain has continued to be a key area of investment. In the past four years we have shifted over half of our product sourcing directly to Asian suppliers, and in so doing, protected our gross margins. During this year we have worked on improving our in-house design and we now have a team of product category and fabric specialists dedicated to supporting the brands. Our in-house design capability has allowed us to successfully interpret the latest trends and offer unique value fashion to our customers.

It has been through cementing the integration of our planning, buying, design and sourcing processes, the expansion of our team and investment in our systems that we have streamlined our processes which allow us to deliver increasing value to our customers. We expect further improvements in our gross margins as we exploit our product differentiation and achieve economies of scale in our purchasing.

Our customer relationship database has grown to over six million members during the year, and we can now communicate via email with over 1.5 million customer members. We have developed innovative trigger and events marketing programs whereby we tailor our email messages and offers based on customers' buying patterns and preferences. We have seen strong improvements in customer loyalty and increased spend by these customers, and intend to expand the depth and range of email marketing programs employed by the brands.

Outlook

Consumer confidence has continued to be low since the beginning of the 2012 financial year. There have been some highlights as we have launched new products and expanded our online stores, but generally trading conditions are tough. However, we intend to continue to invest in the Group in anticipation of the structural changes in our industry and the upturn in consumer confidence that will eventually return.

The significant Christmas trading period is still ahead of us, and whilst the Reserve Bank's decision to lower the cash rate last week is encouraging, we don't expect that this action alone will have a significant impact on consumers' discretionary spend. There are still too many other uncertainties both here and abroad. Given the importance of the next two months trade we are unable to provide an estimate of results for the first half of the year at this stage.

I would like to thank everyone at Specialty Fashion Group for their dedication over the past year. The outstanding effort of our whole 5,000 plus team, in very difficult times, places the Company in a strong position for the future.

Despite the pessimistic economic outlook we are looking forward to the future with energy, passion and confidence.