SPECIALTYFASHION | GROUP

ASX Announcement/Media Release

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Specialty Fashion Group Half Year Update

Specialty Fashion Group Limited (ASX: SFH), provides guidance of its first half result for the six months ended 31 December 2011, and expectations of improvements the Group should benefit from in the second half of the 2012 financial year.

Specialty Fashion Group also continues to achieve significant progress in the execution of its stated strategy, and announces its intention to aggressively drive online growth through its brands and the launch of a new online business to be launched mid-2012.

Despite the challenging trading conditions currently experienced by the global retail sector, the Group is using innovation, a strong balance sheet and its unique asset of more than 6 million customer members, to differentiate and re-calibrate the business for sustained future growth.

H1FY12 Results Guidance

Revenue for the half year ended 31 December 2011 was $307 million, 0.5% lower than revenue of the continued operations of the group for the first half of the prior year. Comparable store sales for the half year were 4.5% lower than the first half of the prior year, and reflect difficult trading conditions throughout the period. The Christmas trading period was disappointing, and sales for December on a comparable basis were lower than the prior year.

The Company has not previously provided EBITDA guidance for the first half of FY12. At this time Specialty Fashion Group expects EBITDA for the first half will be within the range of $21 million to $22 million.

Gary Perlstein, CEO said: *"Given that this is the toughest retail environment we have seen, Specialty Fashion Group has performed well. In spite of recent reductions in the cash rate, industry wide discounting has continued, but our investments over the past three years meant we protected gross margins. We have managed our cost base within the confines of the inflationary environment we operate in, and managed our inventory well, achieving 6.3 turns in the half."*

A strong balance sheet to support investment

The Company's capital expenditure for the half year was $9.3 million, and reflects the reduction in capital expenditure expected to be required by the Group in the future. The capital expenditure includes $0.9 million invested in IT systems to support the strategies as detailed below, the majority of spend was in relation to new stores and refurbishments. The expectation is that capital expenditure will be in the range of $12 million to $15 million for the full year.

Specialty Fashion Group held net cash of $6 million at 31 December 2011. The Group had available undrawn debt facilities of $83 million, and has met its banking covenants. Given the strength of the Company's balance sheet, and the desire to save unnecessary costs, the Company has cancelled an undrawn portion of its strategic investment debt facility of $15 million.

Mr Perlstein commented: *"Specialty Fashion Group has a strong balance sheet, and is very clear about the strategy required to navigate its way through the structural changes that are taking place within the retail industry. This is a once in a generation opportunity to recalibrate our business to achieve a more sustainable cost structure that for too long has been under pressure from rising wage and rental costs. It is also a very exciting time to capitalise on new technologies to reinvigorate the consumer to enjoy the shopping experience in whichever way she chooses to do so"*

Long term strategy being executed as planned

Specialty Fashion Group has steadfastly focused on the execution of its long term strategy which puts it in a strong position to cope with the permanent structural changes occurring in the "bricks and clicks" new retail paradigm:

Transformation of supply chain. The Group has continued to improve its design of product, further rationalised its supplier base, and in doing so sourced better product that has enabled the brands to realise higher prices, reduce inventory levels and reduce mark-downs. Despite the burden of higher underlying fabric prices incurred in the first half due to cotton inflation, the Group maintained its gross margin. Margin expansion of approximately 150 basis points is expected in the next year as further improvements are made in purchase commitments, and the rollout of a first tier planning system is completed in April 2012. In addition, the Group has hedged at a more favourable USD exchange rate of 95 cents in the second half of the financial year and at $1.01 for the first half of FY13.

Leverage customer relationship management capabilities. The Group completed the transfer of its customer database to a new software platform in December 2011. Through doing so, the brands will be able to increase the engagement with their customers through specific next best offers that will increase customers' propensity to shop via any channel. The Group is also developing algorithmic models to reduce customer churn and these will be rolled out in the second half. Ongoing customer acquisition campaigns have resulted in the email customer members growing in the half year to 1.7 million.

Online growth to be aggressively pursued

More than ever, Specialty Fashion Group has the ability to monetise its customer database after cultivating it for nearly 20 years, with its customers enjoying the omnichannel experience of shopping with its brands. In particular, it is providing new online opportunities to assist the growth of the Group's revenue.

The Group's online strategy includes:

Growth of brands' online stores. All brands are now online, with Millers successfully launching its online store in October 2011. Online sales of the Group tripled in comparison to the first half of FY11. The Group is targeting to achieve 15% of sales online over the next three years. A multi-branded platform is being exclusively developed with rollout planned March 2012, which will dramatically improve the functionality of the brands' online stores across multiple devices, and it will be fully integrated with the new customer relationship management platform. Investment is also being made in the online logistics with a third party to expand the pick and pack facility to cater for long term growth, and is expected to be operational in March 2012. During the half year the Group incurred incremental expenses of $1.4 million in relation to dedicated resources, and logistics for the online businesses. The investment in operations is fundamental to support the online businesses' growth and further efficiencies and economies of scale are expected to be achieved.

Expansion of channels through online aggregators In November 2011 four of the Group's brands were amongst the first Australian brands launched on Ebay's fashion portal, and Specialty Fashion Group is also promoting its brands through other aggregators. The Group will continue to pursue opportunities to expand the brands' presence online both locally and internationally through aggregators as well as its own online stores.

Launch a new online business. Part of monetising the SFG customer database is to initiate new brands and businesses online. The Group is aiming to launch by June 2012 a multi-brand online women's wear business that will feature local and global brands.

Mr Perlstein stated: *"Innovation has been the key to the improvements we have made to the Group over time, whether it be using our scale to procure design led product from Asian sources, being at the forefront with our customer relationship management, or capitalising on the trend in online retail. We will be playing to one of our strengths, which is retailing to the 30 plus mass market. We believe there is untapped demand from mature consumers that are enthusiastic online shoppers."*

Rationalisation of physical store portfolio

The Group has increased its portfolio to 909 stores at 31 December 2011, following the opening of 24 stores and closure of 6 stores during the half year. La Senza opened 4 stores during the half year to finish the period with a portfolio of 17 stores. Given the retail environment, La Senza has met expectations.

Specialty Fashion Group may open new stores in strategically important locations, however it will be rationalising its store portfolio to take advantage of the opportunity to reduce its costs of doing business as online revenue increases in importance. The number of stores closed or recalibrated in size will depend on whether the rental costs decrease in line with the cost structure associated with running an online business. The Company expects that if the current trading conditions continue and rentals remain at their current levels, around 120 stores in the current portfolio will be rationalised over the next three years.

Mr Perlstein commented: *"Additional channels now exist for our brands to expand their presence, and our investment hurdles for bricks and mortar stores are higher than previously adopted. The pace of expansion of new stores is likely to be slower than the past unless we can achieve lower store rental costs. Importance will be* *placed on the strategic position of certain locations to support the Group's omnichannel business strategy, and where necessary the portfolio will be rationalised."*

The estimates contained in this update in relation to the half year ended 31 December 2011 are preliminary in nature, subject to finalisation within the company as well as review by the Company's external auditors. Further details will be available with the half year results which are scheduled to be released on 20th February 2012.

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About Specialty Fashion Group

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, City Chic and La Senza. The company operates 900 stores in Australia and New Zealand, and its brands' products are also available online at www.millers.com.au, www.katies.com.au, www.crossroads.com.au, www.autographfashion.com.au, www.citychic.com.au, www.lasenza.com.au, and in the USA at www.citychiconline.com.