

SPECIALTYFASHION | GROUP

ASX Announcement/Media Release

27 August 2012

Specialty Fashion Group Announces Full Year Results

Specialty Fashion Group Limited (ASX: SFH) confirms revenue for the full year ended 30 June 2012 of \$572.5 million, delivering Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of \$21.7 million, in line with the results guidance provided on 13 July 2012.

The Company reported a net loss for the year of \$2.8 million, which includes an increase in depreciation of \$2.8 million attributable to impairment of assets in relation to stores that are part of the Company's store rationalisation program.

While challenging economic and retail market conditions continued throughout the year to June 2012, the underlying trend in Specialty Fashion Group's sales and gross margins improved in the second half of that year, largely as a result of improvements made in its supply chain.

The Company remains focused on enhancing its supply chain and through doing so improving its gross profit margin from the current level (58.1% for the year). This is being achieved through improvements in purchase commitments driven from reductions in the underlying cost drivers of fabric and product manufacture, more favourable hedged USD exchange rates and further internal improvements in supply chain management.

In addition, the Company has continued to aggressively pursue online sales growth and the delivery of omni-channel shopping experiences through investment in a new e-commerce platform, expansion of its online logistics operation as well as leveraging its customer relationship management capabilities. In FY2012 the Company's online sales grew to \$15 million, representing 2.6% of total revenue. Email membership grew to 2.1 million members.

Despite the weaker trading performance, operating cash flows were higher than the prior year at \$36.5 million, due to the efficient management of working capital. During the year the Company invested \$16 million in capital expenditure, primarily in stores and IT, and ended the year with a net cash position of \$4.1 million. The Group has available debt facilities of \$85 million, of which \$6.5 million was used at the end of the year.

The Company has not declared a final dividend.

Note: A reconciliation of EBITDA to loss before tax is provided in the appendices of the investor presentation, also announced 27 August 2012

Outlook

The Company expects an improved trading performance in FY2013, although it remains cautious as to the extent to which macroeconomic factors, both in Australia and abroad, may adversely influence consumers' propensity to spend on discretionary items. The targeted strategic initiatives in relation to eCommerce, customer relationship management and the supply chain are progressing well, and the Group will continue to pursue new opportunities for growth including *Stylefix.com*, the new online business launched on 2 July 2012.

The Company ended the FY2012 year with a portfolio of 893 stores and intends to continue its store rationalisation program to close or exit from underperforming stores. However, rental market conditions have improved in certain locations, and the Company also expects to open new stores that offer attractive investment returns.

Specialty Fashion Group CEO, Gary Perlstein, said: "We have a strong balance sheet and this combined with the business improvement initiatives underway positions the Company to trade solidly in FY2013, and improve the Group performance. While growth of the womenswear market is expected to be low we are focused on pursuing expansion into new sales channels and product categories. We believe we have the largest women's retail shoppers database in Australia and a unique opportunity to monetise this asset."

ENDS

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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, www.stylefix.com.au and in the USA at www.citychiconline.com.

Appendix 4E - Preliminary final report

Name of entity	Specialty Fashion Group Limited	
ABN	43 057 569 169	
Financial year ended	Current reporting period	30 June 2012
	Prior reporting period	30 June 2011

Results for announcement to the market

			2011 \$'000		2012 \$'000
Revenue from continuing and discontinued activities	down 0.3%	from	574,151	to	572,509
Revenue from continuing activities	up 0.4%	from	570,304	to	572,509
EBITDA from continuing and discontinued operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down 46.4%	from	40,573	to	21,741
EBITDA from continuing operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down 47.1%	from	41,071	to	21,741
Profit/(loss) after tax from continuing operations	down 119.4%	from	14,519	to	(2,810)
Net loss from discontinued operations	up 100%	from	(348)	to	-
Profit/(loss) after tax from ordinary activities attributable to the members of Specialty Fashion Group Limited.	down 119.8%	from	14,171	to	(2,810)

Dividends

An interim ordinary dividend for the year ended 30 June 2011 of 4.0 cents fully franked per share was paid 25 March 2011. No final dividend was declared for the year ended 30 June 2011.

The directors recommend that no dividends be declared in the current year.

Brief explanation of any of the figures reported above and commentary on the results for the period:

Refer ASX release attached

	2011	2012
Net tangible asset backing per ordinary security	21.2 cents	22.9 cents

This report is based on accounts that have been audited.



G Perlstein
Director
27 August 2012

Specialty Fashion Group Limited

ABN 43 057 569 169

Annual report for the year ended 30 June 2012

Specialty Fashion Group Limited ABN 43 057 569 169

Annual report - 30 June 2012

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The financial statements were authorised for issue by the directors on 27 August 2012. The directors have the power to amend and reissue the financial statements.

Directors	G Levy AO G Perlstein A I Miller J Bloom A McDonald W Tang (resigned 1 April 2012) A Hardwick (appointed 25 May 2012) M Hardwick (appointed 25 May 2012)
Company Secretary	A Henriksen
Notice of Annual General Meeting	The Annual General Meeting of Specialty Fashion Group Limited will be held at: Museum of Sydney Cnr Phillip and Bridge Street Level 2, AGL Theatre Room Time: 2pm Date: 8 November 2012
Principal registered office in Australia	151-163 Wyndham Street Alexandria NSW 2015 Telephone: (02) 8303 9800 Facsimile: (02) 8306 3596
Share registry	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Telephone: (02) 8280 7111 Facsimile: (02) 9287 0303
Auditor	Deloitte Touche Tohmatsu Chartered Accountants Level 6, Grosvenor Place 225 George Street Sydney NSW 2000
Solicitors	Arnold Bloch Leibler Level 24, Chifley Tower 2 Chifley Square 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

Directors' report

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 2012.

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 Bloom
A McDonald
W Tang (resigned 1 April 2012)
A Hardwick (appointed 25 May 2012)
M Hardwick (appointed 25 May 2012)

Information on the qualifications, experience, special responsibilities and particulars of interests in shares and options of the Board of Directors is set out on pages 3 to 5.

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 - Specialty Fashion Group Limited

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

	2012 \$'000	2011 \$'000
Interim ordinary dividend for the year ended 30 June 2011 of 4.0 cents per fully paid share paid on 25 March 2011	-	7,697
Final ordinary dividend for the year ended 30 June 2010 of 4.0 cents per fully paid ordinary share paid on 27 October 2010	-	7,625
	<u>-</u>	<u>15,322</u>

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year.

Review of operations

Specialty Fashion Group Limited achieved \$572.5 million revenue (2011: \$570.3 million) and EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation) of \$21.7 million (2011: \$41.1 million) from continuing activities. Net loss for the year ended 30 June 2012 was \$2.8 million (2011: \$14.2 million profit).

Operating cash flows were \$36.5 million (2011: \$33.8 million) and the Group capital expenditure was \$15.9 million (2011: \$34.2 million). The Group held cash and cash equivalents of \$10.6 million (2011: \$5.6 million) and had an outstanding bank loan of \$6.5 million (2011: \$22.0 million) at the end of the year.

(Loss)/earnings per share

	2012 Cents	2011 Cents
(a) Basic (loss)/earnings per share		
Basic (loss)/earnings per share from continuing operations	(1.5)	7.6
Basic (loss)/earnings per share from continuing and discontinued operations	(1.5)	7.4
(b) Diluted (loss)/earnings per share		
Diluted (loss)/earnings per share from continuing operations	(1.5)	7.6
Diluted (loss)/earnings per share from continuing and discontinued operations	(1.5)	7.4

Significant changes in the 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

At the date of this report there is no matter or circumstance that has arisen since 30 June 2012 that has significantly affected, or may significantly affect:

- (a) the Group's operations in future financial years;
- (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 and direct sourcing, expanding e-commerce capabilities and cost management. Further information on likely developments in the operations of the Group and expected results from 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.

Information on directors

Geoff Levy AO

B.Comm, LLB, FFIN, MAICD
 Non-Executive Chairperson

Experience and expertise

Geoff Levy joined the Specialty Fashion Group Board in April 2005 and is currently Chairperson of the Company and a member of the Remuneration Committee. He retired as Executive Chairperson of Investec Bank (Australia) Limited ("Investec") on 1 January 2008 and assumed the non-executive position of Deputy Chairperson. Geoff was previously Chief Executive Officer 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.

Other current directorships

Geoff was appointed an Officer of the Order of Australia in the 2005 Queens Birthday Honours List. Geoff has been a director on a number of public and government boards and is currently a non-executive Chairperson of Cromwell Group Limited, non-executive Deputy Chairperson of Investec as well as a number of Investec subsidiaries and Monash Private Capital Pty Limited. He also chairs the NSW Government's Property Asset Utilisation Taskforce.

Former directorships in the last three years

Geoff does not hold any other listed company directorships and has not held any other listed company directorships in the last three years.

Interests in shares and options

Geoff holds 2,365,564 ordinary shares in Specialty Fashion Group Limited.

Gary Perlstein

B.Bus
 Chief Executive Officer

Experience and expertise

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 Limited since 1995 and was appointed Chief Executive Officer in October 2003. Gary has 20 years of retailing experience in Australia.

Other current directorships

Gary does not hold any other listed company directorships.

Former directorships in the last three years

Gary has not held any other listed company directorships in the last three years.

Interests in shares and options

Gary holds 17,862,814 ordinary shares in Specialty Fashion Group Limited.

Ian Miller
 B.Comm
 Non-Executive Director

Experience and expertise

Ian Miller co founded Specialty Fashion Group in 1993 and was Managing Director until October 2003. Ian has over 38 years of retailing experience. Ian was an Executive Director from 1993 until 1 January 2007 when he moved to being a non-executive director.

Other current directorships

Ian does not hold any other listed company directorships.

Former directorships in the last three years

Ian has not held any other listed company directorships in the last three years.

Interests in shares and options

Ian holds 14,509,906 ordinary shares in Specialty Fashion Group Limited.

Joel Bloom
 B.Comm
 Non-Executive Director

Experience and expertise

Joel Bloom joined the Specialty Fashion Group Board in March 2005 and sits on both the Audit Committee and Remuneration Committee. 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.

Other current directorships

Joel does not hold any other listed company directorships.

Former directorships in the last three years

Joel has not held any other listed company directorships in the last three years.

Interests in shares and options

Joel holds 200,000 ordinary shares in Specialty Fashion Group Limited.

Anne McDonald
 B.Ec, FCA, GAICD
 Non-Executive Director

Experience and expertise

Anne McDonald joined the Specialty Fashion Group Board in April 2007. She is an independent non-executive director and Chairperson of the Audit Committee. As part of her community work she was a director of St Vincent's Healthcare Group from 2001 until 2010. 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.

Other current directorships

Anne is a non-executive director of GPT Group (from 2006) and Spark Infrastructure Group (from 2009). She is also a non-executive director of Westpac's Life Insurance and General Insurance Businesses. Anne chairs the Audit Committees for these entities.

Former directorships in the last three years

Anne has not held any other listed company directorships in the last three years.

Interests in shares and options

Anne holds 15,000 ordinary shares in Specialty Fashion Group Limited.

Wai Tang (resigned 1 April 2012)
 B.Sc, MBA
 Non-Executive Director

Experience and expertise

Wai joined the Specialty Fashion Group Board in November 2010 as an independent non-executive director and resigned from the Board on 1 April 2012. Wai has in excess of 25 years of experience in retail and FMCG industries. She currently heads up a new retail confectionary concept called Happy Lab. She is also a non-executive director for L'oreal Melbourne Fashion Festival since 2010. Prior to this, Wai was the Director of Operations for Just Group and Chief Executive Officer for Peter Alexander Sleepwear division.

Other current directorships

Wai does not hold any other listed company directorships.

Former directorships in the last three years

Wai has not held any other listed company directorships in the last three years.

Ashley Hardwick (appointed 25 May 2012)
Non-Executive Director

Experience and expertise

Ashley Hardwick joined the Specialty Fashion Group Board in May 2012. Ashley is a director and shareholder of the Cotton On Group and has over 20 years of retail experience. He also oversees the property function of the Cotton On business.

Other current directorships

Ashley does not hold any other listed company directorships.

Former directorships in the last three years

Ashley has not held any other listed company directorships in the last three years.

Interests in shares and options

Ashley has a beneficial interest in Specialty Fashion Group Limited through NAAH Pty Ltd, a company which holds 38,742,203 ordinary shares in Specialty Fashion Group Limited.

Michael Hardwick (appointed 25 May 2012)
B.Comm
Non-Executive Director

Experience and expertise

Michael Hardwick joined the Specialty Fashion Group Board in May 2012. Michael currently serves as the Chief Financial Officer of the Cotton On Group. Michael is a Chartered Accountant having previously worked at PricewaterhouseCoopers in both Melbourne and New York in the transaction advisory practice. He also spent 10 years as a partner with the New York based private equity firm Hudson Valley Capital Partners.

Other current directorships

Michael does not hold any other listed company directorships.

Former directorships in the last three years

Michael has not held any other listed company directorships in the last three years.

Interests in shares and options

Michael holds 195,000 ordinary shares in Specialty Fashion Group Limited.

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. In addition to financial and company secretarial matters, Alison has responsibility for overseeing the Group's investor relations, legal, property, loss prevention, IT, logistics, customer care and customer insights functions.

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 2012, and the numbers of meetings attended by each director were:

	Full meetings of directors		Meetings of committees			
			Audit		Remuneration **	
	A	B	A	B	A	B
G Levy AO	11	12	*	*	4	4
G Perlstein	12	12	*	*	*	*
A I Miller	10	12	*	*	*	*
J Bloom	12	12	7	7	4	4
A McDonald	12	12	7	7	*	*
W Tang (resigned 1 April 2012)	7	10	6	6	2	2
A Hardwick (appointed 25 May 2012)	2	2	*	*	*	*
M Hardwick (appointed 25 May 2012)	2	2	*	*	*	*

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

** = This committee was established 23 November 2010 and met for the first time on 19 August 2011

Continuation in office of directors

In accordance with the Constitution, all directors stand for re-election every 3 years.

Insurance of officers

During the financial year, Specialty Fashion Group Limited insured certain officers of the Company 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, Company 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 to the extent permitted by the *Corporations Act 2001*.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or any related body corporate against a liability incurred as such an officer or auditor.

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 in on behalf of the Company with leave of the Court under section 237 of the *Corporations Act 2001*.

Non-audit services

The Company 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 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*.

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 17.

Rounding of amounts

The group 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.

Auditor

Deloitte Touche Tohmatsu continues in office in accordance with section 327 of the *Corporations Act 2001*.

Remuneration report

The remuneration report which forms part of the directors' report, sets out information about the remuneration of the Group's directors and key management personnel for the financial year ended 30 June 2012. 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. Long term incentives

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

Directors and key management personnel disclosed in this report

Name	Position
Non-executive and executive directors – see pages 3 to 5.	
Other key management personnel	
Alison Henriksen	Chief Financial Officer and Company Secretary
Sonia Moura	General Manager of Human Resources
Janet Clough	Group General Manager Operations (resigned 8 September 2011)

Role of the Remuneration Committee

The Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- non-executive director fees;
- remuneration levels of executive directors and other key management personnel;
- the over-arching executive remuneration framework and operation of the Senior Executive Option Plan, Long Term Incentive Plan and Executive Equity Participation Plan; and
- key performance indicators and performance hurdles for the executive team.

Their objective is to ensure that remuneration policies and structures are fair, competitive and aligned with the long term interests of the Group. In doing this, the Remuneration Committee seeks advice from independent remuneration consultants (see page 9).

The Corporate Governance Statement provides further information on the role of this committee.

A. Principles used to determine the nature and amount of remuneration

1.1 Non-executive director remuneration policy

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 Board has also considered the advice of independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The Chairperson's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairperson is not present at any discussions relating to determination of his own remuneration.

Non-executive directors do not receive performance-based pay. The Board believes this is necessary for non-executive directors to maintain their independence.

Directors' fees

The current base fees were last reviewed with effect from 1 January 2012.

Remuneration report (continued)

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 per annum and was approved by shareholders at the 2007 Annual General Meeting held on 27 November 2007.

1.2 Executive remuneration policy and framework

Executive pay

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;
- alignment to the Group's strategic and business objectives and the creation of shareholder value;
- performance linkage and alignment of executive compensation;
- transparency; and
- acceptability to shareholders.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses 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; and
- attracts and retains high calibre executives.

Alignment to executives' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

The framework provides a mix of fixed and variable compensation, 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.

The Board has established a Remuneration Committee which makes recommendations to the Board on remuneration and incentive policies and practices and specific recommendations on remuneration packages and other terms of employment for executive directors, other senior executives and non-executive directors. The Corporate Governance Statement provides further information on the role of this committee.

The executive remuneration 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, Specialty Fashion Group Limited Long Term Incentive Plan and the Executive Equity Participation Plan.

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

Base pay and benefits

Executives receive their base pay and benefits structured as a total employment cost (TEC) 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 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 Remuneration Committee, 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 or business unit performance. The annual STI target payment is reviewed annually.

Remuneration report (continued)

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 2012, the KPIs linked to short term incentive plans were based on group or individual personal 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 incentive payments are adjusted in line with the degree of achievement against the target performance levels.

Long term incentives

Information on Specialty Fashion Group Limited's Senior Executive Option Plan, Long Term Incentive Plan and Executive Equity Participation Plan is set out later in this note.

1.3 Use of remuneration consultants

In October 2011, Specialty Fashion Group Limited's Remuneration Committee employed the services of Mercer (Australia) Pty Ltd (Mercer) to review its existing remuneration policies and to provide recommendations in respect of both executive short term and long term incentive plan design. Under the terms of the engagement, Mercer provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid \$38,850 for these services.

Mercer has confirmed that the above recommendations have been made free from undue influence by members of the Group's key management personnel.

The following arrangements were made to ensure that the remuneration recommendations were free from undue influence:

- Mercer was engaged by, and reported directly to, the Chairperson of the Remuneration Committee. The agreement for the provision of remuneration consulting services was executed by the Chairperson of the Remuneration Committee under delegated authority on behalf of the Board.
- The report containing the remuneration recommendations was provided by Mercer directly to the Chairperson of the Remuneration Committee.
- Mercer was permitted to speak to management throughout the engagement to understand company processes, practices and other business issues and obtain management perspectives. However, Mercer was not permitted to provide any member of management with a copy of their draft or final report that contained the remuneration recommendations.

As a consequence, the Board is satisfied that the recommendations were made free from undue influence from any members of the key management personnel.

1.4 Voting and comments made at the Company's 2011 Annual General Meeting (AGM)

Specialty Fashion Group Limited received 93.4% of "yes" votes on its remuneration report for the 2011 financial year. The Company did not receive any specific feedback at the AGM or throughout the year on its remuneration practices.

Remuneration report (continued)

1.5 Performance of Specialty Fashion Group Limited

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years ended 30 June 2012.

	30 June 2012 \$'000	30 June 2011 \$'000	30 June 2010 \$'000	30 June 2009 \$'000	30 June 2008 \$'000
Revenue from continuing operations	572,509	570,304	556,707	560,554	546,358
Net (loss)/profit before tax from continuing operations	(3,301)	21,306	43,227	30,813	30,607
Net (loss)/profit from continuing operations	(2,810)	14,519	30,717	22,563	21,234
Share price at start of year	\$0.92	\$1.11	\$0.55	\$0.84	\$1.77
Share price at end of year	\$0.51	\$0.88	\$1.07	\$0.55	\$0.85
Interim dividend	nil	4 cents	4 cents	nil	8 cents
Final dividend	nil	nil	4 cents	nil	2 cents
Basic (loss)/earnings per share from continuing operations	(1.5)	7.6	16.1	11.8	11.1
Diluted (loss)/earnings per share from continuing operations	(1.5)	7.6	15.8	11.7	10.8

B. Details of remuneration

1.1 Amounts of remuneration

Details of the remuneration of the directors and 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 following persons acted as directors of the Company during or since the end of the most recent financial year:

- Geoff Levy AO - Chairperson
- Gary Perlstein - Chief Executive Officer
- Ian Miller - Non-executive director
- Joel Bloom - Non-executive director
- Anne McDonald - Non-executive director
- Wai Tang - Non-executive director (from 1 November 2010 to 1 April 2012)
- Ashley Hardwick - Non-executive director (appointed 25 May 2012)
- Michael Hardwick - Non-executive director (appointed 25 May 2012)

The key management personnel of the Group are the directors of Specialty Fashion Group Limited and certain executives that report directly to the Chief Executive Officer. The executives are:

- Alison Henriksen - Chief Financial Officer and Company Secretary
- Sonia Moura - General Manager of Human Resources
- Janet Clough - Group General Manager Operations (resigned 8 September 2011)

Remuneration report (continued)

Key management personnel of the Group

2012

Name	Short term employee benefits			Post-employment benefits	Termination benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus*	Non monetary benefits	Super-annuation		Share rights**	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
G Levy AO	111,541	-	-	10,039	-	-	121,580
A I Miller	69,500	-	-	6,255	-	-	75,755
J Bloom	69,500	-	-	6,255	-	-	75,755
A McDonald	69,500	-	-	6,255	-	-	75,755
W Tang	56,250	-	-	5,063	-	-	61,313
A Hardwick	-	-	-	-	-	-	-
M Hardwick	-	-	-	-	-	-	-
Sub-total non-executive directors	376,291	-	-	33,867	-	-	410,158
Executive directors							
G Perlstein	700,000	-	71,500	63,000	-	-	834,500
Other key management personnel (Group)							
A Henriksen	385,000	-	30,000	34,158	-	-	449,158
S Moura	213,333	-	-	19,800	-	-	233,133
J Clough ¹	56,923	-	5,692	3,252	15,662	-	81,529
Total key management personnel compensation (Group)	1,731,547	-	107,192	154,077	15,662	-	2,008,478

¹ Represents remuneration for the period that J Clough was a key management employee (1 July 2011 to 8 September 2011)

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 2012.

2011

Name	Short term employee benefits			Post-employment benefits	Termination benefits	Share-based payments	Total
	Cash salary and fees	Cash bonus*	Non monetary benefits	Super-annuation		Share rights**	
	\$	\$	\$	\$	\$	\$	\$
Non-executive directors							
G Levy AO	90,000	-	-	8,100	-	-	98,100
A I Miller	60,000	-	-	5,400	-	-	65,400
J Murphy	20,000	-	-	-	-	-	20,000
J Bloom	60,000	-	-	5,400	-	-	65,400
A McDonald	60,000	-	-	5,400	-	-	65,400
W Tang	40,000	-	-	-	-	-	40,000
Sub-total non-executive directors	330,000	-	-	24,300	-	-	354,300
Executive directors							
G Perlstein	700,000	-	71,500	63,000	-	(292,440)	542,060
Other key management personnel							
A Henriksen	320,000	-	30,000	28,800	-	(104,443)	274,357
S Moura	180,000	-	-	16,200	-	(31,333)	164,867
J Clough	270,447	-	27,160	13,933	-	-	311,540
Total key management personnel compensation (Group)	1,800,447	-	128,660	146,233	-	(428,216)	1,647,124

* 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.

** 2009 Long Term Incentive Plan lapsed due to performance criteria not being met therefore related expenditure was reversed.

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 2011.

Remuneration report (continued)

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	
	2012	2011	2012	2011	2012	2011
Executive directors of Specialty Fashion Group Limited						
G Perlstein	77%	77%	23%	23%	-%	-%
Other key management personnel of the Group						
A Henriksen	77%	77%	23%	23%	-%	-%
S Moura	77%	77%	23%	23%	-%	-%
J Clough	77%	77%	23%	23%	-%	-%

Details of remuneration: cash bonuses

For each cash bonus included in the tables on page 11, the percentage of the available bonus that was paid 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	Bonus – 2012 and 2011	
	Paid %	Forfeited %
G Perlstein	-	100
A Henriksen	-	100
S Moura	-	100
J Clough	-	100

1.2 Loans to directors and executives

As at 30 June 2012, there were no outstanding loans made to directors of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties (2011: nil).

Remuneration report (continued)

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 Benefits ?
Executive Directors									
G Perlstein	Chief Executive Officer	No term	1 month	None	12 months	Yes	Yes	No	No
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
A McDonald	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
W Tang	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A Hardwick	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
M Hardwick	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
Other key management personnel									
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	No

Remuneration report (continued)

D. Long Term Incentives

1.1 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.

Vesting conditions include employment at time of vesting and a 20% growth in earnings per share (EPS) year on year.

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
4 January 2005	1/3 after June 2006, 1/3 after June 2007, 1/3 after June 2008	31 August 2011	\$1.13	\$0.11

Options granted under the plan represent unissued ordinary shares and 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 (ASX) during the five trading days immediately before the options are granted.

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

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.

Grant of options

There were no options granted to or held by directors or other key management personnel of the Group during the year ended 30 June 2012 or 30 June 2011. All remaining options expired during the year ended 30 June 2012.

Exercise of options

275,000 ordinary shares of Specialty Fashion Group Limited were issued during the year ended 30 June 2011 on the exercise of options under the Specialty Fashion Group Limited Senior Executive Option Plan. No amounts are unpaid on any of the shares. There were no ordinary shares issued during the year ended 30 June 2012 on the exercise of options.

1.2 Share rights

1.2.1 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 ordinary shares in the Company can be issued to executive officers, senior executives and senior staff members selected by the directors. As at 30 June 2012, all restricted share rights over shares have been converted to ordinary shares in the Company.

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.

The only vesting condition is a three year service period and employment at time of vesting. This condition is subject to Board discretion. All issued rights have vested as at 30 June 2012.

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

Grant date	Date exercisable	Expiry date	Exercise price	Value per right at grant date
1 July 2007	1 July 2010	n/a	n/a	\$1.40

Exercise of rights

450,000 ordinary shares (2011: 546,248) of Specialty Fashion Group Limited were issued during the year ended 30 June 2012 and up to the date of this report on the exercise of rights under the Specialty Fashion Group Limited Long Term Incentive Plan.

1.2.2 Performance rights over ordinary shares

In January 2010, the Group established the Specialty Fashion Group Limited Long Term Incentive Plan, which has previously been announced on 28 September 2009. The Company issued rights over ordinary shares to employees at inception of the plan. During the year ended 30 June 2011, the plan lapsed due to performance criteria not being met. The effect on directors and key management personnel for 2011 is set out in the table below. There was no effect on directors and key management personnel for the year ended 30 June 2012.

2011							
Name	Balance at start of the year	Granted as compensation	Exercised	Other changes*	Balance at end of the year	Vested and exercisable	Unvested
Directors							
G Perlstein	1,400,000	-	-	(1,400,000)	-	-	-
Other key management personnel							
A Henriksen	500,000	-	-	(500,000)	-	-	-
S Moura	150,000	-	-	(150,000)	-	-	-
J Clough	-	500,000	-	(500,000)	-	-	-

* 2009 Long Term Incentive Plan lapsed due to performance criteria not being met therefore related expenditure was reversed.

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.

Vesting conditions are as follows

- Employee must serve three year continuous period of service and still be employed at time of vesting
- At least 25% EPS growth in aggregate over those three financial years when compared to the financial year ended 30 June 2009
- A minimum of 6% of EPS growth in each of the financial years ending 30 June 2010, 30 June 2011 and 30 June 2012 over the preceding financial year

These vesting conditions are subject to Board discretion.

1.3 Executive shares

In May 2012, the Group established the Executive Equity Participation Plan whereby, at the discretion of the Board, executive officers, senior executives and senior staff were invited to subscribe for Executive shares in the Company's start-up venture, Stylefix Pty Limited (Stylefix). Stylefix is a subsidiary of Specialty Fashion Group Limited. At the commencement of the plan, 416 Stylefix Executive shares were allotted, which represented 20% of Stylefix's equity.

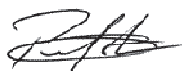
Executive shares allotted under the plan are granted for nil consideration, which represented their fair value at the grant date. Plan participants are unable to deal with the Executive shares without the prior written permission of the Company which may be withheld at its absolute discretion, and must serve a continuous period of service of four years and still be employed at the time the Company provides a conversion notice (which must be between 1 April 2016 and 1 July 2016). The Company has the absolute discretion to determine whether these Executive shares will be equity or cash settled. Management's current intention is to settle the obligations under the plan through the issue of ordinary shares in Specialty Fashion Group Limited. Other significant events, such as a substantial change in ownership of Specialty Fashion Group Limited shares, could trigger settlement of these Executive shares. There are no other performance conditions.

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

On behalf of the directors.

A handwritten signature in dark ink, appearing to be 'G Levy'.

G Levy AO
Director

A handwritten signature in dark ink, appearing to be 'G Perlstein'.

G Perlstein
Director

Sydney
27 August 2012

The Board of Directors
Specialty Fashion Group Limited
151-163 Wyndham Street
Alexandria NSW 2015

27 August 2012

Dear Board Members

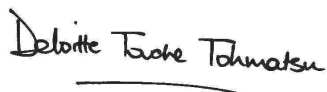
Specialty Fashion Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Specialty Fashion Group Limited.

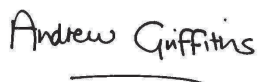
As lead audit partner for the audit of the financial statements of Specialty Fashion Group Limited for the financial year ended 30 June 2012, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit;
and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants
Sydney

Independent Auditor's Report to the Shareholders of Specialty Fashion Group Limited

Report on the Financial Report

We have audited the accompanying financial report of Specialty Fashion Group Limited, which comprises the statement of financial position as at 30 June 2012, the statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 25 to 65.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated 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. Those 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 company's preparation of the financial report that gives a true and fair view, 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 company'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.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Specialty Fashion Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

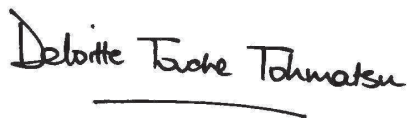
- (a) the financial report of Specialty Fashion Group Limited is in accordance with the Corporations Act 2001, including:
 - (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2012 and of its performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and
- (b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

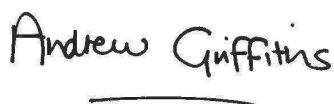
We have audited the Remuneration Report included in pages 7 to 15 of the directors' report for the year ended 30 June 2012. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Specialty Fashion Group Limited for the year ended 30 June 2012, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants
Sydney, 27 August 2012

Corporate governance statement

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 Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year. They comply with the August 2007 ASX *Principles of Good Corporate Governance and Best Practice Recommendations*.

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 six Non-Executive Directors, three 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 Chairperson of the Board is a non-executive director who is elected by the full Board. The Chairperson 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 Chief Executive Officer 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 Chairperson 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 in the directors' report under the heading "Information on directors".

Directors' 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.

(continued)

Board committees

The Board has established committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The current committees of the Board are the Audit Committee and the Remuneration 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. 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.

Remuneration Committee

The Remuneration Committee consists of the following non-executive directors:

- G Levy (Chairperson)
- W Tang (resigned 1 April 2012)
- J Bloom

The Committee 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 Committee, 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 Committee 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)
- W Tang (resigned 1 April 2012)
- 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 Chairperson of the Audit Committee or the Chairperson 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.

(continued)

Performance evaluation

The Board undertakes regular self assessments of its collective performance, the performance of the Chairperson and its committees. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the Company Secretary. Management are invited to contribute to this appraisal process which is facilitated by an independent member of management. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. An assessment in accordance with this process was undertaken during May 2011.

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 yearly 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).

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, through the Audit Committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The Group's policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the board proactively promotes a culture of quality and integrity.

The Company risk management policy and the operation of the risk management and compliance system is managed by the Company Risk Management Committee which consists of senior executives chaired by the Chief Financial Officer. The Board receives regular reports from this group as to the effectiveness of the Company's management of material risks that may impede meeting business objectives.

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.

Occupational Health and Safety (OHS)

During the year ended 30 June 2012, there was a company-wide launch of Safety First, a program aimed at emphasising safety as a top priority. Some of the most notable initiatives were:

- The Safety First Portal was introduced to each Point of Sale allowing stores to directly access all OHS Policies, Procedures and Training Information
- Implementation and full adoption of an enterprise Risk Management & Safety System (RMSS) which is available at every Point of Sale, allowing direct access to complete Incident Notifications
- Creation of an OHS Risk Register with corrective action plans in place for all risks
- Roll out of an OHS re- Induction for all store Team Members, including an OHS Handbook and Safe Work Procedures
- Roll out of OHS training sessions to all Store Managers, Line Managers and Leaders within the business
- An advanced OHS reporting suite was created to ensure effective reporting to the business and its Board
- Implementation of Best Practice Return to Work systems and Return to Work Team reducing our average claims cost by 14%
- Creation of store based OHS Brand Work Groups to further consultation and communication

The implementation of the Safety Management System remains a key element of SFG's strategy in the coming year as it continues to build a proactive and engaged safety culture. The Company's focus will be to further reduce our risk profile by implementing additional control measures but also on audit and review to ensure continual improvement.

Environment

The Company has recently conducted a review of its compliance with environmental regulations. This includes reviewing legislative compliance requirements and better understanding the Company's environmental impact.

(continued)

From these activities the Company has highlighted the following focus areas:

- Reduction of Waste & Packaging
- Reduction of Energy Usage

The business is currently establishing key systems to monitor and manage compliance with new and existing regulations. A review has also been completed of the Company's reporting requirements and it has been determined that the Company is not required to report under the National Greenhouse and Emissions Reporting (NGER).

Code of conduct

The Company has developed a statement of values and a Code of Conduct (the Code) which has been fully endorsed by the Board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the Company's stakeholders.

In summary, the Code requires that at all times the Company's personnel act with the utmost integrity, objectivity and in compliance with the letter and spirit of the law and company policies.

The Code and the Company's trading policy is discussed with each new employee as part of their induction training. Further training is periodically provided and all employees are asked to sign a declaration confirming their compliance with the Code and the trading policy.

The directors are satisfied that the Group has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the trading policy are available on the Company's website.

Diversity policy

Diversity Statement

Workplace diversity recognises and values the contribution of people from different backgrounds, experiences and perspectives. At Specialty Fashion Group, we aim to ensure that all Team Members have equal opportunity to participate and advance in their careers.

The Company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the Company has developed a diversity policy. This policy outlines the Company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender;

- Establish a Diversity Committee to focus and drive diversity as a key strategic business objective
- Diversity committee to conduct research to gain insight into the current and emerging diversity needs of the Company's workforce across all parts and levels of the Company
- Research results to be used to:
 - Gain insights into potential barriers to diversity within the Company
 - Develop objectives to maintain the diversity the Company already has
 - Develop objectives to continue to achieve greater diversity at the Company

The aim is to achieve these objectives over the coming two to three years as director and senior executive positions become vacant and appropriately skilled candidates are available.

During the year ended 30 June 2012, the Company established a Diversity Work Group (DWG), conducted a Diversity Survey across the business and devised strategies for the 2013 financial year.

	Objective		Actual	
	Number '000	%	Number '000	%
Number of women employees in whole organisation	4,262	90%	4,601	98%
Number of women in senior executive positions	4	50%	3	33%
Number of women on the board	3	50%	1	14%

(continued)

Trading in Specialty Fashion Group Shares

Directors and senior executives of the Group 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 Group's half yearly results or the period between July 1 and 24 hours after the release of the Group's annual 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.

Specialty Fashion Group Limited
Consolidated statement of financial performance
For the year ended 30 June 2012

		2012	Consolidated
	Notes	\$'000	2011 \$'000
Revenue from continuing operations	5	572,509	570,304
Changes in inventories of finished goods and consumables		2,320	38
Finished goods and consumables		(242,291)	(241,981)
Employee benefits expense		(146,000)	(138,722)
Depreciation and impairment expense	6	(23,240)	(18,326)
Other expenses from ordinary activities		(50,902)	(42,072)
Rental expense relating to operating leases		(113,571)	(106,222)
Finance costs	6	(2,126)	(1,713)
(Loss)/profit before income tax		(3,301)	21,306
Income tax benefit/(expense)	7	491	(6,787)
(Loss)/profit from continuing operations		(2,810)	14,519
(Loss) from discontinued operations		-	(348)
(Loss)/profit for the year		(2,810)	14,171
		Cents	Cents
(Loss)/earnings per share from continuing and discontinued operations			
Basic (loss)/earnings per share	36	(1.5)	7.4
Diluted (loss)/earnings per share	36	(1.5)	7.4
		Cents	Cents
(Loss)/earnings per share from continuing operations			
Basic (loss)/earnings per share	36	(1.5)	7.6
Diluted (loss)/earnings per share	36	(1.5)	7.6

The above consolidated statement of financial performance should be read in conjunction with the accompanying notes.

Specialty Fashion Group Limited
Consolidated statement of comprehensive income
For the year ended 30 June 2012

	2012	Consolidated
	\$'000	2011
		\$'000
(Loss)/profit for the year	(2,810)	14,171
Other comprehensive income		
Changes in the fair value of cash flow hedges	6,515	(8,657)
Exchange differences on translation of foreign operations	43	72
Other comprehensive income/(expense) for the year, net of tax	<u>6,558</u>	<u>(8,585)</u>
Total comprehensive income for the year	<u>3,748</u>	<u>5,586</u>
Total comprehensive income for the year is attributable to:		
Owners of Specialty Fashion Group Limited	<u>3,748</u>	<u>5,586</u>
	<u>3,748</u>	<u>5,586</u>

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

Specialty Fashion Group Limited
Consolidated statement of financial position
As at 30 June 2012

		2012	Consolidated
	Notes	\$'000	2011 \$'000
ASSETS			
Current assets			
Cash and cash equivalents	8	10,585	5,592
Other current assets	9	3,016	4,682
Inventories	10	48,160	45,839
Current tax receivables	12	3,261	-
Total current assets		<u>65,022</u>	<u>56,113</u>
Non-current assets			
Other receivables		364	793
Property, plant and equipment	13	82,572	93,120
Deferred tax assets	14	2,348	3,436
Intangible assets	15	10,095	10,095
Total non-current assets		<u>95,379</u>	<u>107,444</u>
Total assets		<u>160,401</u>	<u>163,557</u>
LIABILITIES			
Current liabilities			
Trade and other payables	16	62,852	48,055
Derivative financial instruments	11	119	9,425
Current tax liabilities	19	82	289
Provisions	18	14,510	12,981
Borrowings	17	6,500	-
Other current liabilities	20	3,140	3,027
Total current liabilities		<u>87,203</u>	<u>73,777</u>
Non-current liabilities			
Borrowings	21	-	22,000
Provisions	22	11,743	9,983
Other non-current liabilities	23	7,276	7,205
Total non-current liabilities		<u>19,019</u>	<u>39,188</u>
Total liabilities		<u>106,222</u>	<u>112,965</u>
Net assets		<u>54,179</u>	<u>50,592</u>
EQUITY			
Contributed equity	24	134,497	133,867
Reserves	25(a)	(803)	(6,570)
Accumulated losses	25(b)	(79,515)	(76,705)
Total equity		<u>54,179</u>	<u>50,592</u>

The above consolidated statement of financial position should be read in conjunction with the accompanying notes.

Specialty Fashion Group Limited
Consolidated statement of changes in equity
For the year ended 30 June 2012

		Contributed equity \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accum- ulated losses \$'000	Total equity \$'000
Notes							
Balance at 1 July 2010		132,492	2,490	2,059	(896)	(75,554)	60,591
Profit for the year	25(b)	-	-	-	-	14,171	14,171
Cash flow hedges	25(a)	-	-	(8,657)	-	-	(8,657)
Exchange differences on translation of foreign operations	25(a)	-	-	-	72	-	72
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>(8,657)</u>	<u>72</u>	<u>14,171</u>	<u>5,586</u>
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	24	309	-	-	-	-	309
Dividends provided for or paid	25(b)	-	-	-	-	(15,322)	(15,322)
Employee share-based credits	25(a)	-	(572)	-	-	-	(572)
Issue of ordinary shares under Senior Executive Compensation Scheme	25(a)	<u>1,066</u>	<u>(1,066)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 30 June 2011		<u>133,867</u>	<u>852</u>	<u>(6,598)</u>	<u>(824)</u>	<u>(76,705)</u>	<u>50,592</u>
		Contributed equity \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accum- ulated losses \$'000	Total equity \$'000
Notes							
Balance at 1 July 2011		133,867	852	(6,598)	(824)	(76,705)	50,592
Loss for the year	25(b)	-	-	-	-	(2,810)	(2,810)
Cash flow hedges	25(a)	-	-	6,515	-	-	6,515
Exchange differences on translation of foreign operations	25(a)	-	-	-	43	-	43
Total comprehensive income for the year		<u>-</u>	<u>-</u>	<u>6,515</u>	<u>43</u>	<u>(2,810)</u>	<u>3,748</u>
Transactions with owners in their capacity as owners:							
Employee share-based credit	25(a)	-	(161)	-	-	-	(161)
Issue of ordinary shares under Senior Executive Compensation Scheme	24	<u>630</u>	<u>(630)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Balance at 30 June 2012		<u>134,497</u>	<u>61</u>	<u>(83)</u>	<u>(781)</u>	<u>(79,515)</u>	<u>54,179</u>

The above consolidated statement of changes in equity should be read in conjunction with the accompanying notes.

Specialty Fashion Group Limited
Consolidated statement of cash flows
For the year ended 30 June 2012

		Consolidated
	2012	2011
Notes	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of goods and services tax)	630,628	631,012
Payments to suppliers and employees (inclusive of goods and services tax)	(587,731)	(587,239)
	42,897	43,773
Interest received	324	274
Borrowing costs	(2,126)	(1,713)
Income taxes paid	(4,574)	(8,525)
Net cash inflow from operating activities	35 36,521	33,809
Cash flows from investing activities		
Payments for property, plant and equipment ¹	(15,933)	(34,201)
Proceeds from sale of business	-	3,953
Proceeds from sale of property, plant and equipment	95	339
Net cash outflow from investing activities	(16,028)	(29,909)
Cash flows from financing activities		
Shares issued	-	309
Repayment of borrowings	(15,500)	-
Proceeds from borrowings	-	14,000
Dividends paid to company's shareholders	-	(15,322)
Net cash outflow from financing activities	(15,500)	(1,013)
Net increase in cash and cash equivalents	4,993	2,887
Cash and cash equivalents at the beginning of the financial year	5,592	2,705
Cash and cash equivalents at end of year	8 10,585	5,592

¹ Total payments for property, plant and equipment during the 2012 financial year includes 2011 accrued capital expenditure of \$1.2 million

The above consolidated statement of cash flows should be read in conjunction with the accompanying notes.

1 Summary of significant accounting policies

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

(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 and the *Corporations Act 2001*.

Specialty Fashion Group Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements are presented in the Australian currency.

Compliance with IFRS

The consolidated financial statements of Specialty Fashion Group Limited group also comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

New and amended standards adopted by the Group

None of the new standards and amendments to standards that are mandatory for the first time for the financial year beginning 1 July 2011 affected any of the amounts recognised in the current period or any prior period and are not likely to affect future periods.

Early adoption of standards

The Group has not elected to apply any pronouncements before their operative date in the annual reporting period beginning 1 July 2011.

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.

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

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.

(b) Principles of consolidation

(i) Subsidiaries

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Specialty Fashion Group Limited ("Company" or "parent entity") as at 30 June 2012 and the results of all subsidiaries for the year then ended. Specialty Fashion Group Limited and its subsidiaries together are referred to in this financial report as the Group or the consolidated entity.

Subsidiaries are all entities (including special purpose entities) over which the Group has the power to govern the financial and operating policies, generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity.

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

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the separate financial statements of Specialty Fashion Group Limited.

1 Summary of significant accounting policies (continued)

(ii) *Employee Share Trust*

The Group has formed a trust to administer the Group's employee share scheme. 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.

(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 upon receiving final payment from the customer.

(iii) *Interest Revenue*

Interest revenue is recognised when it is earned.

1 Summary of significant accounting policies (continued)

(iv) Customer loyalty program

The Group operates a loyalty program 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 or 30 days after a voucher has been issued.

(v) Insurance recoveries

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

(f) Income tax

The income tax expense for the year is the tax payable on the current year'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, as well as any prior year adjustments to income tax payable.

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.

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.

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 head entity, Specialty Fashion Group Limited, and the controlled entities in the tax consolidated group continue to 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 the 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 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.

1 Summary of significant accounting policies (continued)

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.

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.

(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 2012 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) 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.

(i) 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 statement of financial position.

(j) 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.

Collectibility 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 statement of financial performance.

(k) 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 statement of financial position.

1 Summary of significant accounting policies (continued)

(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 cashflow 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 11. 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.

(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 sale that is hedged takes place). 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 including 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 their cost or revalued amounts, net of their residual values, over the estimated lives, ranging from 4 to 50 years.

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

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

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

1 Summary of significant accounting policies (continued)

(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 to 90 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.

(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, 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) Other 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.

1 Summary of significant accounting policies (continued)

(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 Plan, Long Term Incentive Plan and Executive Equity Participation Plan.

The fair value of options granted under the Specialty Fashion Group Limited Senior Executive Option Plan and Long Term Incentive 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, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, 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 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.

(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.

1 Summary of significant accounting policies (continued)

(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 2012 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 10 *Consolidated Financial Statements*, AASB 11 *Joint Arrangements*, AASB 12 *Disclosure of Interests in Other Entities*, revised AASB 127 *Separate Financial Statements* and AASB 128 *Investments in Associates and Joint Ventures* and AASB 2011-7 *Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangements Standards* (effective 1 January 2013)

In August 2011, the AASB issued a suite of five new and amended standards which address the accounting for joint arrangements, consolidated financial statements and associated disclosures.

AASB 10 replaces all of the guidance on control and consolidation in AASB 127 *Consolidated and Separate Financial Statements*, and Interpretation 12 *Consolidation - Special Purpose Entities*. The core principle that a consolidated entity presents a parent and its subsidiaries as if they are a single economic entity remains unchanged, as do the mechanics of consolidation. However the standard introduces a single definition of control that applies to all entities. It focuses on the need to have both power and rights or exposure to variable returns before control is present. Power is the current ability to direct the activities that significantly influence returns. Returns must vary and can be positive, negative or both. There is also new guidance on participating and protective rights and on agent/principal relationships. It is not expected to have a significant impact on the Group's financial statements.

The Group does not expect to adopt the new standards before their operative date. They would therefore be first applied in the financial statements for the annual reporting period ending 30 June 2014.

(ii) Revised AASB 119 *Employee Benefits*, AASB 2011-10 *Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)* and AASB 2011-11 *Amendments to AASB 119 (September 2011) arising from Reduced Disclosure Requirements* (effective 1 January 2013)

In September 2011, the AASB released a revised standard on accounting for employee benefits. It requires the recognition of all re-measurements of defined benefit liabilities/assets immediately in other comprehensive income (removal of the so-called 'corridor' method) and the calculation of a net interest expense or income by applying the discount rate to the net defined benefit liability or asset. This replaces the expected return on plan assets that is currently included in profit or loss. The standard also introduces a number of additional disclosures for defined benefit liabilities/assets and could affect the timing of the recognition of termination benefits. Since Specialty Fashion Group Limited does not have any defined benefit obligations, the amendments will not have any impact on the Group's financial statements.

(iii) AASB 2011-9 *Amendments to Australian Accounting Standards - Presentation of Items of Other Comprehensive Income* (effective 1 July 2012)

In September 2011, the AASB made an amendment to AASB 101 *Presentation of Financial Statements* which requires entities to separate items presented in other comprehensive income into two groups, based on whether they may be recycled to profit or loss in the future. It will not affect the measurement of any of the items recognised in the consolidated statement of financial position or the statement of financial performance in the current period. The Group intends to adopt the new standard from 1 July 2012.

(iv) AASB 2011-4 *Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements* (effective 1 July 2013)

In July 2011 the AASB decided to remove the individual key management personnel (KMP) disclosure requirements from AASB 124 *Related Party Disclosures*, to achieve consistency with the international equivalent standard and remove a duplication of the requirements with the *Corporations Act 2001*. While this will reduce the disclosures that are currently required in the notes to the financial statements, it will not affect any of the amounts recognised in the statement of financial performance. The amendments apply from 1 July 2013 and cannot be adopted early. The *Corporations Act 2001* requirements in relation to remuneration reports will remain unchanged for now, but these requirements are currently subject to review and may also be revised in the near future.

1 Summary of significant accounting policies (continued)

(v) Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) and Disclosures-Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) (effective 1 January 2014 and 1 January 2013 respectively) In December 2011, the IASB made amendments to the application guidance in IAS 32 *Financial Instruments: Presentation*, to clarify some of the requirements for offsetting financial assets and financial liabilities in the consolidated balance sheet. These amendments are effective from 1 January 2014. They are unlikely to affect the accounting for any of the entity's current offsetting arrangements. However, the IASB has also introduced more extensive disclosure requirements into IFRS 7 which will apply from 1 January 2013. The AASB is expected to make equivalent changes to IAS 32 and AASB 7 shortly. When they become applicable, the Group will have to provide a number of additional disclosures in relation to its offsetting arrangements. The Group intends to apply the new rules for the first time in the financial year commencing 1 July 2013.

There are no other standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(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 group.

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

(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

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, ie 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 holds financial liabilities in the form of trade and other payables, borrowings (refer notes 16, 17 and 21) and derivative financial instruments (refer note 11).

(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 Chinese RMB.

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.

Forward contracts are used to manage foreign exchange risk.

The only financial assets or liabilities which are exposed to foreign currency risk are trade payables (AUD 2.4 million) and cash and cash equivalents (AUD 1 million).

The Group's risk management policy is to hedge up to 12 month's future purchases. Approximately 100% (2011: 100%) of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes.

In respect of the Group's hedging position at 30 June 2012, 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 \$3.9 million higher / \$4.9 million lower (2011: \$4.4 million higher / \$5.3 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 Chinese RMB against the Australian dollar on post-tax profit and other balance sheet items would not be significant. This position has not changed from 2011.

(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. For banks only independently rated parties with a minimum rating of "AA" are accepted. 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 borrowings, which are denominated in Australian Dollars. Borrowings are issued at variable rates and expose the Group to cashflow 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 cashflow needs and keep borrowings at a minimum and minimise exposure to interest rate risk.

2 Financial risk management (continued)

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 2012, 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 (2011: change of +/- 100 bps: \$0.2 million lower/higher). The weighted average interest rate at 30 June 2012 is 6.9% (2011: 7.1%).

(b) Fair value measurements

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

Specialty Fashion Group Limited has adopted the amendment to AASB 7 *Financial Instruments: Disclosures* requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

- (a) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)
- (b) 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
- (c) 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. This is consistent with the prior year.

(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 cashflow 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 disasters. 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 (2011: \$40 million) that can be drawn. \$30 million of the working capital facilities may be drawn at any time, a further \$10 million of facilities is available during periods of inventory build up. A \$45 million investment facility is also available for drawdown (2011: \$60 million). The facilities are drawn down upon through 30-day maturity commercial bills that renew 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 May 2013.

Management monitors rolling forecasts of the Group's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents (note 8) on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the Group in accordance with practice and limits set by the Group. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the Group's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

For additional information on borrowings refer notes 17 and 21.

2 Financial risk management (continued)

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.

	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contract- ual cash flows	Carrying Amount (assets)/ liabilities
At 30 June 2012	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
Trade and other payables	62,852	-	-	-	62,852	62,852
Borrowings*	7,907	-	-	-	7,907	7,907
Total non-derivatives	<u>70,759</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>70,759</u>	<u>70,759</u>
Derivatives						
Gross settled						
- (inflow)	(61,865)	-	-	-	(61,865)	-
- outflow	61,984	-	-	-	61,984	-
Total derivatives	<u>119</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>119</u>	<u>119</u>
At 30 June 2011	Less than 1 year	Between 1 and 2 years	Between 2 and 5 years	Over 5 years	Total contract- ual cash flows	Carrying Amount (assets)/ liabilities
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Non-derivatives						
Trade and other payables	48,055	-	-	-	48,055	48,055
Borrowings*	1,673	22,000	-	-	23,673	23,673
Total non-derivatives	<u>49,728</u>	<u>22,000</u>	<u>-</u>	<u>-</u>	<u>71,728</u>	<u>71,728</u>
Derivatives						
Gross settled						
- (inflow)	(68,767)	-	-	-	(68,767)	-
- outflow	78,192	-	-	-	78,192	-
Total derivatives	<u>9,425</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>9,425</u>	<u>9,425</u>

* Current borrowings include Letters of Credit facilities utilised as at reporting date, totalling \$1,407,000 (2011: \$1,673,000).

3 Critical accounting estimates and judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant.

3 Critical accounting estimates and judgements (continued)

(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 or store assets have suffered any impairment, in accordance with the accounting policies 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.

(ii) *Provisions*

There are provisions including inventory NRV provision, 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 segment based on a measure of EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation).

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

	2012 \$'000	Consolidated 2011 \$'000
EBITDA from continuing operations	21,741	41,071
Interest revenue	324	274
Finance costs	(2,126)	(1,713)
Depreciation and impairment	(23,240)	(18,326)
(Loss)/profit before income tax from continuing operations	(3,301)	21,306

5 Revenue

	2012 \$'000	Consolidated 2011 \$'000
From continuing operations		
<i>Sales revenue</i>		
Sale of goods	571,383	569,192
	571,383	569,192

5 Revenue (continued)

	2012 \$'000	Consolidated 2011 \$'000
<i>Other revenue</i>		
Interest	324	274
Other revenue	<u>802</u>	<u>838</u>
	<u>1,126</u>	<u>1,112</u>
Revenue from continuing operations	<u>572,509</u>	<u>570,304</u>

6 Expenses

	2012 \$'000	Consolidated 2011 \$'000
Profit before income tax includes the following specific expenses:		
Superannuation expense	10,192	9,692
Depreciation and impairment of property, plant and equipment ¹	23,240	18,326
Interest and finance charges paid/payable	2,126	1,713
Net loss/(profit) on disposal of property, plant and equipment	16	(14)
Rental expense relating to operating leases	113,571	106,222
Net foreign exchange losses	915	1,190
Inventory shrinkage	4,806	5,074

¹ Includes an impairment charge of \$2,763,269 (2011: \$268,868).

7 Income tax (benefit)/expense

	2012 \$'000	Consolidated 2011 \$'000
(a) Income tax (benefit)/expense:		
Current tax	288	6,286
Deferred tax	(1,226)	234
Underprovision in prior year	<u>447</u>	<u>267</u>
	<u>(491)</u>	<u>6,787</u>
	2012 \$'000	Consolidated 2011 \$'000

(b) Numerical reconciliation of income tax expense to prima facie tax payable

(Loss)/profit from continuing operations before income tax expense	<u>(3,301)</u>	21,306
Tax at the Australian tax rate of 30% (2011 - 30%)	<u>(990)</u>	6,392
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Share-based payments	(48)	461
Sundry items	<u>88</u>	<u>(333)</u>
	<u>(950)</u>	6,520

7 Income tax (benefit)/expense (continued)

	2012 \$'000	Consolidated 2011 \$'000
Difference in overseas tax rates	12	-
Underprovision in prior year	<u>447</u>	<u>267</u>
	<u>459</u>	<u>267</u>
Income tax (benefit)/expense	<u>(491)</u>	<u>6,787</u>

	2012 \$'000	Consolidated 2011 \$'000
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(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 (debited)/ credited directly to equity	<u>(2,791)</u>	<u>3,709</u>
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(d) Capital losses

Carried forward capital losses total \$154,857,154 (2011: \$154,857,154). These losses have not been recognised as a deferred tax asset.

(e) Income tax losses

Carried forward income tax losses total \$8,960,750 (2011: nil). These losses have been recognised as a deferred tax asset.

(f) 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(f).

8 Current assets - Cash and cash equivalents

	2012 \$'000	Consolidated 2011 \$'000
Cash at bank and in hand	<u>10,585</u>	<u>5,592</u>

(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.

9 Current assets - Other current assets

	2012 \$'000	Consolidated 2011 \$'000
Other receivables	2,164	4,188
Prepayments	<u>852</u>	<u>494</u>
	<u>3,016</u>	<u>4,682</u>

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

10 Current assets - Inventories

	2012 \$'000	Consolidated 2011 \$'000
Inventories on hand at lower of cost and net realisable value	<u>48,160</u>	<u>45,839</u>

11 Derivative financial instruments

	2012 \$'000	Consolidated 2011 \$'000
Current liabilities		
Forward foreign exchange contracts - cash flow hedges ((a)(i))	<u>119</u>	<u>9,425</u>

(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 (2011: 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:

	Sell Australian Dollars 2012 \$'000	2011 \$'000	Average Exchange Rate 2012	2011
Buy US Dollars				
Maturity less than 1 year	61,977	78,193	0.9965	0.9259

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 cashflow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount from other comprehensive income.

11 Derivative financial instruments (continued)

(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 \$119,000 is payable (Australian dollar equivalents) for the Group from forward foreign exchange contracts (2011 - \$ 9,425,000 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

12 Current assets - Current tax receivables

	2012 \$'000	Consolidated 2011 \$'000
Current tax receivables	3,261	-
	<u>3,261</u>	<u>-</u>

13 Non-current assets - Property, plant and equipment

	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
At 1 July 2010			
Cost	2,655	168,687	171,342
Accumulated depreciation	(21)	(91,441)	(91,462)
Written down value	<u>2,634</u>	<u>77,246</u>	<u>79,880</u>
Year ended 30 June 2011			
Opening written down value	2,634	77,246	79,880
Additions	-	35,256	35,256
Disposals	-	(325)	(325)
Exchange differences	-	(121)	(121)
Disposal of business	-	(3,244)	(3,244)
Depreciation and impairment charges	(36)	(18,290)	(18,326)
Closing written down value	<u>2,598</u>	<u>90,522</u>	<u>93,120</u>
At 30 June 2011			
Cost	2,655	187,734	190,389
Accumulated depreciation	(57)	(97,212)	(97,269)
Written down value	<u>2,598</u>	<u>90,522</u>	<u>93,120</u>

13 Non-current assets - Property, plant and equipment (continued)

	Land and buildings \$'000	Plant and equipment \$'000	Total \$'000
Year ended 30 June 2012			
Opening written down value	2,598	90,522	93,120
Additions	-	14,740	14,740
Disposals	-	(2,085)	(2,085)
Exchange differences	-	37	37
Depreciation and impairment charge	(37)	(23,203)	(23,240)
Closing written down value	2,561	80,011	82,572
At 30 June 2012			
Cost	2,655	195,883	198,538
Accumulated depreciation and impairment	(94)	(115,872)	(115,966)
Written down value	2,561	80,011	82,572

14 Non-current assets - Deferred tax assets

2012
\$'000

2011
\$'000

The balance comprises temporary differences attributable to:

Employee benefits	4,435	4,089
Other provisions and accruals	4,429	5,034
Deferred lease incentives	2,868	2,419
Tax losses	2,688	40
Inventories	816	663
Lay-by debtors	(124)	(160)
Depreciation	(12,858)	(11,476)
Unrealised FX	58	-
	<u>2,312</u>	<u>609</u>

Amounts recognised directly in equity

Cash flow hedges	36	2,827
Total deferred tax assets	<u>2,348</u>	<u>3,436</u>

Movements:

Opening balance at 1 July	3,436	400
Underprovision in prior year	477	14
Charged to the income statement	1,226	(234)
Charged to equity	(2,791)	3,709
Disposal of business	-	(453)
Closing balance at 30 June	<u>2,348</u>	<u>3,436</u>

15 Non-current assets - Intangible assets

	Goodwill \$'000	Total \$'000
At 1 July 2010		
Cost	11,806	11,806
Accumulated impairment	-	-
Written down value	11,806	11,806
Year ended 30 June 2011		
Opening written down value	11,806	11,806
Subsidiary sold	(1,711)	(1,711)
Impairment charge	-	-
Closing written down value	10,095	10,095
At 30 June 2011		
Cost	10,095	10,095
Accumulated amortisation and impairment	-	-
Written down value	10,095	10,095
Year ended 30 June 2012		
Opening written down value	10,095	10,095
Impairment charge	-	-
Closing written down value	10,095	10,095
At 30 June 2012		
Cost	10,095	10,095
Accumulated impairment	-	-
Written down value	10,095	10,095

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs).

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

The weighted average growth rates used are consistent with forecast 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 - 2.5% (2011: 2.5%)

Pre-tax discount rate - 11.9% (2011: 10.4%)

(b) Impairment charge

There has been no impairment charge taken in the current year in relation to goodwill (2011: nil).

16 Current liabilities - Trade and other payables

	2012 \$'000	Consolidated 2011 \$'000
Trade payables	34,622	17,890
Other payables	28,230	30,165
	<u>62,852</u>	<u>48,055</u>

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

17 Current liabilities - Borrowings

	2012 \$'000	Consolidated 2011 \$'000
Secured		
Bank loans	6,500	-
Total current borrowings	<u>6,500</u>	<u>-</u>

(a) Security

Information about the security relating to each of the secured liabilities and further information on the bank loans are set out in note 21.

18 Current liabilities - Provisions

	2012 \$'000	Consolidated 2011 \$'000
Employee benefits	12,536	11,423
Other provisions	1,974	1,558
	<u>14,510</u>	<u>12,981</u>

(a) Movements in provisions

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

	Employee benefits ¹ \$'000	Other provisions \$'000
2012		
Current		
Carrying amount at start of year	11,423	1,558
Charged to profit or loss	1,113	416
Carrying amount at end of year	<u>12,536</u>	<u>1,974</u>
2011		
Current		
Carrying amount at start of year	11,208	1,949
Charged/(credited) to profit or loss	215	(391)
Carrying amount at end of year	<u>11,423</u>	<u>1,558</u>

¹ Employee benefits comprises annual leave and long service leave entitlements

19 Current liabilities - Current tax liabilities

	2012 \$'000	Consolidated 2011 \$'000
Current tax liabilities	<u>82</u>	<u>289</u>

20 Current liabilities - Other current liabilities

	2012 \$'000	Consolidated 2011 \$'000
Deferred lease incentives	2,375	2,237
Deferred income	730	685
Other current liabilities	<u>35</u>	<u>105</u>
	<u>3,140</u>	<u>3,027</u>

21 Non-current liabilities - Borrowings

	2012 \$'000	Consolidated 2011 \$'000
Bank loans – non-current	<u>-</u>	<u>22,000</u>

(a) Total secured liabilities

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

Bank loans	<u>6,500</u>	<u>22,000</u>
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(b) Financing arrangements

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

	2012 \$'000	Consolidated 2011 \$'000
Floating rate		
Bank loans and bill facilities	85,000	100,000
Visa, encashment and guarantee facilities	<u>300</u>	<u>468</u>
	<u>85,300</u>	<u>100,468</u>
Used at balance date		
Bank loans and bill facilities	6,500	22,000
Visa, encashment and guarantee facilities	<u>158</u>	<u>188</u>
	<u>6,658</u>	<u>22,188</u>
Unused at balance date		
Bank overdraft, bank loans and bill facilities	78,500	78,000
Visa, encashment and guarantee facilities	<u>142</u>	<u>280</u>
	<u>78,642</u>	<u>78,280</u>

21 Non-current liabilities - Borrowings (continued)

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 year end interest rate is 5.9% on the bank loans (2011: 7.1%). The bank loan facilities have a three year term, maturing in 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.

2012	Floating interest rate	Non- interest bearing	Total
	\$'000	\$'000	\$'000
Cash and deposits (note 8)	10,585	-	10,585
Other current assets (note 9)	-	3,016	3,016
Bank loans (note 17)	(6,500)	-	(6,500)
Trade and other payables (note 16)	-	(62,852)	(62,852)
Net financial assets/(liabilities)	4,085	(59,836)	(55,751)
2011	Floating interest rate	Non- interest bearing	Total
	\$'000	\$'000	\$'000
Cash and deposits (note 8)	5,592	-	5,592
Other current assets (note 9)	-	4,682	4,682
Bank loans (note 21)	(22,000)	-	(22,000)
Trade and other payables (note 16)	-	(48,055)	(48,055)
Net financial (liabilities)	(16,408)	(43,373)	(59,781)

Weighted average interest rate on the cash and deposits is 2.9% (2011: 4.2%) and on the loans is 6.9% (2011: 7.1%).

(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

	2012	Consolidated 2011
	\$'000	\$'000
Employee benefits - long service leave	2,375	2,248
Other provisions	9,368	7,735
	11,743	9,983

22 Non-current liabilities - Provisions (continued)

(a) Movements in provisions

	Employee benefits \$'000	Other provisions \$'000
2012		
Non-current		
Carrying amount at start of year	2,248	7,735
Charged to profit or loss	127	1,633
Carrying amount at end of year	<u>2,375</u>	<u>9,368</u>
2011		
Non-current		
Carrying amount at start of year	1,776	4,513
Charged to profit or loss	472	3,222
Carrying amount at end of year	<u>2,248</u>	<u>7,735</u>

23 Non-current liabilities - Other non-current liabilities

	2012 \$'000	Consolidated 2011 \$'000
Deferred lease incentives	7,241	7,135
Other non-current liabilities	<u>35</u>	<u>70</u>
	<u>7,276</u>	<u>7,205</u>

24 Contributed equity

	2012 Shares	Parent entity 2011 Shares	2012 \$'000	Parent entity 2011 \$'000
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(a) Share capital

Ordinary shares				
Fully paid	<u>192,236,121</u>	<u>191,786,121</u>	<u>134,497</u>	<u>133,867</u>

(b) Movements in ordinary share capital:

Date	Details	Number of shares	\$'000
1 July 2010	Opening balance	190,964,693	132,492
1 November 2010	Issue of shares under Company's Long Term Incentive Plan	303,571	483
1 February 2011	Issue of shares under Company's Long Term Incentive Plan	142,857	229
22 February 2011	Proceeds received from exercise of options	275,000	309
30 May 2011	Issue of shares under Company's Long Term Incentive Plan	<u>100,000</u>	<u>354</u>
30 June 2011	Balance	191,786,121	133,867
1 July 2011	Opening balance	191,786,121	133,867
13 September 2011	Issue of shares under Company's Long Term Incentive Plan	300,000	420
28 May 2012	Issue of shares under Company's Long Term Incentive Plan	<u>150,000</u>	<u>210</u>
30 June 2012	Balance	<u>192,236,121</u>	<u>134,497</u>

24 Contributed equity (continued)

(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.

(e) Restricted share rights

Information relating to the Specialty Fashion Group Limited Long Term Incentive 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 (as shown in note 37). 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.

The Group is in compliance with its debt covenants with formal notification of this compliance confirmed on a quarterly basis.

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

25 Reserves and accumulated losses

	2012 \$'000	Consolidated 2011 \$'000
(a) Reserves		
Hedging reserve - cash flow hedges	(83)	(6,598)
Share-based payments reserve	61	852
Foreign currency translation reserve	(781)	(824)
	<u>(803)</u>	<u>(6,570)</u>

	2012 \$'000	Consolidated 2011 \$'000
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Movements:

Hedging reserve - cash flow hedges

Balance 1 July	(6,598)	2,059
Transfer to net profit, net of tax	6,515	(8,657)
Balance 30 June	<u>(83)</u>	<u>(6,598)</u>

25 Reserves and accumulated losses (continued)

	2012	Consolidated
	\$'000	2011 \$'000

Movements:

Share-based payments reserve

Balance 1 July	852	2,490
Transfer to share capital	(630)	(1,066)
Restricted share rights plan expense	(161)	(572)
Balance 30 June	<u>61</u>	<u>852</u>

	2012	Consolidated
	\$'000	2011 \$'000

Movements:

Foreign currency translation reserve

Balance 1 July	(824)	(896)
Currency translation differences arising during the year	43	72
Balance 30 June	<u>(781)</u>	<u>(824)</u>

(b) Accumulated losses

Movements in accumulated losses were as follows:

	2012	Consolidated
	\$'000	2011 \$'000
Opening accumulated losses	(76,705)	(75,554)
Net (loss)/profit for the year	(2,810)	14,171
Dividends paid	-	(15,322)
Balance 30 June	<u>(79,515)</u>	<u>(76,705)</u>

(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 is recognised in other comprehensive income, as described in note 1(l). 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

	2012 \$'000	Consolidated 2011 \$'000
(a) Ordinary shares		
Dividends paid during the year (all fully franked based on tax paid at 30%)		
Interim ordinary dividend for the year ended 30 June 2011 of 4.0 cents (2010- 4.0 cents) per fully paid share paid on 25 March 2011	-	7,697
Final ordinary dividend for the year ended 30 June 2010 of 4.0cents (2009 -nil) per fully paid ordinary share paid on 27 October 2010	-	7,625
	<u>-</u>	<u>15,322</u>

No dividends have been paid during the financial year. The directors do not recommend that a dividend be paid in respect of the financial year.

(b) Franked dividends

	2012 \$'000	2011 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2011 - 30%)	<u>38,781</u>	<u>40,853</u>

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

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

27 Key management personnel disclosures

(a) Key management personnel compensation

	2012 \$	Consolidated 2011 \$
Short term employee benefits	1,838,739	1,929,107
Post-employment benefits	154,077	146,233
Termination benefits	15,662	-
Share-based payments	-	(428,216)
	<u>2,008,478</u>	<u>1,647,124</u>

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 7 to 15.

(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.

27 Key management personnel disclosures (continued)

(ii) Share rights

During the year ended 30 June 2011, the 2009 Long Term Incentive Plan lapsed due to performance criteria not being met. As a result, the related expenditure was reversed. The numbers of options and share rights over ordinary shares in the Group held during the financial year ended 30 June 2011 by each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below. There were no outstanding restricted share rights as at 30 June 2012.

2011							
Name	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)	-	-	-
Other key management personnel of the Group							
A Henriksen	500,000	-	-	(500,000)	-	-	-
S Moura	150,000	-	-	(150,000)	-	-	-
J Clough	-	500,000	-	(500,000)	-	-	-

* 2009 Long Term Incentive Plan lapsed due to performance criteria not being met, therefore related expenditure was reversed.

(iii) Executive Equity Participation Plan

In May 2012, the Group established the Executive Equity Participation Plan whereby, at the discretion of the Board, executive officers, senior executives and senior staff were invited to subscribe for Executive shares in the Company's start-up venture, Stylefix Pty Limited (Stylefix). Stylefix is a subsidiary of Specialty Fashion Group Limited. At the commencement of the plan, 416 Stylefix Executive shares were allotted, which represented 20% of Stylefix's equity. Details of the plan can be found in section D of the remuneration report.

(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 (where applicable), including their personally related parties, are set out below.

2012			
Name	Balance at the start of the year	Movements during the year	Balance at the end of the year
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	-	17,862,814
A I Miller	14,509,906	-	14,509,906
G Levy	2,365,564	-	2,365,564
J Bloom	200,000	-	200,000
A McDonald	15,000	-	15,000
M Hardwick	-	195,000	195,000
A Hardwick ¹	38,742,203	-	38,742,203

¹ Ashley Hardwick has a beneficial interest in Specialty Fashion Group Limited through NAAH Pty Ltd, a company which holds 38,742,203 ordinary shares in Specialty Fashion Group Limited.

2011			
Name	Balance at the start of the year	Movements during the year	Balance at the end of the year
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	-	17,862,814
A I Miller	14,509,906	-	14,509,906
G Levy	2,365,564	-	2,365,564
J Bloom	200,000	-	200,000
A McDonald	15,000	-	15,000

27 Key management personnel disclosures (continued)

(c) Loans to key management personnel

As at 30 June 2012, there were no outstanding loans made to directors of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties (2011: nil).

(d) Other transactions with key management personnel

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.

G Levy is a director and minority shareholder of the company that owns the business premises at 1-3 Mandible Street, Alexandria which is leased to the Group. During the 2012 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. On this basis, lower than market rental for these premises was agreed to commercially offset the benefits to the director 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 key management personnel of the Group:

	2012 \$	2011 \$
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have an interest	515,940	536,554
Lease of business premises in which G Levy has an interest	<u>78,621</u>	<u>-</u>
	<u>594,561</u>	<u>536,554</u>

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:

	2012 \$	Consolidated 2011 \$
Audit and non-audit services - Deloitte Touche Tohmatsu		
<i>Audit and other non-audit services</i>		
Audit and review of financial statements	243,000	235,000
Non-audit services		
Other advisory services	<u>-</u>	<u>124,328</u>
Total remuneration for audit and other non-audit services	<u>243,000</u>	<u>359,328</u>
<i>Taxation services</i>		
Tax compliance services, including review of company income tax returns	39,396	40,000
Tax advisory services	<u>9,000</u>	<u>8,319</u>
Total remuneration for taxation services	<u>48,396</u>	<u>48,319</u>
Total auditors' remuneration	<u>291,396</u>	<u>407,647</u>

28 Remuneration of auditors (continued)

It is the Group's policy to employ Deloitte on assignments additional to their statutory audit duties where Deloitte's expertise and experience with the Group are important. These assignments are principally tax advice and other advisory services, or where Deloitte 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 Group had contingent liabilities at 30 June 2012 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 33. 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:

	2012 \$'000	Consolidated 2011 \$'000
<i>Property, plant and equipment</i>		
Within one year	<u>1,110</u>	3,100
	<u>1,110</u>	<u>3,100</u>

(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.

	2012 \$'000	Consolidated 2011 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	71,135	72,567
Later than one year but not later than five years	186,195	187,580
Later than five years	<u>9,182</u>	<u>25,984</u>
	<u>266,512</u>	<u>286,131</u>

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 32.

(c) Key management personnel

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

32 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	
			2012 %	2011 %
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
Stylefix Pty Limited (formerly known as Specialty Fashion Group No. 1 Pty Limited)	Australia	Ordinary	80	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
Crossroads Clothing Co. Pty Limited	Australia	Ordinary	100	100
City Chic International 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
Specialty Fashion Group (Shanghai) Limited Company	China	Ordinary	100	100

33 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.

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'.

All companies in the Closed Group are dormant, except for Specialty Fashion Group Limited. The financial results of the Closed Group are the same as the financial results of the parent entity which are disclosed in note 38.

34 Events occurring after the reporting period

There were no matters or circumstances which have arisen since 30 June 2012 that has significantly affected, or may significantly affect the Group's operations in future financial years or the results of those operations in future financial years, or the Group's state of affairs in future financial years.

35 Reconciliation of (loss)/profit after income tax to net cash inflow from operating activities

	2012 \$'000	Consolidated 2011 \$'000
(Loss)/profit for the year	(2,810)	14,171
Depreciation and impairment	23,240	18,326
Share-based payments	(161)	(572)
Profit on sale of business	-	(511)
Loss/(profit) on sale of assets	16	(14)
Net exchange differences	(43)	(49)
Change in operating assets and liabilities		
Decrease/(increase) in other assets	2,095	(1,611)
Increase in inventories	(2,321)	(2,265)
Decrease in deferred tax assets	1,703	459
Increase in trade and other creditors	14,797	904
Decrease in current tax liabilities	(3,468)	(2,357)
Increase in provisions and other liabilities	3,473	7,328
Net cash inflow from operating activities	<u>36,521</u>	<u>33,809</u>

36 (Loss)/earnings per share

	2012 Cents	Consolidated 2011 Cents
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(a) Basic (loss)/earnings per share

Basic (loss)/earnings from continuing operations	(1.5)	7.6
Basic (loss)/earnings from continuing and discontinued operations	(1.5)	7.4

(b) Diluted (loss)/earnings per share

Diluted (loss)/earnings from continuing operations	(1.5)	7.6
Diluted (loss)/earnings from continuing and discontinued operations	(1.5)	7.4

(c) Reconciliations of earnings used in calculating (loss)/earnings per share

	2012 \$'000	Consolidated 2011 \$'000
<i>Basic (loss)/earnings per share</i>		
(Loss)/profit from continuing operations	(2,810)	14,519
(Loss) from discontinued operation	-	(348)
	<u>(2,810)</u>	<u>14,171</u>

36 (Loss)/earnings per share (continued)

(d) Weighted average number of shares used as the denominator

	2012 Number	Consolidated 2011 Number
<i>Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share</i>	192,041,327	191,330,632
Adjustments for calculation of diluted earnings per share:		
Options and share rights	105	883,830
<i>Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share</i>	<u>192,041,432</u>	<u>192,214,462</u>

(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 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 - 2012								
4 January 2005	31 August 2011	\$1.13	633,333	-	-	(633,333)	-	-
Weighted average exercise price			\$1.27	\$-	\$-	\$-	\$-	\$-

37 Share-based payments (continued)

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 - 2011								
4 January 2005	31 August 2011	\$1.13	908,333	-	(275,000)	-	633,333	-
Weighted average exercise price			\$1.24	\$-	\$-	\$-	\$-	\$1.27

Fair value of options granted

No options were granted during the years ended 30 June 2012 or 30 June 2011. 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) Long Term Incentive 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 1 year following the end of the vesting period.

(i) 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.

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)(ii).

There were no outstanding restricted share rights as at 30 June 2012.

(ii) Performance share rights

During 2011, the 2009 Long Term Incentive Plan lapsed due to performance criteria not being met therefore related costs were reversed.

	2012	Consolidated
	Number	2011
		Number
Rights issued under the plan to participating employees in September 2007 and January 2010	<u>2,142,857</u>	<u>2,142,857</u>

(c) Executive Equity Participation Plan

In May 2012, the Group established the Executive Equity Participation Plan whereby, at the discretion of the Board, executive officers, senior executives and senior staff were invited to subscribe for Executive shares in the Company's start-up venture, Stylefix Pty Limited (Stylefix). Stylefix is a subsidiary of Specialty Fashion Group Limited. At the commencement of the plan, 416 Stylefix Executive shares were allotted, which represented 20% of Stylefix's equity.

Executive shares allotted under the plan are granted for nil consideration, which represented their fair value at the grant date. Plan participants are unable to deal with the Executive shares without the prior written permission of the Company which may be withheld at its absolute discretion, and must serve a continuous period of service of four years and still be employed at the time the Company provides a conversion notice (which must be between 1 April 2016 and 1 July 2016). The Company has the absolute discretion to determine whether these Executive shares will be equity or cash settled. Management's current intention is to settle the obligations under the plan through the issue of ordinary shares in Specialty Fashion Group Limited. Other significant events, such as a substantial change in ownership of Specialty Fashion Group Limited shares, could trigger settlement of these Executive shares. There are no other performance conditions.

37 Share-based payments (continued)

(d) 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:

	2012 \$'000	Consolidated 2011 \$'000
Restricted share rights issued under employee share plan	<u>(161)</u>	<u>(573)</u>

38 Parent entity financial information

(a) Statement of financial performance

	2012 \$'000	Parent entity 2011 \$'000
Revenue from continuing operations	551,152	551,570
Changes in inventories of finished goods and consumables	2,557	(6,289)
Finished goods and consumables	(232,509)	(227,083)
Employee benefits expense	(141,399)	(135,143)
Depreciation and impairment expense	(22,597)	(17,899)
Other expenses from ordinary activities	(49,506)	(40,383)
Rental expense relating to operating leases	(109,319)	(102,324)
Finance costs	(2,126)	(1,713)
(Loss)/profit before income tax	(3,747)	20,736
Income tax benefit/(expense)	731	(6,625)
(Loss)/profit from continuing operations	(3,016)	14,111
(Loss) from discontinued operations	-	(348)
(Loss)/profit for the year	(3,016)	13,763

(b) Statement of comprehensive income

	2012 \$'000	Parent entity 2011 \$'000
(Loss)/profit for the year	(3,016)	13,763
Other comprehensive income		
Changes in the fair value of cash flow hedges	6,515	(8,657)
	-	-
Other comprehensive income/(expense) for the year, net of tax	6,515	(8,657)
Total comprehensive income for the year	3,499	5,106

38 Parent entity financial information (continued)

(c) Statement of financial position

	2012 \$'000	Parent entity 2011 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	9,801	4,575
Other current assets	1,882	5,091
Inventories	46,709	44,152
Current tax receivables	3,220	-
Total current assets	<u>61,612</u>	<u>53,818</u>
Non-current assets		
Other receivables	364	793
Property, plant and equipment	80,299	90,610
Deferred tax assets	2,250	3,399
Intangible assets	2,006	2,006
Other non-current assets	1,131	692
Total non-current assets	<u>86,050</u>	<u>97,500</u>
Total assets	<u>147,662</u>	<u>151,318</u>
LIABILITIES		
Current liabilities		
Trade and other payables	62,306	47,614
Derivative financial instruments	119	9,425
Current tax liabilities	-	275
Provisions	14,157	12,772
Borrowings	6,500	-
Other current liabilities	3,087	2,977
Total current liabilities	<u>86,169</u>	<u>73,063</u>
Non-current liabilities		
Borrowings	-	22,000
Provisions	11,594	9,816
Other non-current liabilities	7,105	6,984
Total non-current liabilities	<u>18,699</u>	<u>38,800</u>
Total liabilities	<u>104,868</u>	<u>111,863</u>
Net assets	<u>42,794</u>	<u>39,455</u>
EQUITY		
Contributed equity	134,497	133,867
Reserves	(21)	(5,747)
Accumulated losses	(91,682)	(88,665)
Total equity	<u>42,794</u>	<u>39,455</u>

The same contingency commitment and guarantee disclosure applies to both parent and consolidated accounts.

In the directors' opinion:

- (a) the financial statements and notes set out on pages 25 to 64 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 consolidated entity's financial position as at 30 June 2012 and of its performance for the financial year ended on that date, and
- (b) the financial statements and notes set out on pages 25 to 64 are also in accordance with the International Financial Reporting Standards issued by the International Accounting Standards Board
- (c) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable, and
- (d) at the date of this declaration, there are reasonable grounds to believe that the members of the extended closed group identified in note 33 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 33.

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 Levy AO
Director



G Perlstein
Director

Sydney
27 August 2012

The shareholder information set out below was applicable as at 16 August 2012.

A. Distribution of equity securities

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

Holding	Class of equity security	
	Ordinary shares	Shares
1 - 1000	1,271	-
1,001 - 5,000	2,492	-
5,001 - 10,000	803	-
10,001 - 100,000	751	-
100,001 and over	78	-
	<u>5,395</u>	<u>-</u>

There were 1,297 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	Ordinary shares	
	Number held	Percentage of issued shares
NAAH Pty Ltd/ NAAH Investments Pty Ltd	38,742,203	20.15
National Nominees Limited	22,714,767	11.82
Icestorm Pty Ltd	16,745,288	8.71
BNP Paribas Noms Pty Ltd	11,398,882	5.93
JP Morgan Nominees Australia Limited	11,135,334	5.79
HSBC Custody Nominees (Australia) Limited	10,621,614	5.53
Citicorp Nominees Pty Limited	8,756,357	4.56
Landpeak Pty Limited	7,122,240	3.70
Landcharm Pty Ltd	7,277,760	3.79
GDL Investments Pty Limited	1,955,564	1.02
Rye Holdings Pty Ltd	1,222,420	0.64
Mr David Alan McSeveny	1,171,513	0.61
RBC Investor Services Australia Nominees Pty Limited	1,053,885	0.55
Wallbay Pty Ltd	910,000	0.47
Snowglaze Investments Pty Ltd	702,720	0.37
UBS Wealth Management Australia Nominees Pty Ltd	520,687	0.27
W Donnelly Services Pty Ltd	446,000	0.23
Bond Street Custodians Limited	427,729	0.22
Mr Gary Perlstein	414,720	0.22
Tooe Pty Ltd	414,710	0.22

Unquoted equity securities

Options issued under the Specialty Fashion Group Limited Senior Executive Option Plan to take up ordinary shares

-

The number of unissued ordinary shares under these options is 8,104,004. 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) ¹	38,742,203	20.15 %
Lazard Asset Management Pacific	24,866,112	12.94 %
Mr G Perlstein and controlled entities	17,862,814	9.29 %
Mr I Miller / Landcharm	14,509,906	7.55 %
Delta Lloyd N.V	12,063,772	6.28 %
AMP Limited and its related bodies corporate	10,365,424	5.39 %
National Australia Bank Limited Group	9,604,735	5.00 %

¹ Mr A Hardwick has a beneficial interest in Specialty Fashion Group Limited through NAAH Pty Ltd

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.