2013 Annual General Meeting
31 October 2013

Chairman's Address

Ladies and Gentlemen,

Welcome to our Annual General Meeting.

In Financial Year 2013 we saw an improvement in the Company's profitability despite consumer confidence remaining subdued. Management focused on areas within their control, and core strategies continued to be executed. I am pleased that the Company is able to report net profit after tax of $13.0m, which is the result of these efforts. The improved profitability and good cash management have resulted in the Company having a very strong balance sheet which included net cash of $38.6m at the end of the financial year.

The Company resumed dividend payments during the year with a 2 cents per share interim dividend, and a matching 2 cents per share final dividend, bringing the total dividend for the year to 4 cents per share. The Board's aim is to provide a consistent return to shareholders, and at the same time balance this with the investment needs of the Company to underpin future profitable growth.

One of the key areas of focus over the past year has been further improvement of our supply chain. We have developed sound relationships with suppliers throughout the South East Asia region that can produce quality product for our brands at a competitive price. As we work more closely with the factories, we are able to monitor and improve the quality of the product. Because we have increasingly developed our own designs, our garments and accessories are more unique than ever before. Work in this area has been a principle contributor to margin improvement.

We have also been focused on managing business risk, with a particular focus on how we contain our costs. Over the past few years, input prices have been quite volatile, and any cost increases have been difficult to pass on to customers who are accustomed to retail price deflation. In order to ensure stability and certainty, we have taken out cotton call options that protect against significant upward cotton price movements. This acts as a type of insurance against commodity inflation. In order to protect against volatile exchange rates, we maintain a hedging program that extends to around twelve months.

We ended the year with 886 stores which was seven stores less than the prior year. We continuously monitor our portfolio for under performing stores and will close those stores where landlords are unwilling to give meaningful rental reductions where appropriate. Our store portfolio, however, remains a key touch point with our customers and we will keep improving their shopping experience and compliment it through our omni-channel presence. We are excited that our online revenue continues to increase and grew 50% in the past financial year.

Changes to the Board

I would like to pay tribute to Joel Bloom who will be retiring today. Joel has served the Company with dedication and enthusiasm for the past eight years and has not only played an important role on the Board generally, but has also been a key participant in both the Audit and Remuneration committees. Thank you Joel.

Looking Ahead

As a result of our strategies, together with the concerted efforts of management and the teams throughout the business, we feel confident we are well placed in the market to be able to capitalise when consumer confidence returns. Gary will elaborate on this further during his address.

The Board looks forward to continuing to work with our CEO, Gary Perlstein and his dedicated team. On behalf of the Board, I would like to thank Gary and his leadership team for their efforts during the year.

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

CEO's Address

Thank you, Geoff.

Good morning and welcome.

As Geoff mentioned, 2013 saw an improvement on the previous year, reporting net profit for the year of $13.0m. This was achieved through a combination of comparable store sales growth of 0.4%, and a recalibration of the Company's cost base. Sales for the year were $569.5m, this was 0.5% down compared to prior year as we exited unprofitable stores. The recalibration of our costs took place at both a product level through our direct sourcing initiatives, and through carefully monitoring our store and support office costs.

As Geoff said, much of our focus has been on those areas we can control. We have given specific focus to optimising our supply chain and embracing a design led sourcing model, personalising our interactions with our customers, growing our online presence and developing the omni-channel shopping experience for our customers. This focus has enabled the Company to navigate some difficult market conditions and finish the year profitable, highly cash generative, and with a strong balance sheet.

We are very pleased with our online growth where sales have achieved a 50% year-on-year increase, and now represent 3.8% of total sales. We can see the positive uplift as a result of our up-skilling of our online teams over the years, the roll out of a multi-brand online platform and our investment in a logistics and fulfilment capability. We have found that multi-channel customers are our top shoppers, being more than four times more valuable than customers who shop in store only. Our online initiatives are increasingly blurring the boundaries between the physical and digital worlds, and our enhanced online channels have allowed us to broaden our reach beyond the traditional shopping environment. Our customers can now truly shop anywhere, any time.

We are also committing resources to understanding our customer's ever changing shopping patterns and the product she is choosing to make her look good and feel great. We are doing this through analysing big data and uncovering trends from information gathered with our customer database that is over 7 million members strong. Through these initiatives we are able to increase the personalisation and relevance of our communication with our customers and we can monitor the effectiveness of our engagement. We are able to analyse the impact of our campaigns and build on our successes. In today's digital world with increased penetration of social media our understanding of our customer is crucial to our continued success.

As part of our strategy to implement design led supply chain management, we have developed a capability to interpret the catwalk trends and make them relevant to our customer. Our product offering incorporates unique design and prints that are not available from our competitors. We have a talented team creating product and managing the production process ensuring quality product is offered to our customers. Because we source out of South East Asia, we have also been able to take advantage of favourable foreign exchange rates that has bolstered margins as we move away from local agent managed supply. We have embraced ethical sourcing and have signed the Bangladesh Building and Fire Safety Accord. All these initiatives will leave our customers confident they have quality product appropriately sourced.

A cornerstone of our cost recalibration has been the reduction in base rentals of renewed leases. The property landscape has changed with the drop in demand for new store sites by most retailers. We don't see this situation changing for some time and we will continue to pursue rental reductions as our leases approach renewal, or alternatively rationalise our underperforming stores where no alternative exists. It is vital that we only operate stores that can operate profitably in a deflationary retail sale price environment when wages and rentals remain inflationary.

We continue to invest in our staff and look to provide a safe working environment, and our S.H.I.R.T. values are as strong as ever.

OUTLOOK

We've seen no positive influence from consumer confidence since the Federal Election, and we were not able to achieve sales growth in the first quarter of the current financial year. It is hoped that the political certainty will restore consumer confidence. Given the importance of the next two month's trade to our business, we are unable to provide an estimate of either sales or profit for the first half of the financial year at this stage, however if the sales trend does not significantly improve in the second quarter we will not be able to match our first half profit performance of the 2013 financial year.

I would like to thank everyone at Specialty Fashion Group for their dedication over the past year. I also thank our investors for their continued support. The outstanding efforts of our whole 5,000 plus team, has placed the Company in a strong position for the future.

Whilst trading conditions continue to be tough in the short term we look forward to improving further on a solid performance in the medium to long term, and we are looking forward to the future with energy, passion and confidence.