Appendix 4E
Preliminary final report

Name of entity

Specialty Fashion Group Limited (SFH)

ABN	Half yearly *(tick)*	Preliminary final *(tick)*
43 057 569 169		✓

1. Details of the reporting period

Current reporting period	30 June 2014
Previous corresponding period	30 June 2013

2. Results for announcement to the market

				30 Jun 2013 $'000		**30 Jun 2014 $'000**
2.1 Revenue	up	20.3%	from	569,475	to	**685,043**
2.2 Profit after income tax expense	down	3.8%	from	12,970	to	**12,475**
2.3 Profit after income tax expense attributable to the members of Specialty Fashion Group Limited	down	3.8%	from	12,970	to	**12,475**

				30 Jun 2013 $'000		**30 Jun 2014 $'000**
EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss)[1]	down	4.8%	from	**41,118**	to	**39,154**

[1] Reconciliation of operating profit before income tax to EBITDA is provided as follows:

	30 Jun 2013 $'000	**30 Jun 2014 $'000**
EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss)	41,118	**39,154**
Fair value revaluation of derivative financial instruments through profit or loss	(12)	**(343)**
Interest revenue	468	**414**
Finance costs	(797)	**(2,069)**
Depreciation, amortisation and impairment of property, plant and equipment	(21,767)	**(20,839)**
Profit before income tax	19,010	**16,317**

2.4 Dividends (distributions)	Amount per security	Franked amount per security
Current period:		
Final dividend for the year ended 30 June 2013	2.0 cents	**2.0 cents**
Interim dividend for the year ended 30 June 2014	2.0 cents	**2.0 cents**
Previous corresponding period:		
Final dividend for the year ended 30 June 2012	2.0 cents	**2.0 cents**
Interim dividend for the year ended 30 June 2013	2.0 cents	**2.0 cents**
2.5 Record date for determining entitlements to the final dividend:	Refer section 5.0	

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

Refer to the directors' report – Operating and financial review on pages 3 to 5 of the 2014 Annual Report.

3.0 Net tangible assets per security

	30 Jun 2013 cents	**30 Jun 2014 cents**
Net tangible asset backing per ordinary security	29.9	**24.9**

4.0 Control gained or lost over entities during the period

Not applicable.

5.0 Details of dividend/distribution

Current period

A fully franked interim dividend for the financial year ended 30 June 2014 of 2.0 cents per share was paid out to the holders of fully paid ordinary shares on 28 March 2014. The aggregate amount of the dividend paid to shareholders was $3,844,722.

On 25 August 2014 the directors declared a fully franked final dividend of 2.0 cents per share to the holders of fully paid ordinary shares, payable to shareholders on 26 September 2014. This dividend has not been included as a liability in these consolidated financial statements, and will be paid to all shareholders on the Register of Members as at 12 September 2014. The aggregate amount of the proposed dividend expected to be paid to shareholders is $3,844,722.

Previous corresponding period

A fully franked interim dividend for the financial year ended 30 June 2013 of 2.0 cents per share was paid out to the holders of fully paid ordinary shares on 19 March 2013 and a fully franked final dividend of 2.0 cents per share for the same period was paid to the holders of fully paid ordinary shares on 26 September 2013.

6.0 Details of dividend/distribution reinvestment plan

Not applicable.

7.0 Details of associates and joint venture entities

Not applicable.

8.0 Accounting standards used by foreign entities

All consolidated foreign entities prepare financial information under International Financial Reporting Standards which are consistent with Australian Accounting Standards.

9.0 Qualification of audit/review

This report is based on accounts to which one of the following applies.

- X The accounts have been audited.
- ☐ The accounts have been subject to review.
- ☐ The accounts are in the process of being audited or subject to review.
- ☐ The accounts have *not* yet been audited or reviewed.

10.0 Attachments

Details of attachments (if any):

The Annual Report of Specialty Fashion Group Limited for the year ended 30 June 2014 is attached.

11.0 Signed

G Perlstein
Director

Sydney
26 August 2014

Specialty Fashion Group Limited

ABN 43 057 569 169

Annual Report - 30 June 2014

Contents

Specialty Fashion Group Limited
Corporate directory
30 June 2014

Directors	Geoff Levy AO - Chairperson Gary Perlstein Ian Miller Joel Bloom (resigned 31 October 2013) Anne McDonald Ashley Hardwick Michael Hardwick Megan Quinn
Company secretary	Alison 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 Sydney, NSW 2000 Time: 2:00 pm Date: Thursday, 20 November 2014
Registered office	151 - 163 Wyndham Street Alexandria, NSW 2015 Tel: (02) 8303 9800 Fax: (02) 8306 3596
Principal place of business	151 - 163 Wyndham Street Alexandria, NSW 2015
Share register	Link Market Services Limited Level 12, 680 George Street Sydney, NSW 2000 Telephone: (02) 8280 7111 Facsmile: (02) 9287 0303
Auditor	Deloitte Touche Tohmatsu Chartered Accountants Level 24, Grosvenor Place 225 George Street Sydney, NSW 2000
Solicitors	Addisons Lawyers Level 12 60 Carrington Street Sydney, NSW 2000
Bankers	National Australia Bank 255 George Street Sydney, NSW 2000
Stock exchange listing	Specialty Fashion Group Limited shares are listed on the Australian Securities Exchange (ASX code: SFH)
Website	www.specialtyfashiongroup.com.au
ABN	43 057 569 169

Specialty Fashion Group Limited
Directors' report
30 June 2014

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'consolidated entity') consisting of Specialty Fashion Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2014.

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
I Miller
J Bloom (resigned 31 October 2013)
A McDonald
A Hardwick
M Hardwick
M Quinn

Principal activities

During the year the principal continuing activity of the consolidated entity consisted of the retailing of women's fashion in Australia, New Zealand, South Africa and the USA.

Subsequent to the acquisition of the business and net assets of Rivers (Australia) Pty Ltd ('Rivers') on 27 November 2013, the Group has expanded its footprint into the mature, value segment of the specialty fashion market and this marks the Group's entry into value footwear and men's clothing.

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2014 **$'000**	**2013** **$'000**
Final dividend for the year ended 30 June 2013 of 2.0 cents (30 June 2012: nil) per fully paid ordinary share	3,845	-
Interim dividend for the year ended 30 June 2014 of 2.0 cents (30 June 2013: 2.0 cents) per fully paid ordinary share	3,845	3,845
	7,690	3,845

Subsequent to the year ended 30 June 2014, the directors declared a fully franked final dividend of $3,844,722 to the holders of fully paid ordinary shares. Refer to note 44 for additional details.

Operating and financial review

Review of Operations
Specialty Fashion Group continues to operate within the women's fashion retail sector in Australia, New Zealand, South Africa and the USA through Millers, Katies, Crossroads, Autograph, and City Chic. On 27 November 2013, the Group acquired the business and net assets of Rivers, an iconic Australian apparel and footwear brand. The acquisition is part of the Group's long-term growth strategy to expand its footprint in the mature, value segment of the specialty fashion market and this marks the Group's entry into value footwear and men's clothing.

The Group has one of the largest women's customer communities in Australasia with over 7 million members, and can reach over 3.4 million members through email. The Group's customers are very loyal, with member sales representing over 84% of sales in relation to Millers, Katies, Crossroads, Autograph and City Chic. The total physical store portfolio grew to 1,095 at 30 June 2014 (2013: 886). 70 new stores were opened during the year, and included City Chic's entrance into South Africa through the opening of two stores.

Review of Financial Performance
The Australian retail industry continued to be affected by macro-economic and political events during the 2014 financial year. Consumer confidence remained relatively subdued and this has had an impact on the financial performance of the Group, particularly during the first half of the financial year. Despite the prevalence of these conditions, the Group was profitable.

Revenue for the full year ended 30 June 2014 was $685.0 million, 20.3 per cent higher than the prior year. Overall, comparable store sales growth for the year decreased slightly by 0.7 per cent. This was driven by positive comparable store sales growth of 5 per cent in the second half of the year, offset by the 4.9 per cent decrease in the first half. Sales growth continued to be achieved from new stores in Australia (including Rivers' stores) and abroad. The Group's online sales grew 42.5 per cent to $31.2 million, or 4.6 per cent of total revenue for the year ended 30 June 2014. The Group delivered Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA) of $39.2 million, compared with EBITDA for the prior year of $41.1 million. Net profit for the year was $12.5 million, compared with a net profit of $13.0 million reported for the prior year. A reconciliation of EBITDA to statutory profit before income tax is included in note 3 of the financial statements.

A discount on acquisition of $4.8 million and costs in relation to the acquisition of $1.4 million are reflected in the EBITDA result for the year.

Online revenue growth during the year has been enhanced by the introduction of "click & collect" and the rollout of iPads in all stores, as well as the addition of Rivers' online store. Email valid customers grew to 3.4 million and this has continued to deliver good results in customer engagement during the year. Email campaign responses increased as more sophisticated customer segmentation was developed, and response rates were well above industry averages.

The transformation of the Group's supply chain to a design and direct sourcing model continued to derive benefits, especially through achieving lower markdowns as well as better cost prices. There has been an ongoing shift to directly sourced product – 84.0 per cent at 30 June 2014, compared with 64.0 per cent at 30 June 2013. A record gross margin of 63.1 per cent was achieved for the full year, an improvement of 124 basis points compared with the prior year.

The Group's costs of doing business for the year were $85.8 million higher than prior year, of which $58.3 million can be attributed to Rivers. One-off costs incurred principally in relation to the integration of Rivers were $1.8 million. Unavoidable inflation in rentals, wages and other expenses of $9.8 million was offset to an extent by further savings achieved through rental renewals and exits of $9.9 million. Continued brand development, most notably the Millers brand rejuvenation strategy, required an investment of $8.5 million, which was mainly driven by an increase in headcount as the Group builds highly experienced teams to support key growth initiatives. Incremental costs associated with omni-channel growth, both stores and online, were $15.4 million. Costs associated with the expansion of City Chic's international operations were $1.5 million.

Depreciation and impairment expense for the year was $20.8 million, 4.3 per cent lower than the prior year. The depreciation expense for the year was $21.3 million, down from $24.7 million in the prior year primarily due to accelerated depreciation in the prior year relating to assets in La Senza stores that were closed during the period. This was offset by impairment write-back of $0.4 million (2013: impairment write-back of $2.9 million), representing a decrease in impairment provision of property, plant and equipment as a result of improved trading conditions.

Review of Financial Position
Specialty Fashion Group ended the year in a solid financial position, with net debt of $12.0 million at 30 June 2014 (compared with net cash of $38.6 million in the prior year). At the end of the year, the Group had bank borrowings of $29.1 million and finance lease liabilities of $4.9 million. The Group had access to total facilities of $78.0 million (comprising working capital and trade finance facilities of $70.0 million and an asset finance facility of $8.0 million). The current debt facilities have staged maturities to December 2015.

The Group maintains a strong focus on working capital management; however the Group now has higher working capital funding requirements, due to the higher mix of direct suppliers and the addition of Rivers to the Group. There has been a reduction in average supplier terms as the Group has increased its mix of directly sourced product both through Rivers and the Group's other brands. Payment terms with direct suppliers are typically shorter than with wholesale suppliers. In addition, additional working capital funding requirements have been driven by high inventory levels in Rivers where inventory turn is lower than the remainder of the Group. Overall, these factors have contributed to increased working capital.

Trade and other payables at 30 June 2014 were $69.6 million, up from $67.0 million a year earlier. The increase of $2.6 million is the result of an increase in other creditors of $14.0 million due to the inclusion of Rivers' creditors, together with higher inventory in transit and capital related accruals. This is partly offset by lower trade payments of $11.7 million, which is a result of a change in the payment profile associated with a higher proportion of direct sourcing.

During the year, a fully franked interim dividend of 2.0 cents per fully paid ordinary share was paid and a fully franked final dividend of 2.0 cents per fully paid ordinary share will be paid on 26 September 2014.

Outlook
The key focus areas for FY2015 are:

- Complete the integration of Rivers, and pursue improved brand performance in the second half of FY2015;
- Continue the Millers brand and product rejuvenation program; and
- Measured investment and expansion of the City Chic brand in the USA and South Africa.

Material business risks
Specialty Fashion Group operates in an environment of change and uncertainty. There are a range of factors, both specific to the Group and general in nature which may impact the operating and financial performance of the Group. The impact of these risks is regularly reviewed for their possible impact and the Group seeks to minimise the impact through its risk management functions and its approach to running the business.

Competition and consumer discretionary spending
The Group operates in a retail environment where quality, price and value are critical to the customers it serves. The retail fashion market is also becoming an increasingly global market through the impact of online shopping and the entry of overseas retailers into Australia. The Group is constantly monitoring these developments and is adapting its business model to this changing landscape.

Property portfolio management
The Group currently operates 1,095 physical stores in Australia, New Zealand, and South Africa. These stores are leased and are subject to negotiations with each landlord at the end of each lease term. The Group actively manages its portfolio against established financial and operational benchmarks which must be met for new stores to be opened, or renewal of leases in existing stores.

Exchange rates
The Group relies significantly on imported products (directly sourced or via local or overseas wholesalers) and as a result the cost of the product may be subject to movements in the exchange rate of the Australian dollar. The Group mitigates against movements in exchange rates through the use of forward cover.

Cotton and other product input prices
The Group sources product made either from cotton, or cotton substitutes such as viscose or polyester, and as such is affected by movements in fabric prices. As cotton is a principal input, the Group mitigates against significant adverse fluctuations in commodity prices through the use of cotton call options. In addition, labour costs have an impact on overall product cost. The Group actively manages the supply chain by developing long term relationships with our suppliers to ensure the best possible outcome for all involved.

Occupational Health and Safety (OHS)
The Group has over 5,000 employees across Australia, New Zealand and South Africa as well as the customers who visit its stores. The Group has a high focus on OHS with this function led by a senior executive of the Group. We continue to invest in training and development of our employees to ensure they have a high awareness of workplace safety.

Significant changes in the state of affairs
On 27 November 2013, the Group acquired the business and net assets of Rivers, a renowned Australian apparel and footwear brand. The acquisition is part of the Group's long term growth strategy to expand and diversify its apparel business.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year
On 25 August 2014 the directors declared a fully franked final dividend of 2.0 cents per share to the holders of fully paid ordinary shares, payable to shareholders on 26 September 2014. This dividend has not been included as a liability in these consolidated financial statements, and will be paid to all shareholders on the Register of Members as at 12 September 2014. The aggregate amount of the proposed dividend expected to be paid to shareholders is $3,844,722.

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations
The consolidated entity intends to continue its principal activity of retailing of women’s fashion in Australia, New Zealand, South Africa and the USA while focusing on completing the integration of Rivers and its improved performance; continuing the Millers brand and product rejuvenation program; and measured investment and expansion of City Chic in the USA and South Africa.

Environmental regulation
While the consolidated entity has maintained its greenhouse emissions below the reporting threshold required under the *National Greenhouse and Emissions Reporting Act 2007*, annual reporting of the consolidated entity's greenhouse emissions is completed to identify opportunities for improvement.

Other than the above, the consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on directors

Name:	Geoff Levy AO
Title:	Non-Executive Chairperson
Qualifications:	B.Comm, LLB, SF Fin, MAICD
Experience and expertise:	Geoff Levy joined the Specialty Fashion Group Board in April 2005. He retired as Executive Chairperson of Investec Bank (Australia) Limited ('Investec') on 1 January 2008 and as Non-Executive Deputy Chairman on 31 March 2014. 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 management and general corporate commercial law. Geoff was appointed an Officer of the Order of Australia in the 2005 Queens Birthday Honours List.
Other current directorships:	Geoff has been a director on a number of public and government boards and is currently a Non-Executive Chairperson of Cromwell Group Limited and Monash Private Capital Pty Limited. He was Chairperson of the NSW Government's Property Asset Utilisation Taskforce from 2011 to 2012.
Former directorships (last 3 years):	Geoff does not hold any other listed company directorships and has not held any other listed company directorships in the last three years.
Special responsibilities:	Chairperson of the Board; Chairperson of the Nomination and Remuneration Committee
Interests in shares:	2,365,564 ordinary shares
Interests in options:	None
Interests in rights:	None

Name:	Gary Perlstein
Title:	Chief Executive Officer
Qualifications:	B.Bus
Experience and expertise:	Gary Perlstein has played an integral role in both 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 he was appointed Chief Executive Officer in October 2003. Gary has over 20 years of retailing experience in Australia.
Other current directorships:	Gary does not hold any other listed company directorships.
Former directorships (last 3 years):	Gary has not held any other listed company directorships in the last three years.
Special responsibilities:	Chief Executive Officer
Interests in shares:	17,862,814 ordinary shares
Interests in options:	None
Interests in rights:	200,000 performance rights over ordinary shares

Name:	Ian Miller
Title:	Non-Executive Director
Qualifications:	B.Comm
Experience and expertise:	Ian Miller co-founded Specialty Fashion Group in 1993 and was Managing Director until October 2003. Ian has over 35 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 (last 3 years):	Ian has not held any other listed company directorships in the last three years.
Special responsibilities:	None
Interests in shares:	14,509,906 ordinary shares
Interests in options:	None
Interests in rights:	None

Name:	Joel Bloom
Title:	Non-Executive Director (resigned 31 October 2013)
Qualifications:	B.Comm
Experience and expertise:	Joel Bloom joined the Specialty Fashion Group Board in March 2005. 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 did not hold any other listed company directorships for the period to 31 October 2013.
Former directorships (last 3 years):	Joel did not hold any other listed company directorships in the three years to 31 October 2013
Special responsibilities:	Member of the Audit and Risk Committee; Member of the Nomination and Remuneration Committee
Interests in shares:	200,000 ordinary shares.
Interests in options:	None
Interests in rights:	None

Name:	Anne McDonald
Title:	Non-Executive Director
Qualifications:	B.Ec, FCA, GAICD
Experience and expertise:	Anne McDonald joined the Specialty Fashion Group Board in April 2007. Anne is a Chartered Accountant by training and was a partner with Ernst & Young for 15 years until 2005, working with large multinational and domestic companies, specialising in audit and advising on risk management and governance matters. 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 listed entities, GPT Group (from 2006) and Spark Infrastructure Group (from 2009). She is also a non-executive director of Sydney Water Corporation and Westpac’s Life and General Insurance Businesses. Anne chairs the Audit Committee for a number of these entities.
Former directorships (last 3 years):	Anne has not held any other listed company directorships in the last three years.
Special responsibilities:	Chairperson of the Audit and Risk Committee
Interests in shares:	15,000 ordinary shares
Interests in options:	None
Interests in rights:	None

Name:	Ashley Hardwick
Title:	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 Group.
Other current directorships:	Ashley does not hold any other listed company directorships.
Former directorships (last 3 years):	Ashley has not held any other listed company directorships in the last three years.
Special responsibilities:	None
Interests in shares:	38,742,203 ordinary shares held indirectly through NAAH Pty Ltd and NAAH Investments Pty Ltd
Interests in options:	None
Interests in rights:	None

Name:	Michael Hardwick
Title:	Non-Executive Director
Qualifications:	B.Comm
Experience and expertise:	Michael Hardwick joined the Specialty Fashion Group Board in May 2012 and was appointed to the Nomination and Remuneration Committee on 22 August 2013. Michael currently serves as the Chief Financial Officer of the Cotton On Group. Michael is a Chartered Accountant by training and has 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 (last 3 years):	Michael has not held any other listed company directorships in the last three years.
Special responsibilities:	Member of the Audit and Risk Committee; Member of the Nomination and Remuneration Committee
Interests in shares:	195,000 ordinary shares
Interests in options:	None
Interests in rights:	None

Name:	Megan Quinn
Title:	Non-Executive Director
Qualifications:	GAICD
Experience and expertise:	Megan Quinn joined the Specialty Fashion Group Board in October 2012 as an independent non-executive director. Megan is currently on the Board and National Committee of UNICEF Australia, and stepped down from the Fitted For Work Board in February 2014. For the past 25 years, she has built a career specialising at the luxury end of retailing, advertising, publishing and design for the fashion, jewellery, hotel, airline and service industries. One of Megan's notable achievements was her being a co-founder of internationally acclaimed NET-A-PORTER in 1999. She consults and speaks internationally, and has held a variety of leadership and senior executive as well as non-executive board roles. Her secondment to London in 1988 with the Mojo advertising agency marked the beginning of 18 years of involvement with clients such as Dell, Qantas, the Australian Tourist Commission, Asprey, Garrard and Patek Philippe and leading retailers such as Harrods, The Arcadia Group and BHS. Megan has also held executive board roles with both Harrods and NET-A-PORTER.
Other current directorships:	Megan is a director of UNICEF Australia.
Former directorships (last 3 years):	Megan stepped down for the Fitted For Work Board in February 2014, and is now an Ambassador for the organisation.
Special responsibilities:	None
Interests in shares:	None
Interests in options:	None
Interests in rights:	None

'Other current directorships' quoted above are current directorships for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

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, IT, loss prevention, customer care and customer insights functions.

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2014, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee*		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Geoff Levy AO	9	10	2	2	-	-
Gary Perlstein	10	10	-	-	-	-
Ian Miller	10	10	-	-	-	-
Joel Bloom	4	4	1	1	2	3
Anne McDonald	10	10	-	-	7	7
Ashley Hardwick	10	10	-	-	-	-
Michael Hardwick	9	10	2	2	7	7
Megan Quinn	10	10	-	-	-	-

Held: represents the number of meetings held during the time the director held office.

* Nomination and Remuneration Committee meetings for the year ended 30 June 2014 represent meetings held in conjunction with Board meetings.

Remuneration report (audited)
The remuneration report, which has been audited, outlines the directors' and key management personnel's remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:
- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information

Principles used to determine the nature and amount of remuneration
The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives, the creation of value for shareholders, and conforms to the market best practice for delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:
- competitiveness and reasonableness;
- acceptability to the Group's strategic and business objectives and the creation of shareholder value;
- performance linkage/alignment of executive compensation;
- transparency; and
- acceptability to shareholders.

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

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 share price growth, and delivering constant or increasing 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 program participants' interests:
- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

In accordance with best practice corporate governance, the structures of non-executive directors and executive remuneration are separate.

Non-executive directors remuneration
Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, these directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from 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 other non-executive directors, and are based on comparable 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 share options or other incentives.

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. The most recent determination was at the Annual General Meeting held on 8 November 2012, where the shareholders approved an aggregate remuneration of $600,000. The current base fees were last reviewed with effect from 1 January 2012.

Executive remuneration
The consolidated entity aims to reward executives with a level and mix of remuneration based on their position and responsibility, which has both fixed and variable components.

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 within the consolidated entity, the balance of this mix shifts to a higher proportion of "at risk" rewards.

The executive remuneration and reward framework has four components:
- base pay and non-monetary benefits
- short-term performance incentives
- long term incentives through participation in the Specialty Fashion Group Limited Employee Long Term Incentive Plan
- other remuneration such as superannuation and long service leave

The combination of these comprises the 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.

Executives receive benefits including car allowances.

Short term incentives
Should the Group achieve pre-determined targets set by the Nomination and 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, impact on the organisation or business unit performance. The annual STI target payment is reviewed annually.

The Nomination and 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 2014, 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 consolidated entity'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 Employee Long Term Incentive Plan is set out later in this note.

Use of remuneration consultants
In October 2011, Specialty Fashion Group Limited's Nomination and Remuneration Committee engaged Mercer (Australia) Pty Ltd (‘Mercer’) to review its existing remuneration policies and provide recommendations in respect of both 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. Remuneration consultants were not engaged during the year ended 30 June 2014.

Voting and comments made at the Company's 2013 Annual General Meeting ('AGM')
At the 2013 AGM, 94.9% of the votes received supported the adoption of the remuneration report for the year ended 2013. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

Details of remuneration

Amounts of remuneration
Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The following key management personnel of the consolidated entity were also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the years ended 30 June 2014 and 30 June 2013.

The key management personnel of the consolidated entity consisted of the following directors of Specialty Fashion Group Limited:
- Geoff Levy AO - Chairperson
- Gary Perlstein - Chief Executive Officer
- Ian Miller - Non-Executive Director
- Joel Bloom - Non-Executive Director (resigned on 31 October 2013)
- Anne McDonald - Non-Executive Director
- Ashley Hardwick - Non-Executive Director
- Michael Hardwick - Non-Executive Director
- Megan Quinn - Non-Executive Director

And the following persons:
- Alison Henriksen - Chief Financial Officer and Company Secretary
- Sonia Moura - General Manager of Human Resources

2014	Short-term benefits Cash salary and fees $	 Bonus $	 Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments* Equity-settled $	 **Total** $
Non-Executive Directors:							
G Levy AO	125,000	-	-	11,562	-	-	136,562
I Miller	56,940	-	-	24,998	-	-	81,938
J Bloom	33,215	-	-	14,582	-	-	47,797
A McDonald	75,000	-	-	6,938	-	-	81,938
A Hardwick	37,500	-	-	3,469	-	-	40,969
M Hardwick	37,500	-	-	3,469	-	-	40,969
M Quinn	75,000	-	-	6,938	-	-	81,938
Executive Directors:							
G Perlstein	700,000	-	71,500	64,750	-	-	836,250
Other Key Management Personnel:							
A Henriksen	450,000	-	30,000	41,625	-	(69,532)	452,093
S Moura	250,000	-	25,000	23,125	-	(31,289)	266,836
	1,840,155	-	126,500	201,456	-	(100,821)	2,067,290

* During the year ended 30 June 2013, performance rights over ordinary shares of Specialty Fashion Group Limited were granted under the 2012 Employee Long Term Incentive Plan. Due to the uncertainty around achieving non-market vesting conditions, a reversal of the cumulative expense has been credited to profit or loss during the year ended 30 June 2014.

2013	Short-term benefits Cash salary and fees $	 Bonus $	 Non-monetary $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Equity-settled $	 **Total** $
Non-Executive Directors:							
G Levy AO	125,000	-	-	11,244	-	-	136,244
I Miller	56,752	-	-	24,997	-	-	81,749
J Bloom	68,750	-	-	13,563	-	-	82,313
A McDonald	75,000	-	-	6,750	-	-	81,750
A Hardwick	37,500	-	-	3,375	-	-	40,875
M Hardwick	37,500	-	-	3,375	-	-	40,875
M Quinn	50,000	-	-	4,500	-	-	54,500
Executive Directors:							
G Perlstein	700,000	210,000	71,500	81,900	-	-	1,063,400
Other Key Management Personnel:							
A Henriksen	450,000	135,000	30,000	53,142	-	69,532	737,674
S Moura	245,000	73,500	49,505	26,415	-	31,289	425,709
	1,845,502	418,500	151,005	229,261	-	100,821	2,745,089

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration 2014	2013	At risk - STI 2014	2013	At risk - LTI 2014	2013
Executive Directors:						
G Perlstein	100%	78%	-%	22%	-%	-%
Other Key Management Personnel:						
A Henriksen	100%	71%	-%	20%	-%	9%
S Moura	100%	74%	-%	19%	-%	7%

The proportion of the cash bonus paid/payable or forfeited is as follows:

Name	Cash bonus paid/payable 2014	2013	Cash bonus forfeited 2014	2013
Executive Directors:				
G Perlstein	-%	100%	100%	-%
Other Key Management Personnel:				
A Henriksen	-%	100%	100%	-%
S Moura	-%	100%	100%	-%

Service agreements
Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	Gary Perlstein
Title:	Chief Executive Officer
Term of agreement:	No term
Details:	• Notice period of 1 month • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

Name:	Alison Henriksen
Title:	Chief Financial Officer and Company Secretary
Term of agreement:	No term
Details:	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

Name:	Sonia Moura
Title:	General Manager of Human Resources
Term of agreement:	No term
Details:	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

All non-executive directors stand for re-election every 3 years and have no notice period, no remuneration review, no eligibility for short term incentives, no eligibility for long term incentives, no severance period, no termination benefits and no other benefits.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Share-based compensation

Issue of shares
There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2014.

Performance rights
The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Vesting date and exercisable date	Expiry date	Share price target for vesting	Fair value per right at grant date
19 Feb 2013	30 Jun 2015	30 Aug 2015	$0.0	$0.914
31 Oct 2013	30 Jun 2016	30 Aug 2016	$0.0	$0.779

Performance rights granted carry no dividend or voting rights.

Upon meeting the vesting conditions, the performance right holder will be allocated one ordinary share in the Company for each performance right held. Vesting will occur upon completion of the statutory accounts of Specialty Fashion Group Limited as per the vesting dates above, subject to both performance and service conditions being met.

In order to satisfy the performance conditions, the consolidated entity must meet or exceed specified cumulative Return on capital employed (ROCE) and Earnings before interest, taxation, depreciation and amortisation (EBITDA) targets associated with the plan at each vesting date. In addition, plan participants are required to complete a continual period of service from the performance right grant date to the vesting date. The Board of directors has the discretion to waive or partly waive performance conditions that have not been satisfied.

The number of performance rights over ordinary shares granted to and vested by directors and other key management personnel as part of compensation during the year ended 30 June 2014 are set out below:

Name	Number of rights granted during the year 2014	Number of rights granted during the year 2013	Number of rights vested during the year 2014	Number of rights vested during the year 2013
G Perlstein	200,000	-	-	-
A Henriksen	-	500,000	-	-
S Moura	-	225,000	-	-

Additional information
The earnings of the consolidated entity for the five years to 30 June 2014 are summarised below:

	2014 $'000	2013 $'000	2012 $'000	2011 $'000	2010 $'000
Sales revenue	685,043	569,475	572,509	570,304	556,707
Profit/(loss) before income tax	16,317	19,010	(3,301)	21,306	43,227
Profit/(loss) after income tax	12,475	12,970	(2,810)	14,519	30,717

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2014	2013	2012	2011	2010
Share price at financial year end ($)	0.88	0.82	0.51	0.88	1.07
Total dividends declared (cents per share)	4.0	4.0	-	4.0	8.0
Basic earnings per share (cents per share)	6.5	6.7	(1.5)	7.6	16.1
Diluted earnings per share (cents per share)	6.5	6.7	(1.5)	7.6	15.8

This concludes the remuneration report, which has been audited.

Loans to directors and executives
As at 30 June 2014, there were no outstanding loans made to directors of Specialty Fashion Group Limited and other key management personnel of the consolidated entity, including their personally related parties (2013: nil).

Shares under performance rights
Unissued ordinary shares of Specialty Fashion Group Limited under performance rights at the date of this report are as follows:

Grant date	Expiry date	Number under rights
19 Feb 2013	30 Aug 2015	2,800,000
17 Sep 2013	30 Aug 2016	600,000
31 Oct 2013	30 Aug 2016	200,000
21 Jan 2014	30 Aug 2016	200,000
		3,800,000

No person entitled to exercise the performance rights had or has any right by virtue of the performance right to participate in any share issue of the Company or of any other body corporate.

Shares issued on the exercise of performance rights
There were no ordinary shares of Specialty Fashion Group Limited issued on the exercise of performance rights during the year ended 30 June 2014 and up to the date of this report.

Indemnity and insurance of officers
The Company has indemnified the directors and executives of the Company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of liability and the amount of the premium.

Indemnity and insurance of auditor
The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

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.

Non-audit services
Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 33 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*.

The directors are of the opinion that the services as disclosed in note 33 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Officers of the Company who are former audit partners of Deloitte Touche Tohmatsu
There are no officers of the Company who are former audit partners of Deloitte Touche Tohmatsu.

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 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 the following page.

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the *Corporations Act 2001*.

On behalf of the directors

Geoff Levy AO	Gary Perlstein
Non-executive Chairperson	Chief Executive Officer

26 August 2014
Sydney

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

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

26 August 2014

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 2014, 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

DELOITTE TOUCHE TOHMATSU

D R White

David White
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
ABN 74 490 121 060

Grosvenor Place
225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
Sydney NSW 1220 Australia

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001
www.deloitte.com.au

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 2014, the statement of profit or loss and other 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 30 to 74.

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 have 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 entity'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 entity'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 2014 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 10 to 15 of the directors' report for the year ended 30 June 2014. 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 2014, complies with section 300A of the *Corporations Act 2001*.

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D R White

David White
Partner
Chartered Accountants
Sydney, 26 August 2014

Specialty Fashion Group Limited
Corporate Governance Statement
30 June 2014

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.

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 on pages 6 to 8 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.

Nomination and Remuneration Committee
The Nomination and Remuneration Committee consists of the following non-executive directors:
- G Levy (Chairperson)
- J Bloom (resigned 31 October 2013)
- M Hardwick

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 may also be eligible to participate in the Employee Long Term Incentive 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 and Risk Committee
The Audit and Risk Committee consists of the following non-executive directors:
- Anne McDonald (Chairperson)
- J Bloom (resigned 31 October 2013)
- M Hardwick

The functions of the Audit and Risk Committee are clearly defined in the Company's Audit and Risk 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 and Risk 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 and Risk 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.

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 and Risk 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’s 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)
The Company is committed to ensuring the health, safety and welfare of all individuals in the organisation including team members, customers, contractors and visitors. Refer to the Corporate Social Responsibility report on pages 26 to 28 for further details.

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. Refer to the Corporate Social Responsibility report on pages 26 to 28 for further details on ethical trade.

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

Diversity

Workplace diversity recognises and values the contribution of people from different backgrounds, experiences and perspectives. It is the Company's 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.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 30 June 2014 are set out below.

	Objective	Achievements
●	Revise Parental Leave Policy to maintain a 63% return to work from maternity leave and review the facilities provided for mothers returning from leave.	Increased the return to work rate from 63% to 68.5% across the business.
●	Conduct a Diversity Survey for all team members to complete, to understand the demographics of the work force.	Non-compulsory survey conducted with over 1,000 team members (20% of the business) responding.
●	Assess all team member disabilities identified in the Diversity Survey and address any reasonable adjustments.	Identified mental health as an area of focus for FY2015 strategy.
●	Review the Diversity Policy, ensuring it is robust and current.	Completed and in line with legislative standards.
●	Submit the *Workplace Gender Equality Act* (WGEA) report, including identifying any pay discrepancies and developing strategies to address them.	Submit the *Workplace Gender Equality Act* (WGEA) report, including identifying any pay discrepancies and developing strategies to address them.
●	Incorporate diversity awareness into the new team member orientation and when conducting performance management conversations.	High level diversity awareness incorporated into team member orientation with a 1 to 3 year strategy in place to update in more detail to revise the entire program.
●	Continue Diversity Work Group teleconferences to continue developing ideas and awareness.	Teleconferences continue on a bi-monthly basis.

Gender diversity within the organisation as at 30 June 2014 is set out below:

	Number	%
Number of women employees in the whole organisation	4,799	97.0
Number of women in senior executive positions	4	50.0
Number of women on the Board	2	28.6

Trading in Specialty Fashion Group Limited 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 1 January and 24 hours after the release of the consolidated entity's half yearly results or the period between 1 July and 24 hours after the release of the consolidated entity'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.

Corporate social responsibility at Specialty Fashion Group Limited includes attracting a diverse and sustainable workforce, ensuring ethical compliance throughout our supply chain and managing the impacts the Company has on the environment.

Diversity

The Company values and recognises the diversity of our team members and the added value diversity provides to achieving the overall Company objectives. The Diversity Work Group ('DWG'), established in 2012, is responsible for setting the strategic direction and identifying focus areas in relation to diversity. It consists of a cross section of team members to ensure that all levels of the Company have a voice.

The Company's Diversity 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. Refer to the 'Diversity' section in the Company's Corporate Governance Statement on page 24.

In addition to the above, the Company's objectives for the year ending 30 June 2015 are set out below:

- Continue to support our Return to Work from Parental Leave Team Members;
- Increase visibility of Diversity initiatives across the business;
- Promote Equal and Fair opportunity through recruitment advertising and brand imagery;
- Review the Diversity Policy, ensuring it is robust and current;
- Promote a culture of community and inclusion amongst team members; and
- Submit Workplace Gender Equality Report.

Gender balance

The Company's ongoing commitment to reporting on Diversity is in line with the *Workplace Gender Equality Act 2012* (WGEA). The WGEA Report for the period ended 31 March 2014 detailed the proportion of women employed at different levels across the Company as follows:

- 2 of the 7 Company's Board members are women;
- 50% of the Company's Senior Executive Team are women; and
- 97% of team members across the whole organisation are women.

In addition, 40% of the Company's Senior Management Team comprises of women.

The full WGEA report and findings are available upon request: HRsuppportoffice@specialtyfashiongroup.com.au.

Flexible work arrangements

The Company is committed to recruiting and retaining the best talent to help achieve the Company's vision. This means we need to be adaptable in the way we work to meet the needs of our team members and our customers.

The Company will continue to use flexible work arrangements to provide a way of acknowledging and accommodating individual circumstances whilst balancing the Company's business requirements.

Ethical Trade

The Company is committed to supplying our customers with the highest quality product at competitive prices in the fastest possible time. We are also dedicated to ensuring all our processes are transparent and will continue pursuing the highest standard of ethical trading possible. Over the last year, the Company has implemented key initiatives across our supply chain to ensure we take a responsible sourcing approach when procuring our product.

Ethical compliance in our supply chain

As a commitment to the safety of workers in factories used, the Company became a party to the *Accord on Fire and Building Safety in Bangladesh*[1] (the 'Accord') in 2013, which has the purpose of improving the safety and working conditions for Bangladesh garment workers. The Accord's aim is to make all garment factories in Bangladesh safe workplaces. It undertakes independent safety inspections at factories, and public reporting of the results of these inspections. The Company requires all supplier factories to comply with the minimum fire and building safety standards outlined by the Accord. Where safety issues are identified, the Company commits to ensuring that repairs are carried out, that sufficient funds are made available to do so, and that workers at these factories continue to be paid a salary. As part

[1] A copy of the Accord and published Inspection reports can be downloaded at www.bangladeshaccord.org.

of this agreement, all supplier factories engaged by the Company will be publicly disclosed.

The Company believes in sharing its technical expertise with its supply partners and investing for the future. Better working conditions ensure the efficiency of our supply chain; fairly paid and treated workers that operate in healthy and safe environments are more productive and in turn deliver a higher standard of quality.

Ethical sourcing
The Company is working to ensure that child labour does not occur in its supply chain. The Company is aware of reports documenting the systemic use of child labour in the harvest of cotton in Uzbekistan. Consequently, the Company insists on the boycott of cotton originating from Uzbekistan.

As a signatory to this pledge, the Company is stating its firm opposition to the use of child labour in the harvest of cotton in Uzbekistan. We commit to not knowingly source cotton from Uzbekistan for the manufacture of any of our products until the Government of Uzbekistan ends the practice of child labour in its cotton sector.

The Company implemented a ban on the use of Angora fibre or yarn in any of its garments after reports of farming practices disclosed inhuman treatment of animals in the farming process. As a result the Company does not use Angora in its garments.

Code of Conduct
In 2014, the Company provided all vendors with an updated Code of Conduct, which is the framework that supports its ethical sourcing strategy in line with its business ethics.

The Company is committed to establishing transparent partnerships with its suppliers by working in an open and socially responsible manner.

The Company has outlined its policies regarding social, environmental and standards in compliance. The Company expects that all its supply partners will not be a party to any violation of its Human Rights Compliance standards. These basic human rights include, but are not restricted to, the following:

- freedom from discrimination;
- freedom from slavery or servitude;
- freedom of movement;
- freedom of expression;
- freedom of thought; and
- freedom from invasive body searches or unwanted pregnancy testing.

The Company has zero tolerance for the use of child labour, prison labour or forced labour in the manufacture of its products.

Through the code of conduct, the Company has implemented a new social policy, in addition to the abovementioned basic human rights policy, whereby the Company requires that all supply partners and factories will guarantee on behalf of their workers the following:

- the right to rest and leisure;
- the right to an adequate and safe standard of living in provided accommodation (if required);
- the right to training to perform required tasks within the workplace;
- the right to participate in the community;
- a safe and healthy workplace;
- the right to work, equal pay and the right to join a trade union if desired or available;
- the right to collective bargaining; and
- the right to refuse any dangerous or unsafe work.

Health, Safety and Environment (HSE)

Occupational Health and Safety (OHS)
The Company is committed to the health, safety and welfare of all individuals in the organisation, including team members, customers, contractors and visitors. The Company has maintained its focus on OHS with this function led by a senior executive of the company.

In 2014 there was a focus on reviewing the implementation of the Company's safety management system and further reduction of key risks previously identified. Some of the most notable achievements include:

- Commencement of the SFG Audit program, which has seen the business complete over 60 site audits including several completed by our insurer as an independent observer.
- Approval received from WorkCover NSW to continue our participation in their Retro Paid Loss Premium scheme, which involved a reapplication audit reviewing the Company's safety management system, its implementation and how the Company tracked against performance targets/ KPI's set in the prior year.
- Implementation of the SFG Contractor Management Procedures to ensure compliance within the new Work Health and Safety ('WHS') Legislation, which has detailed requirements to manage "shared and non-delegable duties".
- International legislative reviews to ensure compliance with safety laws in South Africa and California, USA for the Company's overseas expansion.
- New brand acquisition safety reviews – subsequent to the acquisition of Rivers, the safety team conducted several risk assessments of the new brand. A risk register was established to focus on essential works required to maintain legal and risk management compliance.

The Company's strategy for 2015 includes focusing on strategic risk management activities to maintain legal compliance as well as improve incident rates.

Environment
The Company is committed to conducting its operations in an environmentally sustainable manner to efficiently manage its impacts on the environment.

In the prior year, the Company developed its packaging strategy to reduce the amount of packaging reaching landfill. The commencement of this strategy has led to a review of all garment packaging against the *Sustainable Packaging* Guidelines. In 2014, there was a focus on reviewing the current status of the Company's environmental impacts. Some of the most notable initiatives include:

- Ensuring all visual merchandising mail outs to stores are replaced with the online format available on store iPads, in order to minimise paper wastage.
- Creation of a Health, Safety and Environment (HSE) team to replace the existing OHS team, reflecting the Company's increased focus on both OHS and environmental sustainability.
- Merger of all OHS consultation groups to now focus on health and safety, as well as the environment.
- Review of plastic bags used in the business to provide options for reducing the use of plastic, as well as exploring other environmentally sustainable alternatives to be used for packaging at store check-out.
- Commenced recycling surveys at stores, with an aim to understand the type of facilities stores currently have access to.

As noted in the director's report on page 5, the Company completes annual reporting of its greenhouse emissions to identify opportunities for improvement. The Company's greenhouse emissions are below the reporting threshold required under the *National Greenhouse and Emissions Reporting Act 2007*.

Contents

General information

The financial statements cover Specialty Fashion Group Limited as a consolidated entity consisting of Specialty Fashion Group Limited and its subsidiaries. The financial statements are presented in Australian dollars, which is Specialty Fashion Group Limited's functional and presentation currency.

Specialty Fashion Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

151 - 163 Wyndham Street
Alexandria, NSW 2015
Telephone: (02) 8303 9800
Facsmile: (02) 8306 3596

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 26 August 2014. The directors have the power to amend and reissue the financial statements.

Specialty Fashion Group Limited
Statement of profit or loss and other comprehensive income
For the year ended 30 June 2014

	Notes	Consolidated 2014 $'000	2013 $'000
Revenue	4	685,043	569,475
Changes in inventories of finished goods and consumables		23,788	(7,518)
Finished goods and consumables used		(276,677)	(209,769)
Employee benefits expense		(190,206)	(149,832)
Depreciation, amortisation and impairment expense	5	(20,839)	(21,767)
Rental expense	5	(127,052)	(110,812)
Other expenses		(79,116)	(49,970)
Finance costs	5	(2,069)	(797)
Net discount on acquisition	38	3,445	-
Profit before income tax expense		16,317	19,010
Income tax expense	6	(3,842)	(6,040)
Profit after income tax expense for the year attributable to the owners of Specialty Fashion Group Limited	29	12,475	12,970
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(5,927)	3,655
Foreign currency translation		335	406
Other comprehensive income for the year, net of tax		(5,592)	4,061
Total comprehensive income for the year attributable to the owners of Specialty Fashion Group Limited		6,883	17,031

		Cents	Cents
Basic earnings per share	42	6.5	6.7
Diluted earnings per share	42	6.5	6.7

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Specialty Fashion Group Limited
Statement of financial position
As at 30 June 2014

	Notes	Consolidated 2014 $'000	Consolidated 2013 $'000
Assets			
Current assets			
Cash and cash equivalents	7	17,123	38,576
Receivables	8	7,735	6,607
Inventories	9	90,348	40,692
Derivative financial instruments	10	29	5,193
Income tax receivable	11	289	1,568
Total current assets		115,524	92,636
Non-current assets			
Receivables	12	-	283
Derivative financial instruments	13	78	111
Property, plant and equipment	14	84,445	71,622
Intangibles	15	18,607	10,095
Deferred tax asset	16	5,559	491
Total non-current assets		108,689	82,602
Total assets		224,213	175,238
Liabilities			
Current liabilities			
Trade and other payables	17	69,600	66,979
Derivative financial instruments	18	3,364	-
Income tax provision	19	4,038	-
Provisions	20	20,542	14,271
Finance lease liability	21	933	229
Other	22	4,781	4,235
Total current liabilities		103,258	85,714
Non-current liabilities			
Borrowings	23	29,119	-
Deferred tax liability	16	-	1,828
Provisions	24	11,785	12,111
Finance lease liability	25	4,016	422
Other	26	9,477	7,601
Total non-current liabilities		54,397	21,962
Total liabilities		157,655	107,676
Net assets		66,558	67,562
Equity			
Issued capital	27	134,497	134,497
Reserves	28	(2,334)	3,455
Accumulated losses	29	(65,605)	(70,390)
Total equity		66,558	67,562

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

Specialty Fashion Group Limited
Statement of changes in equity
For the year ended 30 June 2014

Consolidated	Issued capital $'000	Reserves $'000	Accumulated Losses $'000	Total equity $'000
Balance at 1 July 2012	134,497	(803)	(79,515)	54,179
Profit after income tax expense for the year	-	-	12,970	12,970
Other comprehensive income for the year, net of tax	-	4,061	-	4,061
Total comprehensive income for the year	-	4,061	12,970	17,031
Transactions with owners in their capacity as owners:				
Performance share rights expense	-	197	-	197
Dividends paid (note 30)	-	-	(3,845)	(3,845)
Balance at 30 June 2013	134,497	3,455	(70,390)	67,562

Consolidated	Issued capital $'000	Reserves $'000	Accumulated Losses $'000	Total equity $'000
Balance at 1 July 2013	134,497	3,455	(70,390)	67,562
Profit after income tax expense for the year	-	-	12,475	12,475
Other comprehensive income for the year, net of tax	-	(5,592)	-	(5,592)
Total comprehensive income for the year	-	(5,592)	12,475	6,883
Transactions with owners in their capacity as owners:				
Performance share rights credit	-	(197)	-	(197)
Dividends paid (note 30)	-	-	(7,690)	(7,690)
Balance at 30 June 2014	134,497	(2,334)	(65,605)	66,558

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

Specialty Fashion Group Limited
Statement of cash flows
For the year ended 30 June 2014

	Notes		Consolidated
		2014	2013
		$'000	$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		753,864	626,695
Payments to suppliers (inclusive of GST)		(748,244)	(574,615)
		5,620	52,080
Interest received		414	468
Interest and other finance costs paid		(2,069)	(797)
Net income taxes paid		(433)	(2,221)
Net cash from operating activities	41	3,532	49,530
Cash flows from investing activities			
Payment for purchase of business, net of cash acquired	38	(3,889)	-
Payments for property, plant and equipment	14	(20,698)	(13,488)
Proceeds from sale of property, plant and equipment		1,232	1,643
Net cash used in investing activities		(23,355)	(11,845)
Cash flows from financing activities			
Repayment of borrowings		-	(6,500)
Proceeds from borrowings		1,762	-
Finance lease drawdowns		4,298	651
Dividends paid	30	(7,690)	(3,845)
Net cash used in financing activities		(1,630)	(9,694)
Net (decrease)/increase in cash and cash equivalents		(21,453)	27,991
Cash and cash equivalents at the beginning of the financial year		38,576	10,585
Cash and cash equivalents at the end of the financial year	7	17,123	38,576

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

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New, revised or amending Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new, revised or amending Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new, revised or amending Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

Any significant impact on the accounting policies of the consolidated entity from the adoption of these Accounting Standards and Interpretations are disclosed below. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 10 Consolidated Financial Statements
The consolidated entity has applied AASB 10 from 1 July 2013, which has a new definition of 'control'. Control exists when the reporting entity is exposed, or has the rights, to variable returns from its involvement with another entity and has the ability to affect those returns through its 'power' over that other entity. A reporting entity has power when it has rights that give it the current ability to direct the activities that significantly affect the investee's returns. The consolidated entity not only has to consider its holdings and rights but also the holdings and rights of other shareholders in order to determine whether it has the necessary power for consolidation purposes.

AASB 12 Disclosure of Interests in Other Entities
The consolidated entity has applied AASB 12 from 1 July 2013. The standard contains the entire disclosure requirement associated with other entities, being subsidiaries, associates, joint arrangements (joint operations and joint ventures) and unconsolidated structured entities. The disclosure requirements have been significantly enhanced when compared to the disclosures previously located in AASB 127 'Consolidated and Separate Financial Statements', AASB 128 'Investments in Associates', AASB 131 'Interests in Joint Ventures' and Interpretation 112 'Consolidation - Special Purpose Entities'.

AASB 13 Fair Value Measurement and AASB 2011-8 Amendments to Australian Accounting Standards arising from AASB 13
The consolidated entity has applied AASB 13 and its consequential amendments from 1 July 2013. The standard provides a single robust measurement framework, with clear measurement objectives, for measuring fair value using the 'exit price' and provides guidance on measuring fair value when a market becomes less active. The 'highest and best use' approach is used to measure non-financial assets whereas liabilities are based on transfer value. The standard requires increased disclosures where fair value is used.

AASB 119 Employee Benefits (September 2011) and AASB 2011-10 Amendments to Australian Accounting Standards arising from AASB 119 (September 2011)
The consolidated entity has applied AASB 119 and its consequential amendments from 1 July 2013. The standard eliminates the corridor approach for the deferral of gains and losses; streamlines the presentation of changes in assets and liabilities arising from defined benefit plans, including requiring re-measurements to be presented in other comprehensive income; and enhances the disclosure requirements for defined benefit plans. The standard also changed the definition of short-term employee benefits, from 'due to' to 'expected to' be settled within 12 months.

AASB 2012-2 Amendments to Australian Accounting Standards - Disclosures - Offsetting Financial Assets and Financial Liabilities
The consolidated entity has applied AASB 2012-2 from 1 July 2013. The amendments enhance AASB 7 'Financial Instruments: Disclosures' and requires disclosure of information about rights of set-off and related arrangements, such as collateral agreements. The amendments apply to recognised financial instruments that are subject to an enforceable master netting arrangement or similar agreement.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of available-for-sale financial assets, financial assets and liabilities at fair value through profit or loss, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates
The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity'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 2.

Parent entity information
In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 37. Financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, with the exception of investments in subsidiaries which are measured at cost.

Principles of consolidation
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 2014 and the results of all subsidiaries for the year then ended. Specialty Fashion Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the 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 entities in the consolidated entity 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 consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments
Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the Chief Operating Decision Makers ('CODM'). The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Foreign currency translation
The financial statements are presented in Australian dollars, which is Specialty Fashion Group Limited's functional and presentation currency.

Foreign currency transactions
Foreign currency transactions are translated into Australian dollars 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 financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rate at the date of the transaction, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the consolidated entity and the revenue can be reliably measured. Revenue is measured at the fair value of the consideration received or receivable, and recognised for the major business activities as follows:

Retail sales
Revenue is recognised at the point of sale, which is where the customer has taken delivery of the goods, the risks and rewards are transferred to the customer and there is a valid sales contract. Amounts disclosed as revenue are net of sales returns, trade discounts and commissions paid.

Lay-by sales
Lay-by sales are recognised upon receiving final payment from the customer.

Interest
Interest revenue is recognised when it is earned.

Customer loyalty program
The consolidated entity operates a loyalty program where customers accumulate points for purchases made which entitle them to discounts on future purchases. The reward points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the reward points and the other components of the sale such that the reward points are recognised at their fair value. Revenue from the reward 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. Reward points expire 24 months after the initial sale or 30 days after a voucher has been issued.

Other revenue
Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax
The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

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 that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Specialty Fashion Group Limited (the 'head entity') and its wholly-owned Australian controlled entities formed an income tax consolidated group under the tax consolidation regime as of 1 July 2003. The head entity and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary 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 amount receivable/payable under the tax funding agreement is 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 amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is current when: it is expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is current when: it is expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
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.

Other receivables
Other receivables are recognised at amortised cost, less any provision for impairment.

Inventories
Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs also include transfer from equity of any gains/losses on qualifying cashflow hedges relating to purchases of inventories.

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.

Derivative financial instruments
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.

Derivatives are classified as current or non-current depending on the expected period of realisation.

Cash flow hedges
Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risk associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

Cash flow hedges are tested for effectiveness on a regular basis both retrospectively and prospectively to ensure that each hedge is highly effective and continues to be designated as a cash flow hedge. If the forecast transaction is no longer expected to occur, amounts recognised in equity are transferred to profit or loss.

If the hedging instrument is sold, terminated, expires, exercised without replacement or rollover, or if the hedge becomes ineffective and is no longer a designated hedge, amounts previously recognised in equity remain in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss.

Call options
Call options are used to cover the consolidated entity's exposure to fluctuations in cotton prices which could affect cost of goods sold. At the end of each reporting period, the recognised asset is subsequently measured at fair value through profit or loss.

Property, plant and equipment
Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Buildings	40 years
Plant and equipment	3-7 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements and plant and equipment under lease are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Leases
The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

A distinction is made between finance leases, which effectively transfer from the lessor to the lessee substantially all the risks and benefits incidental to ownership of leased assets, and operating leases, under which the lessor effectively retains substantially all such risks and benefits.

Finance leases are capitalised. A lease asset and liability are established at the fair value of the leased assets, or if lower, the present value of minimum lease payments. Lease payments are allocated between the principal component of the lease liability and the finance costs, so as to achieve a constant rate of interest on the remaining balance of the liability. Leased assets under a finance lease are depreciated over the asset's useful life and the lease term if there is no reasonable certainty that the consolidated entity will obtain ownership at the end of the lease term.

Operating lease payments, net of any incentives received from the lessor, are charged to profit or loss on a straight-line basis over the term of the lease.

Intangible assets
Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill
Goodwill represents the excess of the cost of an acquisition over the fair value of the consolidated entity's share of net identifiable assets of the acquired subsidiary/associate at the date of the acquisition. Goodwill on acquisition is included in intangible assets. Goodwill is allocated to cash generating units for the purpose of impairment testing. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

Impairment of non-financial assets
Other non-financial assets are tested 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 of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit. Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

Trade and other payables
These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 25 to 90 days of recognition.

Borrowings
Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Where there is an unconditional right to defer settlement of the liability for at least 12 months after the reporting date, the loans or borrowings are classified as non-current.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred, including interest on short-term and long-term borrowings.

Provisions
Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits
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 in current 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.

Other long-term employee benefits
The liability for long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. 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.

Defined contribution superannuation expense
Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments
Equity-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the 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, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions is recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Market conditions are taken into consideration in determining fair value. Therefore any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Upon the exercise of options/rights, the balance of share-based payments reserve relating to those options/rights is transferred to share capital.

Fair value measurement
When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interest. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital
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.

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Business combinations
The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share
Basic earnings per share is calculated by dividing the profit attributable to the owners of Specialty Fashion Group Limited, 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 financial year.

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 shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

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 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2014. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments and its consequential amendments
This standard and its consequential amendments are applicable to annual reporting periods beginning on or after 1 January 2018 and completes phases I and III of the IASB's project to replace IAS 39 (AASB 139) 'Financial Instruments: Recognition and Measurement'. This standard introduces new classification and measurement models for financial assets, using a single approach to determine whether a financial asset is measured at amortised cost or fair value. The accounting for financial liabilities continues to be classified and measured in accordance with AASB 139, with one exception, being that the portion of a change of fair value relating to the entity's own credit risk is to be presented in other comprehensive income unless it would create an accounting mismatch. Chapter 6 'Hedge Accounting' supersedes the general hedge accounting requirements in AASB 139 and provides a new simpler approach to hedge accounting that is intended to more closely align with risk management activities undertaken by entities when hedging financial and non-financial risks. The consolidated entity will adopt this standard and the amendments from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 2012-3 Amendments to Australian Accounting Standards - Offsetting Financial Assets and Financial Liabilities
The amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The amendments add application guidance to address inconsistencies in the application of the offsetting criteria in AASB 132 'Financial Instruments: Presentation', by clarifying the meaning of 'currently has a legally enforceable right of set-off'; and clarifies that some gross settlement systems may be considered to be equivalent to net settlement. The adoption of the amendments from 1 July 2014 will not have a material impact on the consolidated entity.

AASB 2013-3 Amendments to AASB 136 - Recoverable Amount Disclosures for Non-Financial Assets
These amendments are applicable to annual reporting periods beginning on or after 1 January 2014. The disclosure requirements of AASB 136 'Impairment of Assets' have been enhanced to require additional information about the fair value measurement when the recoverable amount of impaired assets is based on fair value less costs of disposals. Additionally, if measured using a present value technique, the discount rate is required to be disclosed. The adoption of these amendments from 1 July 2014 may increase the disclosures by the consolidated entity.

AASB 2013-4 Amendments to Australian Accounting Standards - Novation of Derivatives and Continuation of Hedge Accounting
These amendments are applicable to annual reporting periods beginning on or after 1 January 2014 and amends AASB 139 'Financial Instruments: Recognition and Measurement' to permit continuation of hedge accounting in circumstances where a derivative (designated as hedging instrument) is novated from one counter party to a central counterparty as a consequence of laws or regulations. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2010-2012 Cycle
These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects several Accounting Standards as follows: Amends the definition of 'vesting conditions' and 'market condition' and adds definitions for 'performance condition' and 'service condition' in AASB 2 'Share-based Payment'; Amends AASB 3 'Business Combinations' to clarify that contingent consideration that is classified as an asset or liability shall be measured at fair value at each reporting date; Amends AASB 8 'Operating Segments' to require entities to disclose the judgements made by management in applying the aggregation criteria; Clarifies that AASB 8 only requires a reconciliation of the total reportable segments assets to the entity's assets, if the segment assets are reported regularly; Clarifies that the issuance of AASB 13 'Fair Value Measurement' and the amending of AASB 139 'Financial Instruments: Recognition and Measurement' and AASB 9 'Financial Instruments' did not remove the ability to measure short-term receivables and payables with no stated interest rate at their invoice amount, if the effect of discounting is immaterial; Clarifies that in AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets', when an asset is revalued the gross carrying amount is adjusted in a manner that is consistent with the revaluation of the carrying amount (i.e. proportional restatement of accumulated amortisation); and Amends AASB 124 'Related Party Disclosures' to clarify that an entity providing key management personnel services to the reporting entity or to the parent of the reporting entity is a 'related party' of the reporting entity. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Annual Improvements to IFRSs 2011-2013 Cycle
These amendments are applicable to annual reporting periods beginning on or after 1 July 2014 and affects four Accounting Standards as follows: Clarifies the 'meaning of effective IFRSs' in AASB 1 'First-time Adoption of Australian Accounting Standards'; Clarifies that AASB 3 'Business Combination' excludes from its scope the accounting for the formation of a joint arrangement in the financial statements of the joint arrangement itself; Clarifies that the scope of the portfolio exemption in AASB 13 'Fair Value Measurement' includes all contracts accounted for within the scope of AASB 139 'Financial Instruments: Recognition and Measurement' or AASB 9 'Financial Instruments', regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132 'Financial Instruments: Presentation'; and Clarifies that determining whether a specific transaction meets the definition of both a business combination as defined in AASB 3 'Business Combinations' and investment property as defined in AASB 140 'Investment Property' requires the separate application of both standards independently of each other. The adoption of these amendments from 1 July 2014 will not have a material impact on the consolidated entity.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Provision for impairment of inventories
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

Fair value measurement hierarchy
The consolidated entity is required to classify all assets and liabilities, measured at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being: Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date; Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and Level 3: Unobservable inputs for the asset or liability. Considerable judgement is required to determine what is significant to fair value and therefore which category the asset or liability is placed in can be subjective.

Impairment of goodwill
In accordance with the accounting policy stated in note 1, the consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill has suffered any impairment. Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units to which goodwill has been allocated. The value-in-use calculations reflect estimated cash flow projections based on a five year forecast and require the use of assumptions, including estimated discount rates, growth rates of estimated future cash flows and terminal growth rates.

Impairment of other indefinite life intangible assets
The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether other indefinite life intangible assets have suffered any impairment. Determining whether other indefinite life intangible assets are impaired requires an estimation of an asset's fair value less costs of disposal.

Note 3. Operating segments

Identification of reportable operating segments
The consolidated entity is organised into one operating segment, being fashion retail. This operating segment is based on the internal reports that are reviewed and used by the Chief Executive Officer and Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM assess the performance of the operating segment based on a measure of EBITDA (Earnings before interest, taxation, depreciation and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on at least a monthly basis, including weekly reporting on key metrics.

Major customers
There is no revenue that is significant to any particular customer.

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

	Consolidated	
	2014	**2013**
	$'000	**$'000**
EBITDA	39,154	41,118
Fair value revaluation of derivative financial instruments through profit or loss*	(343)	(12)
Interest revenue	414	468
Finance costs	(2,069)	(797)
Depreciation, amortisation and impairment of property, plant and equipment	(20,839)	(21,767)
Profit before income tax	16,317	19,010

* To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2014 reflects fair value revaluation of the cotton call options at the end of the reporting period.

Note 4. Revenue

	Consolidated 2014 $'000	2013 $'000
Sales revenue		
Sale of goods	683,161	567,281
Other revenue		
Interest	414	468
Other revenue	1,468	1,726
	1,882	2,194
Revenue	685,043	569,475

Note 5. Expenses

	Consolidated 2014 $'000	2013 $'000
Profit before income tax includes the following specific expenses:		
Depreciation and impairment of property, plant and equipment*	20,839	21,767
Interest and finance charges paid/payable	2,069	797
Fair value revaluation of derivative financial instruments through profit or loss	343	12
Net loss/(gain) on disposal of property, plant and equipment	173	(23)
Share-based payments (credit)/expense	(197)	197
Defined contribution superannuation expense	13,118	10,324
Rental expense relating to operating leases	127,052	110,812
Net foreign exchange (gain)/loss	(4,458)	1,587
Inventory shrinkage	4,983	4,789
Total	163,922	150,262

* Includes an impairment write-back of $425,390 (2013: write-back of $2,949,768). The impairment write-back represents a decrease in the provision for impairment of plant and equipment as a result of improved trading conditions.

Note 6. Income tax expense

		Consolidated
	2014	**2013**
	$'000	**$'000**
Income tax expense		
Current tax	6,689	3,922
Deferred tax - origination and reversal of temporary differences	(1,908)	1,850
Prior year (over)/under provision	(939)	268
Aggregate income tax expense	3,842	6,040
Deferred tax included in income tax expense comprises:		
(Increase)/decrease in deferred tax assets (note 16)	(1,908)	1,850
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	16,317	19,010
Tax at the statutory tax rate of 30%*	4,895	5,703
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Discount on acquisition	(1,444)	-
Share-based payments	(59)	59
Non-deductible entertainment	23	-
Non-deductible expenses	1,115	-
Sundry items	284	-
	4,814	5,762
Prior year (over)/under provision	(939)	268
Difference in overseas tax rates	(3)	10
Foreign currency differences	(30)	-
Income tax expense	3,842	6,040

* The statutory tax rate of 30% represents the current Australian statutory income tax rate (2013: 30%).

		Consolidated
	2014	**2013**
	$'000	**$'000**
Amounts (credited)/charged directly to equity		
Deferred tax assets (note 16)	(2,540)	1,567

Tax losses not recognised
Unused tax losses related to capital losses of $154,857,154 (2013: $154,857,154) carried forward to which no deferred tax asset has been recognised.

Income tax losses
As at 30 June 2014, the consolidated entity had carried forward income tax losses of $2,333,758 (2013: $1,635,169). A deferred tax asset in relation to these income tax losses has been recognised for the years ended 30 June 2014 and 30 June 2013.

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.

Note 7. Current assets - cash and cash equivalents

		Consolidated
	2014 $'000	2013 $'000
Cash at bank and on hand	17,123	23,576
Cash on deposit	-	15,000
	17,123	38,576

Note 8. Current assets - receivables

		Consolidated
	2014 $'000	2013 $'000
Prepayments	3,819	991
Other receivables	3,916	5,616
	7,735	6,607

Note 9. Current assets - inventories

		Consolidated
	2014 $'000	2013 $'000
Inventories on hand at lower of cost and net realisable value	90,348	40,692

Note 10. Current assets - derivative financial instruments

		Consolidated
	2014 $'000	2013 $'000
Forward foreign exchange contracts - cash flow hedges*	-	5,102
Call options at fair value**	29	91
	29	5,193

* Derivative financial liability relating to cash flow hedges as at 30 June 2014 is $3,364,000 - refer to note 18.

** To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2014 reflects the fair value revaluation of the cotton call options at the end of the reporting period. Refer to note 13 for the non-current portion of call options.

Note 11. Current assets - income tax receivable

		Consolidated
	2014 $'000	2013 $'000
Income tax receivable	289	1,568

Note 12. Non-current assets - receivables

	2014 $'000	Consolidated 2013 $'000
Other receivables	-	283

Note 13. Non-current assets - derivative financial instruments

	2014 $'000	Consolidated 2013 $'000
Call options at fair value*	78	111

* Refer to commentary in note 10.

Note 14. Non-current assets - property, plant and equipment

	2014 $'000	Consolidated 2013 $'000
Plant and equipment - at cost	231,419	194,010
Less: Accumulated depreciation and impairment	(146,974)	(122,388)
	84,445	71,622

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Land and buildings $'000	Plant and Equipment $'000	Total $'000
Balance at 1 July 2012	2,561	80,011	82,572
Additions	-	13,488	13,488
Disposals	(2,561)	(302)	(2,863)
Exchange differences	-	192	192
Impairment write-back of assets	-	2,950	2,950
Depreciation expense	-	(24,717)	(24,717)
Balance at 30 June 2013	-	71,622	71,622
Additions	-	20,698	20,698
Additions through business combinations (note 38)	-	13,164	13,164
Disposals	-	(405)	(405)
Exchange differences		204	204
Impairment write-back of assets	-	425	425
Depreciation expense	-	(21,263)	(21,263)
Balance at 30 June 2014	-	84,445	84,445

Property, plant and equipment secured under finance leases
Refer to note 35 for further information on property, plant and equipment secured under finance leases.

Note 15. Non-current assets - intangibles

	Consolidated 2014 $'000	2013 $'000
Goodwill - at cost	10,095	10,095
Other intangible assets	8,512	-
	18,607	10,095

Reconciliations
Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Goodwill $'000	Brand $'000	Other $'000	Total $'000
Balance at 1 July 2012	10,095	-	-	10,095
Balance at 30 June 2013	10,095	-	-	10,095
Additions through business combinations (note 38)	-	8,505	7	8,512
Balance at 30 June 2014	10,095	8,505	7	18,607

Goodwill
Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units (CGUs) to which goodwill has been allocated. These calculations reflect estimated cash flow projections based on a five year forecast and require the use of assumptions, including estimated discount rates, growth rates of estimated future cash flows and terminal growth rates. The value-in-use method applied in determining the recoverable amount of the CGUs is affected by management's assumptions used in the calculation.

The five year cash flow forecast is based on a budget that has been approved by the Board and projected for a further four years based on an estimated growth rate of 2.5% (2013: 2.5%). The growth rate has been determined with reference to industry trends. As part of the annual impairment test for goodwill, management assesses the reasonableness of growth rate assumptions by reviewing historical cash flow projections against actual cash flows.

The discount rates used in the value-in-use calculations are pre-tax and reflect management's estimate of the time value of money, as well as the risks specific to the CGUs. The discount rates have been determined using the average weighted cost of capital and the current market risk-free rate, adjusted for relevant business risks. The pre-tax discount rate applied in the current year value-in-use model is 11.7% (2013: 11.7%).

A terminal growth rate of 2.0% (2013: 2.0%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five year forecast horizon.

There has been no impairment loss recognised in relation to goodwill (2013: nil).

Indefinite life intangible asset - Brand
On 27 November 2013, Specialty Fashion Group Limited acquired the business and net assets of Rivers. Rivers is an iconic Australian brand and was acquired at a discount to the fair value of its net assets due to a low purchase price. An independent valuation of the collective trademarks, trade names and brand names acquired as part of the transaction resulted in a brand valuation of $8.5 million being recognised as part of the net assets acquired. The calculation of the brand's value is based on fair value at acquisition date. This amount has been assessed as an indefinite life intangible asset as there is no foreseeable limit to the cash flows generated by the brand.

Determining whether the brand is impaired requires an estimation of the brand’s fair value less costs of disposal. There has been no impairment loss recognised in relation to the brand.

Note 16. Non-current assets - deferred tax asset

	Consolidated 2014 $'000	2013 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	678	491
Property, plant and equipment	(10,945)	(13,020)
Employee benefits	5,849	4,398
Other provisions and accruals	4,790	5,208
Deferred lease incentives	3,766	2,744
Inventories	466	488
Lay-by debtors	(115)	(112)
Unrealised foreign currency exchange	61	(3)
	4,550	194
Amounts recognised in equity:		
Derivative financial instruments	1,009	(1,531)
Disclosed in the financial statements as follows:		
Deferred tax asset	5,559	491
Deferred tax liability	-	(1,828)
Net deferred tax asset/(liability)	5,559	(1,337)
Movements:		
Opening balance	(1,337)	2,348
Credited/(charged) to profit or loss (note 6)	1,908	(1,850)
Credited/(charged) to equity (note 6)	2,540	(1,567)
Additions through business combinations (note 38)	2,449	-
Underprovision in prior year	(1)	(268)
Closing balance	5,559	(1,337)

Note 17. Current liabilities - trade and other payables

	Consolidated 2014 $'000	2013 $'000
Trade payables	25,237	36,902
Other payables	44,363	30,077
	69,600	66,979

Refer to note 31 for further information on financial instruments.

Note 18. Current liabilities - derivative financial instruments

	Consolidated 2014 $'000	2013 $'000
Forward foreign exchange contracts - cash flow hedges*	3,364	-

Refer to note 31 for further information on financial instruments.

* Derivative financial asset relating to cash flow hedges as at 30 June 2013: $5,102,000 (refer to note 10).

Note 19. Current liabilities - income tax provision

	Consolidated 2014 $'000	2013 $'000
Income tax provision	4,038	-

Note 20. Current liabilities - provisions

	Consolidated 2014 $'000	2013 $'000
Provisions - Employee benefits	16,558	12,445
Other provisions	3,984	1,826
	20,542	14,271

Other provisions
Other provisions include provision for stepped leases and other provisions.

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated - 2014	Other $'000
Carrying amount at the start of the year	1,826
Additional provisions recognised	42
Additions through business combinations (note 38)	336
Amounts transferred from non-current	1,955
Amounts used	(175)
Carrying amount at the end of the year	3,984

Note 21. Current liabilities - Finance lease liability

	Consolidated 2014 $'000	2013 $'000
Finance lease	933	229

Note 22. Current liabilities - Other

		Consolidated
	2014 $'000	**2013 $'000**
Deferred lease incentives	4,038	3,038
Deferred revenue	743	1,162
Other current liabilities	-	35
	4,781	4,235

Deferred lease incentives
The provision represents operating lease incentives received. The incentives are allocated to profit or loss in such a manner that the rent expense is recognised on a straight-line basis over the lease term.

Deferred revenue
The balance represents outstanding customer reward points which entitle customers to discounts on future purchases. Revenue from the reward points is recognised when the points are redeemed.

Note 23. Non-current liabilities - borrowings

		Consolidated
	2014 $'000	**2013 $'000**
Bank loans	29,119	-

Refer to note 31 for further information on financial instruments.

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

		Consolidated
	2014 $'000	**2013 $'000**
Bank loans	29,119	-

Assets pledged as security
The bank loans 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 a working capital facility and trade finance facilities, which may be drawn at any time.

Note 23. Non-current liabilities - borrowings (continued)

Financing arrangements
Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated 2014 $'000	2013 $'000
Total facilities		
Bank loans	70,000	40,000
Asset finance facility*	8,000	8,000
Visa, encashment and guarantee facilities	300	300
	78,300	48,300
Used at the reporting date		
Bank loans	29,119	-
Asset finance facility*	4,505	-
Visa, encashment and guarantee facilities	10	163
	33,634	163
Unused at the reporting date		
Bank loans	40,881	40,000
Asset finance facility*	3,495	8,000
Visa, encashment and guarantee facilities	290	137
	44,666	48,137

The Company amended its bank loan facilities on 27 November 2013, which comprise of a working capital facility of $20.0 million and trade finance facilities of $50.0 million. These facilities may be drawn at any time. At balance date, bank loan facilities totalling $70.0 million were available to the Company (30 June 2013: $40.0 million). Of these facilities, $40.9 million was unused (30 June 2013: $40.0 million). The Company's bank loan facilities have staged maturities to December 2015.

* At balance date, the Company had access to an asset finance facility of $8.0 million (30 June 2013: $8.0 million). Amounts utilised are recognised as finance lease liabilities.

Note 24. Non-current liabilities - provisions

	Consolidated 2014 $'000	2013 $'000
Provisions - Employee benefits	3,206	2,395
Other	8,579	9,716
	11,785	12,111

Other provisions
Other provisions include provision for make good, provision for stepped leases and other provisions.

Note 24. Non-current liabilities - provisions (continued)

Movements in provisions
Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

Consolidated – 2014	Other $'000
Carrying amount at the start of the year	9,716
Additional provisions recognised	1,656
Additions through business combinations (note 38)	1,009
Amounts transferred to current	(1,955)
Amounts used	(1,847)
Carrying amount at the end of the year	8,579

Note 25. Non-current liabilities - Finance lease liability

	Consolidated 2014 $'000	2013 $'000
Finance lease	4,016	422

Note 26. Non-current liabilities - other

	Consolidated 2014 $'000	2013 $'000
Deferred lease incentives	9,477	7,601

Note 27. Equity - issued capital

	2014 Shares	2013 Shares	Consolidated 2014 $'000	2013 $'000
Ordinary shares - fully paid	192,236,121	192,236,121	134,497	134,497

Ordinary shares
Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

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.

Share buy-back
There is no current on-market share buy-back.

Performance share rights
Information relating to the Specialty Fashion Group Employee Long Term Incentive Plan, including details of performance share rights issued, vested and exercised during the financial year and performance share rights outstanding at the end of the financial year, is set out in note 43.

Note 28. Equity - reserves

		Consolidated
	2014 $'000	2013 $'000
Foreign currency reserve	(40)	(375)
Hedging reserve - cash flow hedges	(2,355)	3,572
Share-based payments reserve	61	258
	(2,334)	3,455

Foreign currency reserve
The reserve is used to recognise exchange differences arising from translation of the financial statements of foreign operations to Australian dollars.

Hedging reserve - cash flow hedges
The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Share-based payments reserve
The reserve is used to recognise the value of equity benefits provided to employees and directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves
Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Foreign currency $'000	Hedging $'000	Share-based payments $'000	Total $'000
Balance at 1 July 2012	(781)	(83)	61	(803)
Revaluation - gross	-	5,222	-	5,222
Deferred tax	-	(1,567)	-	(1,567)
Currency translation differences arising during the year	406	-	-	406
Performance share rights expense	-	-	197	197
Balance at 30 June 2013	(375)	3,572	258	3,455
Revaluation - gross	-	(8,467)	-	(8,467)
Deferred tax	-	2,540	-	2,540
Currency translation differences arising during the year	335	-	-	335
Performance share rights credit	-	-	(197)	(197)
Balance at 30 June 2014	(40)	(2,355)	61	(2,334)

Note 29. Equity - accumulated losses

		Consolidated
	2014 $'000	2013 $'000
Accumulated losses at the beginning of the financial year	(70,390)	(79,515)
Profit after income tax expense for the year	12,475	12,970
Dividends paid (note 30)	(7,690)	(3,845)
Accumulated losses at the end of the financial year	(65,605)	(70,390)

Note 30. Equity - dividends

Dividends
Dividends paid during the financial year were as follows:

	Consolidated 2014 $'000	2013 $'000
Final dividend for the year ended 30 June 2013 of 2.0 cents (30 June 2012: nil) per fully paid ordinary share	3,845	-
Interim dividend for the year ended 30 June 2014 of 2.0 cents (30 June 2013: 2.0 cents) per fully paid ordinary share	3,845	3,845
	7,690	3,845

Subsequent to the year ended 30 June 2014, the directors declared a fully franked final dividend of $3,844,722 to the holders of fully paid ordinary shares. Refer to note 44 for additional details.

Franking credits

	Consolidated 2014 $'000	2013 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	43,691	41,441

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:
- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

Note 31. Financial instruments

Capital risk management
The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 2013 Annual Report.

In order to maintain or adjust the capital structure, the consolidated entity manages the level of debt that is prudent, facilitates the execution of the operational plan and provides flexibility for growth while managing the amount of equity and expectation of return for dividends.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The consolidated entity is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year. Formal notification of this compliance is confirmed on a quarterly basis.

The capital structure of the consolidated entity consists of net debt (borrowings as detailed in note 23 offset by cash and cash equivalents as detailed in note 7) and equity of the consolidated entity (comprising issued capital, reserves and accumulated losses as detailed in notes 27 to 29).

Note 31. Financial instruments (continued)

Categories of financial instruments

	Consolidated	
	2014	**2013**
	$'000	**$'000**
Financial assets		
Cash and cash equivalents	17,123	38,576
Other receivables	7,735	6,607
Derivative financial instruments – call options at fair value through profit or loss	107	202
Derivative financial instruments – cash flow hedges	-	5,102
	24,965	50,487
Financial liabilities		
Trade and other payables*	69,600	66,979
Borrowings*	29,119	-
Finance lease liability*	4,949	651
Derivative financial instruments – cash flow hedges	3,364	-
	107,032	67,630

* These liabilities are carried at amortised cost.

Financial risk management objectives
The consolidated entity's activities expose it to a variety of financial risks – market risk (including foreign currency risk, commodity price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity'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 consolidated entity.

The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts and cotton call options to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity 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, foreign exchange and commodity price risks.

The consolidated entity 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 and the Audit and Risk Committee oversee principles for overall risk management as well as specific areas, such as mitigating foreign exchange, commodity price, interest rate and credit risks; use of derivative financial information; and investing excess liquidity.

Market risk
The consolidated entity's activities expose it primarily to the financial risks of changes in (i) foreign currency exchange rates; (ii) commodity prices; and (iii) interest rates. The consolidated entity enters into the following derivative financial instruments to manage its exposure to foreign currency risk and commodity price risk:

- Forward foreign exchange contracts to hedge the exchange rate risk arising from foreign currency transactions; and
- Cotton call options to hedge against significant adverse fluctuations in cotton prices.

There has been no change to the consolidated entity's exposure to market risks or the manner in which these risks are managed and measured.

Note 31. Financial instruments (continued)

(i) Foreign currency risk management
The consolidated entity operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar (USD), New Zealand dollar (NZD), Chinese Renminbi (RMB) and South African Rand (ZAR).

Exposures to foreign exchange rate fluctuations arise when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency. Foreign currency exposures are managed with approved policy parameters utilising forward foreign exchange contracts.

Foreign currency sensitivity analysis
As at reporting date, financial assets or liabilities which are exposed to foreign currency risk comprise of cash and cash equivalents of AU$0.3 million (2013: AU$0.4 million) and trade payables of AU$5.5 million (2013: AU$2.8 million).

In respect of the consolidated entity's hedging position at 30 June 2014, 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 $8.5 million higher / $10.4 million lower (2013: $2.6 million higher / $3.1 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 the New Zealand dollar, Chinese Renminbi and South African Rand against the Australian dollar on post-tax profit and other balance sheet items would not be significant. This position has not changed from 2013.

Forward foreign exchange contracts
The consolidated entity's risk management policy is to hedge purchases up to 18 months in the future. Approximately 100% (2013: 100%) of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes.

The maturity, settlement amounts and the average contractual exchange rates of the consolidated entity's outstanding forward foreign exchange contracts at the reporting date was as follows:

	Sell Australian dollars		**Average exchange rates**	
	2014	**2013**	**2014**	**2013**
	$'000	**$'000**		
Buy US dollars				
Maturity:				
Less than 1 year	133,336	40,292	0.9087	1.0222

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. At 30 June 2014, the aggregate amount of losses under forward foreign exchange contracts recognised in other comprehensive income and accumulated in the cash flow hedging reserve relating to these anticipated future purchase transactions is $5.9 million (2013: gains of $3.7 million). It is anticipated that the purchases will take place during the next financial year at which time the amount deferred in equity will be included in the carrying amount of inventories. In addition, it is anticipated that inventories will be sold within 12 months of purchases, at which time the amount deferred in equity will be reclassified to profit or loss.

At 30 June 2014, no ineffectiveness has been recognised in profit or loss arising from hedging against future transactions denominated in foreign currency.

(ii) Commodity price risk
In order to protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options with a fair value of $0.1 million at 30 June 2014 (2013: $0.2 million). The expense for the year ended 30 June 2014 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Commodity price sensitivity analysis
At 30 June 2014, if the fair value of options had changed by +/-10% from the year-end values with all other variables held constant, the impact on post-tax profit for the year would have been insignificant. This position has not changed from 2013.

Note 31. Financial instruments (continued)

(iii) Interest rate risk
The consolidated entity is exposed to interest rate risk as entities in the Group borrow funds at both fixed and floating interest rates. The consolidated entity's main interest rate risk arises from borrowings and finance leases. The parent entity has access to a working capital facility as well as trade finance facilities in order to have the flexibility to meet the consolidated entity's working capital requirements. In addition, the parent entity has access to an asset finance facility which is used to fund capital purchases.

The consolidated entity's exposures to interest rates on financial assets and financial liabilities are detailed in the liquidity risk management section of this note.

Interest rate sensitivity analysis
At 30 June 2014, 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 (2013: change of +/- 100 bps resulted in an insignificant change). This is mainly attributable to the consolidated entity's exposure to interest rates on its variable rate borrowings.

Credit risk management
Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivative financial instruments and deposits with banks. Sales to retail customers are settled in cash or using major credit cards, mitigating risk to the consolidated entity.

The credit risk on liquid funds and derivative financial instruments is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies. For banks, only independently rated parties with a minimum rating of "AA" are accepted. The maximum exposure to credit risk at reporting date is the carrying amount of the financial assets and liabilities detailed in the '*Categories of financial instruments*' section of this note.

Liquidity risk management
Prudent liquidity risk management requires maintaining sufficient cash and availability of funding through an adequate amount of available borrowing facilities. The consolidated entity's approach to managing liquidity is to ensure that it will always have sufficient cashflow to meet its liabilities as and when they become due and payable, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the consolidated entity's reputation.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities. Note 23 sets out details of additional undrawn facilities that the consolidated entity has at its disposal to further reduce liquidity risk.

Inventory management methods and established supplier relationships assist management to prepare rolling forecasts of the consolidated entity's cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the consolidated entity 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 consolidated entity maintains the following lines of credit (refer to note 23 for additional details):

- Bank loan facilities which comprise a working capital facility of $20.0 million and trade finance facilities of $50.0 million. At balance date, $40.9 million of these facilities was unused.
- Asset finance facility of $8.0 million. At balance date, $3.5 million of this facility was unused.
- Visa, encashment and guarantee facilities of $0.3 million. At balance date, $0.3 million of this facility was unused.

Management monitors rolling forecasts of the consolidated entity's liquidity reserve (comprising the undrawn borrowing facilities as detailed below) and cash and cash equivalents on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the consolidated entity in accordance with practice and limits set by the consolidated entity. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the consolidated entity'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.

Note 31. Financial instruments (continued)

Financing arrangements
Unused borrowing facilities at the reporting date:

	Consolidated 2014 $'000	2013 $'000
Bank loans	40,881	40,000
Asset finance facility	3,495	8,000
Visa, encashment and guarantee facilities	290	137
	44,666	48,137

Liquidity and interest risk tables
The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative financial assets and liabilities. The tables have been drawn up based on (i) the undiscounted contractual maturities of the financial assets including interest that will be earned on those assets; and (ii) the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The inclusion of information on non-derivative financial assets is necessary in order to understand the consolidated entity's liquidity risk management as the liquidity is managed on a net asset and liability basis.

Consolidated - 2014	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives – assets						
Non-interest bearing						
Receivables	-	7,735	-	-	-	7,735
Interest-bearing – variable						
Cash and cash equivalents	2.0	17,123	-	-	-	17,123
Total non-derivative assets		24,858	-	-	-	24,858
Non-derivatives – liabilities						
Non-interest bearing						
Trade and other payables	-	69,600	-	-	-	69,600
Interest-bearing - variable						
Borrowings	4.1	-	29,119	-	-	29,119
Letters of credit	4.1	7,231	-	-	-	7,231
Interest-bearing - fixed rate						
Finance lease liability	8.4	909	931	3,109	-	4,949
Total non-derivative liabilities		77,740	30,050	3,109	-	110,899

Note 31. Financial instruments (continued)

Consolidated - 2013	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives – liabilities						
Non-interest bearing						
Receivables	-	6,607	-	-	-	6,607
Interest-bearing – variable						
Cash and cash equivalents	2.8	38,576	-	-	-	38,576
Total non-derivative assets		45,183	-	-	-	45,183
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	66,979	-	-	-	66,979
Interest-bearing - variable						
Letters of credit	5.4	4,071	-	-	-	4,071
Interest-bearing - fixed rate						
Finance lease liability	7.5	229	229	193	-	651
Total non-derivative liabilities		71,279	229	193	-	71,701

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

The following table details the consolidated entity's liquidity analysis for its derivative financial instruments. The table has been drawn up based on the undiscounted contractual net cash inflows and outflows on derivative instruments that settle on a net basis, and the undiscounted gross inflows and outflows on those derivatives that require gross settlement.

Consolidated – 2014	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Derivative asset / (liability)					
Call options	29	78	-	-	107
Forward foreign exchange contracts	(3,364)	-	-	-	(3,364)
Total derivatives	(3,335)	78	-	-	(3,257)

Consolidated – 2013	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Derivative asset / (liability)					
Call options	91	111	-	-	202
Forward foreign exchange contracts	5,102	-	-	-	5,102
Total derivatives	5,193	111	-	-	5,304

Note 31. Financial instruments (continued)

Fair value of financial instruments
This note provides information about how the consolidated entity determines fair values of various financial assets and financial liabilities.

Fair values of financial instruments are categorised by the following levels:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: 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 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The consolidated entity has financial assets and liabilities which are measured at fair value at the end of each reporting period. Forward foreign exchange contracts (see notes 10, 13 and 18) and call options at fair value through profit and loss (see notes 10 and 13) are measured at fair value using level 2 inputs.

The fair values of the financial assets and financial liabilities included in the level 2 fair value hierarchy have been determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant inputs being the discount rate that reflects the credit risk of counterparties. There were no transfers between levels during the financial year.

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value. The carrying amounts of receivables, trade and other payables are assumed to approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial instruments.

Note 32. Key management personnel disclosures

Directors
The following persons were directors of Specialty Fashion Group Limited during the financial year:

Geoff Levy AO	Chairperson
Gary Perlstein	Chief Executive Officer
Ian Miller	Non-Executive Director
Joel Bloom (resigned on 31 October 2013)	Non-Executive Director
Anne McDonald	Non-Executive Director
Ashley Hardwick	Non-Executive Director
Michael Hardwick	Non-Executive Director
Megan Quinn	Non-Executive Director

Other key management personnel
The following persons also had the authority and responsibility for planning, directing and controlling the major activities of the consolidated entity, directly or indirectly, during the financial year:

Alison Henriksen	Chief Financial Officer and Company Secretary
Sonia Moura	General Manager of Human Resources

Compensation
The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

		Consolidated
	2014	**2013**
	$	**$**
Short-term employee benefits	1,966,655	2,415,007
Post-employment benefits	201,456	229,261
Share-based payments	(100,821)	100,821
	2,067,290	2,745,089

Employee Long Term Incentive Plan
In December 2012, the Company established the Specialty Fashion Group Employee Long Term Incentive Plan whereby, at the discretion of the Board, senior management were invited to participate in the Specialty Fashion Group Employee Long Term Incentive Plan. As at 30 June 2014, 3,800,000 performance rights over ordinary shares were granted to senior management (2013: 2,800,000). Details of this plan are detailed in note 43.

Shareholding
The number of ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

		Consolidated
	2014	**2013**
Ordinary shares		
Geoff Levy AO	2,365,564	2,365,564
Gary Perlstein	17,862,814	17,862,814
Ian Miller	14,509,906	14,509,906
Joel Bloom	200,000	200,000
Anne McDonald	15,000	15,000
Ashley Hardwick *	38,742,203	38,742,203
Michael Hardwick	195,000	195,000
Total shares held by key management personnel	73,890,487	73,890,487

* Beneficial interest holding through NAAH Pty Ltd and NAAH Investments Pty Ltd.

Performance rights holding
The number of performance rights over ordinary shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

		Consolidated
	2014	**2013**
Performance rights		
Gary Perlstein	200,000	-
Alison Henriksen	500,000	500,000
Sonia Moura	225,000	225,000
Total performance rights held by key management personnel	925,000	725,000

Related party transactions
Related party transactions are set out in note 36.

Note 33. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu ('Deloitte'), the auditor of the Company:

		Consolidated
	2014	**2013**
	$	**$**
Audit services - Deloitte Touche Tohmatsu		
Audit or review of the financial statements*	431,000	249,400
Other services - Deloitte Touche Tohmatsu		
Tax compliance services including review of company income tax returns	108,240	40,109
Tax advisory services	12,200	26,700
Other advisory services*	396,230	-
	516,670	66,809
	947,670	316,209

* 2014 fees in relation to audit and other advisory services have increased from the prior year primarily due to the acquisition of Rivers. Other advisory services include consulting fees in relation to the integration of Rivers into the Group.

It is the consolidated entity's policy to employ Deloitte on assignments additional to their statutory audit duties where Deloitte's expertise and experience with the consolidated entity 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 consolidated entity's policy to seek competitive tenders for all major consulting projects.

Note 34. Contingent liabilities

The consolidated entity had contingent liabilities at 30 June 2014 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 40. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in note 23.

No material losses are anticipated in respect of any of the above contingent liabilities.

Note 35. Commitments

	Consolidated 2014 $'000	2013 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	3,026	1,782
Lease commitments - operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	87,322	73,057
One to five years	252,362	154,634
More than five years	225	1,794
	339,909	229,485
Lease commitments - finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	1,137	266
One to five years	4,290	476
Total commitment	5,427	742
Less: Future finance charges	(478)	(91)
Net commitment recognised as liabilities*	4,949	651

* At balance date, total finance lease liabilities relating to the Company's asset finance facility totalled $4.5 million (2013: nil). Details of the asset finance facility are detailed in note 23.

Assets pledged as security
The consolidated entity's obligations under finance leases are secured by the lessors' title to the leased assets, which have a carrying amount of $4.9 million (2013: $0.7 million).

Not included in the above commitments are contingent rental payments which may arise in the event that sales revenue exceeds a pre-determined amount.

Note 36. Related party transactions

Parent entity
Specialty Fashion Group Limited is the parent entity.

Subsidiaries
Interests in subsidiaries are set out in note 39.

Key management personnel
Disclosures relating to key management personnel are set out in note 32 and the remuneration report in the directors' report.

Note 36. Related party transactions (continued)

Transactions with related parties
The following transactions occurred with related parties:

	Consolidated	
	2014	**2013**
	$	**$**
Payment for other expenses:		
Lease of business premises in which I Miller and G Perlstein, directors of the consolidated entity, have an interest	543,576	524,511
Lease of business premises in which G Levy, director of the consolidated entity, has an interest	421,301	409,376

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 consolidated entity. During the 2004 year, the consolidated entity 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 consolidated entity. During the 2012 year, the consolidated entity 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. The consolidated entity pays rent based on the market value of the unimproved premises. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

Receivable from and payable to related parties
There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to/from related parties
There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions
All transactions were made on normal commercial terms and conditions and at market rates.

Note 37. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income	**2014 $'000**	**2013 $'000**
Revenue	650,129	548,410
Changes in inventories of finished goods and consumables	19,296	(8,143)
Finished goods and consumables used	(255,770)	(198,473)
Employee benefits expense	(182,770)	(144,908)
Depreciation, amortisation and impairment expense	(19,923)	(20,655)
Rental expense	(121,144)	(106,587)
Other expenses	(75,134)	(47,207)
Finance costs	(2,069)	(795)
Net discount on acquisition	3,445	-
Profit before income tax expense	16,060	21,642
Income tax expense	(3,825)	(6,422)
Profit after income tax expense	12,235	15,220
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(5,927)	3,655
Other comprehensive income for the year, net of tax	(5,927)	3,655
Total comprehensive income for the year	6,308	18,875

Note 37. Parent entity information (continued)

Statement of financial position	**2014 $'000**	**2013 $'000**
Current assets		
Cash and cash equivalents	14,295	36,515
Receivables	16,845	9,188
Inventories	82,541	38,617
Derivative financial instruments	28	5,193
Income tax receivable	-	1,352
	113,709	90,865
Non-current assets		
Receivables	-	283
Derivative financial instruments	78	111
Property, plant and equipment	80,725	68,882
Intangibles	10,518	2,006
Deferred tax asset	4,845	-
Other	1,137	1,131
	97,303	72,413
Total assets	211,012	163,278
Current liabilities		
Trade and other payables	68,024	65,668
Derivative financial instruments	3,364	-
Income tax provision	3,872	-
Provisions	20,110	13,919
Finance lease liability	933	229
Other	4,496	4,060
	100,799	83,876
Non-current liabilities		
Borrowings	29,119	-
Deferred tax liability	-	1,865
Provisions	11,668	11,975
Finance lease liability	4,016	422
Other	8,967	7,119
	53,770	21,381
Total liabilities	154,569	105,257
Net assets	56,443	58,021
Equity		
Issued capital	134,497	134,497
Reserves	(2,293)	3,830
Accumulated losses	(75,761)	(80,306)
Total equity	56,443	58,021

Equity - retained profits	**2014 $'000**	**2013 $'000**
Accumulated losses at the beginning of the financial year	(80,306)	(91,681)
Profit after income tax expense	12,235	15,220
Dividends paid	(7,690)	(3,845)
Accumulated losses at the end of the financial year	(75,761)	(80,306)

Note 37. Parent entity information (continued)

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries
The same guarantee disclosure applies to both parent and consolidated accounts. Refer to note 40 for further details.

Contingent liabilities
The same contingency commitment disclosure applies to both parent and consolidated accounts. Refer to note 34 for further details.

The parent entity had capital commitments for property, plant and equipment as 30 June 2014:

		Parent
	2014 $'000	2013 $'000
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	3,026	1,782

Significant accounting policies
The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 38. Business combinations

On 27 November 2013, Specialty Fashion Group Limited acquired the business and net assets of Rivers for the net cash consideration transferred of $3.9 million. The acquisition is part of the Group’s long-term strategy to expand its footprint in the mature, value segment of the specialty fashion market and this marks the Group‘s entry into value footwear and men’s clothing.

The values identified in relation to the acquisition of the business and net assets of Rivers are final as at 30 June 2014 and comprise of the following:

	Fair value $'000
Inventories	24,956
Other current assets	1,206
Property, plant and equipment	13,164
Intangible assets	8,512
Deferred tax asset	2,449
Borrowings	(27,358)
Trade and sundry payables	(8,856)
Employee benefits	(4,028)
Other provisions	(1,345)
Identifiable net assets acquired	**8,700**
Amount settled in cash on acquisition	5,000
Post-acquisition adjustment to purchase price	(1,111)
Net cash outflow on acquisition	**3,889**
Discount on acquisition	**4,811**
Acquisition related costs expensed to profit or loss	(1,366)
Net discount on acquisition	**3,445**

Note 38. Business combinations (continued)

The consolidated entity purchased the business and net assets of Rivers at a discount to the fair value of its net assets due to a low purchase price, which was influenced by a motivated seller with a desire to exit the business, and also reflected the difficulties encountered by Rivers in a challenging retail environment.

As the identifiable fair value of net assets acquired exceeds the net cash consideration paid of $3.9 million, this represents a bargain purchase in accordance with the accounting standards. A discount on acquisition of $4.8 million excluding acquisition costs has been recognised in the operating result of Specialty Fashion Group Limited for the year ended 30 June 2014. These amounts are final at 30 June 2014.

Consideration transferred
Acquisition related costs amounting to $1.4 million are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income.

Rivers' contribution to the Group's results
From the date of acquisition, Rivers has contributed $105.7 million from the sale of goods to consolidated revenue.

Management is unable to quantify the impact on the financial results of the consolidated entity for the year ended 30 June 2014 should the acquisition have occurred at the beginning of the financial period, as the acquisition of Rivers' business and net assets excludes the right to disclose historical financial records relating to the entity pre-acquisition.

Note 39. Interests in 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:

Name	Principal place of business / Country of incorporation	Ownership interest 2014 %	2013 %
Miller's Fashion Club (QLD) Pty Limited	Australia	100	100
Miller's Fashion Club (VIC) Pty Limited	Australia	100	100
Miller's Fashion Club (WA) Pty Limited	Australia	100	100
Stylefix Pty Limited	Australia	80	80
Specialty Fashion Group No. 2 Pty Limited	Australia	100	100
Specialty Fashion Group No. 3 Pty Limited	Australia	100	100
Specialty Fashion Group No. 4 Pty Limited	Australia	100	100
Yip Eks Pty Limited	Australia	100	100
H&H Corporation Pty Limited	Australia	100	100
McSeveny DA Pty Limited	Australia	100	100
GIP Fashions Pty Limited	Australia	100	100
Crossroads Clothing Co. Pty Limited	Australia	100	100
City Chic International Pty Limited	Australia	100	100
Selbourne Australia Pty Limited	Australia	100	100
Specialty Fashion Group New Zealand Limited	New Zealand	100	100
Specialty Fashion Group (Shanghai) Limited Company	China	100	100
Specialty Fashion Group South Africa (Pty) Ltd	South Africa	100	100
Specialty Fashion Group USA Incorporated*	United States	100	-

* During the year ended 30 June 2014, a wholly-owned subsidiary of Specialty Fashion Group Limited was incorporated in the USA.

Note 40. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

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
GIP Fashions Pty Limited

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities and Investments Commission ('ASIC').

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 the 'Parent entity' note 37.

Note 41. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2014 $'000	**2013 $'000**
Profit after income tax expense for the year	12,475	12,970
Adjustments for:		
Depreciation and amortisation expense	21,263	24,717
Impairment write-back of property, plant and equipment	(425)	(2,950)
Net loss/(gain) on disposal of plant and equipment	173	(23)
Discount on acquisition	(4,811)	-
Share-based payments	(197)	197
Fair value revaluation of derivative financial instruments through profit or loss	343	12
Foreign exchange differences	131	(323)
Change in operating assets and liabilities, net of business combination:		
Increase in trade and other receivables	(640)	(3,510)
(Increase)/decrease in inventories	(24,700)	7,468
Increase in derivative financial instruments	(248)	-
(Increase)/decrease in deferred tax asset	(1,908)	3,685
Increase in provision for income tax	5,317	1,611
(Decrease)/increase in trade and other payables	(6,234)	4,127
Increase in other provisions	2,993	1,549
Net cash from operating activities	3,532	49,530

Note 42. Earnings per share

	Consolidated 2014 $'000	2013 $'000
Profit after income tax attributable to the owners of Specialty Fashion Group Limited	12,475	12,970

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	192,236,121	192,236,121
Adjustments for calculation of diluted earnings per share:		
Performance rights - Executive Equity Participation Plan	-	416
Performance rights - Employee Long Term Incentive Plan	-	1,007,692
Weighted average number of ordinary shares used in calculating diluted earnings per share	192,236,121	193,244,229

	Cents	Cents
Basic earnings per share	6.5	6.7
Diluted earnings per share	6.5	6.7

Performance rights
Performance rights over ordinary shares granted to employees under the Employee 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 performance rights have not been included in the determination of basic earnings per share

Note 43. Share-based payments

Employee Long Term Incentive Plan
In December 2012, the Company established the Employee Long Term Incentive Plan whereby, at the discretion of the Board, senior management were invited to participate in the Specialty Fashion Group Employee Long Term Incentive Plan.

Under the plan, eligible employees are granted performance rights over ordinary shares in Specialty Fashion Group Limited on terms and conditions determined by the Board. Performance rights granted under the plan give the employee the right to receive an ordinary share at a future point in time upon meeting specified vesting conditions with no exercise price payable. The performance rights are granted at no consideration.

In order to satisfy the performance conditions, the consolidated entity must meet or exceed specified cumulative Return on capital employed (ROCE) and Earnings before interest, taxation, depreciation and amortisation (EBITDA) growth targets associated with the plan at each vesting date. In addition, plan participants are required to complete a continual period of service from the performance right grant date to the vesting date. The Board of directors has the discretion to waive or partly waive performance conditions that have not been satisfied.

Plan participants are unable to deal in the performance rights without the prior written permission of the Company which may be withheld at its absolute discretion.

During the year, 1,000,000 performance share rights were issued and remain outstanding as at 30 June 2014 (30 June 2013: 2,800,000). Refer below table for details.

Fair value of options granted
No options were granted during the years ended 30 June 2014 or 30 June 2013. 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.

Note 43. Share-based payments (continued)

Set out below are summaries of performance rights granted under the plan:

2014

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19 Feb 2013	30 Aug 2015	2,800,000	-	-	-	2,800,000
17 Sep 2013	30 Aug 2016	-	600,000	-	-	600,000
31 Oct 2013	30 Aug 2016	-	200,000	-	-	200,000
21 Jan 2014	30 Aug 2016	-	200,000	-	-	200,000
		2,800,000	1,000,000	-	-	3,800,000

2013

Grant date	Expiry date	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19 Feb 2013	30 Aug 2015	-	2,800,000	-	-	2,800,000
		-	2,800,000	-	-	2,800,000

Note 44. Events after the reporting period

On 25 August 2014 the directors declared a fully franked final dividend of 2.0 cents per share to the holders of fully paid ordinary shares, payable to shareholders on 26 September 2014. This dividend has not been included as a liability in these consolidated financial statements, and will be paid to all shareholders on the Register of Members as at 12 September 2014. The aggregate amount of the proposed dividend expected to be paid to shareholders is $3,844,722.

Apart from the dividend declared as disclosed in note 30, no other matter or circumstance has arisen since 30 June 2014 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Specialty Fashion Group Limited
Directors' declaration
30 June 2014

In the directors' opinion:

- the attached financial statements and notes thereto comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;

- the attached financial statements and notes thereto comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes thereto give a true and fair view of the consolidated entity's financial position as at 30 June 2014 and of its performance for the financial year ended on that date;

- 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

- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group 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 40 to the financial statements.

The directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

Geoff Levy AO
Non-executive Chairperson

Gary Perlstein
Chief Executive Officer

26 August 2014
Sydney

Specialty Fashion Group Limited
Shareholder information
30 June 2014

The shareholder information set out below was applicable as at 19 August 2014.

Distribution of equitable securities
Analysis of number of equitable security holders by size of holding:

	Number of holders of ordinary shares
1 to 1,000	709,156
1,001 to 5,000	5,549,476
5,001 to 10,000	5,288,310
10,001 to 100,000	16,988,610
100,001 and over	163,700,569
	192,236,121
Holding less than a marketable parcel	156,215

Equity security holders

Twenty largest quoted equity security holders
The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
NAAH Pty Ltd / NAAH Investments Pty Ltd	38,742,203	20.15
National Nominees Limited	23,473,506	12.21
J P Morgan Nominees Australia Limited	20,080,388	10.45
Icestorm Pty Ltd	16,745,288	8.71
HSBC Custody Nominees (Australia) Limited	11,348,574	5.90
Citicorp Nominees Pty Limited	9,599,769	4.99
BNP Paribas Noms Pty Ltd	8,611,450	4.48
Landcharm Pty Limited	7,387,666	3.84
Landpeak Pty Limited	7,122,240	3.70
GDL Investments Pty Limited	1,955,564	1.02
Bond Street Custodians Limited	1,692,169	0.88
RBC Investor Services Australia Nominees Pty Limited	1,303,220	0.68
Mr David Alan McSeveny	1,171,513	0.61
Tank Ventures Pty Ltd	880,000	0.46
Snowglaze Investments Pty Ltd	702,720	0.37
Wallbay Pty Ltd	630,000	0.33
Rye Holdings Pty Ltd	600,000	0.31
Mr Steven Ivak	447,000	0.23
Mr Gary Perlstein	414,720	0.22
Alney Pty Limited	410,000	0.21
	153,317,990	79.75

Unquoted equity securities
There are no unquoted equity securities.

Specialty Fashion Group Limited
Shareholder information
30 June 2014

Substantial holders
Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
NAAH Unit Trust[1]	38,742,203	20.15
Lazard Asset Mgt Pacific Co	21,687,141	11.28
Mr Gary Perlstein and controlled entities	17,862,814	9.29
Mr Ian Miller and controlled entities	14,509,906	7.55
Delta Lloyd Asset Mgt	12,129,517	6.31
Celeste Funds Mgt	11,612,114	6.04
Renaissance Smaller Companies	9,872,850	5.14

[1] Mr A Hardwick has a beneficial interest in Specialty Fashion Group Limited through NAAH Pty Ltd and NAAH Investments Pty Ltd.

Voting rights
The voting rights attached to ordinary shares are set out below:

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.

There are no other classes of equity securities.