

Specialty Fashion Group Limited
Appendix 4D
Half-year report

1. Company details

Name of entity:	Specialty Fashion Group Limited
ABN:	43 057 569 169
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	1.0% to	430,032
Profit from ordinary activities after tax attributable to the owners of Specialty Fashion Group Limited	up	36.8% to	12,059
Profit for the half-year attributable to the owners of Specialty Fashion Group Limited	up	36.8% to	12,059
			Dec 2016 Cents
			Dec 2015 Cents
Basic earnings per share			6.3
Diluted earnings per share			4.6
			6.3
			4.6

Dividends

There were no dividends paid, recommended or declared during the current half-year financial period.

Comments

Reconciliation of operating profit before income tax to Underlying EBITDA (Earnings before interest, taxation, depreciation, amortisation and impairment, adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs) is provided as follows:

	Dec 2016 \$'000	Consolidated Dec 2015 \$'000
Underlying EBITDA	30,372	26,955
Restructuring costs*	-	(1,527)
Fair value revaluation of derivative financial instruments through profit or loss	(106)	5
Interest revenue	39	45
Finance costs	(1,155)	(1,627)
Depreciation, amortisation and impairment expense	(10,671)	(10,271)
Profit before income tax	<u>18,479</u>	<u>13,580</u>

* Restructuring costs include redundancies, lease and other costs associated with the planned closure of the Rivers' Ballarat warehouse.

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 page 2 of the 2017 Interim Report.

3. Net tangible assets

	Dec 16 Cents	Jun 16 Cents
Net tangible assets per ordinary security	<u>27.8</u>	<u>17.9</u>

4. Control gained over entities

Not applicable.

5. Loss of control over entities

Not applicable.

6. Dividends

Current period

There were no dividends paid, recommended or declared during the current half-year financial period.

Previous period

There were no dividends paid, recommended or declared during the previous half-year financial period.

7. Dividend reinvestment plans

Not applicable.

8. Details of associates and joint venture entities

Not applicable.

9. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

10. Audit or review

Details of audit/review:

The financial statements were subject to a review by the auditors and the review report is attached as part of the 2017 Interim Report.

11. Attachments

Details of attachments (if any):

The Interim Report of Specialty Fashion Group Limited for the half-year ended 31 December 2016 is attached.

Specialty Fashion Group Limited
Appendix 4D
Half-year report

12. Signed

A handwritten signature in black ink, appearing to read 'G Perlstein', written in a cursive style.

G Perlstein
Director, Chief Executive Officer
Sydney

Date: 28 February 2017

Specialty Fashion Group Limited

ABN 43 057 569 169

Interim Report - 31 December 2016

Specialty Fashion Group Limited

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31 December 2016

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General information

The consolidated interim financial statements cover Specialty Fashion Group Limited as a consolidated entity consisting of Specialty Fashion Group Limited (the 'Company') and the entities it controlled (the 'Group' or 'consolidated entity') at the end of, or during, the half-year ended 31 December 2016. The consolidated interim 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
Australia
T: (02) 8303 9800
F: (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 consolidated interim financial statements.

The consolidated interim financial statements were authorised for issue, in accordance with a resolution of directors, on 28 February 2017. The directors have the power to amend and reissue the consolidated interim financial statements.

Specialty Fashion Group Limited
Directors' report
31 December 2016

The directors present their report on the consolidated entity consisting of Specialty Fashion Group Limited (the 'Company') and the entities it controlled (the 'Group' or 'consolidated entity') at the end of, or during, the half-year ended 31 December 2016.

Directors

The following persons were directors of Specialty Fashion Group Limited during the whole of the financial half-year and up to the date of this report, unless otherwise stated:

A McDonald
M Hardwick
G Perlstein
A Hardwick
M Quinn

Principal activities

During the financial half-year the principal continuing activity of the consolidated entity consisted of the retailing of women's fashion, men's clothing and value footwear in Australia, New Zealand, USA and South Africa, as well as the wholesale of women's fashion in the USA.

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Operating and financial review

Specialty Fashion Group continues to operate within the fashion retail sector in Australia, New Zealand, USA and South Africa through Millers, Katies, Autograph, Crossroads, City Chic and Rivers.

The Group has one of the largest predominantly women's customer communities in Australasia with over 8.5 million members. The Group's customers are very loyal, with member sales representing over 81% of sales. The total physical store portfolio comprised 1,095 sites (31 December 2015: 1,089) including the 29 concession locations in Myer at 31 December 2016, and the brands' products are also available through seven online stores. In addition, City Chic's products are also available in the USA and the UK through Nordstrom, Macy's and Evans.

The Group achieved revenue of \$430.0 million (31 December 2015: \$434.3 million) and Underlying EBITDA (Earnings before interest, taxation, depreciation, amortisation and impairment, adjusted for the fair value revaluation of derivative financial instruments through profit or loss and restructuring costs) of \$30.4 million (31 December 2015: \$27.0 million) from continuing activities. A reconciliation of Underlying EBITDA to statutory profit before income tax is included in note 2 of the consolidated interim financial statements. Net profit after tax for the half-year ended 31 December 2016 was \$12.1 million (31 December 2015: \$8.8 million).

Operating cash flows were \$33.9 million (31 December 2015: \$36.8 million) and the Group's gross capital expenditure including intangible assets was \$8.6 million (31 December 2015: \$7.6 million). At 31 December 2016, the Group held cash and cash equivalents of \$18.7 million (31 December 2015: \$18.9 million) and outstanding borrowings of \$6.3 million at the end of the half-year (31 December 2015: \$11.9 million).

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Group during the financial half-year.

Matters subsequent to the end of the financial half-year

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument 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 page 4 and forms part of this report.

Specialty Fashion Group Limited
Directors' report
31 December 2016

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the Directors



A McDonald
Non-Executive Co-Chairperson



M Hardwick
Non-Executive Co-Chairperson



G Perlstein
Director, Chief Executive Officer

28 February 2017

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

28 February 2017

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 review of the financial statements of Specialty Fashion Group Limited for the half-year ended 31 December 2016, 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 review; and
- (ii) any applicable code of professional conduct in relation to the review.

Yours sincerely



DELOITTE TOUCHE TOHMATSU



David White
Partner
Chartered Accountants
Sydney

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

We have reviewed the accompanying half-year financial report of Specialty Fashion Group Limited, which comprises the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of comprehensive income, the consolidated statement of cash flows and the consolidated statement of changes in equity for the half-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 end of the half-year or from time to time during the half-year as set out on pages 7 to 18.

Director's Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year 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 half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Specialty Fashion Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

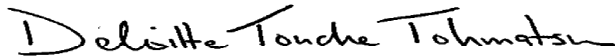
Auditor's Independence Declaration

In conducting our review, 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 review report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Specialty Fashion Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



David White
Partner
Chartered Accountants
Sydney, 28 February 2017

Specialty Fashion Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2016

	Notes	Dec 2016 \$'000	Consolidated Dec 2015 \$'000
Revenue	3	430,032	434,303
Expenses			
Changes in inventories of finished goods and consumables		10,039	(4,473)
Finished goods and consumables used		(190,661)	(181,431)
Employee benefits expense		(110,211)	(111,750)
Depreciation, amortisation and impairment expense		(10,671)	(10,271)
Rental expense		(66,075)	(67,822)
Other expenses		(42,819)	(43,349)
Finance costs		(1,155)	(1,627)
Profit before income tax expense		18,479	13,580
Income tax expense		(6,420)	(4,762)
Profit after income tax expense for the half-year attributable to the owners of Specialty Fashion Group Limited		12,059	8,818
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in the fair value of cash flow hedges taken to equity		11,102	(992)
Foreign currency translation		437	594
Income tax (expense)/benefit relating to the components of other comprehensive income		(3,330)	297
Other comprehensive income for the half-year, net of tax		8,209	(101)
Total comprehensive income for the half-year attributable to the owners of Specialty Fashion Group Limited		<u>20,268</u>	<u>8,717</u>
		Cents	Cents
Basic earnings per share	14	6.3	4.6
Diluted earnings per share	14	6.3	4.6

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

Specialty Fashion Group Limited
Consolidated statement of financial position
As at 31 December 2016

	Notes	Dec 2016 \$'000	Consolidated Jun 2016 \$'000	Dec 2015 \$'000
Assets				
Current assets				
Cash and cash equivalents		18,660	18,945	13,305
Receivables		13,618	9,469	13,129
Inventories		99,009	88,733	84,581
Derivative financial instruments	5	6,673	8	6,385
Income tax receivable		-	758	37
Total current assets		<u>137,960</u>	<u>117,913</u>	<u>117,437</u>
Non-current assets				
Plant and equipment		65,678	73,633	74,498
Intangibles		22,397	21,133	18,600
Deferred tax assets		5,699	8,316	4,917
Total non-current assets		<u>93,774</u>	<u>103,082</u>	<u>98,015</u>
Total assets		<u>231,734</u>	<u>220,995</u>	<u>215,452</u>
Liabilities				
Current liabilities				
Trade and other payables		100,513	83,495	80,944
Borrowings	6	-	-	11,904
Derivative financial instruments		-	4,458	-
Income tax payable		6,593	217	1,808
Provisions		20,894	21,059	22,255
Other		6,093	6,076	1,624
Total current liabilities		<u>134,093</u>	<u>115,305</u>	<u>118,535</u>
Non-current liabilities				
Payables		-	1,192	1,192
Borrowings	6	6,321	32,248	-
Provisions		7,212	8,158	8,899
Other		8,220	8,472	12,466
Total non-current liabilities		<u>21,753</u>	<u>50,070</u>	<u>22,557</u>
Total liabilities		<u>155,846</u>	<u>165,375</u>	<u>141,092</u>
Net assets		<u>75,888</u>	<u>55,620</u>	<u>74,360</u>
Equity				
Issued capital		134,497	134,497	134,497
Reserves	7	5,434	(2,775)	4,957
Accumulated losses	8	(64,043)	(76,102)	(65,094)
Total equity		<u>75,888</u>	<u>55,620</u>	<u>74,360</u>

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

Specialty Fashion Group Limited
Consolidated statement of changes in equity
For the half-year ended 31 December 2016

Consolidated	Issued capital \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	134,497	61	5,123	(301)	(73,912)	65,468
Profit after income tax expense for the half-year	-	-	-	-	8,818	8,818
Other comprehensive income for the half-year, net of tax	-	-	(695)	594	-	(101)
Total comprehensive income for the half-year	-	-	(695)	594	8,818	8,717
Performance rights over ordinary shares	-	175	-	-	-	175
Balance at 31 December 2015	134,497	236	4,428	293	(65,094)	74,360
Consolidated	Issued capital \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2016	134,497	61	(3,121)	285	(76,102)	55,620
Profit after income tax expense for the half-year	-	-	-	-	12,059	12,059
Other comprehensive income for the half-year, net of tax	-	-	7,772	437	-	8,209
Total comprehensive income for the half-year	-	-	7,772	437	12,059	20,268
Balance at 31 December 2016	134,497	61	4,651	722	(64,043)	75,888

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

Specialty Fashion Group Limited
Consolidated statement of cash flows
For the half-year ended 31 December 2016

	Dec 2016	Consolidated Dec 2015
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	468,514	477,768
Payments to suppliers and employees (inclusive of GST)	<u>(433,532)</u>	<u>(437,921)</u>
	34,982	39,847
Interest received	39	45
Interest and other finance costs paid	(1,155)	(1,627)
Income taxes paid	<u>-</u>	<u>(1,458)</u>
Net cash from operating activities	<u>33,866</u>	<u>36,807</u>
Cash flows from investing activities		
Payments for plant and equipment	(6,950)	(7,598)
Payments for intangibles	(1,634)	-
Proceeds from disposal of plant and equipment	<u>360</u>	<u>168</u>
Net cash used in investing activities	<u>(8,224)</u>	<u>(7,430)</u>
Cash flows from financing activities		
Repayment of borrowings	(25,927)	(23,012)
Repayment of finance leases	<u>-</u>	<u>(204)</u>
Net cash used in financing activities	<u>(25,927)</u>	<u>(23,216)</u>
Net (decrease)/increase in cash and cash equivalents	(285)	6,161
Cash and cash equivalents at the beginning of the financial half-year	<u>18,945</u>	<u>7,144</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>18,660</u></u>	<u><u>13,305</u></u>

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these interim financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Basis of preparation

The consolidated interim financial statements have been prepared on the basis of historical cost, except for the revaluation of derivative financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

The accounting policies and method of computation adopted in the preparation of the half-year financial report are consistent with those adopted and disclosed in the Group's 2016 annual financial report for the financial year ended 30 June 2016, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards and with International Financial Reporting Standards.

Amendments to Accounting Standards that are mandatorily effective for the current reporting period

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant to their operations and effective for the current half-year.

New and revised Standards and amendments thereof and interpretations effective for the current half-year that are relevant to the Group include:

AASB 1057 Application of Australian Accounting Standards and AASB 2015-9 Amendments to Australian Accounting Standards – Scope and Application Paragraphs

The application of these amendments has had no effect on the Group's consolidated financial statements.

AASB 2014-4 Amendments to Australian Accounting Standards - Clarification of Acceptable Methods of Depreciation and Amortisation

As the Group already uses the straight-line method for depreciation and amortisation for its plant and equipment, and intangible assets respectively, the application of these amendments has had no impact on the Group's consolidated financial statements.

AASB 2015-1 Amendments to Australian Accounting Standards - Annual Improvements to Australian Accounting Standards 2012-2014 Cycle

The application of these amendments has had no effect on the Group's consolidated financial statements.

AASB 2015-2 Amendments to Australian Accounting Standards - Disclosure Initiative: Amendments to AASB 101

The application of these amendments has not had a material presentation impact on the financial performance or financial position of the Group.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 2. 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 (who is identified as the Chief Operating Decision Maker ('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 Underlying EBITDA (Earnings before interest, tax, depreciation, amortisation and impairment, adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the interim consolidated 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 from any particular customer. Segment revenue from external parties, assets and liabilities are all reported to the Chief Executive Officer in a manner consistent with the consolidated interim financial statements.

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

	Dec 2016	Consolidated Dec 2015
	\$'000	\$'000
Underlying EBITDA	30,372	26,955
Restructuring costs*	-	(1,527)
Fair value revaluation of derivative financial instruments through profit or loss	(106)	5
Interest revenue	39	45
Finance costs	(1,155)	(1,627)
Depreciation, amortisation and impairment expense**	(10,671)	(10,271)
	<u>18,479</u>	<u>13,580</u>
Profit before income tax	<u>18,479</u>	<u>13,580</u>

* Restructuring costs include redundancies, lease and other costs associated with the closure of the Rivers' Ballarat warehouse.

** Depreciation, amortisation and impairment expense for the half-year was \$10.7 million (31 Dec 2015: \$10.3 million), which includes store asset impairment write-back of \$0.1 million (31 Dec 2015: write-back of \$0.1 million).

Note 3. Revenue

	Dec 2016	Consolidated Dec 2015
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	429,712	433,901
<i>Other revenue</i>		
Interest	39	45
Other revenue	281	357
	<u>320</u>	<u>402</u>
Revenue	<u>430,032</u>	<u>434,303</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 4. Expenses from continuing operations

	Dec 2016	Consolidated
	\$'000	Dec 2015
		\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	180,622	185,904
Restructuring costs*	-	1,527
Depreciation, amortisation and impairment expense**	10,671	10,271
Interest and finance charges paid/payable	1,155	1,627
Rental expense relating to operating leases	66,075	67,822
Share based payment expense	-	175
Net foreign exchange loss/(gain)	4,093	(11,675)
Defined contribution superannuation expense	8,395	7,752
Other expenses comprised:		
Utility expenses	6,031	6,168
Maintenance costs	4,364	3,714
Professional and consulting fees	3,282	2,141
Transactional fees and charges	2,468	2,185
Fair value revaluation of derivative financial instruments through profit or loss	106	(5)
Net (gain)/loss on disposal of plant and equipment	(102)	136
Other	26,670	29,010
Other expenses	<u>42,819</u>	<u>43,349</u>

* Restructuring costs include redundancies, lease and other costs associated with the planned closure of the Rivers' Ballarat warehouse.

** Depreciation, amortisation and impairment expense for the half-year was \$10.7 million (31 Dec 2015: \$10.3 million), which includes store asset impairment write-back of \$0.1 million (31 Dec 2015: write-back of \$0.1 million).

Note 5. Current assets - derivative financial instruments

	Dec 2016	Consolidated
	\$'000	Jun 2016
		\$'000
Forward foreign exchange contracts - cash flow hedges	6,645	-
Call options at fair value*	28	8
	<u>6,673</u>	<u>8</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 6. Non-current liabilities - Borrowings

	Dec 2016	Consolidated Jun 2016
	\$'000	\$'000
Bank loans	<u>6,321</u>	<u>32,248</u>

The Directors' objective when managing capital is to maintain an optimum capital structure so as to safeguard its ability to continue as a going concern. This includes appropriate debt levels which have increased and decreased over time in line with the operating and growth requirements of the Group.

In accordance with the amortisation program under the Group's banking facility, available cash flows have been applied to reduce the total external finance facilities of the Group by \$12.7 million to \$61.0 million (30 June 2016: \$70.0 million; 31 December 2015: \$73.7 million) of which \$50.4 million was unused at 31 December 2016 (30 June 2016: \$30.6 million unused; 31 December 2015: \$61.8 million unused).

The finance facility was extended during the period to 28 February 2018, and includes a continuing amortisation program which will result in a total facility of \$42.0 million as at 28 February 2018, a \$19.0 million reduction from \$61.0 million as at 31 December 2016.

The Directors believe the Group will be able to meet the facility amortisation program via future earnings generation (EBITDA) and capital optimisation including a reduction of working capital.

Note 7. Equity - Reserves

	Dec 2016	Consolidated Jun 2016
	\$'000	\$'000
Foreign currency reserve	722	285
Hedging reserve - cash flow hedges	4,651	(3,121)
Share-based payments reserve	<u>61</u>	<u>61</u>
	<u>5,434</u>	<u>(2,775)</u>

Note 8. Equity - Accumulated losses

	Dec 2016	Consolidated Jun 2016
	\$'000	\$'000
Accumulated losses at the beginning of the financial period	(76,102)	(73,912)
Profit/(loss) after income tax expense for the financial period	<u>12,059</u>	<u>(2,190)</u>
Accumulated losses at the end of the financial period	<u>(64,043)</u>	<u>(76,102)</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 9. Equity - Dividends

Dividends

There were no dividends paid, recommended or declared during the current or previous financial half-year.

Franking credits

	Dec 2016 \$'000	Consolidated Jun 2016 \$'000
Franking credits available at the reporting date based on a tax rate of 30%	51,937	44,730
Franking credits available for subsequent financial years based on a tax rate of 30%	51,937	44,730

Note 10. Financial instruments

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 settlements.

	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
Consolidated - Dec 2016					
Derivative asset					
Call options	28	-	-	-	28
Forward foreign exchange	6,645	-	-	-	6,645
Total derivatives	<u>6,673</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,673</u>
Consolidated - Jun 2016					
Derivative asset					
Call options	8	-	-	-	8
Forward foreign exchange	-	-	-	-	-
Total derivatives	<u>8</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>8</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 10. 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 note 5) and call options at fair value through profit and loss (see note 5) 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 11. Net tangible assets per security

	Consolidated						
	Dec 2016 Jun 2016						
Net tangible assets per security							
Net tangible asset backing per ordinary security	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right; border-bottom: 1px solid black;">27.8</td> <td style="text-align: right; border-bottom: 1px solid black;">17.9</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 3px double black;">27.8</td> <td style="text-align: right; border-top: 3px double black;">17.9</td> </tr> </table>		27.8	17.9		27.8	17.9
	27.8	17.9					
	27.8	17.9					

Note 12. Related party transactions

Parent entity

Specialty Fashion Group Limited is the parent entity.

Transactions with related parties

The following transactions occurred with related parties.

	Consolidated						
	Dec 2016 Dec 2015						
	\$'000 \$'000						
Payment for other expenses:							
Lease of business premises in which I Miller and G Perlstein, directors of the consolidated entity, have an interest*	148 264						
Lease of business premises in which G Levy, director of the consolidated entity, has an interest*	- 231						
Consulting fees for training services paid to an entity that is associated with G Perlstein, a director of the consolidated entity	2 -						
	<table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%;"></td> <td style="text-align: right; border-top: 1px solid black;">150</td> <td style="text-align: right; border-top: 1px solid black;">495</td> </tr> <tr> <td></td> <td style="text-align: right; border-top: 3px double black;">150</td> <td style="text-align: right; border-top: 3px double black;">495</td> </tr> </table>		150	495		150	495
	150	495					
	150	495					

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2016

Note 12. Related party transactions (continued)

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. Lower than market rental for these premises was agreed to commercially offset the benefits to these directors of the improvements to this property by converting warehouse space to office space. 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.

* There is a decrease in lease expense payments from prior year as amounts included in the period ended 31 December 2015 represent the portion payable to directors until their retirement date.

** I Miller resigned as Director of Specialty Fashion Group Limited on 17 November 2015.

*** G Levy resigned as Director of Specialty Fashion Group Limited on 17 November 2015.

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 13. Events after the reporting period

No matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 14. Earnings per share

	Dec 2016	Consolidated Dec 2015
	\$'000	\$'000
Profit after income tax attributable to the owners of Specialty Fashion Group Limited	<u>12,059</u>	<u>8,818</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>192,236,121</u>	<u>192,236,121</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>192,236,121</u>	<u>192,236,121</u>
	Cents	Cents
Basic earnings per share	6.3	4.6
Diluted earnings per share	6.3	4.6

Specialty Fashion Group Limited
Directors' declaration
31 December 2016

In the directors' opinion:

- the attached interim financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 '*Interim Financial Reporting*', the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached interim financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



A McDonald
Non-Executive Co-Chairperson



M Hardwick
Non-Executive Co-Chairperson



G Perlstein
Director, Chief Executive Officer

28 February 2017