

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 2017
Previous period:	For the half-year ended 31 December 2016

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	down	7.2% to	398,956
Profit from ordinary activities after tax attributable to the owners of Specialty Fashion Group Limited	down	74.3% to	3,105
Profit for the half-year attributable to the owners of Specialty Fashion Group Limited	down	74.3% to	3,105
			Dec 2017 Cents
			Dec 2016 Cents
Basic earnings per share			1.6
Diluted earnings per share			1.6
			6.3
			6.3

Dividends

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

Comments

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

	Dec 2017 \$'000	Consolidated Dec 2016 \$'000
Underlying EBITDA	18,450	30,372
Provision for store exit costs ¹	(1,109)	-
Restructuring costs ²	(1,827)	-
Government employment incentive ³	1,363	-
Fair value revaluation of derivative financial instruments through profit or loss	(3)	(106)
Interest revenue	43	39
Finance costs	(1,011)	(1,155)
Depreciation, amortisation and impairment of plant and equipment ⁴	(11,300)	(10,671)
Profit before income tax	<u>4,606</u>	<u>18,479</u>

¹ Relates to store exit cost for confirmed future closures.

² Restructuring cost includes redundancies, China office closure costs and consulting fees incurred as a result of the transformation program.

³ Employment incentive payments received from State Government.

⁴ Depreciation, amortisation and impairment expense for the half-year was \$11.3 million (Dec 2016: \$10.7 million), which includes a store asset impairment expense relating to stores scheduled for closure in FY18 of \$2.4 million (Dec 2016: write-back of \$0.1 million).

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 31 December 2017 Condensed Consolidated Report.

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3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>11.4</u>	<u>27.8</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 financial period.

Previous period

There were no dividends paid, recommended or declared during the previous 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 qualification or review

Details of audit/review dispute or qualification (if any):

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

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11. Attachments

Details of attachments (if any):

The Interim Report of Specialty Fashion Group Limited for the half-year ended 31 December 2017 is attached.

12. Signed

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

A McDonald
Chairperson
Sydney

Date: 22 February 2018

Specialty Fashion Group Limited

ABN 43 057 569 169

Consolidated Interim Report - 31 December 2017

Specialty Fashion Group Limited

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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 and the entities it controlled at the end of, or during, the half-year. 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
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 22 February 2018. The directors have the power to amend and reissue the financial statements.

Specialty Fashion Group Limited
Directors' report
31 December 2017

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 2017.

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 (resigned 15 February 2018)
A Hardwick (not standing for re-election as director at 2018 Annual General Meeting)
M Quinn
D Bracken (appointed 12 February 2018)

Principal activities

During the 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 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

The consolidated entity continues its principal activity of retailing women's fashion through Millers, Katies, Crossroads, Autograph and City Chic. Rivers continues its focus on both women's and men's value fashion and footwear.

The Group has one of the largest predominantly women's customer communities in Australasia with over 9 million members, and can reach over 5.5 million members through email. The total physical store portfolio comprised 999 sites including the 13 concession locations in Myer at 31 December 2017 (31 December 2016: 1,095 sites including 29 concession locations in Myer). The Group's digital presence remains strong with online sales up 14.0% to \$49.1 million representing 12.3% of total revenue (31 December 2016: 10.0%¹).

Review of Financial Performance

The Group achieved revenue of \$399.0 million (31 December 2016: \$430.0 million) and Underlying EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss, interest revenue, finance costs, store exit costs, restructuring costs and government incentives) of \$18.5 million (31 December 2016: \$30.4 million) from continuing activities. A reconciliation of Underlying EBITDA to statutory profit before income tax is included in note 2 of the financial statements. Net profit after tax for the half-year ended 31 December 2017 was \$3.1 million (31 December 2016: \$12.1 million).

Review of Financial Position

Specialty Fashion Group ended the half-year with net cash of \$21.3 million at 31 December 2017 (compared with net cash of \$12.3 million in the prior half-year). The Group had access to total facilities of \$40.0 million comprising working capital and trade finance facilities, of which \$32.4 million was unutilised.

No interim dividend has been declared for the half-year ended 31 December 2017 (31 December 2016: nil).

¹ Previously reported HY17 online sales of \$45.6m reflected gross sales. HY17 has been restated to reflect net sales.

Specialty Fashion Group Limited
Directors' report
31 December 2017

Outlook

Recent improved trading over the Christmas period indicates that customers are reacting positively to the newly selected and more commercial ranges on offer.

The Group has proven agility in navigating challenging trading conditions and will continue providing great value to the group's customers whilst maintaining strong margin and cost discipline.

Key growth priorities for FY2018 are:

- Plus sized business (City Chic and Autograph): Continue building a customer led product offer complemented by a lean operating structure;
- Rivers: Continue to focus on a core offering of great quality merchandise at affordable prices;
- Established brands (Millers, Katies and Crossroads): Continue to focus on providing the right product at great value complemented by a lean operating structure;
- Enhance our online proposition; and
- Optimise the cost base.

Significant changes in the state of affairs

On 31 January 2018, the Group announced that Gary Perlstein resigned as Chief Executive Officer and Managing Director effective on 15 February 2018.

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

On 9 February 2018, the group announced the appointment of Daniel Bracken as Chief Executive Officer and Managing Director of the company effective on the 12 February 2018.

Likely developments and expected results of operations

The consolidated entity intends to continue its principal activity of retailing of women's fashion through Millers, Katies, Crossroads, Autograph and City Chic. Rivers will continue its focus on women's and men's value fashion and footwear. The consolidated entity will continue to operate in Australia, New Zealand and USA. Further information on likely developments in the operations of the consolidated entity and expected results from operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

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 immediately after this directors' report.

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
Chairperson



M Hardwick
Audit and Risk Committee
Chairperson

22 February 2018

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

22 February 2018

Dear Board Members

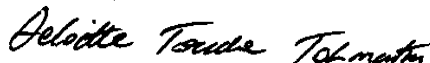
Specialty Fashion Group Limited

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 2017, 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



G J McLean
Partner
Chartered Accountants
Sydney

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

Report on the Half-Year Financial Report

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 2017, and the consolidated statement of profit and loss and other 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 19.

Directors' 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 2017 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 2017 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



G J McLean
Partner
Chartered Accountants
Sydney, 22 February 2018

Specialty Fashion Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the half-year ended 31 December 2017

	Note	Dec 2017 \$'000	Consolidated Dec 2016 \$'000
Revenue	3	398,956	430,032
Expenses			
Changes in inventories of finished goods and consumables		(11,029)	10,039
Finished goods and consumables used		(164,704)	(190,661)
Employee benefits expense		(103,933)	(110,211)
Depreciation, amortisation and impairment expense		(11,300)	(10,671)
Rental expense		(60,345)	(66,075)
Other expenses		(42,028)	(42,819)
Finance costs		(1,011)	(1,155)
Profit before income tax expense		4,606	18,479
Income tax expense		(1,501)	(6,420)
Profit after income tax expense for the half-year attributable to the owners of Specialty Fashion Group Limited		3,105	12,059
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(613)	11,102
Foreign currency translation		(720)	437
Income tax benefit/(expense) relating to the components of other comprehensive income		184	(3,330)
Other comprehensive (loss)/income for the half-year, net of tax		(1,149)	8,209
Total comprehensive income for the half-year attributable to the owners of Specialty Fashion Group Limited		1,956	20,268
		Cents	Cents
Basic earnings per share	14	1.6	6.3
Diluted earnings per share	14	1.6	6.3

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 2017

	Note	Dec 2017 \$'000	Consolidated Jun 2017 \$'000	Dec 2016 \$'000
Assets				
Current assets				
Cash and cash equivalents		27,698	17,431	18,660
Receivables		11,321	9,054	13,618
Inventories		81,934	90,839	99,009
Derivative financial instruments	5	-	3	6,673
Income tax receivable		-	35	-
Total current assets		<u>120,953</u>	<u>117,362</u>	<u>137,960</u>
Non-current assets				
Property, plant and equipment		50,963	57,299	65,678
Intangibles		24,031	22,983	22,397
Deferred tax assets		8,619	4,901	3,147
Total non-current assets		<u>83,613</u>	<u>85,183</u>	<u>91,222</u>
Total assets		<u>204,566</u>	<u>202,545</u>	<u>229,182</u>
Liabilities				
Current liabilities				
Trade and other payables		103,746	84,067	100,513
Derivative financial instruments	5	5,681	4,325	-
Income tax payable		4,813	33	6,593
Provisions		21,337	21,029	20,894
Other		5,828	5,340	6,093
Total current liabilities		<u>141,405</u>	<u>114,794</u>	<u>134,093</u>
Non-current liabilities				
Borrowings	6	6,403	25,714	6,321
Derivative financial instruments	5	-	742	-
Provisions		5,885	10,607	7,212
Other		4,842	6,613	8,220
Total non-current liabilities		<u>17,130</u>	<u>43,676</u>	<u>21,753</u>
Total liabilities		<u>158,535</u>	<u>158,470</u>	<u>155,846</u>
Net assets		<u>46,031</u>	<u>44,075</u>	<u>73,336</u>
Equity				
Issued capital		134,497	134,497	134,497
Reserves	7	(4,528)	(3,379)	5,434
Accumulated losses	8	(83,938)	(87,043)	(66,595)
Total equity		<u>46,031</u>	<u>44,075</u>	<u>73,336</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 2017

	Issued capital \$'000	Share based payments reserve \$'000	Hedging reserve \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
Consolidated						
Balance at 1 July 2016	134,497	61	(3,121)	(78,654)	285	53,068
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	12,059	437	20,268
Balance at 31 December 2016	134,497	61	4,651	(66,595)	722	73,336
Consolidated						
	Issued capital \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Accumulated losses \$'000	Foreign currency translation reserve \$'000	Total equity \$'000
Balance at 1 July 2017	134,497	61	(3,547)	(87,043)	107	44,075
Profit after income tax expense for the half-year	-	-	-	3,105	-	3,105
Other comprehensive loss for the half-year, net of tax	-	-	(429)	-	(720)	(1,149)
Total comprehensive income for the half-year	-	-	(429)	3,105	(720)	1,956
Balance at 31 December 2017	134,497	61	(3,976)	(83,938)	(613)	46,031

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 2017

	Dec 2017	Consolidated Dec 2016
	\$'000	\$'000
Cash flows from operating activities		
Receipts from customers (inclusive of GST)	434,445	468,514
Payments to suppliers and employees (inclusive of GST)	<u>(397,436)</u>	<u>(433,532)</u>
	37,009	34,982
Interest received	43	39
Interest and other finance costs paid	(1,011)	(1,155)
Income taxes paid	<u>(334)</u>	<u>-</u>
Net cash from operating activities	<u>35,707</u>	<u>33,866</u>
Cash flows from investing activities		
Payments for plant and equipment	(3,896)	(6,950)
Payments for intangibles	(2,233)	(1,634)
Proceeds from disposal of plant and equipment	<u>-</u>	<u>360</u>
Net cash used in investing activities	<u>(6,129)</u>	<u>(8,224)</u>
Cash flows from financing activities		
Repayment of borrowings	<u>(19,311)</u>	<u>(25,927)</u>
Net cash used in financing activities	<u>(19,311)</u>	<u>(25,927)</u>
Net increase/(decrease) in cash and cash equivalents	10,267	(285)
Cash and cash equivalents at the beginning of the financial half-year	<u>17,431</u>	<u>18,945</u>
Cash and cash equivalents at the end of the financial half-year	<u><u>27,698</u></u>	<u><u>18,660</u></u>

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

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 1. Significant Accounting Policies

Statement of Compliance

These general purpose financial statements for the interim half-year reporting period ended 31 December 2017 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 2017 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 2017 annual financial report for the financial year ended 30 June 2017, 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.

Net current liability position

As at 31 December 2017, the Group had a net current liability position of \$20.5 million. This is primarily as a result of optimizing its working capital management whilst limiting the draw down on its bank loan facilities. As stated in Note 6 - Borrowings, as at 31 December 2017 the Group had undrawn bank loan facilities available to it of \$32.4 million.

Notwithstanding that the Group's bank loan facilities will reduce from \$40.0 million to \$22.0 million by 30 June 2018, based on the Company's year to date trading and outlook projections for the balance of the financial year, the Directors are satisfied that the Group's bank loan facilities will continue to be sufficient to meet the Group's requirements. Further, it is the expectation of the Directors that the Group's banking facility arrangements will be reassessed well in advance of their maturity date and that finance facilities will be secured that continue to be appropriate for the needs of the Group.

Furthermore, the existing finance facilities contain specific financial covenants which will continue to be monitored by the Group. The Group has complied with such covenants. Based on the Company's year to date trading and outlook projections for the balance of the financial year, the Directors consider the covenants will continue to be satisfied. Therefore, at the date of this report and having consideration of the above factors, the directors are satisfied that the Group will be able to continue as a going concern.

Changes in accounting policy

As a consequence of an IFRS Interpretation Committee (IFRIC) agenda decision issued in November 2016, management has amended its accounting policy to recognise a deferred tax liability on indefinite life intangibles acquired as part of a business combination. The amendment resulted in a decrease of \$2.6 million to retained earnings and increase in deferred tax liabilities as at the beginning of the earliest comparative period.

All other accounting policies are consistent with those applied in the previous financial year.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 1. Significant accounting policies (continued)

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:

1. *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 interim financial statements.

2. *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 interim financial statements.

3. *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 interim financial statements.

4. *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.

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, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss, interest revenue, finance costs, store exit costs, restructuring costs and government incentives). 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.

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

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 2. Operating segments (continued)

	Dec 2017	Consolidated Dec 2016
	\$'000	\$'000
Underlying EBITDA	18,450	30,372
Provision for store exit costs ¹	(1,109)	-
Restructuring costs ²	(1,827)	-
Government employment incentive ³	1,363	-
Fair value revaluation of derivative financial instruments through profit or loss	(3)	(106)
Interest revenue	43	39
Finance costs	(1,011)	(1,155)
Depreciation, amortisation and impairment of plant and equipment ⁴	(11,300)	(10,671)
	<u>4,606</u>	<u>18,479</u>

¹ Relates to store exit cost for confirmed future closures.

² Restructuring cost includes redundancies, China office closure costs and consulting fees incurred as a result of the transformation program.

³ Employment incentive payments received from State Government.

⁴ Depreciation, amortisation and impairment expense for the half-year was \$11.3 million (Dec 2016: \$10.7 million), which includes a store asset impairment expense relating to stores scheduled for closure in FY18 of \$2.4 million (Dec 2016: write-back of \$0.1 million).

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 financial statements.

Note 3. Revenue

	Dec 2017	Consolidated Dec 2016
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	398,382	429,712
<i>Other revenue</i>		
Interest	43	39
Other revenue	531	281
	<u>574</u>	<u>320</u>
Revenue	<u>398,956</u>	<u>430,032</u>

Note 4. Expenses from continuing operations

	Dec 2017	Consolidated Dec 2016
	\$'000	\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	175,733	180,622
Depreciation, amortisation and impairment expense ¹	11,300	10,671
Interest and finance charges paid/payable	1,011	1,155
Rental expense relating to operating leases	60,345	66,075
Net foreign exchange loss	2,212	4,093
Defined contribution superannuation expense	7,800	8,395

¹ Depreciation, amortisation and impairment expense for the half-year was \$11.3 million (Dec 2016: \$10.7 million), which includes store asset impairment expense relating to stores scheduled for closure in FY18 of \$2.4 million (Dec 2016: write-back of \$0.1 million).

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 4. Expenses from continuing operations (continued)

Other expenses:		
Utility expenses	5,319	6,031
Maintenance costs	6,717	4,364
Professional and consulting fees	2,923	3,282
Transactional fees and charges	2,403	2,468
Fair value revaluation of derivative financial instruments through profit or loss	3	106
Net gain on disposal of plant and equipment	(37)	(102)
Other	24,700	26,670
	<u>42,028</u>	<u>42,819</u>
Other expenses	<u>42,028</u>	<u>42,819</u>

Note 5. Derivative financial instruments

	Dec 2017	Consolidated
	\$'000	Jun 2017
		\$'000
Current derivative asset/(liability):		
Forward foreign exchange contracts – cash flow hedges	(5,681)	(4,325)
Call options at fair value	-	3
Non-current derivative asset/(liability):		
Forward foreign exchange contracts – cash flow hedges	-	(742)
	<u>(5,681)</u>	<u>(5,064)</u>

Note 6. Non-current liabilities - Borrowings

	Dec 2017	Consolidated
	\$'000	Jun 2017
		\$'000
Bank loans	6,403	25,714
	<u>6,403</u>	<u>25,714</u>

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 a trade finance facility.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 6. Non-current liabilities - Borrowings (continued)

Financing arrangements

The following lines of credit were available at reporting date:

	Dec 2017	Consolidated
	\$'000	Jun 2017
		\$'000
Total facilities		
Bank loans	40,000	52,000
Corporate credit card	2,500	4,500
	<u>42,500</u>	<u>56,500</u>
Used at the reporting date		
Bank loans*	7,631	27,319
Corporate credit card	524	390
	<u>8,155</u>	<u>27,709</u>
Unused at the reporting date		
Bank loans	32,369	24,681
Corporate credit card	1,976	4,110
	<u>34,345</u>	<u>28,791</u>

* Bank loans includes utilised letters of credit (Dec 17: \$994k and June 17: \$1.36m) and bank guarantees (Dec 17: \$234k and June 17: \$245k).

In December 2017, the Group signed an amendment to its existing external finance facilities which will result in the bank loan facility reducing to \$22.0 million by 30 June 2018. Other terms and conditions of the facility remain principally unchanged for the outlook period and the facility maturity date currently remains as 28 February 2019. The Group has significant unused facilities available for funding requirements as at balance date, bank loan facilities totalling \$32.4 million were available to the Group (30 June 2017: \$24.7 million).

It is the expectation of the directors that the facility arrangements of the Company will be reassessed well in advance of their maturity date and finance facilities secured will be appropriate for the needs of the Company.

The existing finance facilities contain specific financial covenants which are being continuously monitored by the Group. Based on the Company's year to date trading and outlook projections for the balance of the financial year, the Directors consider the covenants will continue to be satisfied.

Note 7. Equity - Reserves

	Dec 2017	Consolidated
	\$'000	Jun 2017
		\$'000
Foreign currency reserve	(613)	107
Hedging reserve - cash flow hedges	(3,976)	(3,547)
Share-based payments reserve	61	61
	<u>(4,528)</u>	<u>(3,379)</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 8. Equity - Accumulated losses

	Dec 2017	Consolidated Jun 2017
	\$'000	\$'000
Accumulated losses at the beginning of the financial half-year	(87,043)	(78,654)
Profit/(loss) after income tax expense for the half-year	3,105	(8,389)
	<u> </u>	<u> </u>
Accumulated losses at the end of the financial half-year	<u>(83,938)</u>	<u>(87,043)</u>

Note 9. Equity - Dividends

Dividends

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

Franking credits

	Dec 2017	Consolidated Jun 2017
	\$'000	\$'000
Franking credits available at the reporting date based on a tax rate of 30%	49,769	45,832
	<u> </u>	<u> </u>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>49,769</u>	<u>45,832</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

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 2017					
Derivative asset/(liability)					
Call options	-	-	-	-	-
Forward foreign exchange	(5,681)	-	-	-	(5,681)
Total derivatives	(5,681)	-	-	-	(5,681)
Consolidated - Jun 2017					
Derivative asset/(liability)					
Call options	3	-	-	-	3
Forward foreign exchange	(4,325)	(742)	-	-	(5,067)
Total derivatives	(4,322)	(742)	-	-	(5,064)

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 5) and call options at fair value through profit and loss (see notes 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 2017 Dec 2016
Net tangible assets per security	
Net tangible asset backing per ordinary security	<u>11.4 27.8</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

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.

	Dec 2017	Consolidated Dec 2016
	\$	\$
Payment for other expenses:		
Lease of business premises in which G Perlstein ¹ , former director of the consolidated entity, has an interest	150,391	147,957
Consulting fees for training services paid to an entity that is associated with G Perlstein, a former director of the consolidated entity	-	1,500

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

On 31 January 2018, the Group announced that Gary Perlstein resigned as Chief Executive Officer and Managing Director effective on 15 February 2018.

On 9 February 2018, the group announced the appointment of Daniel Bracken as Chief Executive Officer and Managing Director of the company effective on 12 February 2018.

Apart from the above, no other matter or circumstance has arisen since 31 December 2017 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.

¹ G Perlstein is a former director and shareholder 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 the director 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.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2017

Note 14. Earnings per share

	Dec 2017	Consolidated Dec 2016
	\$'000	\$'000
Profit after income tax attributable to the owners of Specialty Fashion Group Limited	<u>3,105</u>	<u>12,059</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	1.6	6.3
Diluted earnings per share	1.6	6.3

Specialty Fashion Group Limited
Directors' declaration
31 December 2017

In the directors' opinion:

- the attached 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 financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2017 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
Chairperson



M Hardwick
Audit and Risk Committee
Chairperson

22 February 2018