

Specialty Fashion Group Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity: Specialty Fashion Group Limited
ABN: 43 057 569 169
Reporting period: For the 52 week period ended 1 July 2018
Previous period: For the year ended 30 June 2017

2. Results for announcement to the market

					\$'000
Revenues from ordinary activities	down	6.5%	to		752,250
Loss from ordinary activities after tax attributable to the owners of Specialty Fashion Group Limited ¹	up	10.9%	to		(9,306)
Loss for the year attributable to the owners of Specialty Fashion Group Limited	down	22.4%	to		(6,974)

Dividends

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

¹ This includes the results of both the continuing (Profit: \$14,959) and discontinued operations (Loss: \$24,265).

Comments

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>14.0</u>	<u>8.4</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.

Specialty Fashion Group Limited
Appendix 4E
Preliminary final report

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 have been audited and an unqualified opinion has been issued.

11. Attachments

Details of attachments (if any):

The Annual Report of Specialty Fashion Group Limited for the 52 week period ended 1 July 2018 is attached.

12. Signed



Daniel Bracken
Chief Executive Officer
Sydney

Date: 28 August 2018

Specialty Fashion Group Limited

ABN 43 057 569 169

Annual Report – 52 week period ended 1 July 2018

Specialty Fashion Group Limited
Corporate directory
1 July 2018

Directors	Anne McDonald - Chairperson Michael Hardwick Ashley Hardwick Megan Quinn Daniel Bracken (appointed 12 February 2018) Gary Perlstein (resigned 15 November 2017)
Company secretary	Claudine Tarabay
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: 10:00 am Date: Friday, 9 November 2018
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 Facsimile: (02) 9287 0303
Auditor	Deloitte Touche Tohmatsu Chartered Accountants Grosvenor Place 225 George Street Sydney, NSW 2000
Solicitors	Arnold Bloch Leibler Level 24, Chifley Tower 2 Chifley Square Sydney, NSW 2000
Bankers	National Australia Bank 255 George Street Sydney, NSW 2000
Stock exchange 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
1 July 2018

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' or 'SFG') and the entities it controlled at the end of, or during, the 52 week period ended 1 July 2018 (referred to hereafter as 1 July 2018).

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:

A McDonald
M Hardwick
A Hardwick
M Quinn
D Bracken (appointed 12 February 2018)
G Perlstein (resigned 15 November 2017)

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, USA (stores exited September 2017) and Republic of South Africa (stores exited March 2018) 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 year.

Operating and Financial Review

On 14 May 2018, the Group announced the conclusion of its structural review process that resulted in the divestiture of five of its six brands, resulting in the retention of the highly successful and profitable City Chic business.

The agreement to sell brands trading as Millers, Katies, Crossroads, Autograph and Rivers (discontinued businesses) to Noni B Limited (ASX: NBL) (Noni B) for consideration of \$31.0 million (plus or minus post completion adjustment) was successfully completed on 2 July 2018.

The Board believes that the divestment of the above brands will enhance long term shareholder value by realising attractive near-term value from the sale, recapitalising SFG and enabling management to focus wholly on City Chic's strategic priorities and longer term growth agenda.

Review of Financial Performance

The Group reported a loss after tax of \$9.3 million. This is comprised of a NPAT of \$15.0 million for the retained City Chic business and a loss from the discontinued business of \$24.3 million (Fair Value adjustment and Transaction costs comprised \$8.3 million).

City Chic reported underlying EBITDA of \$19.9 million for FY2018 which was at the upper end of the guidance provided on 14 May 2018. A reconciliation of all adjustments made to determine Underlying and Reported EBITDA has been provided in page 47 of the annual report.

City Chic traded profitably in Australia, New Zealand, USA, Germany and the UK. The Southern Hemisphere which comprises Australia and New Zealand represented 84% of revenue with the balance in our Northern Hemisphere markets of USA, UK and Germany.

The business traded within three distinct channels being Online (36% of revenue), Wholesale (5% of revenue) and Retail (59% of revenue).

Retail stores amount to 107 sites comprising 94 City Chic branded sites and 13 Myer concession sites. New Zealand represents 10 City Chic branded sites with the balance of stores located within Australia. Over the course of the year, City Chic exited 6 stores within the USA and 2 within the Republic of South Africa.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Review of Financial Position

The Group ended the year with a net cash position of \$16.1 million versus \$8.3 million net debt position in the year prior. This is before the cash received from the sale of discontinued operations.

In June 2018 the Group announced that an amendment to its existing external funding facility had been agreed which resulted in the bank loan facility reducing from \$22.0 million to \$15.0 million from 1 July 2018 which more adequately represents the funding required by the City Chic business. SFG was also successful in securing a term extension to 28 February 2021.

The Group maintained a strong focus on working capital management with all brands reporting lower inventory at year end versus the year prior. Significant work was also undertaken to extend supplier terms which started to take effect from early March 2018.

The Board determined not to declare a dividend in respect of 2018.

Outlook

The key focus areas for FY2019 are:

- Successfully transition business from the 9 month Transitional Service Agreement to an autonomous and standalone business;
- Continue to expand channel reach via new stores and growth via market place (also known as dropship) and wholesale via expansion and addition of new partners;
- Continue to invest, grow and expand digital offer.

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.

Competition and Consumer discretionary spending

The group operates in a retail environment where quality and value for money are critical to the customers it services. The retail fashion market continues to consolidate and feel the effects of globalisation. City Chic is in a unique situation of having high Online penetration, a global outlook and a nimble and fast supply chain that adapts to changes within customer buying patterns.

Property portfolio management

The Group currently operates 107 physical sites in Australia and New Zealand. These sites are leased and are subject to negotiations with each landlord at the end of each lease term. In addition, the Group has 13 concession locations in Myer. The Group actively manages its portfolio against established financial and operational benchmarks which must be met for establishment of new store leases and renewal of existing store leases.

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 hedging. It should be noted that the Groups operations in the USA provide a significant hedge against currency movements. This factor is taken into account before locking in forward cover.

Occupational Health and Safety (OHS)

The continuing business has over 600 employees as well as the customers who visit its stores. The Group has a high focus on OHS with investment in training and development of its employees a high priority.

Significant changes in the state of affairs

On 14 May 2018, the Group announced the conclusion of its structural review process that resulted in the divesture of five of its six brands, resulting in the retention of the highly successful and profitable City Chic business.

The agreement to sell brands trading as Millers, Katies, Crossroads, Autograph and Rivers to Noni B Limited (ASX: NBL) (Noni B) for consideration of \$31.0 million. As part of the Business Sale Agreement Noni B Ltd and SFG agreed a post completion adjustment mechanism as part of the completion accounting, which is yet to be finalised.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Matters subsequent to the end of the financial year

On 2 July 2018 SFG, received cash consideration of \$31.0 million for the sale of the divested brands. As part of the Business Sale Agreement Noni B Ltd and SFG agreed a post completion adjustment mechanism as part of the completion accounting, which is yet to be finalised.

Likely developments and expected results of operations

The Group intends to continue its principal activity of retailing of women's plus sized fashion through City Chic. The Group operates in Australia, New Zealand, USA, Germany and UK.

Further information on likely developments in the operations of the Group and expected results from operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

Environmental regulation

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

Information on directors

Anne McDonald

Title:	Non-Executive Chairperson ¹
Qualifications:	B.Ec, FCA, GAICD
Experience and expertise:	Anne McDonald joined the Specialty Fashion Group Board in April 2007 as an independent non-executive director. An experienced non-executive director, Anne brings business, finance, accounting, risk management and governance skills. A Chartered Accountant by training, Anne was a partner with Ernst & Young for 15 years until 2005, working with large multinational and domestic companies. 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 the following listed and unlisted entities: Spark Infrastructure Group and its associated entity, Victoria Power Networks (2009 – present), WaterNSW (2016 – present, also Chairperson), Link Administration Holdings Ltd (2016 – present) and St Vincent's Healthcare (2017 – present).
Former directorships (last 3 years):	Anne stepped down from the Board of The GPT Group on 4 May 2016 and Sydney Water Corporation on 24 March 2016. Anne also stepped down from the Board of Westpac's Life and General Insurance Businesses in May 2015.
Special responsibilities:	Chairperson of the Board (appointed 17 November 2015); Member of the Audit and Risk Committee; Member of the Nomination and Remuneration Committee.
Interests in shares:	35,000 ordinary shares
Interests in options:	None
Interests in rights:	None

Michael Hardwick

Title:	Non-Executive Director Co-Chairperson (up until 1 September 2017 ¹)
Qualifications:	B.Comm
Experience and expertise:	Michael Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. 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:	Chairperson of the Audit and Risk Committee (appointed September 2017); Member of the Nomination and Remuneration Committee
Interests in shares:	395,000 ordinary shares
Interests in options:	None
Interests in rights:	None

¹ On 29 August 2017, the Board of Directors announced that it would move to a single Chairperson for the Company. Anne McDonald will continue to act as independent Chairperson of the Board. Michael Hardwick will relinquish his role as Co-Chairperson but will continue as a Non-Executive Director and was appointed Chairperson of the Audit and Risk Committee. Anne McDonald relinquish her role as Chairperson of Audit and Risk Committee at the same time. These changes are effective as at 1 September 2017.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Ashley Hardwick

Title:	Non-Executive Director
Experience and expertise:	Ashley Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. 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:	39,801,811 ordinary shares held directly and indirectly through NAAH Pty Ltd and NAAH Investments Pty Ltd
Interests in options:	None
Interests in rights:	None

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 Reece. She also consults to Westpac. For the past 25 years, she has built a career specialising in retail (ranging from the value end to luxury), advertising, publishing and design for the fashion, jewellery, hotel, airline, service and finance 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 non-executive director of Reece Ltd and a director and National Committee member of UNICEF Australia.
Former directorships (last 3 years):	Megan stepped down from the Fitted For Work Board in February 2014, and is now an Ambassador for the organisation. Megan also stepped down from the zipMoney Limited Board on 1 November 2017.
Special responsibilities:	Member of the Audit and Risk Committee (appointed 28 May 2015); Chairperson of the Nomination and Remuneration Committee (appointed 28 January 2016).
Interests in shares:	None
Interests in options:	None
Interests in rights:	None

Specialty Fashion Group Limited
Directors' report
1 July 2018

Daniel Bracken (appointed 12 February 2018)

Title:	Chief Executive Officer
Qualifications:	B.Comm
Experience and expertise:	Daniel has more than 25 years experience in retailing, fashion, and brand development in Australia and international markets. He has held executive and Chief Executive roles across strategy, marketing, and merchandise among others. Prior to joining Specialty Fashion Group he was Deputy CEO and Chief Merchandise & Customer Officer at Myer where he oversaw merchandise buying, design, sourcing, and manufacturing, and led the Myer brand and customer experience strategy. Previously, Daniel was CEO of The Apparel Group which owned the Sportscraft, Saba, Willow, and Jag fashion brands during his tenure. His international experience includes more than 15 years at Burberry London in the United Kingdom where he performed a range of roles including Vice President – Strategy (Group), Head of Merchandising & Production (Ready to Wear), and Commercial & Operations Director (Menswear).
Other current directorships:	Daniel does not hold any other listed company directorships.
Former directorships (last 3 years):	Daniel has not held any other listed company directorships in the last three years.
Special responsibilities:	None
Interests in shares:	None
Interests in options:	None
Interests in rights:	None

Gary Perlstein (resigned 15 November 2017)

Title:	Chief Executive Officer
Qualifications:	B.Bus
Experience and expertise:	Gary Perlstein was the managing director up until his resignation on 15 November 2017. He played an integral role both in the establishment and in 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 25 years of retailing experience in Australia.
Other current directorships:	Gary is a non-executive director of Threads Together, a not-for-profit organisation.
Former directorships (last 3 years):	Gary has not held any other listed company directorships in the last three years.
Special responsibilities:	Chief Executive Officer (until his resignation on 15 November 2017).
Interests in shares:	17,862,814 ordinary shares
Interests in options:	None
Interests in rights:	None

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

Company secretary

The Company Secretary is Claudine Tarabay, B.Economics, CA. Claudine was appointed to the position of Company Secretary in October 2016. Prior to this, Claudine worked at PricewaterhouseCoopers in Audit and Assurance and has more than 15 years of commercial experience. In addition to company secretarial matters, Claudine has responsibility for overseeing the Group's investor relations, legal, risk and compliance, governance and intellectual property.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') held during the 52 week ended 1 July 2018, 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
A McDonald	18	18	5	5	6	6
M Hardwick	17	18	4	5	6	6
G Perlstein ¹	10	10	-	-	-	-
D Bracken ²	8	8	-	-	-	-
A Hardwick	18	18	-	-	-	-
M Quinn	17	18	5	5	6	6

¹ Resigned 15 November 2017.

² Appointed 12 February 2018.

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

In the course of the Board undertaking a comprehensive structural review of the Company during the year to improve shareholder value, the Board received a number of confidential, non-binding, indicative proposals for a change of control of the Group or the acquisition of certain brands. The Board established an Independent Review Committee (IRC) comprising the Directors of the Company (excluding Mr Gary Perlstein), to assess the proposals received. Since establishment of the IRC committee in December 2017, the IRC met weekly and more frequently towards the finalisation of the structural review.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Remuneration report (audited)

The remuneration report, which has been audited as required by section 308(3C) of the *Corporations Act 2001*, outlines the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the *Corporations Act 2001* and its Regulations.

The remuneration report is set out under the following main headings:

1. Introduction
2. Remuneration strategy and policy
3. Remuneration framework
4. Remuneration outcomes for key management personnel
 - a) Payments and benefits
 - b) Bonuses and share-based payments granted as compensation
 - c) Remuneration structure
5. Service agreements
6. Disclosures relating to options, rights and shares
7. Disclosures relating to transactions and balances with key management personnel
8. Additional information relating to earnings of the consolidated entity

1. Introduction

This report outlines the remuneration strategy, framework and other conditions of employment for key management personnel, and details the role and accountabilities of the Board and relevant Committees that support the Board on these matters. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

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 1 July 2018 and 30 June 2017. The key management personnel consisted of the following directors and senior executives of Specialty Fashion Group Limited:

Name	Role
Non-Executive Directors	
A McDonald	Chairperson and Non-Executive Director
M Hardwick	Non-Executive Director
A Hardwick	Non-Executive Director
M Quinn	Non-Executive Director
Executive Directors	
D Bracken ¹	Chief Executive Officer (appointed 12 February 2018)
G Perlstein	Chief Executive Officer (resigned 15 November 2017)
Other Key Management Personnel	
T Fawaz	Chief Financial and Operations Officer (appointed 1 July 2017)
S Moura	General Manager People & Culture
P Ryan ¹	General Manager City Chic
T Karp	Chief Operating Officer (resigned 10 November 2017)

2. Remuneration strategy and policy

The Nomination and Remuneration Committee (the '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 and retain talented and motivated executives who can enhance the Group's performance through their contributions and leadership.

The objectives of the Group's executive remuneration framework are as follows:

- competitiveness and sustainability;
- 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.

¹ Daniel Bracken is expected to step down prior to the Annual General Meeting, expected to be held in November 2018 after a phased handover to Phil Ryan, currently City Chic General Manager, who will become CEO on Daniel's departure.

Specialty Fashion Group Limited
Remuneration report
1 July 2018

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- including economic profit as a core component of plan design;
- focusing 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
- attracting and retaining 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.

Remuneration policies are developed to provide market competitive remuneration arrangements that support the attraction, engagement and retention of talented team members, and that are aligned with shareholders' interests.

Voting and comments made at the Group's 2017 Annual General Meeting ('AGM')

At the 2017 AGM, 45.8% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2017. The Group did not receive any specific comments or feedback at the AGM regarding its remuneration practices.

The Group has however, undergone comprehensive structural review to ultimately improve shareholder value. This led to the subsequent divestment of brands and restructure of the executive team, combined with a concurrent review of the remuneration of this team to ensure reward is linked to performance and aligns with shareholder interests.

3. Remuneration framework

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

Non-Executive Directors

Non-executive directors receive fees and do not receive share-based payments or other incentives. The Chairpersons' fees are determined independently to the fees of other non-executive directors, and are based on comparable roles in the external market. The Chairpersons are not present at any discussions relating to determination of his or her own remuneration. The Nomination and Remuneration Committee review non-executive directors' fees and payments annually. 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. Non-executive director fees have remained constant since 2012, except for adjustments made to reflect a change in role.

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. The base fees are reviewed by the Nomination and Remuneration Committee on an annual basis, where proposed amendments are recommended for approval by the shareholders at 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.

Executive Directors and other key management personnel

The Group aims to reward executives based on their position and responsibility, with a level and mix of remuneration that has both fixed and variable components, as well as a blend of short and long term incentives. Executive remuneration comprises base pay and benefits, short term incentives, long term incentives, and superannuation contributions.

(i) Base pay and benefits

Executives receive a base pay and benefits which reflect their roles, experience and level of responsibility. This is reviewed annually to ensure the executive's pay is competitive with the market. Other benefits include car allowances.

(ii) 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.

Specialty Fashion Group Limited
Remuneration report
1 July 2018

The Board considers the appropriate targets and 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 1 July 2018, the KPIs linked to short term incentive plans were based on group and/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.

(iii) Long term incentives

The Group's remuneration framework aims to align long term incentives for executives with the delivery of sustainable value to shareholders. This is important in ensuring that key management personnel and other executives are focused on delivering sustainable returns to shareholders, whilst allowing the Group to attract and retain high calibre executives.

4. Remuneration outcomes for key management personnel

(a) Payments and benefits

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

2018	Cash salary and fees \$	Short-term benefits		Post- employment benefits	Termination benefit	Long-term benefits	Total \$
		Bonus \$	Allowances ⁵ \$	Super- annuation \$		Long service leave \$	
<i>Non-Executive Directors:</i>							
A McDonald	116,667	-	-	11,083	-	-	127,750
M Hardwick	75,000	-	-	7,125	-	-	82,125
A Hardwick	75,000	-	-	7,125	-	-	82,125
M Quinn	75,000	-	-	7,125	-	-	82,125
<i>Executive Directors:</i>							
D Bracken ¹	319,314	250,000 ⁶	100,000	11,766	414,000 ⁹	-	1,095,080
G Perlstein ²	686,853 ²	-	45,100	15,036	312,313 ⁷	330,193	1,389,495
<i>Other Key Management Personnel:</i>							
T Fawaz ³	413,077	350,000 ⁶	25,000	20,898	-	-	808,975
S Moura	304,458	50,000 ⁶	25,000	20,655	-	5,124	405,237
P Ryan	460,000	295,000 ⁸	35,250	33,250	-	7,678	831,178
T Karp ⁴	163,710	-	10,923	10,024	-	-	184,657
	2,689,079	945,000	241,273	144,087	726,313	342,995	5,088,747

¹ Appointed 12 February 2018.

² Resigned 15 November 2017.

³ Appointed 1 July 2017.

⁴ Resigned 10 November 2017.

⁵ Includes car, travel and accommodation allowances.

⁶ Bonus in relation to announced sale of the discontinued businesses payable post 2018 financial year end.

⁷ This statutory entitlement was a cash payout in the 2018 financial period.

⁸ This represents a cash payment in the 2018 financial period.

⁹ This represents an accrued charge for contractual notice period to be paid out in the 2019 financial year.

Specialty Fashion Group Limited
Remuneration report
1 July 2018

2017	Cash salary and fees \$	Short-term benefits		Post-employment benefits	Termination benefit \$	Long-term benefits	Total \$
		Bonus \$	Car allowance \$	Super-annuation \$		Long service leave \$	
<i>Non-Executive Directors:</i>							
A McDonald	75,000	-	-	7,125	-	-	82,125
A Hardwick	75,000	-	-	7,125	-	-	82,125
M Hardwick	75,000	-	-	7,125	-	-	82,125
M Quinn	75,000	-	-	7,125	-	-	82,125
<i>Executive Directors:</i>							
G Perlstein	753,985	-	71,500	19,615	-	-	845,100
<i>Other Key Management Personnel:</i>							
S Moura	306,817	-	25,000	19,615	-	-	351,432
T Karp	438,460	-	30,034	19,615	-	-	488,109
G Spreckley ¹	557,784	-	14,871	34,993	-	-	607,648
	<u>2,357,046</u>	<u>-</u>	<u>141,405</u>	<u>122,338</u>	<u>-</u>	<u>-</u>	<u>2,620,789</u>

¹ Resigned 10 October 2016. Includes severance pay of \$312,500.

(b) Bonuses and share-based payments granted as compensation

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

Name	Cash bonus forfeited	
	2018	2017
<i>Executive Directors:</i>		
D Bracken	-	-
<i>Other Key Management Personnel:</i>		
T Fawaz	-	-
S Moura	-	100%
P Ryan	-	-
T Karp	100%	100%

There were no share-based payments granted as compensation to key management personnel during the year ended 1 July 2018 (2017: nil).

(c) Remuneration structure

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

Name	Fixed remuneration		At risk - STI		At risk - LTI	
	2018	2017	2018	2017	2018	2017
<i>Executive Directors:</i>						
D Bracken	60%	-	40%	-	-	-
G Perlstein	100%	79%	-	21%	-	-
<i>Other Key Management Personnel:</i>						
T Fawaz	57%	-	43%	-	-	-
S Moura	87%	79%	13%	21%	-	-
P Ryan	72%	-	28%	-	-	-
T Karp	100%	78%	-	22%	-	-

The above table assumes that a full STI is received and that the LTI fully vests (where applicable) – the actual reward is dependent on the achievement of performance targets.

Specialty Fashion Group Limited
Remuneration report
1 July 2018

5. 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: Daniel Bracken
Title: Chief Executive Officer (appointed 12 February 2018)
Term of agreement: No term
Details: • Notice period of 6 months • Remuneration review at board discretion • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits (except for statutory entitlements) • No other benefits

Name: Timothy Fawaz
Title: Chief Financial Officer (appointed 1 July 2017)
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 (except for statutory entitlements) • No other benefits

Name: Sonia Moura
Title: General Manager People & Culture
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 (except for statutory entitlements) • No other benefits

Name: Phil Ryan
Title: General Manager City Chic
Term of agreement: No term
Details: • Notice period of 6 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits (except for statutory entitlements) • No other benefits

Name: Gary Perlstein
Title: Chief Executive Officer (resigned 15 November 2017)
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 (except for statutory entitlements) • No other benefits

Name: Tony Karp
Title: Chief Operating Officer (resigned 10 November 2017)
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 (except for statutory entitlements) • No other benefits

All non-executive directors stand for re-election at least every 3 years and have no notice period, no annual 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.

Specialty Fashion Group Limited
Remuneration report
1 July 2018

6. Disclosures relating to options, rights and shares

Options

There were no options over ordinary shares of Specialty Fashion Group Limited issued or held during the year ended 1 July 2018 and up to the date of this report (2017: nil).

Shares under performance rights

There were no ordinary shares of Specialty Fashion Group Limited issued or held under performance rights during the year ended 1 July 2018 and up to the date of this report (2017: nil).

Ordinary shares

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. There were no changes to directors and key management personnel shareholding subsequent to the year end and up to the report date.

	Opening Balance	Additions	Disposals	Closing Balance
Directors' shareholding				
<i>Ordinary shares:</i>				
A McDonald	15,000	20,000	-	35,000
M Hardwick	220,000	175,000	-	395,000
G Perlstein ¹	17,862,814	-	-	17,862,814
A Hardwick ²	38,742,203	1,059,608	-	39,801,811
M Quinn	-	-	-	-
D Bracken	-	-	-	-
Total shares held by directors	56,840,017	1,254,608	-	58,094,625
Other key management personnel shareholding				
<i>Ordinary shares:</i>				
T Fawaz	-	400,000	-	400,000
S Moura	-	-	-	-
P Ryan	124,000	-	-	124,000
T Karp	-	-	-	-
Total shares held by other key management personnel	124,000	400,000	-	524,000

¹ Personal and beneficial interest through Icestorm Pty Ltd and Snowglaze Investments Pty Ltd. G Perlstein resigned on 15 November 2017.

² Personal and beneficial interest holding through NAAH Pty Ltd and NAAH Investments Pty Ltd.

7. Disclosures relating to transactions and balances with key management personnel

Loans to/from key management personnel

As at 1 July 2018, there were no outstanding loans made to/received from directors of Specialty Fashion Group Limited and other key management personnel of the consolidated entity, including their personally related parties (2017: nil).

Specialty Fashion Group Limited
Remuneration report
1 July 2018

Transactions with key management personnel and their personally related parties

The following transactions occurred with key management personnel and their personally related parties:

	2018	Consolidated 2017
	\$	\$
<i>Payment for other expenses:</i>		
Lease of business premises in which G Perlstein ¹ , director of the consolidated entity, has an interest	125,087	296,517
Shop fit-out service fee paid to a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd	210,508	-
Share registry and Annual General Meeting fees paid to Link Market services. A McDonald is a non-executive director of Link Administrative Holding Limited (Link Group)	52,931	51,076
Consulting fees for training services paid to a company that is associated with G Perlstein, a director of the consolidated entity	-	1,500

¹ There is a decrease in lease expense payments from prior year as amounts included in FY2017 represent the portion payable until the director's resignation date. G Perlstein resigned as director of Specialty Fashion Group Limited on 15 November 2017.

All transactions were made on normal commercial terms and conditions and at market rates except for the lease of the business premises which was at below market rates.

8. Additional information relating to earnings of the consolidated entity

The earnings of the consolidated entity for the five years to 1 July 2018 are summarised below:

	2018	2017	2016	2015	2014
	\$'000	\$'000	\$'000	\$'000	\$'000
Sales revenue ¹	751,128	808,914	826,240	791,512	685,043
(Loss)/profit before income tax ¹	(11,033)	(6,474)	(1,540)	(4,515)	16,317
(Loss)/profit after income tax ¹	(9,306)	(8,389)	(2,190)	(4,462)	12,475

¹ Includes continuing and discontinued operations. Refer to Consolidated Statement of Profit and Loss and Note 4 for breakdown.

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

	2018	2017	2016	2015	2014
Share price at financial year end (\$)	0.99	0.39	0.54	0.63	0.98
Total dividends declared (cents per share)	-	-	-	-	4.0
Basic (loss)/earnings per share (cents per share)	(4.8)	(4.4)	(1.1)	(2.3)	6.5
Diluted (loss)/earnings per share (cents per share)	(4.8)	(4.4)	(1.1)	(2.3)	6.5

This concludes the remuneration report, which has been audited.

Specialty Fashion Group Limited
Directors' report
1 July 2018

Indemnity and insurance of officers

The Group has indemnified the directors and executives of the Group 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 Group paid a premium in respect of a contract to insure the directors and executives of the Group against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

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

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

Proceedings on behalf of the Group

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Group, or to intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group 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 30 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 29 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 Group, acting as advocate for the Group or jointly sharing economic risks and rewards.

Officers of the Group who are former partners of Deloitte Touche Tohmatsu

There are no officers of the Group who are former partners of Deloitte Touche Tohmatsu.

Rounding of amounts

The Group 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.

Auditor

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

Specialty Fashion Group Limited
Directors' report
1 July 2018

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



Anne McDonald
Chairperson



Daniel Bracken
Chief Executive Officer

28 August 2018
Sydney

28 August 2018

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

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 52 week period ended 1 July 2018, 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



G J McLean
Partner
Chartered Accountants

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

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Specialty Fashion Group Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 1 July 2018, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 52 week period then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

- (i) giving a true and fair view of the Group's financial position as at 1 July 2018 and of its financial performance for the 52 week period then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p>Discontinued operations and assets held for sale</p> <p>On 14 May 2018, the Company announced the sale of the businesses associated with the operations and brands of Millers, Katies, Rivers, Autograph and Crossroads to Noni B Limited.</p> <p>The sale of the businesses was completed on 2 July 2018.</p> <p>The results from operations of the relevant businesses have been classified as Discontinued Operations in the statement of financial performance and the assets and liabilities associated with these businesses have been classified as "Assets held for sale" and "Liabilities directly associated with assets held for sale" in the statement of financial position.</p> <p>Significant judgements and estimates were required by management in the determination of the loss from discontinued operations including consideration of;</p> <ul style="list-style-type: none"> • The trading results of each business; • The identification of the assets held for sale and liabilities associated with the assets held for sale; • Fair value adjustments required to be made against the asset values; • The appropriate allocation of corporate support costs between continuing operation and discontinued operations; • The determination of the working capital adjustment required pursuant to the Business Sale Agreement; • Transaction costs incurred in the sale process; and • The taxation impacts of the sale. 	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> • Reviewing the sale transaction to the Business Sale Agreement with Noni B Limited including reference to the sale consideration, the assets and liabilities being sold and mechanism for the working capital adjustment; • Agreeing the trading results of each of the businesses to the underlying financial records; • Agreeing the "Assets held for sale" and "Liabilities directly associated with the assets held for sale" to the underlying financial records of each of the businesses; • Evaluating management's fair value adjustments required to be made against the assets held for sale in compliance with the accounting standard; • Understanding the drivers of each relevant corporate support cost and challenging the estimates and allocations of the corporate support costs between the continuing operation and discontinued operations; • Testing the working capital adjustment in accordance with the specific requirements of the Business Sale Agreement; • Testing transaction costs to supporting documentation; • Challenging the key assumptions in respect to the recognition of current and deferred tax associated with the transaction. <p>We also assessed the appropriateness of the disclosures in Notes 2, 4, 34 and 40 to the financial statements.</p>

<p>Valuation of inventory obsolescence allowance for City Chic</p> <p>As at 1 July 2018 the carrying value of inventory totalled \$15.82 million, as disclosed in Note 2 and Note 10.</p> <p>The Group values its inventory on a weighted average cost method and establishes an obsolescence allowance against its inventory which is determined by reference to the inventory's ageing by season, as well as various other inputs such as historical inventory losses, timing of mark downs, selling prices and market conditions. As a result, there is significant judgement applied in determining the appropriate inventory obsolescence allowance.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> · Meetings with the City Chic General Manager to validate the assumptions applied by management and to identify any potential inventory obsolescence issues which had not been taken into account by management, · Assessing the performance of the City Chic brand relative to each season in the financial year, · Recalculating the mathematical accuracy of the inventory obsolescence allowance, · Challenging management's estimates and judgements by formulating a number of independent estimates of the inventory obsolescence allowance, including: <ul style="list-style-type: none"> o the age of all inventory purchased more than a year ago, o actual inventory losses incurred in the current financial year, and o the net realisable value with reference to the last selling price and average selling price of inventory on hand. · Performing a retrospective review of the allowance balance from FY17 to FY18 to assess the historical accuracy of management's ability to determine the inventory obsolescence allowance. <p>We also assessed the appropriateness of the disclosures in Notes 2 and 10 to the financial statements.</p>
---	---

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report, Corporate Governance Statement and Shareholder information which we obtained prior to the date of this auditor's report, and also includes the following information which will be included in the Group's annual report (but does not include the financial report and our auditor's report thereon): Chairpersons' Report, CEO's Report, Brand performance summary, Geographical summary of store locations, Safety Health and Wellbeing report, and Corporate Social Responsibility, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior

to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

When we read the Chairpersons' Report, CEO's Report, Brand performance summary, Geographical summary of store locations, Safety Health and Wellbeing report, and Corporate Social Responsibility, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

Responsibilities of the Directors 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 preparing the financial report, the directors are responsible for assessing the ability of Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group's audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 8 to 14 of the Directors' Report for the 52 week period ended 1 July 2018.

In our opinion, the Remuneration Report of Specialty Fashion Group Limited, for the 52-week period ended 1 July 2018, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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.



DELOITTE TOUCHE TOHMATSU



G J McLean
Partner
Chartered Accountants
Sydney, 28 August 2018

**Specialty Fashion Group Limited
Corporate Governance Statement
1 July 2018**

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the Group 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 Group, the directors have taken into account the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (3rd edition). 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.

PRINCIPLE 1 – LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

The directors' overriding objective is to increase shareholder value within an appropriate framework which protects the rights and interests of shareholders and ensures the Group and its controlled entities are properly managed.

The functions of the Board of Directors are clearly defined in the Group'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 Group's auditors;
- Monitoring managerial performance; and
- Ensuring the significant risks facing the Group 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 director obligations.

Board membership is reviewed to ensure an appropriate skill mix, personal qualities, expertise and diversity to meet the Board's responsibilities and objectives. When a vacancy exists or there is a need for particular skills, the selection criteria based on the skills deemed necessary are identified. The Nomination and Remuneration Committee reviews potential candidates for Board appointment and assesses retiring directors standing for re-election, considering a number of factors including skills, experience, expertise and personal qualities to enhance Board effectiveness, as well as any potential conflicts of interest and independence. The Board also undertakes appropriate checks and/or seeks confirmation of key matters in relation to any potential candidates before a person is appointed by the Board or put forward to shareholders as a candidate for election as a director. In its recommendation to shareholders in relation to the election or re-election of a director, the Notice of Meeting for an Annual General Meeting (AGM) sets out material information that would be relevant to the shareholder's decision.

The Group provides a letter of appointment to all directors, which sets out the Group's expectations, their duties, the terms and conditions of their appointment, remuneration and forms part of the induction program for directors.

The Board currently comprises four Non-Executive Directors, two of whom are deemed independent and one Executive Director, the Chief Executive Officer.

The following Non-Executive Directors are considered to be independent:

- Anne McDonald
- Megan Quinn

Ashley Hardwick is not regarded as an independent director under the independence guidelines, by virtue of his beneficial interest holding through NAAH Pty Ltd and NAAH Investments Pty Ltd, a substantial shareholder in Specialty Fashion Group Limited. Ashley announced that we will not be seeking re-election as a director at the AGM in November.

Michael Hardwick is not regarded as an independent director under the independence guidelines by virtue of his role as Chief Financial Officer of Cotton On Group, an entity associated with NAAH Pty Ltd and NAAH Investments Pty Ltd, a substantial shareholder in Specialty Fashion Group Limited.

Specialty Fashion Group Limited
Corporate Governance Statement
1 July 2018

The Board is composed of a majority of independent non-executive directors where all directors are expected to provide and do provide independent judgements and views in Board discussions and do act in the best interests of the Group when making decisions.

The Board is chaired by Anne McDonald, who is an independent director. 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 Group'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.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the Group's expense. Prior written approvals 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 4 to 6 under the heading "Information on directors".

Directors' Independence

Any past or present relationship with the Group is reviewed to assess the likely impact on a director's ability to be objective and exercise independent judgement. The Board reviews 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. The Board is confident that suitable processes are in place, as outlined in its Board Charter, to satisfy expectations and requirements in relation to decision making and the management of conflicts of interest. The Directors on the Board of Specialty Fashion Group Limited contribute significant knowledge across a range of areas. Regardless of whether directors are defined as independent, all directors are expected to provide independent judgements and views to Board discussions.

Performance Evaluation

The Board undertakes periodic self-assessments of its collective performance, the performance of the Chairperson and its committees. Management are invited to contribute to this appraisal process. 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 is currently in progress.

There is also an evaluation process of the senior executives that occurs on an annual basis. During the reporting period, the performance of the senior executives was reviewed.

Company Secretary

The Board appointed Claudine Tarabay as Company Secretary on 10 October 2016. All directors have access to the services and advice of the Company Secretary. Details of the skills, experience and expertise of the Company Secretary for the reporting period are set out in the directors' report. The Company Secretary is accountable directly to the Board, through the Chairpersons, on all matters to do with the proper functioning of the Board and Board Committees.

Diversity

Workplace diversity recognises and values the contribution of people from different backgrounds, experiences and perspectives. It is the Group's aim to ensure that all team members have equal opportunity to participate and advance in their careers.

The Group values and recognises the diversity of our Team Members and the added value diversity provides to achieving the Group's overall objectives. The Group's diversity policy outlines the Group's diversity objectives in relation to gender, age, ethnicity, cultural background, disability, religion, gender identity, sexual orientation and professional background. 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 Group's progress in achieving them.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 1 July 2018 are set out below:

FY2018 Diversity Strategy	Achievements
Implement program to support parents returning to work	Completed
Conduct a Diversity Survey with Support Office Team Member	Completed
Submit the Workplace Gender Equality Report	Completed
Training for Team Members on applicable policies and topics	Completed
Review Diversity Policy, ensuring it is robust and current	Completed

FY2019 Objectives

1. Conduct Diversity Survey with all Support Office Team Members
2. Propose revised Diversity Strategy as results from survey
3. Submit the Workplace Gender Equality Report
4. Training for Team Member on applicable policies & topics
5. Review Diversity Policy, ensuring its robust & current

Gender Balance

SFG's ongoing commitment to reporting on Diversity is in line with the Workplace Gender Equality Act 2012 (WGE Act 2012). The WGEA Report 2018¹ detailed the proportion of women employed at different levels across SFG was as follows:

- 2 of 5 Board members are women;
- 63% of the Leadership Team are women;
- Overall, across all Team Members, 95.3% of Team Members are women.

In addition, 77% of our Management Team are female.

¹ Relates to the 12 month period ended March 2018.

PRINCIPLE 2 – STRUCTURE THE BOARD TO ADD VALUE

Nomination and Remuneration Committee

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

- M Quinn (Chairperson)
- A McDonald
- M Hardwick

The Nomination and Remuneration Committee comprises three non-executive directors, a majority of whom are independent. The Chairperson of the Committee is Megan Quinn, an independent non-executive director. Details of the Committee with regards to remuneration policies and practices are detailed in "*Principle 8 – Remunerate fairly and responsibly*". The number of meetings held by the Nomination and Remuneration Committee is set out in the directors' report.

The Nomination and Remuneration Committee Charter prescribes the structure and responsibilities of the Committee which can be found on the Group's website.

The Board seeks to ensure that the combination of its members provides an appropriate range of experience, skills, diversity, personal qualities and expertise to enable it to carry out its obligations and responsibilities. The Board believes that having a range of different skills, backgrounds, experience and gender ensures a diversity of viewpoints which facilitate effective governance and decision making.

The Group believes that the skills and experience in the areas listed below are desirable for the Board to perform its role effectively. The Board considers that its current composition possesses an effective blend of these skills and experience which enables it and its Committees to effectively govern the business, operate effectively and add value in the context of the Group's strategy:

**Specialty Fashion Group Limited
Corporate Governance Statement
1 July 2018**

- Executive/management experience;
- Retail knowledge and experience;
- Operational management expertise and experience;
- Corporate advisory expertise;
- Governance expertise and experience;
- Risk management expertise and experience;
- Property expertise; and
- Listed Group Board experience.

PRINCIPLE 3 – ACT ETHICALLY AND RESPONSIBLY

Code of Conduct

The Group 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 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 Group's stakeholders.

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

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 Group if they are in possession of inside information. The Group has a Securities Trading Policy which stipulates it is contrary to Group policy for employees to be engaged in short term trading of the Group's securities.

Appropriate time for directors and employees to acquire or sell the Group'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 Group'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 Group 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.

The Code and the Securities Trading Policy is discussed with each new employee as part of their induction training. All employees are asked to sign a declaration confirming their understanding and compliance with the Code and the Securities Trading Policy. A copy of the Code and the Securities Trading Policy is available on the Group's website.

PRINCIPLE 4 – SAFEGUARD INTEGRITY IN CORPORATE REPORTING

Audit and Risk Committee

The Audit and Risk Committee consists of the following non-executive directors:

- M Hardwick (Chairperson)
- A McDonald
- M Quinn

Specialty Fashion Group Limited
Corporate Governance Statement
1 July 2018

The Audit and Risk Committee comprises of three non-executive directors, a majority of whom are independent. The Chairperson of the Committee is Michael Hardwick, a non-executive director.

The Board and the Audit and Risk Committee, at all times, act in a manner designed to ensure they safeguard the integrity of the Group's corporate reporting.

The functions of the Audit and Risk Committee are clearly defined in the Group's Audit and Risk Committee Charter (available on the Group's website) which includes responsibility for:

- Review and report to the Board on the annual and half year report and financial statements; and
- 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 in private 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 consolidated entity's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the Group 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.

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 Group's Annual General Meeting.

PRINCIPLE 5 – MAKE TIMELY AND BALANCED DISCLOSURE

The Group satisfies its continuous disclosure obligations as required by the Listing Rules of the Australian Securities Exchange and the Corporations Law by adhering to its External Communications Policy (available on the Group's website) 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 Group.

The Group's annual and half yearly reports, investor presentations, press releases and other information disclosed to the ASX and the Group's Code of Conduct are posted on the Group's website (www.specialtyfashiongroup.com.au).

PRINCIPLE 6 – RESPECT THE RIGHTS OF SECURITY HOLDERS

Information about Specialty Fashion Group Limited and its governance is available via its website. The Group aims to facilitate effective communication with investors to ensure all information in relation to significant matters is communicated in a timely, clear and objective manner.

Information is provided to the Group's shareholders through:

- The Specialty Fashion Group Limited Annual and Half Yearly Reports;
- The Annual General Meeting;
- Results announcements and ASX releases;
- The Group's website, which has a dedicated Investor Relations section.

The Group hosts briefing sessions for investors and analysts on its half and full year results and other times, as deemed necessary. All material information and presentations are lodged with the ASX and are made available on the Group's website.

Shareholders are encouraged to attend the Annual General Meeting and ask questions of the Chairman and the Board. The Group adopts best practice in drafting of notices for general meetings and other communications to help ensure that they are honest, accurate, informative and not misleading. All Annual General Meeting material is made available in the Investor Relations section area of our website.

The share registry offers shareholders the option to receive communications electronically.

PRINCIPLE 7 – RECOGNISE AND MANAGE RISK

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. The Group's exposure to economic, environmental and social sustainability risks are set out in the directors' report.

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 Group's risk management policy and the operation of the risk management and compliance system is managed by the Group Risk Management Committee which consists of senior executives. The Board receives regular reports from this group as to the effectiveness of the Group's management of material risks that may impede meeting business objectives. A review of the Group's risk management framework was completed during the reporting period.

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 Group's risk management and internal compliance and control systems.

In the absence of a dedicated internal audit team, the Group employs the services of professional third parties from time to time to review and make recommendations on the Group's internal control processes. The Audit and Risk Committee is satisfied that the activities undertaken by management and the internal loss prevention teams are sufficient in assessing and monitoring the Group's risk profile and internal control processes.

PRINCIPLE 8 – REMUNERATE FAIRLY AND RESPONSIBLY

The Group has a Nomination and Remuneration Committee, as disclosed earlier in "*Principle 2 – Structure the Board to add value*".

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

Specialty Fashion Group Limited
Corporate Governance Statement
1 July 2018

remuneration and other terms of employment annually. As well as a base salary, remuneration packages include superannuation and performance related bonuses. 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".

Specialty Fashion Group Limited

Contents

1 July 2018

Consolidated statement of profit or loss and other comprehensive income	31
Consolidated statement of financial position	33
Consolidated statement of changes in equity	34
Consolidated statement of cash flows	35
Notes to the financial statements	36
Directors' declaration	78
Shareholder information	79

General information

The 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 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
Telephone: (02) 8303 9800
Facsimile: (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 28 August 2018. The directors have the power to amend and reissue the financial statements.

Specialty Fashion Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 1 July 2018

	Note	2018 \$'000	Consolidated 2017- Restated ¹ \$'000
Continuing operations			
Sales revenue	5	131,870	125,054
Cost of sales		<u>(54,102)</u>	<u>(53,052)</u>
Gross profit		77,768	72,002
Other income	5	284	200
Employee benefits expense	6	(27,000)	(25,581)
Depreciation, amortisation and impairment expense	6	(3,862)	(6,911)
Rental expense	6	(16,913)	(24,013)
Other expenses	6	<u>(17,224)</u>	<u>(16,711)</u>
Earnings before interest and tax		13,053	(1,014)
Finance costs		<u>(1,576)</u>	<u>(2,207)</u>
Profit before income tax expense		11,477	(3,221)
Income tax benefit/(expense)	7	<u>3,482</u>	<u>(300)</u>
Profit after income tax from continuing operations		14,959	(3,521)
(Loss) after income tax from discontinued operations	4	<u>(24,265)</u>	<u>(4,868)</u>
(Loss) after income tax for the year attributable to the owners of Specialty Fashion Group Limited	26	<u>(9,306)</u>	<u>(8,389)</u>
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Gain on hedges closed out relating to discontinued operations	25	1,715	-
Change in the fair value of cash flow hedges taken to equity	25	3,478	(608)
Exchange differences on translation of foreign operations	25	(1,303)	(178)
Income tax (expense)/benefit relating to the components of other comprehensive income	25	<u>(1,558)</u>	<u>182</u>
Other comprehensive income for the year, net of tax		<u>2,332</u>	<u>(604)</u>
Total comprehensive income/(loss) for the year attributable to the owners of Specialty Fashion Group Limited		(6,794)	(8,993)
Total comprehensive income/(loss) from continuing operations for the year attributable to the owners of Specialty Fashion Group Limited		17,291	(4,125)
Total comprehensive loss from discontinued operations for the year attributable to the owners of Specialty Fashion Group Limited		<u>(24,265)</u>	<u>(4,868)</u>
		<u>(6,974)</u>	<u>(8,993)</u>

¹ In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the comparatives have been restated for discontinued operations that have arisen during the year (refer to Note 4).

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 profit or loss and other comprehensive income
For the year ended 1 July 2018

	Note	2018 \$'000	Consolidated 2017- Restated ¹ \$'000
Earnings Per Share (EPS) attributable to equity holders of the parent entity			
Basic EPS	38	(4.8)	Cents (4.4)
Diluted EPS	38	(4.8)	Cents (4.4)
EPS attributable to equity holders of the parent entity from continuing operations			
Basic EPS	38	7.8	Cents 0.3
Diluted EPS	38	7.8	Cents 0.3

¹ In accordance with AASB 5 *Non-current Assets Held for Sale and Discontinued Operations*, the comparatives have been restated for discontinued operations that have arisen during the year (refer to Note 4).

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 1 July 2018

	Note	2018 \$'000	Consolidated 2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	8	28,929	17,431
Trade and other receivables	9	4,025	9,054
Inventories	10	15,819	90,839
Derivative financial instruments	11	126	3
Income tax receivable	12	15	35
Assets held for sale	4	125,063	-
Total current assets		<u>173,977</u>	<u>117,362</u>
Non-current assets			
Property, plant and equipment	13	6,684	57,299
Intangibles	14	10,095	22,983
Deferred tax asset	15	5,349	4,901
Total non-current assets		<u>22,128</u>	<u>85,183</u>
Total assets		<u>196,105</u>	<u>202,545</u>
Liabilities			
Current liabilities			
Trade and other payables	16	44,277	84,067
Derivative financial instruments	17	-	4,325
Income tax provision	18	-	33
Provisions	19	7,395	21,029
Other	20	491	5,340
Liabilities directly associated with assets held for sale	4	91,791	-
Total current liabilities		<u>143,954</u>	<u>114,794</u>
Non-current liabilities			
Borrowings	21	12,860	25,714
Derivative financial instruments	17	-	742
Provisions	22	1,784	10,607
Other	23	406	6,613
Total non-current liabilities		<u>15,050</u>	<u>43,676</u>
Total liabilities		<u>159,004</u>	<u>158,470</u>
Net assets		<u>37,101</u>	<u>44,075</u>
Equity			
Issued capital ¹	24	49,139	134,497
Reserves	25	(1,047)	(3,379)
Accumulated losses	26	(10,991)	(87,043)
Total equity		<u>37,101</u>	<u>44,075</u>

¹ During the current financial year, Specialty Fashion Group Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$85.4 million to \$49.1 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 million to \$49.1 million.

Specialty Fashion Group Limited
Consolidated statement of changes in equity
For the year ended 1 July 2018

Consolidated	Issued capital \$'000	Reserves¹ \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 July 2016	134,497	(2,775)	(78,654)	53,068
Loss after income tax expense for the year	-	-	(8,389)	(8,389)
Other comprehensive loss for the year, net of tax	-	(604)	-	(604)
Total comprehensive income for the year	-	(604)	(8,389)	(8,993)
Balance at 30 June 2017	<u>134,497</u>	<u>(3,379)</u>	<u>(87,043)</u>	<u>44,075</u>

Consolidated	Issued capital \$'000	Reserves¹ \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 July 2017	134,497	(3,379)	(87,043)	44,075
Loss after income tax expense for the year	-	-	(9,306)	(9,306)
Other comprehensive loss for the year, net of tax	-	2,332	-	2,332
Total comprehensive income for the year	-	2,332	(9,306)	(6,974)
Capital reduction ²	(85,358)	-	85,358	-
Balance at 1 July 2018	<u>49,139</u>	<u>(1,047)</u>	<u>(10,991)</u>	<u>37,101</u>

¹ Reserves includes foreign currency translation, hedging and share-based payments reserves. Refer to note 25 for reconciliation of reserves.

² During the current financial year, Specialty Fashion Group Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$85.4 million to \$49.1 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 million to \$49.1 million.

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

Specialty Fashion Group Limited
Consolidated statement of cash flows
For the year ended 1 July 2018

	Note	2018 ¹ \$'000	Consolidated 2017 ¹ \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		831,040	889,059
Payments to suppliers (inclusive of GST)		<u>(791,774)</u>	<u>(866,036)</u>
		39,266	23,023
Interest received		109	79
Other revenue		1,676	-
Interest and other finance costs paid		(1,685)	(2,207)
Net income taxes paid		<u>(292)</u>	<u>(327)</u>
Net cash inflow from operating activities	37	<u>39,074</u>	<u>20,568</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(10,385)	(12,052)
Payments for intangibles		(6,071)	(3,872)
Proceeds from sale of property, plant and equipment		<u>1,734</u>	<u>376</u>
Net cash (outflow) from investing activities		<u>(14,722)</u>	<u>(15,548)</u>
Cash flows from financing activities			
Repayments of borrowings		<u>(12,854)</u>	<u>(6,534)</u>
Net cash (outflow) from financing activities		<u>(12,854)</u>	<u>(6,534)</u>
Net increase/(decrease) in cash and cash equivalents		11,498	(1,514)
Cash and cash equivalents at the beginning of the financial year		<u>17,431</u>	<u>18,945</u>
Cash and cash equivalents at the end of the financial year	8	<u><u>28,929</u></u>	<u><u>17,431</u></u>

¹ The above Statement of Cash Flows includes both continuing and discontinued operations. Amounts related to discontinued operations are disclosed in Note 4.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

The principal accounting policies adopted in the preparation of the financial statements are set out either in the respective notes or 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.

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for an accounting period that begins or after 1 July 2017.

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

- AASB 2016-1 'Recognition of Deferred Tax Assets for Unrealised Losses'
- AASB 2016-2 'Disclosure Initiative: Amendments to AASB 107 to disclose cash flows relevant to financial instruments'
- AASB 2017-2 'Further Annual Improvements 2014-2016 Cycle'

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').

The current financial year comprises the 52 week period that commenced on 1 July 2017 and ended on 1 July 2018. The prior financial year comprises the financial year ended 30 June 2017.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, financial assets and liabilities at fair value through profit or loss, 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 34. 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, and the current/non-current classification of intercompany receivables/payables with wholly owned subsidiaries of the parent entity.

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 1 July 2018 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 rates at the dates of the transactions, 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 commission paid.

Wholesale revenue

Revenue is recognised at time of delivery less an allowance for estimated customer returns, rebates and other similar allowances.

Lay-by sales

Revenue is recognised upon receiving final payment from the customer.

Interest

Interest revenue is recognised when it is earned.

Other revenue

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

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

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 be applied 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 at 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's 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 classified as current when: it is either 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 risks 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 in other comprehensive income through the cash flow hedges reserve 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, the 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, the amounts previously recognised in equity remain in equity until the forecast transaction occurs.

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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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:

Plant and equipment	3-10 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.

NON-CURRENT ASSETS HELD FOR SALE

Non-current assets are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than continuing use and a sale is considered highly probable. They are measured at the lower of their carrying amount and fair value less costs to sell, except for assets such as deferred tax assets, assets arising from employee benefits and financial assets which are specifically exempt from this requirement.

An impairment loss is recognised for any initial or subsequent write-down of the asset to fair value less costs to sell. A gain is recognised for any subsequent increases in fair value less costs to sell of an asset, but not in excess of any cumulative impairment loss previously recognised. A gain or loss not previously recognised by the date of the sale of the non-current asset is recognised at the date of derecognition. Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities classified as held for sale continue to be recognised.

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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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.

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4-5 years.

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 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 high quality corporate 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 and 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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 interests. 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 Group.

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 Group is a company of the kind referred to in ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, and in accordance with that Corporations Instrument amounts in the directors' report and the financial statements are rounded off to the nearest thousand dollars, unless otherwise indicated.

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 1 July 2018. 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.

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 9 Financial Instruments

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 2 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. Although a detailed assessment is not yet finalised, the modified retrospective approach was elected under the transition rules, with the cumulative effect of initially applying the new standard to be recognised at the date of initial application (2 July 2018) in opening retained earnings.

AASB 16 Leases

This standard is applicable to annual reporting periods beginning on or after 1 January 2019. The standard replaces AASB 117 'Leases' and for lessees will eliminate the classifications of operating leases and finance leases. Subject to exceptions, a 'right-of-use' asset will be capitalised in the statement of financial position, measured at the present value of the unavoidable future lease payments to be made over the lease term. The exceptions relate to short-term leases of 12 months or less and leases of low-value assets (such as personal computers and small office furniture) where an accounting policy choice exists whereby either a 'right-of-use' asset is recognised or lease payments are expensed to profit or loss as incurred. A liability corresponding to the capitalised lease will also be recognised, adjusted for lease prepayments, lease incentives received, initial direct costs incurred and an estimate of any future restoration, removal or dismantling costs. Straight-line operating lease expense recognition will be replaced with a depreciation charge for the leased asset (included in operating costs) and an interest expense on the recognised lease liability (included in finance costs). In the earlier periods of the lease, the expenses associated with the lease under AASB 16 will be higher when compared to lease expenses under AASB 117. However EBITDA (Earnings Before Interest, Tax, Depreciation and Amortisation) results will be improved as the operating expense is replaced by interest expense and depreciation in profit or loss under AASB 16. For classification within the statement of cash flows, the lease payments will be separated into both a principal (financing activities) and interest (either operating or financing activities) component. For lessor accounting, the standard does not substantially change how a lessor accounts for leases. The consolidated entity will adopt this standard from 1 July 2019 but the impact of its adoption is yet to be assessed by 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.

The directors are required to consider the Group's ability to meet its earnings and cash flow forecasts in order to comply with its bank covenants and to consider its ability to re-new its finance facilities. Consideration of this is set out further in note 21.

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 historical sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

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 require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

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.

Impairment of tangible assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS (CONTINUED)

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.

Discontinued operations including tax balances

A discontinued operation is a component of the Group that represents a separate major line of business that is part of a disposal plan. The results of discontinued operations are presented separately in the Consolidated statement of profit and loss. The Group has considered the estimates and judgements of impairment of discontinued operations assets and associated costs that involve a high degree of complexity and have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within subsequent periods. Any changes to carrying values in subsequent periods due to revisions or estimates or assumptions or as a result of the final realization of the discontinued operation assets and liabilities upon exit of the business will be recognised in the Group's profit or loss as part of discontinued operations.

The calculation of the associated tax impact of the discontinued operations for the current financial year is complex and includes an estimated taxable capital gain on the sale as well as the recognition of deferred tax assets on previously unrecognised capital losses which are expected to be available to the Company. The calculations included the use of estimation and judgement.

NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

The consolidated entity is organised into one operating segment, being fashion retail. The 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 and amortisation, 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 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 financial statements.

A reconciliation of operating loss before income tax for the continuing operation to Underlying EBITDA is provided as follows:

2018 Segment revenue and profit

	Continuing \$'000	Unallocated \$'000	Consolidated Continuing \$'000
Revenue	132,154	-	132,154
Expense	(119,101)	-	(119,101)
Earnings before interest and tax	13,053	-	13,053
Finance cost ¹	-	(1,576)	(1,576)
Profit/(loss) before tax	13,053	(1,576)	11,477
Income tax benefit	3,009	473	3,482
Profit/(loss) after tax	16,062	(1,103)	14,959
Reconciliation of profit after tax to Underlying EBITDA:			
Net profit after tax			14,959
Interest			1,576
Tax			(3,482)
Depreciation			3,862
Release of store exit costs ²			(1,109)
Gain on hedging contract ³			(1,715)
Facility fees ⁴			180
Restructuring costs ⁵			1,692
Provision for onerous lease and contract ⁶			3,910
Underlying EBITDA			19,873

¹ Relates to corporate net finance cost.

² Writeback of USA provision for onerous lease.

³ Relates to close out of cash flow hedges following the divestment of 5 brands to Noni B.

⁴ Relates to the renewal of corporate bank facility and associated fees.

⁵ Restructuring cost includes redundancies and retention payments to employees in relation to divestment of 5 brands to Noni B

⁶ Relates to provision for head office unutilized space and onerous contract from the Transition Service Agreement (divestment of brands) – agreement whereby provision of transition service from NBL to the Group is indicated.

NOTE 3. OPERATING SEGMENTS (CONTINUED)

2017 Segment revenue and profit

	Continuing \$'000	Unallocated \$'000	Consolidated Continuing \$'000
Revenue	125,254	-	125,254
Expense	(126,268)	-	(126,268)
Earnings before interest and tax	(1,014)	-	(1,014)
Finance cost ¹	-	(2,207)	(2,207)
Loss before tax	(1,014)	(2,207)	(3,221)
Income tax expense	(300)	-	(300)
Loss after tax	(1,314)	(2,207)	(3,521)

Segment revenue reported above represents revenue generated from external customers.

The accounting policies of the reportable segments are the same as the Group's accounting policies described in note 1.

¹ Relates to corporate net finance cost.

NOTE 4. DISCONTINUED OPERATIONS

On 14 May 2018, the Group announced that it entered into an agreement to divest five brands, namely Millers, Katies, Crossroads, Autograph and Rivers to Noni B Ltd (ASX:NBL) for cash consideration of \$31.0 million (before post completion adjustments, transaction and separation costs). The Group retains ownership of the brand City Chic.

As part of the Business Sale Agreement Noni B Ltd and SFG agreed a post completion adjustment mechanism as part of the completion accounting, which is yet to be finalised.

The divestment of the five brands takes effect from 2 July 2018 and is reported in the current period as a discontinued operation. Refer below for financial information relating to the discontinued operations for the period to the date of disposal.

Analysis of profit/(loss) for the period from discontinued operations

The results of the discontinued operation have been separately disclosed and the comparative financial information in the consolidated statement of profit or loss and other comprehensive income have been restated to present these businesses as discontinued operations separately from continuing operations. The profit/(loss) for the discontinued operations for the reporting period are set out below, including comparative information:

	2018	Consolidated
	\$'000	2017
		\$'000
Revenue ¹	620,650	683,605
Expense	(643,560)	(686,858)
Loss before income tax from discontinued operations	<u>(22,910)</u>	<u>(3,253)</u>
Income tax expense ²	(1,755)	(1,615)
Loss after income tax from discontinued operations	<u>(24,665)</u>	<u>(4,686)</u>
Gain on measurement of disposal group to fair value less cost to sell	400	-
Loss after income tax from discontinued operations	<u><u>(24,265)</u></u>	<u><u>(4,686)</u></u>

¹ Revenue includes sales and other revenue.

² The agreement to sell the Brands' businesses has resulted in a crystallisation of capital gains of \$23.4 million when the contractual conditions precedent were satisfied prior to year end, notwithstanding the final sale being completed post year end. As a result, the Company has estimated the capital gains tax on the disposal group of \$7.0 million and has recognised this through income tax expense in discontinued operations.

Further, as a result of the above the Company has also recognised a deferred tax asset of \$7.0 million in respect of the first time recognition of previous capital losses incurred by the Company. These have been recognised as part of the tax benefit in the results from continuing operations. As the capital losses will offset the capital gains there is no impact on the statement of financial position.

Cash flows from/(used in) discontinued operations

The results of cash flows from/(used in) the discontinued operations during the period are set out below, including comparative information.

	2018	2017
	\$'000	\$'000
Net cash provided from operating activities	20,206	10,636
Net cash used from investing activities	(11,594)	(13,527)
Net cash used from financing activities	<u>(11,183)</u>	<u>(5,685)</u>
Net cash outflow from discontinued operations	<u><u>(2,571)</u></u>	<u><u>(8,576)</u></u>

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 4. DISCONTINUED OPERATIONS (CONTINUED)

Assets and liabilities of disposal group classified as held for sale

The following assets and liabilities were reclassified as held for sale in relation to discontinued operations as at 1 July 2018:

	2018
	\$'000
Assets classified as held for sale:	
Property, plant and equipment	45,067
Intangibles	12,966
Trade and other receivables	1,068
Inventories	65,962
Total assets of disposal group held for sale	<u>125,063</u>
Liabilities directly associated with assets classified as held for sale:	
Trade and other creditors	72,285
Employee benefit obligations	15,068
Provisions	4,438
Total liabilities of disposal group held for sale	<u>91,791</u>
Net assets	<u>33,272</u>

NOTE 5. REVENUE

	2018	Consolidated
	\$'000	2017- Restated
		\$'000
<i>Sales revenue</i>		
Sale of goods	<u>131,870</u>	<u>125,054</u>
<i>Other revenue</i>		
Interest	14	9
Other revenue	<u>270</u>	<u>191</u>
	284	200
Revenue	<u>132,154</u>	<u>125,254</u>

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 6. EXPENSES

	Consolidated restated	2017
	2018	2017
	\$'000	\$'000
Loss before income tax includes the following specific expenses:		
Depreciation and impairment of property, plant and equipment	3,862	6,911 ¹
Employee benefit expense:		
Employee benefit other than superannuation	25,184	23,769
Defined contribution superannuation expense	1,816	1,812
Rental expense relating to operating leases ²	16,913	24,013
Total	47,775	56,505
Other expenses:		
Utility expenses	1,415	1,231
Maintenance costs	1,250	1,158
Professional and consulting fees	3,368	1,914
Transactional fees and charges	1,509	877
Other	9,680	11,531
Total	17,224	16,711

¹ Includes \$2.5 million one-off store asset impairment relating to USA stores.

² FY18 period includes release of store exit costs of \$1.1 million and provision for onerous lease at Alexandria support office of \$3.3 million. FY17 period includes \$4.9 million onerous lease provision and full year rent for USA stores (closed September 2017) and South Africa stores (closed March 2018).

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 7. INCOME TAX EXPENSE/(BENEFIT)

	2018	Consolidated
	\$'000	2017
		\$'000
<i>a) Income tax expense/(benefit)</i>		
Current tax	255	833
Deferred tax - origination and reversal of temporary differences	(7,078)	1,045
Prior year overprovision	-	37
Deferred tax asset released to income tax expense relating to discontinued operations	5,096	-
	<u>(1,727)</u>	<u>1,915</u>
Aggregate income tax (benefit)/expense		
Deferred tax included in income tax expense/(benefit) comprises:		
(Increase)/decrease in deferred tax assets (note 15)	(2,006)	1,045
<i>b) Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate</i>		
Loss before income tax	(11,033)	(6,474)
Tax benefit at the statutory tax rate of 30%	(3,310)	(1,942)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible entertainment	3	29
CFC Income	117	25
Sundry items	2,701	1
	(489)	(1,887)
Prior year overprovision	-	37
Difference in overseas tax rates	(1)	(1)
Foreign currency differences	1	4
Tax loss not recognised/utilised	469	3,762
Trading day adjustment	2	-
DTA recognised on prior year tax losses – USA operations	(1,710)	-
	<u>(1,727)</u>	<u>1,915</u>
Income tax (benefit)/expense		
Income tax (benefit)/expense related to continuing operations	(3,482)	(300)
Income tax expense related to discontinued operations	1,755	1,615

	2018	Consolidated
	\$'000	2017
		\$'000
<i>c) Amounts credited directly to equity</i>		
Deferred tax assets (note 15)	1,558	(182)
<i>d) Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	1,563	12,540
Potential tax benefit @ 30% (30 June 2017: 30%)	469	3,762

All unused tax losses were incurred by overseas subsidiaries that are not part of the Australian tax consolidated group.

e) Capital losses

Unused tax losses related to capital losses of \$131.5 million (2017: \$154.9 million) carried forward to which no deferred tax asset has been recognised.

Reduction of \$23.4 million in capital losses is related to the capital gain incurred from the divestment of brands to Noni B Ltd on the 14 May 2018. The balance of the reduction in capital losses is related to a debt forgiveness event.

NOTE 7. INCOME TAX EXPENSE/(BENEFIT) (CONTINUED)

The agreement to sell the Brands' businesses has resulted in a crystallisation of capital gains of \$23.4 million when the contractual conditions precedent were satisfied prior to year end, notwithstanding the final sale being completed post year end. As a result the Company has estimated capital gains tax on the disposal group of \$7.0 million and has recognised this through income tax expense in discontinued operations.

Further, as a result of the above the Company has also recognised a deferred tax asset of \$7.0 million in respect to the first time recognition of previous capital losses incurred by the Company. These have been recognised as part of the tax benefit in the results from continuing operations. As the capital losses will offset the capital gains there is no impact on the consolidated statement of financial position.

f) Income tax losses

As at 1 July 2018, the consolidated entity had carried forward income tax losses of \$12.4 million (2017: \$2.0 million). These losses were recognised as a deferred tax asset for the years ended 1 July 2018 and 30 June 2017.

g) 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 8. CURRENT ASSETS - CASH AND CASH EQUIVALENTS

	2018 \$'000	Consolidated 2017 \$'000
Cash at bank and on hand	28,929	17,431

NOTE 9. CURRENT ASSETS - TRADE AND OTHER RECEIVABLES

	2018 \$'000	Consolidated 2017 \$'000
Prepayments	646	3,150
Other receivables	3,379	5,904
	4,025	9,054

NOTE 10. CURRENT ASSETS - INVENTORIES

	2018 \$'000	Consolidated 2017 \$'000
Inventories on hand at lower of cost and net realisable value	15,819	90,839

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 11. CURRENT ASSETS - DERIVATIVE FINANCIAL INSTRUMENTS

	2018 \$'000	Consolidated 2017 \$'000
Call options at fair value	-	3
Forward foreign exchange contract – cash flow hedges	126	-
	<u>126</u>	<u>3</u>

NOTE 12. CURRENT ASSETS - INCOME TAX RECEIVABLE

	2018 \$'000	Consolidated 2017 \$'000
Income tax receivable	15	35
	<u>15</u>	<u>35</u>

NOTE 13. NON-CURRENT ASSETS - PROPERTY, PLANT AND EQUIPMENT

	2018 \$'000	Consolidated 2017 \$'000
Plant and equipment - at cost	22,888	177,839
Less: Accumulated depreciation and impairment	(16,204)	(120,540)
	<u>6,684</u>	<u>57,299</u>

Consolidated	Plant and equipment \$'000
Balance at 1 July 2016	73,633
Additions	6,603
Disposals	(265)
Exchange differences	(73)
Impairment expense	(1,383)
Depreciation expense	<u>(21,216)</u>
Balance at 30 June 2017	57,299
Additions	1,478
Disposals	(3,098)
Exchange differences	(88)
Transfer to assets held for sale	(45,067)
Depreciation expense	<u>(3,840)</u>
Balance at 1 July 2018	<u>6,684</u>

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

Impairment of tangible assets

Determining whether property, plant and equipment is impaired requires an estimation of the value-in-use of the cash-generating units (CGUs) to which tangible assets have been allocated. These calculations reflect estimated cash flow projections and require the use of assumptions, including expected future lease terms; estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates. The value-in-use method in determining the recoverable amount of the CGUs is affected by management's assumptions used in the calculation.

The cash flow forecast is based on historical trading performance on a CGU level and projected into the future based on expected future lease terms. Growth rates of estimated future cash flows are based on a budget that has been approved by the Board, and projected for the expected future lease term based on an estimated growth rate of 2.25% (2017: 2.25%).

The growth rate has been determined with reference to industry trends. As part of the annual impairment test for property, plant and equipment, 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 current market risk-free rate, adjusted for relevant business risks. Discount rate applied in the current year value-in-use model: 10.9% (2017: 10.9%).

A terminal growth rate of 2.25% (2017: 2.5%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the expected future lease term.

NOTE 14. NON-CURRENT ASSETS - INTANGIBLES

	2018	Consolidated
	\$'000	2017
		\$'000
Goodwill - at cost ¹	10,095	10,095
Brand valuation	-	8,505
Other intangible assets	-	6,491
Less: Accumulated amortisation	-	(2,108)
	-	4,383
	<u>10,095</u>	<u>22,983</u>

¹ Relates to goodwill associated with the acquisition of Chain Reaction and Tajura.

NOTE 14. NON-CURRENT ASSETS - INTANGIBLES (CONTINUED)

Reconciliations

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

	Goodwill	Brand valuation	Other ¹	Total
Consolidated	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2016	10,095	8,505	2,533	21,133
Additions	-	-	3,872	3,872
Amortisation expense	-	-	(2,022)	(2,022)
Balance at 30 June 2017	10,095	8,505	4,383	22,983
Additions	-	-	100	100
Disposal	-	-	-	-
Transfer to assets held for sale	-	(8,505)	(4,461)	(12,966)
Amortisation expense	-	-	(22)	(22)
Balance at 1 July 2018	<u>10,095</u>	<u>-</u>	<u>-</u>	<u>10,095</u>

¹ Includes software, website development costs and trademarks.

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 an estimated cash flow projection based on a five year forecast and requires the use of assumptions, including estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates.

The value-in-use method use in determining the recoverable amount of the CGUs is affected by management's assumptions used in the calculation.

Growth rates of estimated future cash flows are based on a budget that has been approved by the Board, and projected for the expected future lease term based on an estimated growth rate of 2.25% (2017: 2.25%). 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. Discount rate applied in the current year value-in-use model: 10.9% (2017: 10.9%). A terminal growth rate of 2.25% (2017: 2.5%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five year forecast horizon.

No sensitivity analysis was performed given the significant excess headroom at reporting date. There has been no impairment loss recognised relation to goodwill (2017: nil).

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 15. NON-CURRENT ASSETS - DEFERRED TAX ASSET

	2018	Consolidated
	\$'000	2017
		\$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses ¹	1,766	589
Property, plant and equipment	(3,596)	(12,359)
Employee benefits	833	5,705
Other provisions and accruals	4,355	5,263
Deferred lease incentives	1,263	3,350
Inventories	705	900
Lay-by debtors	-	(73)
Unrealised foreign currency exchange	-	6
Other	61	-
	<u>5,387</u>	<u>3,381</u>
Amounts recognised in equity:		
Derivative financial instruments	(38)	1,520
Deferred tax asset	<u>5,349</u>	<u>4,901</u>
<i>Movements:</i>		
Opening balance	4,901	5,764
Credited/(charged) to profit or loss (note 7)	2,006	(1,045)
(Charged)/credited to equity (note 7)	(1,558)	182
Closing balance	<u>5,349</u>	<u>4,901</u>

¹ Tax losses related to FY18 City Chic USA operation not previously recognised.

NOTE 16. CURRENT LIABILITIES - TRADE AND OTHER PAYABLES

	2018	Consolidated
	\$'000	2017
		\$'000
Trade payables	6,957	35,404
Other payables	37,320	48,663
	<u>44,277</u>	<u>84,067</u>

Refer to note 28 for further information on financial instruments.

NOTE 17. CURRENT LIABILITIES - DERIVATIVE FINANCIAL INSTRUMENTS

	2018 \$'000	Consolidated 2017 \$'000
Current		
Forward foreign exchange contracts - cash flow hedges (current)	-	4,325
Non-current		
Forward foreign exchange contracts - cash flow hedges (non-current)	-	742
	<u>-</u>	<u>5,067</u>

Refer to note 28 for further information on financial instruments.

NOTE 18. CURRENT LIABILITIES - INCOME TAX PROVISION

	2018 \$'000	Consolidated 2017 \$'000
Income tax provision	-	33
	<u>-</u>	<u>33</u>

NOTE 19. CURRENT LIABILITIES - PROVISIONS

	2018 \$'000	Consolidated 2017 \$'000
Provisions - Employee benefits	1,401	16,365
Other provisions	5,994	4,664
	<u>7,395</u>	<u>21,029</u>

Other provisions comprise:

Sales return provision

The sales return provision represents managements' best estimate of the future outflow of economic benefits in respect of products sold. The provision is estimated based on historical sales claim information, sales levels and any recent trends that may suggest future claims could differ from historical amounts.

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the consolidated entity at the end of the respective lease terms.

Stepped lease provision

The stepped lease provision represents the difference between the contract rental charge and that paid over the lease term.

Onerous lease provision

The onerous lease provision represents the provision for unutilised space at the head office premises. Management calculated the provision on the basis of the unutilised portion of the total contractual rental amount.

NOTE 19. 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 - 2018	Other \$'000
Carrying amount at the start of the year	4,664
Additional provisions recognised	6,558
Amounts transferred from non-current	4,902
Amounts used	(7,775)
Amounts transferred to liabilities directly associated with assets held for sale	(2,355)
	<u>5,994</u>
Carrying amount at the end of the year	<u><u>5,994</u></u>

NOTE 20. CURRENT LIABILITIES - OTHER

	2018 \$'000	Consolidated 2017 \$'000
Deferred lease incentives	491	4,772
Deferred revenue	-	568
	<u>491</u>	<u>5,340</u>

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 entitled customers to discounts on future purchases. Revenue from the reward points is recognised when the points are redeemed.

NOTE 21. NON-CURRENT LIABILITIES - BORROWINGS

	2018 \$'000	Consolidated 2017 \$'000
Bank loans	<u>12,860</u>	<u>25,714</u>

Refer to note 28 for further information on financial instruments.

Total secured liabilities

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

	2018 \$'000	Consolidated 2017 \$'000
Bank loans	<u>12,860</u>	<u>25,714</u>

NOTE 21. NON-CURRENT LIABILITIES - BORROWINGS (CONTINUED)

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.

Financing arrangements

The following lines of credit were available at reporting date:

	2018	Consolidated
	\$'000	2017
		\$'000
Total facilities		
Bank loans	15,000	52,000
Corporate credit card	500	4,500
	<u>15,500</u>	<u>56,500</u>
Used at the reporting date		
Bank loans ¹	13,114	27,319
Corporate credit card	394	390
	<u>13,508</u>	<u>27,709</u>
Unused at the reporting date		
Bank loans	1,886	24,681
Corporate credit card	106	4,110
	<u>1,992</u>	<u>28,791</u>

¹ Includes letter of credit of \$0.3 million as at 1 July 2018 (30 June 2017: \$1.6 million).

On 29 June 2018 the Group renewed its external finance facilities such that their maturity date was extended to 28 February 2021. Consequently the external borrowings at 1 July 2018 totalling \$12.8 million (30 June 2017: \$25.7) have been classified as non-current liabilities.

At balance date, bank loan facilities totalling \$15.0 million were available to the Group (30 June 2017: \$52.0 million). Of these facilities, \$1.9 million was unused (30 June 2017: \$24.7 million).

NOTE 22. NON-CURRENT LIABILITIES - PROVISIONS

	2018	Consolidated
	\$'000	2017
		\$'000
Provisions - Employee benefits	1,448	3,286
Other	336	7,321
	<u>1,784</u>	<u>10,607</u>

Other provisions

Other provisions include provision for stepped leases which represent the difference between the contract rental charge and that paid over the lease term.

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 22. 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 - 2018	Other \$'000
Carrying amount at the start of the year	7,321
Additional provisions recognised	-
Amounts transferred to current	(4,902)
Amounts transferred to liabilities directly associated with assets held for sale	(2,083)
	<u>336</u>
Carrying amount at the end of the year	<u><u>336</u></u>

NOTE 23. NON-CURRENT LIABILITIES - OTHER

	2018 \$'000	Consolidated 2017 \$'000
Deferred lease incentives	<u>406</u>	<u>6,613</u>

NOTE 24. EQUITY - ISSUED CAPITAL

	2018 Shares	2017 Shares	2018 \$'000	Consolidated 2017 \$'000
Ordinary shares - fully paid	<u>192,236,121</u>	<u>192,236,121</u>	<u>49,139¹</u>	<u>134,497</u>

¹ During the current financial year, Specialty Fashion Group Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$85.4 million to \$49.1 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 million to \$49.1 million.

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.

NOTE 25. EQUITY - RESERVES

	2018 \$'000	Consolidated 2017 \$'000
Foreign currency reserve	(1,196)	107
Hedging reserve - cash flow hedges	88	(3,547)
Share-based payments reserve	61	61
	<u>(1,047)</u>	<u>(3,379)</u>

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 25. EQUITY - RESERVES (CONTINUED)

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 2016	285	(3,121)	61	(2,775)
Revaluation - gross	-	(608)	-	(608)
Deferred tax	-	182	-	182
Currency translation differences arising during the year	(178)	-	-	(178)
Balance at 30 June 2017	107	(3,547)	61	(3,379)
Gain on hedges closed out relating to discontinued operations – recycled to profit and loss	-	1,715	-	1,715
Revaluation - gross	-	3,478	-	3,478
Deferred tax	-	(1,558)	-	(1,558)
Currency translation differences arising during the year	(1,303)	-	-	(1,303)
Balance at 1 July 2018	<u>(1,196)</u>	<u>88</u>	<u>61</u>	<u>(1,047)</u>

NOTE 26. EQUITY - ACCUMULATED LOSSES

	2018 \$'000	Consolidated 2017 \$'000
Accumulated losses at the beginning of the financial year	(87,043)	(78,654)
	<u>(87,043)</u>	<u>(78,654)</u>
Loss after income tax expense for the year	(9,306)	(8,389)
Capital reduction ¹	85,358	-
	<u>85,358</u>	<u>-</u>
Accumulated losses at the end of the financial year	<u>(10,991)</u>	<u>(87,043)</u>

¹ During the current financial year, Specialty Fashion Group Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$85.4 million to \$49.1 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 million to \$49.1 million.

NOTE 27. EQUITY - DIVIDENDS

Dividends

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

	2018 \$'000	Consolidated 2017 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	45,984	45,832

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 28. FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, 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 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 other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('Finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

NOTE 28. FINANCIAL INSTRUMENTS (CONTINUED)

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 2017 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 Group'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 21 offset by cash and cash equivalents as detailed in note 8) and equity of the consolidated entity (comprising issued capital, reserves and accumulated losses as detailed in notes 24 to 26).

Financial assets	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Measured at amortised cost:</i>		
Cash and cash equivalents	28,929	17,431
Trade and other receivables	4,025	5,904
	<u>32,954</u>	<u>23,335</u>
<i>Measured at fair value:</i>		
Derivative financial instruments	126	3
	<u>33,080</u>	<u>23,338</u>
Financial liabilities	Consolidated	
	2018	2017
	\$'000	\$'000
<i>Measured at amortised cost:</i>		
Trade and other payables	44,277	84,067
Borrowings	12,860	25,714
	<u>57,137</u>	<u>109,781</u>
<i>Measured at fair value:</i>		
Derivative financial instruments	-	5,067
	<u>57,137</u>	<u>114,848</u>

MARKET RISK

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

NOTE 28. FINANCIAL INSTRUMENTS (CONTINUED)

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

In order to protect against exchange rate movements, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Under the Group's risk management policy, foreign currency transactions are hedged for the subsequent 18 months with foreign currency transactions over the next 6 months hedged between 80% to 100%.

The contracts are timed to mature when payments for major shipments of inventory are scheduled to be made. The fair value of forward exchange contracts is determined using forward exchange market rates at reporting date.

The 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:

	Buy US dollars		Sell Australian dollars		Future hedge rate	
	2018	2017	2018	2017	2018	2017
	\$'000	\$'000	\$'000	\$'000	\$	\$

Buy US dollars

Maturity:

Less than 1 year	3,513	141,640	4,627	188,883	0.7601	0.7501
Between 1 and 2 years	-	26,000	-	34,742	-	0.7485

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in other comprehensive income. When the cash flow occurs, the consolidated entity adjusts the initial measurement of the component recognised in the balance sheet by the related amount from other comprehensive income.

In respect of the consolidated entity's hedging position at 1 July 2018, 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 \$0.3 million higher / \$0.4 million lower (2017: \$14.3 million higher / \$17.5 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 New Zealand dollar, South African Rand and Chinese RMB against the Australian dollar on post-tax profit and other balance sheet items would not be significant. This position has not changed from 2017.

Price risk

The group has not purchased cotton call options in the 1 July 2018 period (2017: \$3,000). As such, there is no expense for the year ended 1 July 2018 that reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Interest rate risk

The Group's main interest rate risk arises from long-term borrowings. Borrowings issued at variable rates expose the Group to interest rate risk. Borrowings issued at fixed rates expose the Group to fair value interest rate risk. The Group entity takes out commercial bills under pre-arranged facilities in order to have the flexibility to meet the entity's working capital and cash flow needs and keep borrowings at a minimum and reduce exposure to interest rate risk.

At 1 July 2018, if interest rates had changed by +/-100 basis points from the year-end rates with all other variables held constant, the impact on post-tax profit for the year would have been \$0.3 million lower/higher (2017: \$0.4 million lower/higher). The weighted average interest rate at 1 July 2018 is 3.50% (2017: 3.53%).

NOTE 28. FINANCIAL INSTRUMENTS (CONTINUED)

As at the reporting date, the consolidated entity had the following variable interest rate cash and deposits and borrowings outstanding:

		2018		2017
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Consolidated				
Cash and deposits	1.16	28,929	1.06	17,431
Bank loans	3.50	<u>(12,860)</u>	3.53	<u>(25,714)</u>
Net exposure to cash flow interest rate risk		<u>16,069</u>		<u>(8,283)</u>

CREDIT RISK

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks. Sales to retail customers are settled in cash or using major credit cards, mitigating risk to the consolidated entity. For banks only independently rated parties with a minimum rating of "AA" are accepted. The maximum exposure to the consolidated entity at reporting date is the carrying amount of the financial assets mentioned above.

LIQUIDITY RISK

Prudent liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

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:

On 29 June 2018, the Group renewed its external finance facilities such that their maturity date was extended to 28 February 2021. The bank loan facilities comprise of a working capital facility of \$5.0 million and trade finance facilities of \$10.0 million. At balance date, bank loan facilities totalling \$15.0 million were available to the Group (30 June 2017: \$52.0 million). Of this facility, \$1.9 million was unused (30 June 2017: \$24.7 million).

Management monitors rolling forecasts of the consolidated entity's liquidity reserve (comprising the undrawn borrowing facilities 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.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its non-derivative assets and liabilities. The tables have been drawn up based on the undiscounted cash flows of non-derivative assets and liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

NOTE 28. FINANCIAL INSTRUMENTS (CONTINUED)

Consolidated - 2018	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						
<i>Non-interest bearing</i>						
Trade and other payables	-	44,277	-	-	-	44,277
<i>Interest-bearing - variable</i>						
Borrowings	3.50	-	-	12,860	-	12,860
Total non-derivatives liabilities		44,277	-	12,860	-	57,137

Consolidated - 2017	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						
<i>Non-interest bearing</i>						
Trade and other payables	-	84,067	-	-	-	84,067
<i>Interest-bearing - variable</i>						
Borrowings	3.53	-	25,714	-	-	25,714
Total non-derivatives liabilities		84,067	25,714	-	-	109,781

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 settlements.

Consolidated - 2018	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	-	-	-	-	-
Forward foreign exchange contracts	126	-	-	-	126
Total derivatives	126	-	-	-	126

Consolidated - 2017	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	3	-	-	-	3
Forward foreign exchange contracts	(4,325)	(742)	-	-	(5,067)
Total derivatives	(4,322)	(742)	-	-	(5,064)

NOTE 28. 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 11 and 17) 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 29. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

- A McDonald – Chairperson
- M Hardwick – Non-Executive Director
- A Hardwick – Non-Executive Director
- M Quinn – Non-Executive Director
- D Bracken¹ – Chief Executive Officer (appointed 12 February 2018)
- G Perlstein – Chief Executive Officer (resigned 15 November 2017)

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:

- T Fawaz – Chief Financial and Operations Officer (appointed 1 July 2017)
- S Moura – General Manager People & Culture
- P Ryan¹ – General Manager City Chic
- T Karp – Chief Operating Officer (resigned 10 November 2017)

¹ Daniel Bracken is expected to step down prior to the 2018 Annual General Meeting, currently scheduled to be held in November 2018 after a phased handover to Phil Ryan, currently City Chic General Manager, who will be appointed CEO subsequent to Daniel's departure.

NOTE 29. KEY MANAGEMENT PERSONNEL DISCLOSURES (CONTINUED)

Compensation

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

	2018 \$	Consolidated 2017 \$
Short-term employee benefits	3,875,352	2,498,451
Post-employment benefits	1,213,395	122,338
	<u>5,088,747</u>	<u>2,620,789</u>

Shareholding

The number of 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:

	Opening Balance	Additions	Disposals	Closing Balance
Directors' shareholding				
<i>Ordinary shares:</i>				
A McDonald	15,000	20,000	-	35,000
M Hardwick	220,000	175,000	-	395,000
G Perlstein ¹	17,862,814	-	-	17,862,814
A Hardwick ²	38,742,203	1,059,608	-	39,801,811
M Quinn	-	-	-	-
D Bracken	-	-	-	-
Total shares held by directors	<u>56,840,017</u>	<u>1,254,608</u>	<u>-</u>	<u>58,094,625</u>

¹ Beneficial interest in Specialty Fashion Group Limited through Icestorm Pty Ltd and Snowglaze Investments Pty Ltd.

² Beneficial interest holding through NAAH Pty Ltd and NAAH Investments Pty Ltd. G Perlstein resigned on 15 November 2017.

Other key management personnel shareholding

Ordinary shares:

T Fawaz	-	400,000	-	400,000
S Moura	-	-	-	-
P Ryan	124,000	-	-	124,000
T Karp	-	-	-	-
Total shares held by other key management personnel	<u>124,000</u>	<u>400,000</u>	<u>-</u>	<u>524,000</u>

NOTE 30. REMUNERATION OF AUDITORS

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the Group, and its network firms:

	2018 \$	Consolidated 2017 \$
Auditor of the parent entity		
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	429,900	393,000
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance services including review of company income tax returns	30,000	30,000
Tax advisory services	-	19,100
Other advisory services	-	5,000
	-	54,100
	<u>459,900</u>	<u>447,100</u>
Network firms of the parent entity auditor		
<i>Audit services - Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	-	10,720
<i>Other services - Deloitte Touche Tohmatsu</i>		
Tax compliance services including review of company income tax returns	37,099	64,150
Tax advisory services	92,194	71,435
Other advisory services	-	1,460
	129,293	147,765
	<u>589,193</u>	<u>594,865</u>

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 31. CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities at 1 July 2018 in respect of:

Cross guarantees by and between Specialty Fashion Group Limited and Specialty Fashion Group No.5 Pty Limited. These are described in note 36. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in note 21.

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

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 32. COMMITMENTS

	2018 \$'000	Consolidated 2017 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	240	2,192
<i>Lease commitments - operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	9,452	74,651
One to five years	10,239	93,977
More than five years	-	832
	<u>19,691</u>	<u>169,460</u>

There were no assets pledged as security during at the reporting date.

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 33. RELATED PARTY TRANSACTIONS

Parent entity

Specialty Fashion Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 35.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	2018 \$	Consolidated 2017 \$
Payment for other expenses:		
Lease of business premises in which G Perlstein ¹ , director of the consolidated entity, has an interest	125,087	296,517
Shop fit-out fees service paid to a company that is associated with NAAH Pty Ltd and NAAH Investments Pty Ltd	210,508	-
Share registry and Annual General Meeting fees paid to Link Market services. A McDonald is a non-executive director of Link Administrative Holding Limited (Link Group)	52,931	51,076
Consulting fees for training services paid to a company that is associated with G Perlstein, a director of the consolidated entity	-	1,500

¹ There is a decrease in lease expense payments from prior year as amounts included in FY2017 represent the portion payable until the director's resignation date. G Perlstein resigned as director of Specialty Fashion Group Limited on 15 November 2017.

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.

NOTE 33. RELATED PARTY TRANSACTIONS (CONTINUED)

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 except for the lease of the business premises which was at below market rates.

NOTE 34. PARENT ENTITY INFORMATION

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

Statement of profit or loss and other comprehensive income

	2018	Parent
	\$'000	2017
		\$'000
Revenue	111,095	95,191
Expenses	<u>(87,613)</u>	<u>(83,090)</u>
Profit before income tax	23,482	12,101
Income tax expense	<u>(4,139)</u>	<u>(2,286)</u>
Profit after income tax from continuing operations	19,343	9,815
Loss after income tax from discontinued operations	<u>(27,159)</u>	<u>(7,808)</u>
Total loss after income tax for the year from parent entity	(7,816)	2,007
Other comprehensive income/(loss)	<u>3,635</u>	<u>(426)</u>
Total comprehensive (loss)/income from parent entity	<u>(4,181)</u>	<u>1,581</u>

Analysis of profit/(loss) for the period from discontinued operations

The profit/(loss) for the discontinued operations for the reporting period are set out below, including comparative information:

	2018	Consolidated
	\$'000	2017
		\$'000
Revenue	602,121	658,849
Expense	<u>(634,654)</u>	<u>(667,988)</u>
Loss before income tax from discontinued operations	(32,533)	(9,139)
Income tax benefit	<u>4,974</u>	<u>1,331</u>
	(27,559)	(7,808)
Gain on measurement of disposal group to fair value less cost to sell	<u>400</u>	<u>-</u>
Loss after income tax from discontinued operation	(27,159)	(7,808)

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 34. PARENT ENTITY INFORMATION (CONTINUED)

	2018 \$'000	Parent 2017 \$'000
Total current assets ¹	167,223	99,858
Total assets	198,947	197,485
Total current liabilities ²	142,459	110,617
Total liabilities	157,476	149,828
Equity		
Issued capital ³	49,138	134,497
Hedging reserve - cash flow hedges	88	(3,547)
Share-based payments reserve	61	61
Loss reserve	(7,816)	-
Accumulated losses ³	-	(85,358)
Total equity	<u>41,471</u>	<u>45,653</u>

¹ Includes assets held for sale of \$122.4 million.

² Includes liabilities associated to assets held for sale of \$91.2 million.

³ During the current financial year, Specialty Fashion Group Limited, the Parent Company of the Group, undertook a capital reduction to reduce its share capital by \$85.4 million to \$49.1 million, in accordance with section 258F of the *Corporations Act 2001*. The reduction was allocated in full to the prior period accumulated losses account in the Parent Company with no impact on the net assets of either the Parent Company or the Group. On consolidation, the share capital of the Group also reduced by \$85.4 million to \$49.1 million.

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 36 for further details.

Contingent liabilities

Not included above are contingent rental payments which may arise in the event that sales revenue exceeds a predetermined amount. Refer to note 32 for further details.

The parent entity had capital commitments for property, plant and equipment as reporting date:

	2018 \$'000	Parent 2017 \$'000
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	<u>240</u>	<u>2,192</u>

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 35. 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	
		2018 %	2017 %
Specialty Fashion Group No. 5 Pty Limited (formerly known as Miller's Fashion Club (QLD) Pty Limited)	Australia	100.00%	100.00%
Specialty Fashion Group No. 1 Pty Limited (formerly known as Specialty Fashion Group Leasing Pty Limited)	Australia	80.00%	80.00%
Specialty Fashion Group No. 2 Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group No. 6 Pty Limited (formerly known as Crossroads Clothing Co. Pty Limited)	Australia	100.00%	100.00%
City Chic International Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group New Zealand Limited	New Zealand	100.00%	100.00%
Specialty Fashion Group (Shanghai) Limited Company	China	100.00%	100.00%
Specialty Fashion Group South Africa (Pty) Ltd	South Africa	100.00%	100.00%
Specialty Fashion Group USA Incorporated	United States	100.00%	100.00%

NOTE 36. 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
- Specialty Fashion Group No.5 Pty Limited

At the date of this declaration, the Company is within the class of companies affected by *ASIC Corporations (Wholly owned Companies) Instrument 2016/785*. The nature of the deed of cross guarantee is such that each company which is party to the deed guarantees to each creditor payment in full of any debt in accordance with the deed of cross guarantee.

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 34.

NOTE 37. RECONCILIATION OF PROFIT/(LOSS) AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	2018	Consolidated 2017
	\$'000	\$'000
Loss after income tax expense for the year	(9,306)	(8,389)
Adjustments for:		
Depreciation and amortisation	20,128	23,238
Impairment of property, plant and equipment	-	1,383
Foreign exchange differences	(1,291)	(251)
Net loss/(gain) on disposal of non current assets	658	(111)
Fair value revaluation of derivative financial instruments through profit or loss	-	131
Other	-	208
Change in operating assets and liabilities:		
Decrease in trade and other receivables	3,355	415
(Increase)/decrease in inventories	9,059	(2,106)
Decrease in income tax refund due	20	-
(Increase)/decrease in deferred tax assets	(1,999)	1,045
Decrease/(Increase) in derivative assets	3	(126)
Increase in trade and other payables	24,425	4,765
Decrease/(increase) in provision for income tax	(33)	540
Decrease in employee benefits	(1,735)	-
Decrease in other provisions	(1,216)	(174)
Decrease in other operating liabilities	(2,994)	-
Net cash from operating activities	<u>39,074</u>	<u>20,568</u>

Movement in trade and other payables excludes amounts payable for property, plant and equipment.

NOTE 38. LOSS PER SHARE

	2018	Consolidated 2017
	\$'000	\$'000
Profit/(loss) after income tax attributable to the owners of Specialty Fashion Group Limited		
Continuing operations	14,959	(3,521)
Discontinued operations	(24,265)	(4,868)
	<u>(9,306)</u>	<u>(8,389)</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>

Specialty Fashion Group Limited
Notes to the financial statements
1 July 2018

NOTE 38. LOSS PER SHARE (CONTINUED)

	Cents	Cents
Basic earnings per share		
Continuing operations	7.8	(1.8)
Discontinued operations	(12.6)	(2.5)
	<u>(4.8)</u>	<u>(4.3)</u>
Diluted earnings per share		
Continuing operations	7.8	(1.8)
Discontinued operations	(12.6)	(2.5)
	<u>(4.8)</u>	<u>(4.3)</u>

There were no dilutive potential ordinary shares outstanding as at 1 July 2018 (2017: nil).

NOTE 39. SHARE-BASED PAYMENTS

Employee Long Term Incentive Plan

There were no performance share rights outstanding as at 1 July 2018 (2017: nil).

Fair value of options granted

No options were granted during the years ended 1 July 2018 or 30 June 2017.

NOTE 40. EVENTS AFTER THE REPORTING PERIOD

On 2 July 2018, as a result of Business Sale Agreement entered between the Group and Noni B Limited (ASX: NBL) on the 14 May 2018, the Group agreed to sell assets to NBL for a cash consideration of \$31.0 million. These assets include goodwill, plant and equipment, inventory and records, the book debts, owned intellectual property, rights and benefits under intellectual property licences, websites and any other assets in the business specifically related to the business carried on under the brands of Rivers, Katies, Millers, Maggie T, Crossroads and Autograph.

As part of the Business Sale Agreement Noni B Ltd and SFG agreed a post completion adjustment mechanism as part of the completion accounting, which is yet to be finalised.

Specialty Fashion Group Limited
Directors' declaration
1 July 2018

In the directors' opinion:

- the attached financial statements and notes there to 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 there to 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 give a true and fair view of the consolidated entity's financial position as at 1 July 2018 and of its performance for the financial period ended on that date;
- there are reasonable grounds to believe that the consolidated entity 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 Company and the companies to which *ASIC Corporations (Wholly owned Companies) Instrument 2016/785* applies, as detailed in Note 30 to the financial statements will, as a group, be able to meet any liabilities to which they are, or may become, subject because of the deed of cross guarantee.

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



Anne McDonald
Chairperson



Daniel Bracken
Chief Executive Officer

28 August 2018
Sydney

Specialty Fashion Group Limited
Shareholder information
1 July 2018

The shareholder information set out below was applicable as at 6 August 2018.

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	982
1,001 to 5,000	1,595
5,001 to 10,000	454
10,001 to 100,000	500
100,001 and over	74
	<u>3,605</u>
Holding less than a marketable parcel	<u>440</u>

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	39,801,811	20.70
HSBC Custody Nominees (Australia) Limited	31,117,675	16.19
J P Morgan Nominees Australia Limited	25,244,986	13.13
Mr Gary Perlstein and controlled entities	17,862,728	9.29
Mr Ian Miller and controlled entities	13,466,880	7.01
T Batsakis Pty Ltd	7,000,000	3.64
National Nominees Limited	5,539,146	2.88
One Managed Invst Funds Ltd	3,487,384	1.81
HSBC Custody Nominees (Australia) Limited - A/C 2	2,894,176	1.51
Citicorp Nominees Pty Limited	2,059,000	1.07
GDL Investments Pty Limited	1,955,564	1.02
Brindle Holdings Pty Ltd	1,346,811	0.70
Mr David Alan McSeveny	1,171,513	0.61
Talmal Pty Ltd	1,150,000	0.60
BNP Paribas Nominees Pty Ltd	809,332	0.42
Citicorp Nominees Pty Limited	744,793	0.39
NCH Pty Ltd	734,755	0.38
TDA Securities Pty Ltd	630,000	0.33
VIVRE Investments Pty Ltd	600,000	0.31
Insko Holdings Pty Ltd	600,000	0.31
	<u>155,216,554</u>	<u>82.30</u>

Unquoted equity securities

There are no unquoted equity securities.

Specialty Fashion Group Limited
Shareholder information
1 July 2018

Substantial holders

Substantial holders in the Group are set out below:

	Number held	Ordinary shares % of total shares issued
NAAH Pty Ltd / NAAH Investments Pty Ltd ¹	39,801,811	20.70
Mr Gary Perlstein and controlled entities ²	17,862,728	9.29
Wilson Asset Management	17,566,350	9.14
Mr Ian Miller and controlled entities ³	13,466,880	7.01
Pinnacle Investment	11,735,501	6.10
Spheria Asset Management	11,735,501	6.10

¹ Mr Ashley Hardwick has a personal beneficial interest in Specialty Fashion Group Limited through NAAH Pty Ltd and NAAH Investments Pty Ltd.

² Mr Gary Perlstein has a beneficial interest in Specialty Fashion Group Limited through Icestorm Pty Ltd and Snowglaze Investments Pty Ltd.

³ Mr Ian Miller has a beneficial interest in Specialty Fashion Group Limited through Landpeak Pty Ltd and Landcharm 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.