SPECIALTYFASHION | GROUP ANNUAL REPORT 2011

Contents.

Cover Image by City Chic.
Contents Image by City Chic.

Our Story.

Image by Autograph

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, making women look good and feel great through six diverse brands that offer style and value. Every second we sell a garment in Australia, New Zealand or the United States through our portfolio of 891 stores and six online stores.

We have one of the largest women's customer communities in Australasia, with 6.2 million members, and we can reach over 1.5 million members through email. Our members' loyalty is high, representing over 80% of sales.

Our Mission.

Making women everywhere look good and feel great.

Left to Right: Jayne | City Chic Anna | Katies Elissa | Autograph Rachel | Crossroads Estelle | La Senza Alex | Millers

Our Values.

S.H.I.R.T

Is at the very core of Specialty Fashion Group. It stands for Service, Humility, Integrity, Respect and Trust. S.H.I.R.T values drive every interaction at Specialty Fashion Group; internally with each other, externally with our business partners and most importantly, with our customers.

The highest honour at Specialty Fashion Group is to be awarded the annual S.H.I.R.T Award. The winners are proudly displayed on a framed shirt in our reception.

F.I.T.S

In 2011 we introduced F.I.T.S and by keeping true to our core SHIRT values, we encourage a Fun atmosphere, champion Innovation, nurture Talent and have a Safe, secure and sustainable approach to our work life as we accomplish our mission.

Image by Katies

Multi-channel Retailing.

Multi-channel retailing is an opportunity for us to combine our customer relationship marketing and use of multiple retail channels to increase customer loyalty and drive revenue growth. We are optimising our touch points and engaging with our customers in new and innovative ways.

Multi-channel retail is attractive to our customers because it provides choice and convenience. Through every interaction with our customers we gain deep insight into their buying habits and preferences, and gain intimacy which helps all facets of our business respond to their future shopping needs and desires.

IN THE PAST YEAR WE HAVE **ENGAGED** WITH OUR CUSTOMERS THROUGH... **891 STORES** 6 ONLINE STORES 8 WEBSITES **4 FACEBOOK PAGES**

We have cross functional teams comprised of retail specialists, customer relationship marketing experts and Ecommerce professionals. Together they formulate processes and strategies to serve our customers seamlessly across multiple channels.

52M PERSONALISED EMAILS BLOGS & COMPETITIONS 2M SMS **42,921 CUSTOMER SERVICE CALLS...** ALL TO SELL **1 GARMENT EVERY SECOND**

Katies

Katies is the ultimate style destination for contemporary fashion to make every woman look good and feel great. With all the latest trends, wardrobe essentials and accessories, plus style tips, body shape and outfitting advice, Katies is the one stop shop for flattering, fashionable and affordable style solutions.

Katies was established in 1956 and has 147 stores within Australia. The launch of the Katies online store in August 2010 reflects our commitment to fulfilling the needs of the busy Katies woman for convenient, home shopping, and ensuring the brand is at the forefront in the rapidly expanding Australian online retail market.

147 stores across Australia.

www.katies.com.au
www.facebook.com/KatiesFashion

city chic

Bold, Sexy, Glam, Chic...

Every customer, every team member, every garment, and every decision embodies these four elements to make City Chic the leading designer plus size retailer in Australasia. We are changing the fashion retail experience for fashion forward curvy women everywhere.

City Chic has opened 33 stores in the past year, and now has 16 stores in New Zealand. Our Australian online store continues to grow exponentially, and we interact with our customers in new and exciting ways on twitter and facebook. In 2010 City Chic went global, launching our US online store. We are rapidly developing brand equity with the US women's plus size community through our use of social media.

77 stores across Australia & NZ.

www.CityChic.com.au
www.CityChicOnline.com
twitter.com/#!/CityChicOnline
www.facebook.com/CityChicOnline

377 stores across Australia & NZ.

www.Millers.net.au

Millers

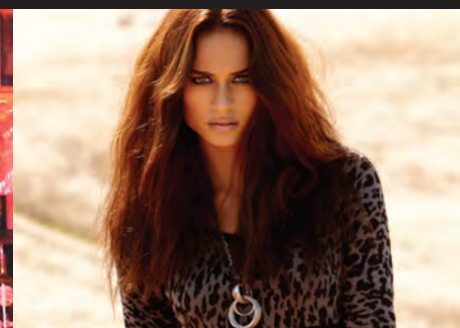
Millers provides value fashion to the ageless lady to allow her to always look good and feel great. Aiming to meet our customers' every need, we offer a wide range of fashion and accessories, designed for her based on the latest trends from around the world, with the perfect fit and fabrication.

Established in 1993, Millers is Australia's largest women's apparel retailer with 350 stores in Australia, a further 27 stores in New Zealand, and selling over 20 million garments per year combined. We have a customer membership community of over 3.5 million members, and the Millers Rewards Program allows us to engage intimately with our loyal customers.

crossroads

Crossroads is Australia's leading fashion brand for fast, affordable fashion in sizes 8 to 22. We have an outfit for every occasion, ensuring customers get the latest look without the expensive price tag.

Crossroads is a fun brand and we aim to make our customer smile, whether that be due to a fabulous new outfit, humorous campaign or social media engagement. Innovative marketing through our social media connections has allowed us to engage and understand our customer on several levels and we are excited about the opportunities this presents. We have over 40,000 facebook fans.



AUTOGRAPH

At Autograph we strive to provide our customer with a wardrobe that not only fits, but a wardrobe she loves. We offer contemporary fashion in sizes 14 to 26 for a range of lifestyles including tailored work wear, stylish party wear, comfortable casuals and a fabulous range of denim. No matter what the occasion, we have the perfect outfit and accessories to ensure that the Autograph woman feels confident with her style.

We listen to our customers and provide solutions such as wider fitting boots, body shaping jeans and styles that are designed to flatter the figure. Our store teams have the passion and the confidence to provide outfit solutions to suit all body shapes in a welcoming environment.

117 stores across Australia.

www.AutographFashion.com.au
www.facebook.com/AutographFashion

La Senza, an internationally renowned intimate apparel brand, offers the trendiest colours, prints and styles using the best in technology and innovation. We cater to the Australian "Lingerista"; she loves to shop, she's always on-trend, and she's engaged in social media.

Specialty Fashion Group acquired the Australasian La Senza licence in August 2010, and now has 14 stores open in Australia.

With unique product and a store design with the wow factor, La Senza is offering a global shopping experience to our customers. From Paris to Rome, Shanghai to Sydney, it's her flirty style that rules!

14 stores across Australia.

www.LaSenza.com.au
www.facebook.com/LaSenzaAustralia

Chairman's Report

In the past year consumer confidence has been at extremely low levels due to the ongoing global economic uncertainties, and domestic economic challenges presented by our dual track economy. Our customers have been particularly sensitive to the increases in the official cash rate, and the continual threat of further increases. As a consequence, retail has experienced its longest cyclical trough for decades, and it is certainly the longest in our Company's history. Retail discounting has been prevalent and constant throughout the year. Given the market circumstances the increase in the Company's sales from continuing operations to $570.3 million is an achievement.

The addition of La Senza to the Group in August 2010 was a very exciting development for the Company, bringing one of the most highly recognised global intimate apparel brands to Australia. La Senza had expanded to 14 stores in June 2011, with a new store design and products that have the wow factor and uniqueness that Australian women are looking for. La Senza also launched its online store in June 2011, and the Company has high expectations that this will be a success with its young internet savvy customers.

The Queenspark brand was sold to private investors for $5.5 milion in October 2010. The sale was made following the strategic decision to release capital for investment elsewhere in the Group due to the brand not meeting internal growth expectations.

Apparel retailers have had to deal with exceptionally high product cost inflation in the past year, primarily driven by increased yarn prices flowing from record cotton prices, and significantly higher prices continue to prevail in the new financial year. Fortunately, we have also had the benefit of a stronger Australian dollar during this period to make our purchases. The transformations we have made to our product design and direct sourcing in the past year are proving successful and enabled us to differentiate our product and protect our margins in a highly competitive environment. We expect further advantages to come as we continue to increase the mix of product we source directly and diversify our supplier base.

We have expanded our ecommerce presence to six online stores across the Group which has positioned us to respond to an increasing preference of customers to shop online. Online retail has gained real momentum in the past year in Australia, and is expected to accelerate. The key focus for us is to continue to transact with our customers, regardless of the sales channel adopted. Our aim is to leverage our six million strong customer database together with our 891 physical stores to grow our online sales. This physical presence and existing customer base gives us a competitive advantage over other online retailers. Gary will elaborate on this in his CEO report.

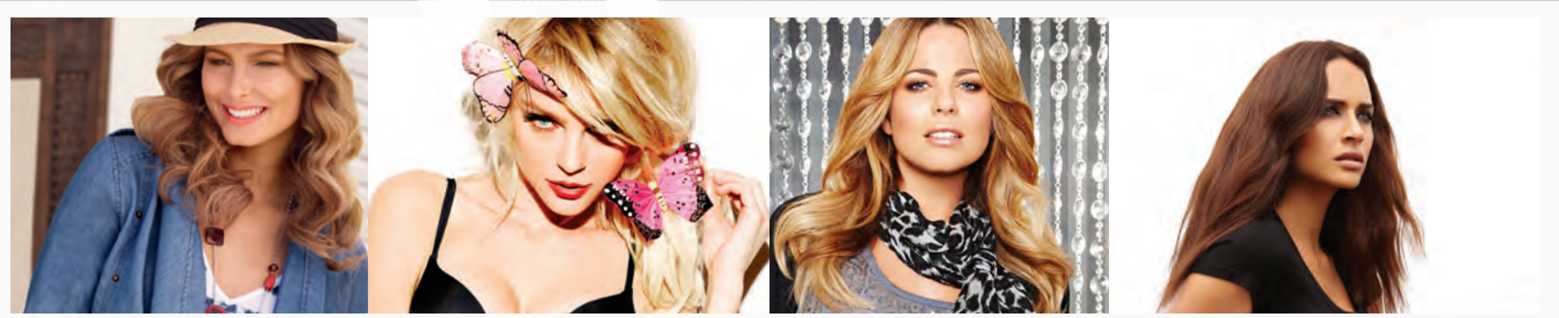
The Company had a strong balance sheet at year end, with net debt of $16.4 million and $78 million of unused and available debt facilities. As part of our prudent cash management, closing inventory per store was reduced 6%, which resulted in the release of $2.9 million of working capital. Operating cash flows for the year remained robust at $33.8 million, which funded capital expenditure invested in our stores and IT systems, positioning the Group well for the upturn in the cycle and return of consumers' confidence when it comes.

The Board decided not to pay a final dividend for the year because there is currently no indication of an improvement in macro trading conditions and too much uncertainty as to when the upturn could occur. The total dividend declared for the year is therefore the interim dividend of four cents per share fully franked; this represents a payout of 54% of net profit. Going forward, we will continue to review our operating results at the end of each half and make the appropriate decisions regarding dividend payments at that point in time.

I would like to take this opportunity to welcome Wai Tang to the Board as a non-executive director. She joined in November 2010 and has already had a positive impact on our deliberations. Wai has over 25 years retail experience including Director of Operations for Just Group, CEO for the Peter Alexander sleepwear brand, and most recently Managing Director of a new retail confectionary concept called Happy Lab.

Finally on behalf of the Board, I acknowledge the stalwart leadership shown by the management team at Specialty Fashion Group. The Board looks forward to continuing to work with our outstanding CEO, Gary Perlstein and his team during what we believe will be a period of structural shifts in Australian retail. These shifts will force changes in the competitive landscape and in the retailer's business models generally. We are confident that the strategic decisions that the Company has made will keep it in a strong position as consumer confidence returns and brings favourable returns for our shareholders.

Geoffrey Levy AO
Chairman



The Company had a strong balance sheet at year end, with net debt of $16.4 million and $78 million of unused and available debt facilities.

CEO's Report

In the past year we have consistently experienced very tough trading conditions, and I am pleased to report to shareholders that despite this we achieved a 2.4% increase in revenue from continuing operations to $570.3 million. At the end of the financial year we had 891 stores in our portfolio, an increase of 54 stores from the previous year. Regrettably, net profit after tax fell to $14.2 million from $30.4 million. The decline in profitability primarily reflects the increased store rent and wages needed to achieve sales growth from the larger portfolio, investments in people which we have made to support our growth strategies and continued rent and wage inflation in our existing business.

There is no doubt that we have experienced an extraordinary trough in the retail cycle, but eventually consumer confidence will return. At the same time, I believe there are permanent structural shifts that are occurring in retail that will force changes in the competitive landscape and in retailers' business models. The advent of global retail, adoption of online retail by consumers, acceleration of China's economic development and Australia's increasingly high cost labour structure all present opportunities as well as threats. The strategies we have employed and continue to prioritise are all focused towards capitalising on the opportunities and minimise the impact of threats to become a leading international multi-channel retailer. These strategies are: investment in our portfolio and global brands, differentiating through our unique product, diversifying our supplier base, leveraging our customer relationship database, and expanding our Ecommerce capabilities.

Our focus on increasing returns from our investment in stores has continued during the 2011 financial year. We opened 92 new stores and closed 12 stores as well as disposing of 26 stores through the sale of the Queenspark brand in October 2010. We also undertook 98 store refurbishments and relocations. There will always be a place for bricks and mortar retail, however in anticipation of the acceleration of online retail we are considering very carefully the future investments we make in the portfolio. We will look to further increase our store portfolio in 2012, but are also prioritising investment in our online platform.

The Company's established brands have all remained profitable and the La Senza brand has performed as expected during its start up phase. The brands have exhibited remarkable resilience in dealing with falling consumer sentiment and increasing costs of doing business. We focused on controlling our promotional activities and reducing inventory, as well as offering differentiated products following the investments we have made in our design and sourcing teams, which enabled us to improve our gross margin for the year. We expanded our in-house design capability and we now have a team of product category and fabric specialists dedicated to supporting the brands. This has allowed us to successfully interpret the latest trends and offer unique value fashion to our customers. We have continued to develop the role of our Shanghai office, working more closely with our suppliers to ensure our orders are made at the most competitive cost without compromising quality. We expect further improvements in our gross margins as we exploit our product differentiation and achieve economies of scale in our purchasing. Bangladesh is also an important source of supply for us, and we are increasing the geographical diversification of our suppliers.

Our customer relationship database has grown to over six million members during the year, and we can now communicate via email with over 1.5 million customer members. We have developed innovative trigger and events marketing programs whereby we tailor our email messages and offers based on customers' buying patterns and preferences. We have seen strong improvements in customer loyalty and increased spend by these customers, and intend to expand the depth and range of email marketing programs employed by the brands.

As Geoff explained, we now have six online stores, including our City Chic US online store that was opened in November 2010. Millers launches it's online store before Christmas 2011. Our online sales were small at 1% of sales in the 2011 financial year, however we will be aggressively pursuing opportunities to expand our ecommerce sales and stay ahead as a multi channel retailer. We now have ecommerce managers supporting each of our brands and will be investing in our online platform and logistics infrastructure in the 2012 financial year.

During the year we established our new mission of "Making women everywhere look good and feel great." This defines who we are and what we are aspiring to be. We recognise that our core competency is in serving women, whether it is the product we sell or the experience we provide. Therefore, we will only seek brands and products that cater to women. We also recognise that we are the largest women's retailer in Australia. If we limit our growth plans to Australia, we are by default limiting our growth opportunities in what is a mature market. Therefore, we will look beyond Australia and New Zealand to find new growth opportunities, and currently our investigations focus on the US online retail market. The words "women everywhere" also alludes to the fact that we compete in the value end of the market and niches such as mature, plus size and intimate apparel. Our success lies in our ability to find opportunities to retail to women for whom the market under caters. Regardless of the geographic markets we explore, we will continue to focus on catering to these women.

During difficult times, it is often the values of a company which is the foundation that allows it to outperform in its market. Our S.H.I.R.T. culture is one of the key success factors that underpin our ability to respond to change and adversity. This year we expanded our values framework to include our commitment to our team. S.H.I.R.T. being "Service, Humility, Integrity, Respect, Trust" has been strengthened to become "Make sure the S.H.I.R.T. F.I.T.S" thus integrating "Fun, Innovation, Talent and Safety". These values and our commitment to diversity in the workplace are key differentiators in attracting and keeping talent.

Consumer confidence has continued to be low at the beginning of the 2012 financial year, however we are focused on the opportunities that are available to us. We intend to continue to invest in the Group in anticipation of the structural changes in our industry and the upturn that will eventually come. I would like to thank everyone at Specialty Fashion Group for their dedication over the past year. The outstanding effort of our whole 5,000 plus team, in very difficult times, places the Company in a strong position for the future.

Gary Perlstein
Chief Executive Officer

Board of Directors.

Geoff Levy AO B.Comm, LLB, FFIN, MAICD
Geoff Levy was appointed a director of the company in April 2005 and is currently Chairman of the company and a member of the Remuneration Committee. He retired as Executive Chairman of Investec Bank (Australia) Limited ("Investec") on 1 January 2008 and assumed the non executive position of Deputy Chair. Geoff was previously CEO of Investec, a principal of Wentworth Associates and before that a partner in the leading law firm, Freehills. He has over two decades of experience in the corporate advisory environment where he is regarded as an expert in mergers and acquisitions, capital raisings and general corporate commercial law.

Geoff was appointed an Officer of the Order of Australia in the 2005 Queen's Birthday Honours List. Geoff has been a director on a number of public and government boards and is currently a non executive Chairman of Cromwell Group Limited as well as a number of Investec subsidiaries. Geoff has not held any other listed company directorships in the last three years. Geoff holds 2,365,564 ordinary shares in Specialty Fashion Group Limited.

Gary Perlstein B.Bus
Gary Perlstein has played an integral role both in the establishment and growth of Specialty Fashion Group since it was founded in 1993. Gary has been a Director of Specialty Fashion Group since 1995 and he was appointed CEO in October 2003.

Gary has 20 years retailing experience in Australia. Gary does not hold any other listed company directorships and has not held any other listed company directorships in the last three years. He holds 17,862,814 ordinary shares and 1,400,000 share rights in Specialty Fashion Group Limited.

Joel Bloom B.Comm
Joel Bloom joined the Specialty Fashion Group Board in March 2005 and sits on both the Audit Committee and Remuneration Committee. He is an independent non-executive director. Joel is a Chartered Accountant by training and was the joint founder of Go Lo, a national chain of Discount Variety Stores. He has over 20 years of retailing experience in Australia.

Joel does not hold any other listed company directorships and has not held any other listed company directorships in the last three years. He holds 200,000 ordinary shares in Specialty Fashion Group Limited.

Ian Miller B.Comm
Ian Miller co founded Specialty Fashion Group in 1993 and was Managing Director until October 2003. Ian has over 35 years of retailing experience. Ian was an Executive Director from 1993 until 1 January 2007 when he moved to being a Non Executive Director. Ian does not hold any other listed company directorships and has not held any other listed company directorships in the last three years. He holds 14,509,906 ordinary shares in Specialty Fashion Group Limited.

Anne McDonald B.Ec, FCA, GAICD
Anne McDonald joined the Specialty Fashion Group Board in April 2007. She is an independent non-executive director and Chair of the Audit Committee. Anne is currently a non executive director of the listed companies GPT Group (2006 – present) and Spark Infrastructure Group (2009 – present). She is also a non executive director of Westpac's Life Insurance and General Insurance Businesses and of Health Super Pty Ltd. Anne chairs the Audit Committee for these entities. As part of her community work she was a director of St Vincent's Healthcare Group, which oversees the St Vincent's group of national hospitals and aged care facilities, from 2001 until 2010.

Anne is a Chartered Accountant by training and was a partner with Ernst & Young for 15 years until 2005. During that time she served as a member of the Board of Ernst & Young Australia for seven years. She holds 15,000 ordinary shares in Specialty Fashion Group Limited.

Wai Tang B. Sc MBA
Wai joined Specialty Fashion Group from 1 November 2010 as an independent non executive director and is also a member of both the Audit and Remuneration Committees. Wai has in excess of 25 years of working experience in retail and FMCG industries. She currently heads up a new retail confectionary concept called Happy Lab. She is also a non executive director for L'oreal Melbourne Fashion Festival since 2010. Prior to this, Wai was the Director of Operations for Just Group and CEO for Peter Alexander Sleepwear division.

John Murphy (resigned 28 October 2010) B.Comm, M Comm, FCPA, CA
John Murphy joined the Specialty Fashion Group Board in February 2005, and retired from the Board on 28 October 2010. He is the Managing Director of Investec Wentworth Private Equity Limited and is a board member of the following listed companies: Ariadne Australia Limited, Staging Connections Group Limited, Gale Pacific Limited, Clearview Wealth Limited and Vocus Communications Limited. John is also a Director of Investec Bank (Australia) Limited.

Left to Right: Ian Miller | Gary Perlstein | Joel Bloom | Anne McDonald | Wai Tang | Geoff Levy

Corporate Directory.

Directors

G Levy AO
G Perlstein
A I Miller
J Bloom
A McDonald
J Murphy (resigned 28 October 2010)
W Tang (appointed 1 November 2010)

Company Secretary

A Henriksen

Notice of Annual General Meeting

The annual general meeting of Specialty Fashion Group Limited will be held at:

Museum of Sydney
Cnr Phillip and Bridge Street
Level 2, AGL Theatre Room

Time: 2pm
Date: 10 November 2011

Principal Registered Office in Australia

151 – 163 Wyndham Street
Alexandria NSW 2015

Telephone: (02) 8303 9800
Facsimile: (02) 8306 3596

Share Registry

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
Level 6, Grosvenor Place
225 George Street
Sydney NSW 2000

Solicitors

Freehills
Level 38, MLC Centre
19 – 29 Martin Place
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 Stock Exchange (ASX code: SFH)

Website Address

www.specialtyfashiongroup.com.au

Financial Report.

Directors' report.

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Specialty Fashion Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2011.

Directors

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

- G Levy AO
- G Perlstein
- A I Miller
- J Bloom
- A McDonald
- J Murphy (resigned 28 October 2010)
- W Tang (appointed 1 November 2010)

Information on the qualifications, experience, special responsibilities and particulars of interests in shares and options of the Board of Directors is set out on pages 28-29.

Principal Activities

During the year the principal activity of the Group consisted of the retailing of women's fashion in Australia and New Zealand.

Dividends

Details of dividends in respect of the current year are as follows:

	2011 $'000	2010 $'000
Interim ordinary dividend for the year ended 30 June 2011 of 4.0 cents (2010 4.0 cents) per fully paid share paid on 25 March 2011	7,697	7,724
Final ordinary dividend for the year ended 30 June 2010 of 4.0 cents (2009-nil) per fully paid ordinary share paid on 27 October 2010.	7,625	
	15,322	7,724

The directors did not declare a final dividend for the 2011 financial year.

Review Of Operations

Specialty Fashion Group Limited achieved revenue growth from continuing operations of 2.4% to $570.3million for the year ended 30 June 2011. The Group experienced challenging trading conditions throughout the year. The Company's focus on disciplined promotional activity, and a more favourable exchange rate offset the negative impact of higher manufacturing costs of product. However the Company incurred higher rental and wages from a larger store base, inflation, and investments in people to support the Company's growth strategies. The consequence of this was a decrease in net profit after tax to $14.2million.

As at 30 June 2011, store numbers were 891 which is a net increase of 54 stores.

Earnings Per Share

	2011 CENTS	2010 CENTS
(a) Basic earnings per share		
Basic earnings per share from continuing operations	7.6	16.1
Basic earnings per share from continuing and discontinued operations	7.4	16.0
(b) Diluted earnings per share		
Diluted earnings per share from continuing operations	7.6	15.8
Diluted earnings per share from continuing and discontinued operation	7.4	15.7

Significant Changes In the State Of Affairs

During the year the Queenspark brand was sold and the Group commenced its partnership with Limited Brands, adding the La Senza brand to its portfolio.

Matters Subsequent to the End of the Financial Year

At the date of this report there is no matter or circumstance that has arisen since 30 June 2011 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years;

(b) the results of those operations in future financial years; or

(c) the Group's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Group intends to continue its principal activity of retailing of women's fashion in Australia and New Zealand while focusing on improvements in brand performance and direct sourcing, expanding e-commerce capabilities and cost management. The Group is also seeking to expand its physical and online store portfolio. Further information on likely developments in the operations of the Group and expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental Regulation

The Group has assessed whether there are any particular environmental regulations that apply to it and has determined that there are none.

Meetings of Directors

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2011, and the numbers of meetings attended by each director were:

	BOARD OF DIRECTORS		AUDIT COMMITTEE		REMUNERATION COMITTEE**	
	A	B	A	B	A	B
G Levy	13	15	*	*	0	0
G Perlstein	14	15	*	*	*	*
A I Miller	14	15	*	*	*	*
J Bloom	15	15	5	5	0	0
A McDonald	14	15	5	5	*	*
J Murphy	4	5	2	2	*	*
W Tang	8	10	2	3	0	0

A Number of meetings attended

B Number of meetings held during the time the director held office or was a member of the committee during the year

* Not a member of the relevant committee

** This comittee was establised 23 November 2010 and will meet for the first time 26 August 2011

Continuation In Office Of Directors

In accordance with the Constitution, all directors stand for re-election every three years.

Company Secretary

The Company secretary is Alison Henriksen B.Comm, ACA. Alison was appointed to the position of Company Secretary in July 2010. She is also the Chief Financial Officer of Specialty Fashion Group Limited, appointed in August 2009 and has over 20 years commercial experience.

Remuneration report.

Remuneration Report

The remuneration report which forms part of the directors' report, sets out information about the remuneration of the Group's directors and its senior management for the financial year ended 30 June 2011. The remuneration report is set out under the following main headings:

A Principles used to determine the nature and amount of remuneration

B Details of remuneration

C Service agreements

D Long term incentives

The information provided in this remuneration report have been audited as required by section 308 (3C) of the Corporations Act 2001.

A Principles Used to Determine the Nature and Amount of Remuneration

The objective of the Group's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with achievement of strategic objectives and the creation of value for shareholders, and conforms with market practice for delivery of reward. The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage / alignment of executive compensation
- transparency
- capital management.

Alignment to shareholders' interests is ensured through:
- having economic profit as a core component of plan design
- focus on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives.

Alignment to executives' interests is ensured through:
- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards
- providing recognition for contribution.

The framework provides a mix of fixed and variable compensation, and a blend of short and long term incentives. As executives gain seniority with the group, the balance of this mix shifts to a higher proportion of ''at risk'' rewards.

Non-Executive Directors

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, the directors. Non-executive directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of non-executive directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-executive directors do not receive share options. The Board believes this is necessary for non-executive directors to maintain their independence.

Directors' Fees

The current base remuneration was last reviewed with effect from July 2009.

Non-executive directors' fees are determined by the Board within an aggregate directors' fee pool limit, which is periodically recommended for approval by shareholders. The maximum directors' fee pool limit currently stands at $450,000 which was approved by shareholders at the 2007 Annual General Meeting held on 27 November 2007.

Executive Pay

The executive pay and reward framework has three components:
- base pay and benefits, including superannuation
- short term performance incentives, and
- long term incentives through participation in the Specialty Fashion Group Limited Senior Executive Option Plan and Specialty Fashion Group Limited Long term Incentive Plan.

The combination of these comprises the executive's total remuneration.

Base pay and benefits

Base pay and benefits are structured as a total employment cost package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion.

Executives are offered a competitive base pay that comprises the fixed component of pay and rewards. Base pay for senior executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Benefits

Executives receive benefits including car allowances.

Short Term Incentives

Should the Group achieve pre-determined targets set by the 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 and impact on the organisation. The annual STI target payment is reviewed annually.

The remuneration committee considers the appropriate targets and key performance indicators (KPIs) to link the STI plan and the level of payout if targets are met. This includes setting any maximum payout under the STI plan, and minimum levels of performance to trigger payment of STI.

For the year ended 30 June 2011, the KPIs linked to short term incentive plans were based on group or individual business objectives where appropriate to the executive's role and their impact on the Group'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 bonus payments are adjusted in line with the degree of over achievement against the target performance levels.

Long Term Incentives

Information on the Specialty Fashion Group Limited Senior Executive Option Plan and Specialty Fashion Long term Incentive plan is set out later in this report.

Relationship between the remuneration policy and company performance

The table below sets out summary information about the consolidated entity's earnings and movements in shareholder wealth for the five years ended 30 June 2011.

	30/06/2011 $'000	30/06/2010 $'000	30/06/2009 $'000	30/06/2008 $'000	30/06/2007 $'000
Revenue from continuing activities	570,304	556,707	560,554	546,358	523,623
Net profit before tax from continuing operations	21,306	43,227	30,813	30,607	32,885
Net profit from continuing operations	14,519	30,717	22,563	21,234	23,014
Share price at start of year	$1.11	$0.55	$0.84	$1.77	$1.54
Share price at end of year	$0.88	$1.07	$0.55	$0.85	$1.77
Interim dividend	4 cents	4 cents	nil	8 cents	9.5 cents
Final dividend	nil	4 cents	nil	2 cents	3 cents
Basic earnings per share from continuing operations	7.6	16.1	11.8	11.1	12.8
Diluted earnings per share from continuing operations	7.6	15.8	11.7	10.8	12.7

Remuneration report (cont.)

B Details of Remuneration

Amounts of remuneration
Details of the remuneration of the directors and the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) are set out in the following tables.

The following persons acted as directors of the company during or since the end of the most recent financial year:

- Geoff Levy AO - Chairman
- Gary Perlstein Chief Executive Officer
- Ian Miller – Non-executive director
- Joel Bloom – Non-executive director
- Anne McDonald – Non-executive director
- John Murphy – Non-executive director (resigned 28 October 2010)
- Wai Tang – Non-executive director (appointed 1 November 2010)

The key management personnel (KMP) of the Group are the directors and the following executives who report directly to the Chief Executive Officer. The KMP's and the positions held in the most recent financial year and since the end of the financial year, except as noted:

- Alison Henriksen
  Chief Financial Officer and Company Secretary
- Sonia Moura
  General Manager of Human Resources
- Janet Clough
  Group General Manager Operations
  (appointed 15 August 2010)

The above key management personnel of the Group were also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2011.

Details of the remuneration of the directors and the key management personnel of the Group (as defined in AASB 124 Related Party Disclosures) of Specialty Fashion Group Limited are set out in the following tables.

Key management personnel of the Group

	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS	SHARE-BASED PAYMENTS	
2011 NAME	CASH, SALARY AND FEES $	CASH BONUS $	NON-MONETARY BENEFITS $	SUPERANNUATION $	SHARE RIGHTS* $	TOTAL $
Non-executive directors						
G Levy	90,000	–	–	8,100	–	98,100
A I Miller	60,000	–	–	5,400	–	65,400
J Murphy	20,000	–	–	–	–	20,000
J Bloom	60,000	–	–	5,400	–	65,400
A McDonald	60,000	–	–	5,400	–	65,400
W Tang	40,000	–	–	–	–	40,000
Sub-total non-executive directors	**330,000**	**–**	**–**	**24,300**	**–**	**354,300**
Executive directors						
G Perlstein	700,000	–	71,500	63,000	(292,440)	542,060
Other key management personnel						
A Henriksen	320,000	–	30,000	28,800	(104,443)	274,357
S Moura	180,000	–	–	16,200	(31,333)	164,867
J Clough	270,447	–	27,160	13,933	–	311,540
Total key management personnel compensation (Group)	**1,800,447**	**-**	**128,660**	**146,233**	**(428,216)**	**1,647,124**

* 2009 Long term incentive plan lapsed due to performance criteria not being met therefore related expenditure was reversed.

2010 NAME	SHORT-TERM EMPLOYEE BENEFITS CASH, SALARY AND FEES $	 CASH BONUS $	 NON -MONETARY BENEFITS $	POST-EMPLOYMENT BENEFITS SUPERANNUATION $	SHARE-BASED PAYMENTS SHARE RIGHTS $	 TOTAL $
Non-executive directors						
G Levy	90,000	–	–	8,100	–	98,100
A I Miller	60,000	–	–	5,400	–	65,400
J Murphy	60,000	–	–	–	–	60,000
J Bloom	60,000	–	–	5,400	–	65,400
A McDonald	60,000	–	–	5,400	–	65,400
Sub-total non-executive directors	**330,000**	**–**	**–**	**24,300**	**–**	**354,300**
Executive directors						
G Perlstein	700,000	210,000	83,166	81,900	292,440	1,367,506
Other key management personnel						
H Herman	315,000	–	40,250	28,350	–	383,600
A Henriksen	272,731	93,000	–	32,916	104,443	503,090
S Moura	140,787	48,000	17,527	30,375	31,333	268,022
Total key management personnel compensation (Group)	**1,758,518**	**351,000**	**140,943**	**197,841**	**428,216**	**2,876,518**

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed short term incentives above.

The above key management personnel of the Group were also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2010.

The relative proportions of remuneration that are linked to performance and those that are fixed are as follows:

	FIXED REMUNERATION		AT RISK-STI		AT RISK-LTI	
NAME	2011	2010	2011	2010	2011	2010
G Perlstein	77	62	23	17	-	21
Other key management personnel of Group						
H Herman	-	100	-	-	-	-
A Henriksen	77	59	23	20	-	21
S Moura	77	68	23	20	-	12
J Clough	77	-	23	-	-	-

Remuneration report (cont.)

C Service Agreements

The following table summarises the individual details of service agreements that are in place for Specialty Fashion Group Limited's directors as well as for key management personnel.

NAME	OFFICE HELD	TERM OF AGREEMENT	NOTICE PERIOD	SEVERANCE PERIOD	REMUN-ERATION REVIEW PERIOD	ELIGIBLE FOR STI?	ELIGIBLE FOR LTI?	ELIGIBLE FOR TERMINATION BENEFIT?	ELIGIBLE FOR OTHER BENEFIT?
Executive directors									
G Perlstein	Chief Executive Officer	No term	1 month	None	12 months	Yes	Yes	No	Yes
Non-executive drectors									
G Levy	Chairman Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A I Miller	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
J Bloom	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A McDonald	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
W Tang	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
Other key management personnel									
A Henriksen	Chief Financial Officer and Company Secretary	No term	3 months	None	12 months	Yes	Yes	No	No
S Moura	General Manager of Human Resources	No term	3 months	None	12 months	Yes	Yes	No	Yes
J Clough	Group General Manager Operations	No term	3 months	None	12 months	Yes	Yes	No	Yes

D Long Term Incentives

Options

Options are granted under the Specialty Fashion Group Limited Employee Option Plan. Staff eligible to participate in the plan are those of supervisor level and above (including executive directors).

Options are granted under the plan for no consideration. Options are granted for a three year period, and 1/3 of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

Vesting conditions include employment at time of vesting and a 20% growth in EPS year on year.

The terms and conditions of each grant of options affecting remuneration in the current or a future reporting period are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE
04/01/2005	1/3 after June 2006 1/3 after June 2007 1/3 after June 2008	31/08/2011	$1.13	$0.11

Options granted under the plan represent unissued ordinary shares and carry no dividend or voting rights.

The exercise price of options is based on the weighted average price at which the company's shares are traded on the Australian Stock Exchange during the five trading days immediately before the options are granted.

No option holder has any right under the options to participate in any other share issue of the company or any other related entity.

The assessed fair value at grant date of options granted to the individuals is allocated equally over the period from grant date to vesting date, and the amount is included in the remuneration tables above. Fair values at grant date are independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

There were no options granted to or held by Directors or other key management personnel of the Group during the year ended 30 June 2011 or 30 June 2010.

Shares under option

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

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER OUTSTANDING
04/01/2005	31/08/2011	$1.13	633,333

Remuneration report (cont.)

Share Rights

Restricted share rights

In September 2007, the Group established the Specialty Fashion Group Limited Long Term Incentive Plan. Under this plan restricted share rights over shares in the company can be issued to executive officers, senior executives and senior staff members selected by the directors. Up to the date of this report, 753,000 performance rights are in issue under this plan.

Rights granted under the plan give the employee the right to receive a share at a future point in time upon meeting specified vesting conditions with no exercise price payable. The rights are granted at no consideration. Upon meeting the vesting conditions, the right may be exercised up to one year following the end of the vesting period.

The only vesting condition is a 3 year service period and employment at time of vesting. This condition is subject to Board discretion.

Performance rights over ordinary shares

In January 2010, under the terms of the Specialty Fashion Group Limited Long Term Incentive Plan announced on 28 September 2009, the company issued rights over ordinary shares to employees. Up to the date of this report, 5,660,000 performance rights are in issue under the terms of this plan.

Rights granted under the plan are granted for nil consideration and give the employee the right to receive a restricted share at a future point in time when the rights vest. In order for the rights to vest, specified vesting conditions must be met including a continuous period of service and specified performance hurdles.

Vesting conditions are as follows

- Employee must serve 3 year continuous period of service and still be employed at time of vesting
- At least 25% EPS growth in aggregate over those 3 financial years when compared to the financial year ended 30 June 2009.
- A minimum of 6% of EPS growth in each of the financial years ending 30 June 2010, 30 June 2011 and 30 June 2012 over the preceding financial year.

These vesting conditions are subject to Board discretion.

During the year the plan lapsed due to performance criteria not being met. The effect on directors and key management personnel is set out in the table below.

The terms and conditions of each grant of share rights affecting remuneration in the current or a future reporting period are as follows:

CATEGORY	GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXCERCISE PRICE	VALUE PER RIGHT AT GRANT DATE
Restricted share rights	1 July 2007	1 July 2010	n/a	n/a	$1.40

2011	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES*	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	1,400,000	-	–	(1,400,000)	–	–	–
Other key management personnel of the Company							
A Henriksen	500,000	-	–	(500,000)	–	–	–
S Moura	150,000	-	–	(150,000)	–	–	–
J Clough	-	500,000	–	(500,000)	–	–	–

* 2009 Long term incentive plan lapsed due to performance criteria not being met therefore related expenditure was reversed.

2010	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	–	1,400,000	–	–	1,400,000	–	1,400,000
Other key management personnel of the Company							
A Henriksen	–	500,000	–	–	500,000	–	500,000
S Moura	–	150,000	–	–	150,000	–	150,000

Shares issued on the exercise of options

275,000 (2010:444,109) ordinary shares of Specialty Fashion Group Limited were issued during the year ended 30 June 2011 and up to the date of this report on the exercise of options under the Specialty Fashion Group Limited Senior Executive Option Plan. No amounts are unpaid on any of the shares.

Shares issued on the exercise of rights

546,248 (2010:nil) ordinary shares of Specialty Fashion Group Limited were issued during the year ended 30 June 2011 and up to the date of this report on the exercise of rights under the Specialty Fashion Group Long Term Incentive Plan.

Details of remuneration: cash bonuses

For each cash bonus included in the tables above, the percentage of the available bonus that was paid in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years.

	BONUS	
NAME	PAID (%0	FORFEITED (%)
G Perlstein	-	100
A Henriksen	-	100
S Moura	-	100
J Clough	-	100

Directors' report (cont.)

Indemnification of Officers and Auditors

During the financial year, Specialty Fashion Group Limited insured certain officers of the company and related bodies corporate. The insurance policy prohibits the disclosure of the premium amount.

The officers of the company covered by the insurance policy include any director, company secretary or executive officer of Specialty Fashion Group Limited and its controlled entities.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the Group to the extent permitted by the Corporations Act 2001.

The Group has not otherwise, during or since the end of the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on Behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party, for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

No proceedings have been brought or intervened in on behalf of the company with leave of the Court under section 237 of the Corporations Act 2001.

Non Audit Services

The company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditor's expertise and experience with the Group are important.

Details of the amounts paid or payable to the auditor for audit and non audit services provided during the year are set out in note 27.

The Board of Directors has considered the position and, in accordance with the advice received from the audit committee, is satisfied that the provision of the non audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The directors are satisfied that the provision of non-audit services by the auditor, as set out below, did not compromise the auditor independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed by the audit committee to ensure they do not impact the impartiality and objectivity of the auditor
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 43.

Rounding of Amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the directors' report. Amounts in the directors' report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

On behalf of the directors.

G Perlstein Director	G Levy AO Director

SYDNEY | 22 AUGUST 2011

Deloitte.

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

22 August 2011

Dear Board Members

Specialty Fashion Group Limited

In accordance with section 307C of the Corporations Act 2001, I am pleased to provide the following declaration of independence to the directors of Specialty Fashion Group Limited.

As lead audit partner for the audit of the financial statements of Specialty Fashion Group Limited for the financial year ended 30 June 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and
(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants

Deloitte.

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

Report on the Financial Report

We have audited the accompanying financial report of Specialty Fashion Group Limited, which comprises the statement of financial position as at 30 June 2011, the income statement, statement of comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity, comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 51 to 94.

Directors' Responsibility for the Financial Report

The directors of the company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 Presentation of Financial Statements, that the consolidated financial statements comply with International Financial Reporting Standards.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control, relevant to the entity's preparation of the financial report that gives a true and fair view, in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

Auditor's Independence Declaration

In conducting our audit, we have complied with the independence requirements of the Corporations Act 2001. We confirm that the independence declaration required by the Corporations Act 2001, which has been given to the directors of Specialty Fashion Group Limited, would be in the same terms if given to the directors as at the time of this auditor's report.

Opinion

In our opinion:

(a) the financial report of Speciality Fashion Group Limited is in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2011 and of its performance for the year ended on that date; and

(ii) complying with Australian Accounting Standards and the Corporations Regulations 2001; and

(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 34 to 41 of the directors' report for the year ended 30 June 2011. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion the Remuneration Report of Specialty Fashion Group Limited for the year ended 30 June 2011, complies with section 300A of the Corporations Act 2001.

DELOITTE TOUCHE TOHMATSU

A V Griffiths

Partner

Chartered Accountants

Sydney, 22 August 2011

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Member of Deloitte Touche Tohmatsu Limited

Corporate governance statement.

The directors are committed to the principles underpinning best practice in corporate governance, applied in a manner which is best suited to the company and its controlled entities and to best addressing the directors' accountability to shareholders and other stakeholders. In formulating the governance principles that guide the operations of the Company, the directors have taken into account the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations. This is supported by an overriding organisation wide commitment to the highest standards of legislative compliance and financial and ethical behaviour.

A description of the company's main corporate governance practices is set out below.

Roles and Responsibilities

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

The functions of the Board of Directors are clearly defined in the company's Board Charter which includes responsibility for:

- approval of corporate strategies and the annual budget
- monitoring financial performance including approval of the annual and half year financial reports and liaison with the company's auditors
- monitoring managerial performance, and
- ensuring the significant risks facing the company and its controlled entities have been identified and appropriate and adequate control, monitoring and reporting mechanisms are in place.

The Board of Directors

The Board Charter prescribes the structure of the Board and its committees, the framework for independence and some obligations of directors.

Size and composition of the Board

Board membership is regularly reviewed. Recommendations on the appropriate skill mix, personal qualities, expertise and diversity of each position are made. When a vacancy exists or there is a need for particular skills, the selection criteria based on the skills deemed necessary are identified. Suitable candidates are interviewed and appointed by the Board. New Board members must stand for election at the next general meeting of shareholders.

The Board currently comprises five Non Executive Directors, four of whom are deemed independent under the principles set out below and one Executive Director, the Chief Executive Officer, at the date of signing the directors' report.

The Chairman of the Board is a non executive director who is elected by the full Board. The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives. The CEO is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people. An annual review of the performance of the Chief Executive Officer is conducted.

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman 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 pages 28 and 29.

Director's independence

Any past or present relationship with the company is carefully examined to assess the likely impact on a director's ability to be objective and exercise independent judgement. The Board review any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the Corporations Act 2001 and is appropriately disclosed.

Board committees

The Board has established committees to assist in the execution of its duties and to allow detailed consideration of complex issues. The current committees of the Board are the Audit Committee and the Remuneration Committee consisting of non executive directors. As the Company has a relatively small number of directors, the full Board effectively acts as a Nominations Committee and until recently also acted as the Remuneration Committee. Each committee has its own charter setting out the authority delegated to it by the Board and the manner in which the committee is to operate. The committee structure and membership is reviewed on an annual basis.

Remuneration committee

A seperate remuneration comittee was formed on 23 November 2010 and it consists of the following non executive directors:

- G Levy (Chairperson)
- W Tang
- J Bloom

The Committee considers remuneration policies and practices generally, and makes specific recommendations on remuneration packages and other terms of employment for executive directors and other senior executives. The Committee, having regard to performance, relevant comparative information and independent expert advice, reviews executive remuneration and other terms of employment annually. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses and fringe benefits. Senior Executives are also eligible to participate in the option plan and long term incentive share rights plan. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of non executive directors is determined by the Committee within the maximum amount approved by the shareholders from time to time.

Further information on directors' and executives' remuneration is set out in the directors' report under the heading ''Remuneration report''.

Audit committee

The audit committee consists of the following non executive directors:

- A McDonald (Chairperson)
- W Tang
- J Bloom

The functions of the audit committee are clearly defined in the Company's Audit Committee Charter which includes responsibility for:

- review and report to the Board on the annual and half year report and financial statements
- assist the Board in reviewing the effectiveness and adequacy of the organisation's internal financial control environment to enable them to provide the Board with up to date and reliable financial information.

The Committee is also charged with the responsibilities of recommending to the Board the appointment, removal and remuneration of the external auditors, and reviewing the terms of their engagement, and the scope and quality of the audit and non audit services.

Corporate governance statement.

In fulfilling its responsibilities the Committee receives regular reports from management and external auditors. It also meets with the external auditors at least twice a year, more frequently if necessary. The external auditors have a clear line of direct communication at any time to either the Chairman of the Audit Committee or the Chairman 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 Committee is set out in the Directors' Report.

Financial report accountability

The Chief Executive Officer and the Chief Financial Officer who are present for Board discussion of financial matters are required to certify to the Board that the Company's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the company and consolidated entity; the financial statements and notes thereto are in accordance with the Corporations Act 2001 and this statement is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board of Directors.

Performance evaluation

The Board undertakes an annual self assessment of its collective performance, the performance of the Chair and its committees. The assessment also considers the adequacy of induction and continuing education, access to information and the support provided by the company secretary. Management are invited to contribute to this appraisal process which is facilitated by an independent member of management. The results and any action plans are documented together with specific performance goals which are agreed for the coming year. An assessment in accordance with this process was undertaken during May 2011.

Disclosure

The Company satisfies its continuous disclosure obligations as required by the Listing Rules of the Australian Stock Exchange and the Corporations Law by adhering to its External Communications policy which requires information to be disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company. The Company's annual and half year reports, media and analysts' presentations and press releases and other information disclosed to the ASX and the company's Code of Conduct are posted on the Company's website (www.specialtyfashiongroup.com.au).

Auditor Attendance at the annual general meeting

The external audit firm partner in charge of the Specialty Fashion Group Limited audit is available to answer shareholder questions at the Company's annual general meeting.

Risk Management

The Board, through the audit committee, is responsible for ensuring there are adequate policies in relation to risk management, compliance and internal control systems. The company policies are designed to ensure strategic, operational, legal, reputational and financial risks are identified, assessed, effectively and efficiently managed and monitored to enable achievement of the Group's business objectives.

Considerable importance is placed on maintaining a strong control environment. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Adherence to the Code of Conduct is required at all times and the board proactively promotes a culture of quality and integrity.

The company risk management policy and the operation of the risk management and compliance system is managed by the Company Risk Management Committee which consists of senior executives chaired by the Chief Financial Officer. The Board receives regular reports from this group as to the effectiveness of the Company's management of material risks that may impede meeting business objectives.

Risk management accountability
As part of the process of approving the financial statements, at each reporting date the Chief Executive Officer and Chief Financial Officer provide statements in writing to the Board on the quality and effectiveness of the Company's risk management and internal compliance and control systems.

Risk management and safety system (RMSS)
The company recognises the importance of environmental and occupational health and safety (OH&S) issues and is committed to the highest levels of performance. To help meet this objective the RMSS was established to facilitate the systematic identification of environmental OH&S issues and to ensure they are managed in a structured manner. This system allows the company to:

- monitor its compliance with all relevant legislation
- continually assess and improve the impact of its operations on the environment
- encourage employees to actively participate in the management of environmental and OH&S issues

Code of Conduct
The company has developed a statement of values and a Code of conduct (the Code) which has been fully endorsed by the board and applies to all directors and employees. The Code is regularly reviewed and updated as necessary to ensure it reflects the highest standards of behaviour and professionalism and the practices necessary to maintain confidence in the Group's integrity and to take into account legal obligations and reasonable expectations of the company's stakeholders.

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

The Code and the company's trading policy is discussed with each new employee as part of their induction training. Further training is periodically provided and all employees are asked to sign a declaration confirming their compliance with the Code and the trading policy.

The directors are satisfied that the group has complied with its policies on ethical standards, including trading in securities.

A copy of the Code and the trading policy are available on the company's website.

Corporate governance statement.

Diversity policy

The company values diversity and recognises the benefits it can bring to the organisation's ability to achieve its goals. Accordingly the company has developed a diversity policy. This policy outlines the company's diversity objectives in relation to gender, age, cultural background and ethnicity. It includes requirements for the board to establish measurable objectives for achieving diversity, and for the board to assess annually both the objectives, and the company's progress in achieving them.

In accordance with this policy and ASX Corporate Governance Principles, the Board has established the following objectives in relation to gender diversity. The aim is to achieve these objectives over the coming two to three years as director and senior executive positions become vacant and appropriately skilled candidates are available:

DIVERSITY POLICY BREAKDOWN	OBJECTIVE		ACTUAL	
	NUMBER	%	NUMBER	%
Number of women employees in whole organisation	4,262	90%	4,651	98%
Number of women in senior executive positions	4	50%	4	50%
Number of women on the board	3	50%	2	33%

Trading in Specialty Fashion Group Shares

Directors and senior executives of the Company are subject to the Corporations Act 2001, which prohibits buying, selling or subscribing for shares in the Company if they are in possession of inside information. The company has a Securities Trading Policy which stipulates it is contrary to Company policy for employees to be engaged in short term trading of the Company's securities. Appropriate time for directors and employees to acquire or sell the Company's shares is when they are not in possession of price sensitive information which is not generally available to the market. Under the policy directors and employees must not deal in the Company's shares during the period between January 1 and 24 hours after the release of the Company's half yearly results or the period between July 1 and 24 hours after the release of the Company's yearly results. It is contrary to Company policy for directors and employees to deal in a derivative, the value of which is determined by reference to any unvested security held, until that security has fully and unconditionally vested.

Consolidated income statement.

For the year ended 30 June 2011.

	NOTES	CONSOLIDATED 2011 $'000	2010 $'000
Revenue from continuing operations	5	**570,304**	556,707
Changes in inventories of finished goods and consumables		**38**	1,818
Finished goods and consumables		**(241,981)**	(240,540)
Employee benefits expense		**(138,722)**	(128,159)
Depreciation and impairment expense	6	**(18,326)**	(15,204)
Other expenses from ordinary activities		**(42,072)**	(36,715)
Rental expense relating to operating leases	6	**(106,222)**	(93,153)
Finance costs	6	**(1,713)**	(1,527)
Profit before income tax		**21,306**	43,227
Income tax expense	7	**(6,787)**	(12,510)
Profit for the year for continuing operations		**14,519**	30,717
(Loss) from discontinued operations	8	**(348)**	(306)
Profit for the year		**14,171**	30,411

		2011 CENTS	2010 CENTS
Earnings per share from continuing and discontinued operations			
Basic earnings per share	34	**7.4**	16.0
Diluted earnings per share	34	**7.4**	15.7

		2011 CENTS	2010 CENTS
Earnings per share from continuing operations			
Basic earnings per share	34	**7.6**	16.1
Diluted earnings per share	34	**7.6**	15.8

The above consolidated income statement should be read in conjunction with the accompanying notes.

Consolidated income statement of comprehensive income.

For the year end 30 June 2011.

	CONSOLIDATED	
	2011 $'000	2010 $'000
Profit for the year	**14,171**	30,411
Other comprehensive income		
Changes in the fair value of cash flow hedges	**(8,657)**	4,520
Exchange differences on translation of foreign operations	**72**	185
Other comprehensive (expense)/income for the year, net of tax	**(8,585)**	4,705
Total comprehensive income for the year	**5,586**	35,116
Total comprehensive income for the year is attributable to:		
Owners of Specialty Fashion Group Limited	**5,586**	35,116
	5,586	35,116

The above consolidated statement of comprehensive income should be read in conjunction with the accompanying notes.

Consolidated balance sheet.

As at 30 June 2011.

		CONSOLIDATED	
	NOTES	**2011 $'000**	2010 $'000
Assets			
Current assets			
Cash and cash equivalents	9	**5,592**	2,705
Trade and other receivables	10	**4,682**	3,967
Inventories	11	**45,839**	45,802
Derivative financial instruments	12	**-**	2,941
Total current assets		**56,113**	55,415
Non-current assets			
Other receivables		**793**	-
Property, plant and equipment	13	**93,120**	79,881
Deferred tax assets	14	**3,436**	400
Intangible assets	15	**10,095**	11,806
Total non-current assets		**107,444**	92,087
Total assets		**163,557**	147,502
Liabilities			
Current liabilities			
Trade and other payables	16	**48,055**	47,218
Derivative financial instruments	12	**9,425**	-
Current tax liabilities	18	**289**	3,100
Provisions	17	**12,981**	13,157
Other current liabilities	19	**3,027**	2,600
Total current liabilities		**73,777**	66,075
Non-current liabilities			
Borrowings	20	**22,000**	8,000
Provisions	21	**9,983**	6,289
Other non-current liabilities	22	**7,205**	6,547
Total non-current liabilities		**39,188**	20,836
Total liabilities		**112,965**	86,911
Net assets		**50,592**	60,591
Equity			
Contributed equity	23	**133,867**	132,492
Reserves	24(a)	**(6,570)**	3,653
Accumulated losses	24(b)	**(76,705)**	(75,554)
Total equity		**50,592**	60,591

The above consolidated balance sheet should be read in conjunction with the accompanying notes.

Consolidated statement of change in equity. For the year ended 30 June 2011.

	NOTES	CONTRIBUTED EQUITY	SHARE-BASED PAYMENTS RESERVE	HEDGING RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2009		131,993	561	(2,461)	(1,081)	(98,241)	30,771
Profit for the year	24	-	-	-	-	30,411	30,411
Cash flow hedges	24	-	-	4,520	-	-	4,520
Exchange differences on translation of foreign operations	24	-	-	-	185	-	185
Total comprehensive income for the year		**-**	**-**	**4,520**	**185**	**30,411**	**35,116**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	23	499	-	-	-	-	499
Dividends provided for or paid	24	-	-	-	-	(7,724)	(7,724)
Employee share-based payments	24	-	1.929	-	-	-	1,929
Balance at 30 June 2010		**132,492**	**2,490**	**2,059**	**(896)**	**(75,554)**	**60,591**

Consolidated statement of change in equity. For the year ended 30 June 2011.

	NOTES	CONTRIBUTED EQUITY	SHARE BASED PAYMENTS RESERVE	HEDGING RESERVE	FOREIGN CURRENCY TRANSLATION RESERVE	ACCUMULATED LOSSES	TOTAL EQUITY
		$'000	$'000	$'000	$'000	$'000	$'000
Balance at 1 July 2010		132,492	2,490	2,059	(896)	(75,554)	60,591
Profit for the year	24	-	-	-	-	14,171	14,171
Cash flow hedges	24	-	-	(8,657)	-	-	(8,657)
Exchange differences on translation of foreign operations	24	-	-	-	72	-	72
Total comprehensive income for the year		**-**	**-**	**(8,657)**	**72**	**14,171**	**5,586**
Transactions with owners in their capacity as owners:							
Contributions of equity, net of transaction costs	23	309	-	-	-	-	309
Dividends provided for or paid	24	-	-	-	-	(15,322)	(15,322)
Employee share-based credits	24	-	(572)	-	-	-	(572)
Issue of ordinary shares under Employee Share-based Compensation Scheme	24	1,066	(1,066)	-	-	-	-
Balance at 30 June 2011		**133,867**	**852**	**(6,598)**	**(824)**	**(76,705)**	**50,592**

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

Consolidated statement of cash flows.
For the year ended 30 June 2011.

		CONSOLIDATED	
	NOTES	**2011 $'000**	2010 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		**631,012**	628,846
Payments to suppliers and employees (inclusive of goods and services tax)		**(587,239)**	(572,208)
		43,773	56,638
Interest received		**274**	293
Borrowing costs		**(1,713)**	(1,527)
Income taxes paid		**(8,525)**	(10,841)
Insurance recovery received		**-**	5,000
Net cash inflow from operating activities	33	**33,809**	49,563
Cash flows from investing activities			
Payments for property, plant and equipment		**(34,201)**	(22,309)
Proceeds from sale of business	8	**3,953**	-
Proceeds from sale of property, plant and equipment		**339**	432
Net cash outflow from investing activities		**(29,909)**	(21,877)
Cash flows from financing activities			
Proceeds from shares issued		**309**	499
Repayment of borrowings		**-**	(33,800)
Proceeds from borrowings		**14,000**	8,000
Dividends paid to company's shareholders		**(15,322)**	(7,724)
Net cash outflow from financing activities		**(1,013)**	(33,025)
Net increase/(decrease) in cash and cash equivalents		**2,887**	(5,339)
Cash and cash equivalents at the beginning of the financial year		**2,705**	8,044
Cash and cash equivalents at end of year	9	**5,592**	2,705

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

Notes to the consolidated financial statement. For the year ended 30 June 2011.

1. Summary of Significant Accounting Policies

The principal accounting policies adopted in the preparation of the financial report are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated. These financial statements are the consolidated financial statements of the consolidated entity consisting of Specialty Fashion Group Limited and its subsidiaries. The financial statements are presented in the Australian currency.

(a) Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations, and the Corporations Act 2001.

Comparative balances have been reclassified where necessary for consistency with current year disclosures.

The Group complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of financial assets and liabilities (including derivative instruments) at fair value through profit or loss.

Critical accounting estimates

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 3.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Specialty Fashion Group Limited (''company'' or ''parent entity'') as at 30 June 2011 and the results of all controlled entities for the year then ended. Specialty Fashion Group Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.
Entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(i) Employee share trust

The Group has formed a trust to administer the Group's employee share scheme. This trust is consolidated, as the substance of the relationship is that the trust is controlled by the Group.

(c) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Chief Executive Officer and the Board of Directors.

Management are of the opinion that Specialty Fashion Group Limited has one reportable segment being fashion retail.

Change in accounting policy

The Group has adopted AASB 8 Operating Segments from 1 July 2010. AASB 8 replaces AASB 114 Segment Reporting. The new standard requires a 'management approach', under which segment information is presented on the same basis as that used for internal reporting purposes. There has been no impact on the measurement of the Group's assets and liabilities.

(d) Foreign currency translation

(i) Functional and presentation currency

Items included in the financial statements of each of the Group's entities are measured using the currency of the primary economic environment in which it operates ('the functional currency'). The consolidated financial statements are presented in Australian dollars, which is the Company's functional and presentation currency.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency 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 year end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Group companies

The results and financial position of all the group entities (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- assets and liabilities for each balance sheet presented are translated at the closing rate at the date of that balance sheet
- income and expenses for each income statement and statement of comprehensive income are translated at average exchange rates (unless this is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions), and
- all resulting exchange differences are recognised in other comprehensive income.

Exchange differences arising from the translation of any net investment in foreign operations, and of borrowings and other financial instruments designated as hedges of such investments, are recognised in other comprehensive income. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange difference is reclassified to profit or loss, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are net of returns, trade allowances and duties and taxes paid. Revenue is recognised for the major business activities as follows:

(i) Retail sales

Revenue is recognised at the point of sale when delivery takes place.

(ii) Lay by sales

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

(iii) Interest revenue

Interest revenue is recognised when it is earned.

(iv) Customer loyalty program

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

(v) Insurance recoveries

Insurance recoveries revenue is recognised when the income is virtually certain.

(f) Income tax

The income tax expense for the year is the tax payable on the current year's taxable income based on the national income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences between the tax bases of assets and liabilities and their carrying amounts in the financial statements, and to unused tax losses.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to apply when the assets are recovered or liabilities are settled, based on those tax rates which are enacted or substantively enacted for each jurisdiction. The relevant tax rates are applied to the cumulative amounts of deductible and taxable temporary differences to measure the deferred tax asset or liability. An exception is made for certain temporary differences arising from the initial recognition of an asset or a liability. No deferred tax asset or liability is recognised in relation to these temporary differences if they arose in a transaction, other than a business combination, that at the time of the transaction did not affect either accounting profit or taxable profit or loss.

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.

Deferred tax assets and liabilities are not recognised for temporary differences between the carrying amount and tax losses of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

(i) Investment allowance

Companies within the Group may be entitled to claim special tax deductions for investments in qualifying assets (investment allowances). The Group accounts for such allowances as tax credits, which means that the allowance reduces income tax payable and current tax expense.

(ii) Tax consolidation legislation

Specialty Fashion Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Specialty Fashion Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Specialty Fashion Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities 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 transferred to Specialty Fashion Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are 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 current amounts receivable from or payable to other entities in the company.

Any difference between the amounts assumed and amounts receivable or payable under

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

the tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of minimum lease payments. During the year ended 30 June 2011 the Group had no such leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 29). Payments made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed 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 to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, 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, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities in the consolidated balance sheet.

(k) Trade receivables

Trade receivables are recognised at the amounts receivable and are due for settlement in 30 days. Layby debtors are also recognised at the amounts receivable and are due for settlement in 60 days.

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off. A provision for doubtful receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is recognised in the income statement.

(i) Loans receivable

Loans receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans are recognised at amortised cost using the effective interest method. Loans receivable mature within 12 months and are included in current trade and other receivables in the balance sheet.

(l) Inventories

Finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. 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. Cost includes transfer from equity of any gains/losses on qualifying cashflow hedges relating to purchases of inventories.

(m) Derivatives and hedging activities
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. The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

The Group documents at the inception of the hedging transaction the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions have been and will continue to be highly effective in offsetting changes in fair values or cash flows of hedged items.

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in shareholders' equity are shown in note 24. The full fair value of a hedging derivative is classified as a non current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated in reserves in equity. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss within other income or other expense.

Amounts accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of forward foreign exchange contracts hedging import purchases is recognised in profit or loss within cost of goods sold. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are reclassified from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation or impairment in the case of fixed assets.

When a hedging instrument expires or is sold or terminated, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in equity at that time remains in equity and is recognised when the forecast transaction is ultimately recognised in profit or loss. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately reclassified to profit or loss.

(n) Property, plant and equipment
Property, plant and equipment including land and buildings is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over the estimated lives, ranging from 4 to 50 years.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (note 1(i)).

Gains and losses on disposals are determined by comparing proceeds with carrying amount. These are included in the income statement.

(o) Intangible assets

(i) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised. Instead, goodwill is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash generating units for the purpose of impairment testing.

(p) Trade and other payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. The amounts are unsecured and are usually paid within 45 days of recognition.

(q) Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting period.

(r) Borrowing costs

Borrowing costs are recognised as expenses in the period in which they are incurred, except where they are incurred in refinancing the Group's funding arrangements. These costs are capitalised and amortised over the term of the funding arrangements.

(s) Provisions

Provisions for liabilities are recognised when the Group has a present legal or constructive obligation as a result of past events; it is more likely than not that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period.

(t) Employee benefits

(i) Short term obligations

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 as 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.

(ii) Other long term employee benefit obligations

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

(iii) Superannuation

The Group makes superannuation contributions on behalf of its employees to a number of accumulation type superannuation funds.

Contributions to the funds are recognised as an expense as they become payable.

(iv) Share based payments

Share based compensation benefits are provided to employees via the Specialty Fashion Group Limited Senior Executive Employee Option and Restricted Share Rights Plan.

The fair value of options granted under the Specialty Fashion Group Limited Senior Executive Employee Option Plan and Restricted Rights Plan is recognised as an employee benefit expense with a corresponding increase in equity. The fair value is measured at grant date and recognised over the period during which the employees become unconditionally entitled to the options/rights.

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non tradeable nature of the option, 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/right.

The fair value of the options/rights granted excluded the impact of any non-market vesting conditions (for example, profitability and sales growth targets). Non-market vesting conditions are included in assumptions about the number of options that are expected to become exercisable. At each balance sheet date, the entity revises its estimate of the number of options that are expected to become exercisable. The employee benefit expense recognised each period takes into account the most recent estimate.

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

(v) Bonus plans

The Group recognises a liability and an expense for bonuses based on a certain performance targets. The Group recognises a provision where contractually obliged.

(u) Contributed equity

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. Incremental costs directly attributable to the issue of new shares for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(v) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(w) Earnings per share

(i) Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to equity holders of the company, 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 year.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

(ii) 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 additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(x) Maintenance and repairs

Maintenance, repair costs and minor renewals are charged as expenses as incurred.

(y) Rounding of amounts

The company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the ''rounding off'' of amounts in the financial statements. Amounts in the financial statements have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

(z) New accounting standards and interpretations

Certain new accounting standards and interpretations have been published that are not mandatory for 30 June 2011 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) Revised AASB 124 Related Party Disclosures and AASB 2009 12 Amendments to Australian Accounting Standards (effective for annual reporting periods beginning on or after 1 January 2011)

In December 2009 the AASB issued a revised AASB 124 Related Party Disclosures. It is effective for accounting periods beginning on or after 1 January 2011 and must be applied retrospectively. The amendment clarifies and simplifies the definition of a related party and removes the requirement for government related entities to disclose details of all transactions with the government and other government-related entities. The Group will apply the amended standard from 1 July 2011. It is not expected to have any effect on the Group's related party disclosures.

(ii) AASB 9 Financial Instruments and AASB 2009 11 Amendments to Australian Accounting Standards arising from AASB 9 and AASB 2010 7 Amendments to Australian Accounting Standards arising from AASB 9 (December 2010) (effective from 1 January 2013)

AASB 9 Financial Instruments addresses the classification and measurement of financial assets and is likely to affect the company's accounting for its financial assets. The standard is not applicable until 1 January 2013 but is available for early adoption. The Group is yet to assess its full impact but does not expect a significant impact on the Group's financial statements.

(iii) AASB 2010 6 Amendments to Australian Accounting Standards Disclosures on Transfers of Financial Assets (effective for annual reporting periods beginning on or after 1 July 2011)

Amendments made to AASB 7 Financial Instruments: Disclosures in November 2010 introduce additional disclosures in respect of risk exposures arising from transferred financial assets. The amendments will affect particularly entities that sell, factor, securitise, lend or otherwise transfer financial assets to other parties. They are not expected to have any significant impact on the Group's disclosures. The Group intends to apply the amendment from 1 July 2011.

(iv) AASB 2010 8 Amendments to Australian Accounting Standards Deferred Tax: Recovery of Underlying Assets (effective from 1 January 2012)

In December 2010, the AASB amended AASB 112 Income Taxes to provide a practical approach for measuring deferred tax liabilities and deferred tax assets when investment property is measured using the fair value model. AASB 112 requires the measurement of deferred tax assets or liabilities to reflect the tax consequences that would follow from the way management expects to recover or settle the carrying amount of the relevant assets or liabilities, that is through use or through sale. The amendment introduces a rebuttable presumption that investment property which is measured at fair value is recovered entirely by sale. The Group will apply the amendment from 1 July 2012. It is not expected to have a significant impact on the Group's financial statements.

(aa) Parent entity financial information

As a results of changes made to the Corporations Act 2001 and the Corporations Regulations 2010 in June 2010, separate parent entity financial statements are not required in consolidated financial statements.

The financial information for the parent entity, Specialty Fashion Group Limited, disclosed in note 36 has been prepared on the same basis as the consolidated financial statements, except as set out below.

(i) Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries, associates and joint venture entities are accounted for at cost in the financial statements of Specialty Fashion Group Limited. Dividends received from associates are recognised in the parent entity's profit or loss, rather than being deducted from the carrying amount of these investments.

(ii) Tax consolidation legislation

Specialty Fashion Group Limited and its wholly owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Specialty Fashion Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Specialty Fashion Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities 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 transferred to Specialty Fashion Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly owned entities' financial statements.

The amounts receivable/payable under the tax funding agreement are 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 current amounts receivable from or payable to other entities in the company.

Any difference between the amounts assumed and amounts receivable or payable under the

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

tax funding agreement are recognised as a contribution to (or distribution from) wholly owned tax consolidated entities.

(ab) Other information

Specialty Fashion Group Limited is a 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

2. Financial Risk management

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, interest rate risk and price risk), credit risk and liquidity risk. The Group'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 Group. The Group uses derivative financial instruments such as foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, ie not as trading or other speculative instruments. The Group 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 and foreign exchange risks.

The Group identifies, evaluates and hedges financial risks. Identified risks are recorded on the entity's risk management framework document and action plans to mitigate these risks are formulated by senior management in consultation with the Board. The Board oversees principles for overall risk management as well as specific areas, such as mitigating foreign exchange and interest rates and credit risks, use of derivative financial information and investing excess liquidity.

The Group holds financial assets in the form of cash and cash equivalents (refer Note 9), derivative financial instruments (refer Note 12) and trade and other receivables (refer Note 10). The Group holds financial liabilities in form of trade and other payables and borrowings (refer Note 16) and derivative financial instruments (refer Note 12).

(a) Market risk

(i) Foreign exchange risk

The Group operates internationally and is exposed to foreign exchange risk arising from currency exposures to the US dollar, NZ dollar, and Chinese RMB.

Foreign exchange risk arises when future commercial transactions and recognised assets and liabilities are denominated in a currency that is not the entity's functional currency.

The only financial assets or liabilities which are exposed to foreign currency risk are trade payables (AUD 0.2 million) and cash and cash equivalents (AUD 1 million).

Forward contracts are used to manage foreign exchange risk.

The group's risk management policy is to hedge at least all of anticipated purchases in US dollars for the subsequent 12 months. Approximately 100% (2010: 100%) of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes.

Given the Group's fully hedged position at 30 June 2011, 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 $4.4 million higher/$5.3 million lower (2010: $3.1 million higher / $3.8 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 NZ dollar 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 2010.

(ii) Price risk

The Group is not exposed to commodity or equity securities price risk.

(iii) Credit risk

Credit risk is managed on a group basis. 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 card, mitigating risk. For banks only independently rated parties with a minimum rating of “AA” are accepted. The maximum exposure to credit card risk at reporting date is the carrying amount of the financial assets mentioned above.

(iv) Cash flow and fair value interest rate risk

The Group’s main interest rate risk arises from long term borrowings, which are denominated in Australian Dollars. Borrowings are issued at variable rates and expose the Group to cashflow interest rate risk. The Group takes out commercial bills under pre arrangement facilities in order to have the flexibility to meet the entity’s working capital and cashflow needs and keep borrowings at a minimum and minimise exposure to interest rate risk.

The Group analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternate financing and hedging. Based on these scenarios, the Group calculates the impact on profit and loss of a defined interest rate shift. This analysis is done on a half yearly basis to verify that the maximum loss potential is within the limit given by management.

At 30 June 2011, if interest rates had changed by 100 basis points from the year end rates with all other variables held constant, post tax profit for the year would have been $0.2 million lower / higher (2010: change of +/- 100 bps:$0.2 million lower/ higher). The weighted average interest rate at 30 June 2011 is 7.1% (2010: 7.0%).

(b) Fair value measurements

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes.

Specialty Fashion Group Limited has adopted the amendment to *AASB 7 Financial Instruments*: *Disclosures* which requires disclosure of fair value measurements by level of the following fair value measurement hierarchy:

(i) quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1)

(ii) 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 2), and

(iii) inputs for the asset or liability that are not based on observable market data (unobservable inputs) (level 3).

All financial assets and liabilities measured at fair value (being derivative financial instruments) are level 2. This is consistent with the prior year.

(c) Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and availability of funding through an adequate amount of committed credit facilities. The Group’s approach to managing liquidity is to ensure, that it will always have sufficient cashflow to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Group’s reputation.

Inventory management methods and established supplier relationships assist management to prepare rolling forecasts of the Group’s cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the Group ensures that it has sufficient facilities and cash available 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. The Group maintains the following lines of credit:

Bank loan facilities that comprise working capital facilities to the value of $40 million (2010: $40 million) that can be drawn. $30 million of the working capital facilities may be drawn at any time, a further $10 million of facilities is available during periods of inventory build up. A $60 million investment facility is also available for drawdown. The facilities are drawn down upon through 30 day maturity commercial bills that renews automatically at the discretion of the Group. Interest is payable at the variable interest rate applicable at renewal date. This is a three year facility which expires in April 2013.

For additional information on borrowings refer note 20.

Maturities of financial liabilities

The tables below analyse the Group's financial liabilities, net and gross settled derivative financial instruments into relevant maturity groupings based on the remaining period at the reporting date to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances, as the impact of discounting is not significant.

The fair value of financial instruments is based on quoted market prices at the reporting date.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

AT 30 JUNE 2011	LESS THAN 1 YEAR $'000	BETWEEN 1–2 YEARS $'000	BETWEEN 2–5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES $'000
Non-derivatives						
Trade and other payables	48,055	-	-	-	48,055	48,055
Borrowings	1,673	22,000	-	-	23,673	23,673
Total non-derivatives	49,728	22,000	-	-	71,728	71,728
Derivatives						
Gross Settled						
(inflow)	(68,767)	-	-	-	(68,767)	-
outflow	78,192	-	-	-	78,192	9,425
Total derivatives	9,425	-	-	-	9,425	9,425

AT 30 JUNE 2010	LESS THAN 1 YEAR $'000	BETWEEN 1–2 YEARS $'000	BETWEEN 2–5 YEARS $'000	OVER 5 YEARS $'000	TOTAL CONTRACTUAL CASH FLOWS $'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES $'000
Non-derivatives						
Trade and other payables	47,218	–	–	–	47,218	47,218
Borrowings	1,713	–	8,000	–	9,713	9,713
Total non-derivatives	48,931	–	8,000	–	56,931	56,931
Derivatives						
Gross Settled						
(inflow)	(49,377)	–	–	–	(49,377)	(2,941)
outflow	46,436	–	–	–	46,436	–
Total derivatives	(2,941)	–	–	–	(2,941)	(2,941)

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

3 Critical Accounting Estimates and Judgements

In the application of the Group's accounting policies, the directors are required to make judgements, estimates and assumptions about the carrying amounts of the assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors considered to be relevant. Actual results may differ from these estimates.

(a) Critical accounting estimates and assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

(i) Estimated impairment of goodwill and other assets

The Group tests annually whether goodwill or store assets have suffered any impairment, in accordance with the accounting policies stated in note 1. The recoverable amounts of cash generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 15 for details of these assumptions.

(ii) Provisions

There are provisions including inventory NRV provision, required by the Group that are subject to estimations and assumptions. The Group ensures provisions are reasonable considering historical events and future expectations.

4 Segment Information

AASB 8 requires a management approach under which segment information is presented on the same basis as that used for internal reporting purposes. Operating segments are now reported in a manner that is consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision makers have been identified as the Chief Executive Officer and the Board of Directors.

Management are of the opinion that Specialty Fashion Group Limited has one reportable segment being fashion retail.

There is no revenue that is significant to a particular customer. Segment revenue from external parties, assets and liabilities are all reported to the Chief Executive Officer and Board of Directors consistent with the recognition and measurement criteria adopted in the preparation of the financial statements.

The Chief Executive Officer and Board of Directors assesses the performance of the operating segment based on a measure of EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation).

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

	CONSOLIDATED	
	2011 $'000	2010 $'000
Profit before income tax from continuing operations	**21,306**	43,227
Interest revenue	**(274)**	(293)
Finance costs	**1,713**	1,527
Depreciation	**18,326**	15,204
EBITDA from continuing operations	**41,071**	59,665
EBITDA from discontinued operations	**(498)**	471
Total Group EBITDA	**40,573**	60,136

5 Revenue

	CONSOLIDATED	
	2011 $'000	2010 $'000
From continuing operations		
Sales revenue		
Sale of goods	**569,192**	555,724
Other revenue		
Interest	**274**	293
Other Revenue	**838**	690
Revenue from ordinary activities	**570,304**	556,707
From discontinued operations		
Sales revenue		
Sale of goods	**3,847**	15,521

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

6 Expenses from Continuing Operations

	CONSOLIDATED	
	2011 $'000	2010 $'000
Profit before income tax includes the following specific expenses:		
Depreciation and impairment of property, plant and equipment (a)	**18,326**	15,204
Inventory shrinkage	**5,074**	4,959
Superannuation expense	**9,692**	9,083
Borrowing costs	**1,713**	1,527
Rental expense relating to operating leases	**106,222**	93,153
Net foreign exchange losses	**1,190**	300
Profit on sale of plant, property and equipment	**(14)**	(67)

(a) Includes an impairment charge of $268,868 (2010: impairment-$722,583)

7 Income Tax Expense

	CONSOLIDATED	
	2011 $'000	2010 $'000
(a) Income tax expense		
Current tax	**6,286**	9,972
Deferred tax	**234**	2,939
Under/(over) provision in prior year	**267**	(401)
	6,787	12,510
(b) Numerical reconciliation of income tax expense to prima facie tax payable		
Profit from continuing operations before income tax expense	**21,306**	43,227
Tax at the Australian and New Zealand tax rate of 30% (2010 – 30%)	**6,392**	12,968
Tax effect of amounts which are not deductible (taxable) in calculating taxable income:		
Investment allowance	**-**	(195)
Share options	**461**	-
Sundry items	**(333)**	138
Under/(over) provision prior year	**267**	(401)
	6,787	12,510

(c) Amounts recognised directly in equity
Aggregate current and deferred tax arising in the reporting period and not recognised in net profit or loss but directly debited or credited to equity.

Net deferred tax charged directly to equity (Note 14)	**3,709**	(1,937)

(d) 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(f).

(e) Capital losses
Carried forward capital losses total $154,857,154 (2010: $156,036,258). These losses have not been recognised as a deferred tax asset.

8 Discontinued Operation

The Queenspark business was sold on 15 October 2010 and this business is reported in this annual report as a discontinued operation.

During the year ended 30 June 2011 Queenspark made a trading loss after tax of $859,000 partly offset by the gain on disposal of $511,000. During the year ended 30 June 2010 the business made a loss of $306,000.

The Queenspark business was sold for $5.5 million, $4 million being cash consideration with the remaining $1.5 million payable in equal instalments over 3 years. As at 30 June 2011 $793,000 was classified as a non-current receivable, with the remainder being classified as current. The business was sold to private investors, which includes management of the brand.

The sale of Queenspark will not have a material effect on the operating cash flows of Specialty Fashion Group.
Reconciliation of cash consideration to the cash flow statement:

	2011 $'000
Cash consideration as per the sale agreement	4,000
Less: Trade payables assumed by buyer	(47)
Cash received as per cash flow statement	3,953

9 Current Assets – Cash and Cash Equivalents

	CONSOLIDATED	
	2011 $'000	*2010 $'000*
Cash at bank and in hand	**5,592**	*2,705*

(a) Risk exposure
The Group's exposure to interest rate risk is discussed in Note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

10 Current Assets – Trade and Other Receivables

	CONSOLIDATED	
	2011 $'000	*2010 $'000*
Other receivables	4,188	3,317
Prepayments	494	*650*
	4,682	3,967

(a) Due to the short-term nature of these receivables their carrying amount is assumed to approximate their fair value (Note 2).

11 Current assets – Inventories

	CONSOLIDATED	
	2011 $'000	2010 $'000
Inventories on hand at lower of cost and net realisable value	45,839	45,802

12 Derivative Financial Instruments

	CONSOLIDATED	
	2011 $'000	2010 $'000
Current assets		
Forward foreign exchange contracts – cash flow hedges	**-**	2,941
Current liabilities		
Forward foreign exchange contracts – cash flow hedges	**9,425**	-

(a) Instruments used by the Group

The Group is party to derivative financial instruments in the normal course of business in order to hedge exposure to fluctuations in foreign exchange rates (refer to Note 2).

(i) Forward exchange contracts – cash flow hedges

In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US Dollars (2010: US Dollars).

These contracts are hedging highly probable forecasted purchases for the ensuing financial year. 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 cash flows are expected to occur within one year from the balance date. At balance date, the details of outstanding contracts are:

	SELL AUSTRALIAN DOLLARS		AVERAGE EXCHANGE RATE	
	2011 $'000	2010 $'000	**2011 $'000**	2010 $'000
Buy US Dollars				
Maturity less than 1 year	**78,192**	46,436	**0.9259**	0.8791

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 cashflow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount from other comprehensive income.

(b) Risk exposures

Credit risk arises from the potential failure of counterparties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At reporting date $9,425,000 is payable (Australian dollar equivalents) for the Group from forward foreign exchange contracts (2010: $ 2,941,000 was receivable). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of derivative financial asset mentioned above.

(c) Interest rate risk exposure

Refer Note 2 for the Group's exposure to interest rate risk.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

13 Non-current Assets – Property, Plant and Equipment

CONSOLIDATED	LAND AND BUILDINGS $'000	PLANT AND EQUIPMENT $'000	TOTAL $'000
At 1 July 2009			
Cost	-	157,431	157,431
Accumulated depreciation and impairment	-	(84,170)	(84,170)
Net book amount	-	73,261	73,261
Year ended 30 June 2010			
Opening net book amount	-	73,261	73,261
Additions	2,655	20,.429	23,084
Disposals	-	(365)	(365)
Exchange differences	-	6	6
Depreciation and impairment charge	(21)	(16,084)	(16,105)
Closing net book amount	2,634	77,247	79,881
At 30 June 2010			
Cost	2,655	168,687	171,342
Accumulated depreciation and impairment	(21)	(91,440)	(91,461)
Net book amount	2,634	77,247	79,881
Year ended 30 June 2011			
Opening net book amount	2,634	77,247	79,881
Additions	-	35,256	35,256
Disposals	-	(325)	(325)
Exchange differences	-	(122)	(122)
Disposal of business	-	(3,244)	(3,244)
Depreciation and impairment charge	(36)	(18,290)	(18,326)
Closing net book amount	2,598	90,522	93,120
At 30 June 2011			
Cost	2,655	187,734	190,389
Accumulated depreciation and impairment	(57)	(97,212)	(97,269)
Net book amount	2,598	90,522	93,120

14 Non-current Assets – Deferred Tax Assets

	CONSOLIDATED	
	2011 $'000	2010 $'000
The balance comprises temporary differences attributable to:		
Employee benefits	**4,089**	3,856
Other provisions and accruals	**5,034**	3,777
Deferred lease incentives	**2,419**	2,043
Tax losses*	**40**	130
Inventories	**663**	(223)
Lay-by debtors	**(160)**	(111)
Depreciation	**(11,476)**	(8,823)
Share option reserve	**-**	633
	609	1,282
Amounts recognised directly in equity		
Cash flow hedges	**2,827**	(882)
Total deferred tax assets	**3,436**	400
Movements:		
Opening balance at 1 July	**400**	4,648
Underprovision in prior year	**14**	-
Charged to the income statement	**(234)**	(2,939)
Charged to equity	**3,709**	(1,937)
Reclass from provision	**-**	628
Disposal of business	**(453)**	-
Closing balance at 30 June	**3,436**	400

* The deferred tax asset attributable to tax losses does not exceed taxable amounts arising from the reversal of existing assessable temporary differences.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

15 Non-current Assets – Intangible Assets

	CONSOLIDATED	
	GOODWILL $'000	TOTAL $'000
At 1 July 2009		
Cost	11,806	11,806
Accumulated impairment	-	-
Net book amount	11,806	11,806
Year ended 30 June 2010		
Opening net book amount	11,806	11,806
Accumulated impairment	-	-
Closing net book amount	11,806	11,806
At 30 June 2010		
Cost	11,806	11,806
Accumulated impairment	-	-
Net book amount	11,806	11,806
Year ended 30 June 2011		
Opening net book amount	11,806	11,806
Disposal of business	(1,711)	(1,711)
Closing net book amount	10,095	10,095
At 30 June 2011		
Cost	10,095	10,095
Accumulated impairment	-	-
Net book amount	10,095	10,095

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash generating units (CGUs).

The recoverable amount of a CGU is determined based on value-in-use calculations. These calculations use cash flow projections based on financial budgets approved by management.

The weighted average growth rates used are consistent with forecasts used in industry reports. The discount rates used are pre tax and reflect specific risks related to the relevant segments. The assumptions that have been used for the analysis of each CGU within the business segment are as follows:

Growth rate - 2.5% (2010: 2%)

Pre-tax discount rate - 10.4% (2010: 10.2%)

(b) Impairment charge

There has been no impairment charge in the current year in relation to goodwill (2010: nil).

During the year the goodwill attributable to Queenspark was sold together with the assets and liabilities of the business.

16 Current Liabilities – Trade and Other Payables

	CONSOLIDATED	
	2011 $'000	2010 $'000
Trade payables	**17,879**	15,503
Other payables	**30,176**	31,715
	48,055	47,218

Due to the short-term nature of these payables their carrying amount is assumed to approximate their fair value.

17 Current Liabilities – Provisions

	CONSOLIDATED	
	2011 $'000	2010 $'000
Employee benefits	**11,423**	11,208
Other provisions	**1,558**	1,949
	12,981	13,157

(a) Movements in provisions

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

2011 CURRENT	OTHER PROVISIONS $'000
Carrying amount at start of year	1,949
Amounts used during the year	(391)
Carrying amount at end of year	1,558

18 Current Liabilities – Current Tax Liabilities

	CONSOLIDATED	
	2011 $'000	2010 $'000
Income tax	**289**	3,100

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

19 Current Liabilities – Other Current Liabilities

	CONSOLIDATED	
	2011 $'000	2010 $'000
Deferred lease incentives	**2,237**	2,173
Deferred income	**685**	427
Shopfitter Finance Loan	**105**	-
	3,027	2,600

20 Non-current Liabilities – Borrowings

	CONSOLIDATED	
	2011 $'000	2010 $'000
Bank loans	**22,000**	8,000
(a) Total secured liabilities		
The total secured liabilities (current and non-current) are as follows:		
Bank loans	**22,000**	8,000
(b) Financing arrangements		
The Group had access to the following undrawn borrowing facilities at the reporting date:		
Total facilities		
Bank loans and bill facilities	**100,000**	100,000
Visa, encashment and guarantee facilities	**468**	655
	100,468	100,655
Used at balance date		
Bank loans and facilities	**22,000**	8,000
Visa, encashment and guarantee facilities	**188**	380
	22,188	8,380
Unused at balance date		
Bank overdraft, bank loans and bill facilities	**78,000**	92,000
Visa, encashment and guarantee facilities	**280**	275
	78,280	92,275
Bank loan facilities		
Total facilities	**100,468**	100,655
Used at balance date	**22,188**	8,380
Unused at balance date	**78,280**	92,275

The bank finance arrangements 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 working capital facilities and strategic investment facilities, which may be drawn at any time.

The Group's financing facilities contain undertakings, including an obligation to comply at all times with certain financing covenants. The financial covenants to which the Group is subject are a fixed cover service ratio and a gearing ratio. Compliance is tested semi-annually for the 12 month periods to 30 June and 31 December.

The Group was in compliance with its financial covenants as at 30 June 2011.

The current interest rate is 7.1% on the bank loans (2010: 7.00%). The bank loan facilities have a three year term, maturing in May 2013.

(c) Interest rate risk exposures

The Group's exposure to interest rate risk and the effective weighted average interest rate for each class of financial assets and liabilities is set out below.

Exposures arise predominantly from assets and liabilities bearing variable interest rates as the Group intends to hold fixed rate liabilities to maturity.

2011	FLOATING INTEREST RATE $'000	NON INTEREST BEARING $'000	TOTAL $'000
Cash and deposits (Note 9)	5,592	-	5,592
Receivables (Note 10)	-	5,475	5,475
Bank loans (Note 20)	(22,000)	-	(22,000)
Trade and other payables	-	(48,055)	(48,055)
Net financial liabilities	(16,408)	(42,580)	(58,988)

2010	FLOATING INTEREST RATE $'000	NON INTEREST BEARING $'000	TOTAL $'000
Cash and deposits (Note 9)	2,705	-	2,705
Receivables (Note 10)	-	3,967	3,967
Bank loans (Note 20)	(8,000)	-	(8,000)
Trade and other payables	-	(47,218)	(47,218)
Net financial liabilities	(5,295)	(43,251)	(48,546)

Weighted average interest rate on the cash and deposits is 4.2% (2010: 4.4%) and on the loans is 7.1% (2010: 7.00%).

(d) Fair Value

The carrying value of all financial assets and liabilities reflect their fair values as at balance sheet date.

21 Non-Current Liabilities – Provisions

	CONSOLIDATED	
	2011 $'000	2010 $'000
Employee benefits – long service leave	**2,248**	1,776
Other provisions	**7,735**	4,513
	9,983	6,289

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

(a) Movements in provisions

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

2011 CURRENT	OTHER PROVISIONS $'000
Carrying amount at start of year	4,513
Additional provisions recognised	3,222
Carrying amount at end of year	7,735

22 Non-Current Liabilities – Other Non-Current Liabilities

	CONSOLIDATED	
	2011 $'000	2010 $'000
Deferred lease incentives	**7,135**	6,442
Other non-current liabilities	**70**	105
	7,205	6,547

23 Contributed Equity

	PARENT ENTITY		PARENT ENTITY	
	2011 SHARES	2010 SHARES	**2011 $'000**	2010 $'000
(a) Share capital				
Ordinary shares				
Fully paid	**191,786,121**	190,964,693	**133,867**	132,492

(b) Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF SHARES	$'000
1 July 2009	Opening balance	190,520,581	131,993
5 March 2010	Proceeds received from exercise of options	444,112	499
30 June 2010	Balance	190,964,693	132,492
1 July 2010	Opening balance	190,964,693	132,492
1 November 2010	Issue of shares under Company's Long Term Incentive Plan	303,571	483
1 February 2011	Issue of shares under Company's Long Term Incentive Plan	142,857	229
22 February 2011	Proceeds received from exercise of options	275,000	309
30 May 2011	Issue of shares under Company's Long Term Incentive Plan	100,000	354
30 June 2011	Balance	191,786,121	133,867

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held. On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the Specialty Fashion Group Limited Senior Executive Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 35.

(e) Restricted share rights

Information relating to the Specialty Fashion Group Limited Employee Share Plan, including details of restricted share rights issued during the financial year is set out in note 35.

(f) Capital risk management

The capital structure of the Group consists of equity attributable to the equity holders and debt (as shown in note 20). The Group manages its capital with the objective of maintaining an efficient structure to minimise the cost of capital by managing the level of debt that is prudent, facilitates the execution of the operation plan and provides flexibility for growth and managing the amount of equity and expectation of return for dividends.

As part of its strategy for delivering long term sustainable growth in earnings per share, the Group has been providing returns to shareholders by way of dividends.

There were no changes in the company's approach to capital management during the year.

24 Reserves and Accumulated Losses

	CONSOLIDATED	
	2011 $'000	2010 $'000
(a) Reserves		
Hedging reserve – cash flow hedges	**(6,598)**	2,059
Share-based payments reserve	**852**	2,490
Foreign currency translation reserve	**(824)**	(896)
	(6,570)	3,653
Movements:		
Hedging reserve – cash flow hedges		
Balance 1 July	**2,059**	(2,461)
Revaluation	**(6,598)**	2,059
Transfer to net profit – net of tax	**(2,059)**	2,461
Balance 30 June	**(6,598)**	2,059
Movements:		
Share-based payments reserve		
Balance 1 July	**2,490**	561
Transfer to share capital on exercise of share based payments	**(1,066)**	-
Restricted share rights plan expense	**(572)**	1,929
Balance 30 June	**852**	2,490
Movements:		
Foreign currency translation reserve		
Balance 1 July	**(896)**	(1,081)
Currency translation differences arising during the year	**72**	185
Balance 30 June	**(824)**	(896)

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

	CONSOLIDATED	
	2011 $'000	2010 $'000
(b) Accumulated losses		
Movements in accumulated losses were as follows:		
Opening accumulated losses	**(75,554)**	(98,241)
Net profit for the year	**14,171**	30,411
Dividends paid	**(15,322)**	(7,724)
Balance 30 June	**(76,705)**	(75,554)

(c) Nature and purpose of reserves

(i) Hedging reserve cash flow hedges

The hedging reserve is used to record gains or losses on a hedging instrument in a cash flow hedge that is recognised in other comprehensive income, as described in note 1(m). Amounts are reclassified to profit or loss when the associated hedged transaction affects profit or loss.

(ii) Share based payments reserve

The share-based payments reserve is used to recognise the fair value of options and restricted share rights issued.

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income as described in note 1(d) and accumulated in a separate reserve within equity. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

25 Dividends

	PARENT ENTITY	
	2011 $'000	2010 $'000
(a) Ordinary shares		
Dividends paid during the year (all fully franked based on tax paid at 30%)		
Interim ordinary dividend for the year ended 30 June 2011 of 4.0 cents (2010-4.0 cents) per fully paid share paid on 25 March 2011	**7,697**	7,724
Final ordinary dividend for the year ended 30 June 2010 of 4.0 cents (2009-nil) per fully paid ordinary share paid on 27 October 2010.	**7,625**	-
	15,322	7,724

No final dividend will be paid in respect to the year ended 30 June 2011.

(b) Franked dividends

	CONSOLIDATED	
	2011 $'000	2010 $'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2010-30%)	**40,853**	39,288

The above amounts represent the balance of the franking account as at the reporting date, adjusted for:

(a) franking credits that will arise from the payment of the amount of the provision for income tax

(b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and

(c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

26 Key Management Personnel Disclosures

(a) Key management personnel compensation

	CONSOLIDATED	
	2011 $'000	2010 $'000
Short term employee benefits	**1,929,107**	2,250,461
Post-employment benefits	**146,233**	197,841
Share-based payments	**(428,216)**	428,216
	1,647,124	2,876,518

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 34 to 41.

(b) Equity instrument disclosures relating to key management personnel

(i) Options provided as remuneration and shares issued on the exercise of such options

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of such options, can be found in section D of the remuneration report.

(ii) Share holdings

The number of options over ordinary shares in the Group held during the financial year by each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below.

2011 NAME	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES*	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	1,400,000	-	-	(1,400,000)	-	-	-
Other key management personnel of the Group							
A Henriksen	500,000	-	-	(500,000)	-	-	-
S Moura	150,000	-	-	(150,000)	-	-	-
J Clough	-	500,000	-	(500,000)	-	-	-

* 2009 Long term incentive plan lapsed due to performance criteria not being met therefore related expenditure was reversed.

2010 NAME	BALANCE AT START OF THE YEAR	GRANTED AS COMPENSATION	EXERCISED	OTHER CHANGES*	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE	UNVESTED
Directors of Specialty Fashion Group Limited							
G Perlstein	-	1,400,000	-	-	1,400,000	-	1,400,000
Other key management personnel of the Group							
A Henriksen	-	500,000	-	-	500,000	-	500,000
S Moura	-	150,000	-	-	150,000	-	150,000

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

(iii) Share holdings

The numbers of shares in the company held during the financial year by each director of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

2011	BALANCE AT THE START OF THE YEAR	MOVEMENTS DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	–	17,862,814
A I Miller	14,509,906	-	14,509,906
G Levy	2,365,564	-	2,365,564
J Bloom	200,000	-	200,000
A McDonald	15,000	-	15,000

2010	BALANCE AT THE START OF THE YEAR	MOVEMENTS DURING THE YEAR	BALANCE AT THE END OF THE YEAR
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	-	17,862,814
A I Miller	14,419,906	90,000	14,509,906
G Levy	2,365,564	-	2,365,564
J Bloom	-	200,000	200,000
A McDonald	15,000	-	15,000
Other key management personnel of the Group			
Ordinary shares			
H Herman	731,727	(711,751)	19,976

(c) Loans to key management personnel

Details of loans made to directors of Specialty Fashion Group Limited and other key management personnel of the Group, including their personally related parties, are set out below.

GROUP	BALANCE OF LOANS AT THE START OF THE YEAR $	INTEREST PAID AND PAYABLE FOR THE YEAR $	REPAYMENT $	BALANCE AT THE END OF THE YEAR $	NUMBER IN GROUP AT THE END OF THE YEAR $
2011	**-**	**-**	**-**	**-**	**-**
2010	1,044,676	61,550	(1,106,226)	-	3

(d) Other transactions with key management personnel

A I Miller and G Perlstein are directors and shareholders of companies that own the business premises at 151-163 Wyndham Street, Alexandria which is leased to the Group. During the 2004 year, the Group committed to undertake building improvements at these premises to convert warehouse space to office space. The non-executive directors at the time considered the impact these improvements would have on the market value of the property owned by these directors. On this basis, lower than market rental for these premises was agreed to commercially offset the benefits to these directors of the improvements to this property. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

Aggregate amounts of each of the above types of other transactions with directors of the Group:

	CONSOLIDATED	
	2011 $'000	2010 $'000
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have an interest	**536,554**	457,950

27 Remuneration of Auditors

During the year Deloitte replaced PricewaterhouseCoopers as the auditors and the following fees were paid or payable for services provided by the auditor of the parent entity and its related practices:

	CONSOLIDATED	
	2011 $	2010 $
(a) Audit services - Deloitte		
Audit and review of financial reports	**235,000**	-
Non audit services		
Other advisory services	**124,328**	-
Taxation services		
Tax compliance services, including review of Company income tax returns	**40,000**	-
Tax advisory services	**8,319**	-
Total remuneration for taxation services	**48,319**	-
Total remuneration of Deloitte	**407,647**	-

	CONSOLIDATED	
	2011	2010
	$	$
(b) Audit services - PricewaterhouseCoopers		
Audit and review of financial reports	**-**	326,833
Accounting advice and assistance	**-**	3,667
Total remuneration for audit and other assurance services	**-**	330,500
Taxation services		
Tax compliance services including review of company income tax returns	**-**	47,227
Tax advisory services	**-**	57,612
Total remuneration for taxation services	**-**	104,839
Total remuneration of PricewaterhouseCoopers Australia	**-**	435,339

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

28 Contingencies

(a) Contingent liabilities

The Group had contingent liabilities at 30 June 2011 in respect of:

Cross guarantees by and between Specialty Fashion Group Limited, Millers Fashion Club (QLD) Pty Limited, Millers Fashion Club (VIC) Pty Limited, Millers Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in Note 20.

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

29 Commitments

(a) Capital commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	CONSOLIDATED	
	2011 **$'000**	2010 $'000
Property, plant and equipment		
Within one year	**3,100**	8,560
	3,100	8,560

(b) Lease commitments

(i) Non-cancellable operating leases

The Group leases various retail stores under non-cancellable operating leases expiring within one to seven years. The leases have varying terms, escalation clauses and renewal rights. On renewal, the terms of the leases are renegotiated.

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

	CONSOLIDATED	
	2011 $'000	2010 $'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:		
Within one year	**72,567**	57,931
Later than one year but not later than five years	**187,580**	125,631
Later than five years	**25,984**	16,227
	286,131	199,789

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

30 Related Party Transactions

(a) Parent entities

The ultimate parent entity in the wholly owned group is Specialty Fashion Group Limited.

(b) Subsidiaries

All transactions and balance within the wholly owned group have been eliminated on consolidation. Interests in subsidiaries are set out in Note 32.

(c) Key management personnel

Disclosures relating to key management personnel are set out in Note 26.

31 Business Combination

The Group did not make any acquisitions in the current or prior year.

32 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(b):

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2011 %	EQUITY HOLDING 2010 %
Miller's Fashion Club (QLD) Pty Limited	Australia	Ordinary	**100**	100
Miller's Fashion Club (VIC) Pty Limited	Australia	Ordinary	**100**	100
Miller's Fashion Club (WA) Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group No. 1 Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group No. 2 Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group No. 3 Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group No. 4 Pty Limited	Australia	Ordinary	**100**	100
Yip Eks Pty Limited	Australia	Ordinary	**100**	100
H&H Corporation Pty Limited	Australia	Ordinary	**100**	100
McSeveny DA Pty Limited	Australia	Ordinary	**100**	100
GIP Fashions Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group (Shanghai) Limited Company	China	Ordinary	**100**	-
Queenspark Australia Pty Limited	Australia	Ordinary	**-**	100
Selbourne Australia Pty Limited	Australia	Ordinary	**100**	100
Specialty Fashion Group New Zealand Limited	New Zealand	Ordinary	**100**	100

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

33 Reconciliation of Profit After Income Tax to Net Cash Inflow From Operating Activities

	2011 $'000	2010 $'000
Profit for the year	**14,171**	30,411
Depreciation and impairment	**18,326**	16,105
Share based payments	**(572)**	1,929
Profit on sale of business	**(511)**	-
Profit on sale of assets	**(14)**	(67)
Net exchange differences	**(49)**	185
(Increase)/decrease in trade debtors	**(1,611)**	6,415
Increase in inventories	**(2,265)**	(1,817)
Decrease in deferred tax benefit	**459**	2,941
Increase/(decrease) in trade creditors and other liabilities	**904**	(4,715)
Decrease in provision for income taxes payable	**(2,357)**	(1,441)
Increase/(decrease) in other provisions and other liabilities	**7,328**	(383)
Net cash inflow from operating activities	**33,809**	49,563

34 Earnings Per Share

	CONSOLIDATED	
	2011 CENTS	2010 CENTS
(a) Basic earnings per share		
Basic EPS from continuing operations	**7.6**	16.1
Basic EPS from continuing and discontinued operations	**7.4**	16.0
(b) Diluted earnings per share		
Diluted EPS from continuing operations	**7.6**	15.8
Diluted EPS from continuing and discontinued operations	**7.4**	15.7

(c) Reconciliations of earnings used in calculating earnings per share

	CONSOLIDATED	
	2011 $'000	2010 $'000
Basic earnings per share		
Profit from continuing operations	**14,519**	30,717
Loss from discontinued operation	**(348)**	(306)
	14,171	30,411

(d) Weighted average number of shares used as the denominator

	CONSOLIDATED	
	2011 NUMBER	2010 NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	**191,330,632**	190,664,157
Adjustments for calculation of diluted earnings per share:		
Options and share rights	**883,830**	3,210,343
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	**192,214,462**	193,874,500

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the Specialty Fashion Group Limited Senior Executive Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 35.

(ii) Restricted share rights

Restricted share rights granted to employees under the Specialty Fashion Group Limited Long term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The restricted share rights have not been included in the determination of basic earnings per share. Details relating to the restricted share rights are set out in note 35.

35 Share-Based Payments

(a) Senior executive option plan

The establishment of the Specialty Fashion Group Limited Senior Executive Option Plan was approved by shareholders at the 2001 annual general meeting. Staff eligible to participate in the plan are those of supervisor level and above (including executive directors).

Options are granted under the plan for no consideration. Options are granted for a three year period, and 1/3 of each new tranche vests and is exercisable after each of the first three anniversaries of the date of grant.

Options granted under the plan carry no dividend or voting rights.

When exercisable, each option is convertible into one ordinary share after the release of the annual financial results of the Group.

The exercise price of options is based on the weighted average price at which the Company's shares are traded on the Australian Securities Exchange (ASX) during the week up to and including the date of the grant.

Set out below are summaries of options granted under the plan:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	EXPIRED DURING THE YEAR	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE AT END OF THE YEAR
			NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
Consolidated entity – 2011								
4 January 2005	31 August 2011	$1.13	908,333	–	(275,000)	–	633,333	–
Weighted average exercise price			$1.24	-	-	-	-	$1.27

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR	GRANTED DURING THE YEAR	EXERCISED DURING THE YEAR	EXPIRED DURING THE YEAR	BALANCE AT END OF THE YEAR	VESTED AND EXERCISABLE AT END OF THE YEAR
			NUMBER	NUMBER	NUMBER	NUMBER	NUMBER	NUMBER
Consolidated entity – 2010								
4 January 2005	31 August 2011	$1.13	1,352,442	–	(444,109)	–	908,333	–
Weighted average exercise price			$1.21	-	-	-	-	$1.24

Fair value of options granted

No options were granted during the years ended 30 June 2011 or 30 June 2010. The fair value of options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

(b) Restricted share rights

In September 2007, the Group established the Specialty Fashion Group Limited Employee Share Plan. Under this plan restricted share rights over shares in the company can be issued to executive officers, senior executives and senior staff members selected by the directors.

In September 2007, the Specialty Fashion Group Trust was formed to administer the restricted share rights plan. This Trust has been consolidated in accordance with Note 1(b)(i).

Of the 2,142,857 rights issued, 753,000 are outstanding as at the date of this report.

During 2010 6,865,000 rights were issued at a fair value of 98 cents. As at 30 June 2011 5,660,000 rights are outstanding.

Rights granted under the plan give the employee the right to receive a share at a future point in time upon meeting specified vesting conditions with no exercise price payable. The rights are granted at no consideration. Upon meeting the vesting conditions, the right may be exercised up to 1 year following the end of the vesting period.

During 2011, the 2009 Long term incentive plan lapsed due to performance criteria not being met therefore related costs were reversed.

	CONSOLIDATED	
	2011 NUMBER	2010 NUMBER
Rights issued under the plan to participating employees in September 2007 and January 2010	**2,142,857**	9,007,857

(c) Expenses arising from share-based payment transactions

Total expense arising from share based payment transactions recognised during the period as part of employee benefit expense were as follows:

	CONSOLIDATED	
	2011 $'000	2010 $'000
Restricted share rights issued under employee share plan	**(572)**	1,929

Notes to the consolidated financial statement. For the year ended 30 June 2011 (Cont.)

36 Parent Entity Financial Information

	PARENT ENTITY	
	2011 $'000	2010 $'000
Balance sheet		
Current assets	**53,469**	50,388
Non-current assets	**97,640**	83,335
Total assets	**151,109**	133,723
Current liabilities	**73,091**	65,178
Non-current liabilities	**38,799**	20,610
Total liabilities	**111,890**	85,788
Shareholders' equity		
Contributed equity	**133,867**	132,492
Reserves	**(5,746)**	4,548
Accumulated losses	**(88,902)**	(89,105)
	39,219	47,935
Profit for the year	**13,527**	30,261
Other comprehensive income for the year	**(8,657)**	4,520

The same contingency comittment and guarantee discolsure applied to both parent and consolidated accounts.

Directors' declaration.
30 June 2011

The directors declare that:

(i) in the directors' opinion, there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable;

(ii) in the directors' opinion, the attached financial statements are in compliance with the International Financial Reporting Standards, as stated in note 1 to the financial statements;

(iii) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance and accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity; and

(iv) the directors have been given the declarations required by s.295A of the Corporations Act 2001.

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

On behalf of the directors

G Perlstein
Director

G Levy AO
Director

Sydney
22 August 2011

Shareholder information.
30 June 2011

The shareholder information set out below was applicable as at 18 August 2011.

A. Distribution of Equity Securities

Analysis of numbers of equity security holders by size of holding:

	CLASS OF EQUITY SECURITY ORDINARY SHARES	
Holding	SHARES	OPTIONS
1 – 1,000	1,348	-
1,001 – 5,000	2,718	-
5,001 – 10,000	890	-
10,001 – 100,000	814	5
100,000 and over	78	3
Total	5,848	8

There were 670 holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

Twenty largest quoted equity security holders

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

Name	NUMBER HELD	PERCENTAGE OF ISSUED SHARES
NAAH PTY LTD	37,913,596	19.77%
National Nominee’s Limited	25,329,082	13.21%
Icestorm PTY LTD	17,862,814	9.31%
JP Morgan Nominees Australia Limited	17,640,756	9.20%
HSBC Custody Nominees (Australia) Limited	15,409,559	8.03%
Landcharm Pty Limited	7,277,760	3.80%
Landpeak Pty Limited	7,122,240	3.71%
Citicorp Nominees Pty Ltd	6,381,114	3.33%
GDL Investments Pty Limited	1,955,564	1.02%
RBC Dexia Investor Services Australia Nominees Pty Ltd	1,590,256	0.83%
Weresyd Proprietary Limited	1,439,926	0.75%
Rye Holdings Pty Ltd	1,222,420	0.64%
Mr Anthony Koroman and Mrs Deley Sangmo Bhutia	1,000,000	0.52%
Mr David Alan McSeveny	983,271	0.51%
Wallbay Pty Ltd	950,000	0.50%
NAAH Investments Pty Ltd	828,607	0.47%
Mr Trent Peterson	705,000	0.37%
W Donnelly Services Pty Ltd	426,000	0.22%
Tooie Pty Ltd	414,710	0.22%
Alney Pty Limited	410,000	0.21%

Shareholders information (Cont.)
30 June 2011

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unquoted equity securities		
Options issued under the Specialty Fashion Group Limited Senior Executive Option Plan to take up ordinary shares	633,333	8

The number of unissued ordinary shares under these options is 8,955,973. No person holds 20% or more of these securities.

C. Substantial Holders

Substantial holders in the Company are set out below:

	NUMBER HELD	PERCENTAGE
Ordinary shares		
NAAH Pty Ltd (NAAH Unit Trust)	37,913,596	19.77%
Mr G Perlstein and controlled entities	17,862,814	9.31%
Lazard Asset Management Pacific	16,878,323	8.80%
Mr I Miller / Landcharm	14,509,906	7.57%
Delta Lloyd N.V	9,899,935	5.16%
National Australia Bank Limited and associated companies	9,604,735	5.01%

D. Voting Rights

The voting rights attaching to each class of equity securities are set out below:

(a) 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.

(b) Options

No voting rights.

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