Annual Report 2016

Changing the PERCEPTION of FASHION

SPECIALTYFASHION | GROUP

CHAIRPERSONS' *REPORT*

The 2016 Financial Year was a period of solid progress for the Group as it implemented its strategy to become a leading omni-channel retailer in the sectors it specialises in.

Importantly, losses in the iconic Rivers brand were more than halved. The turnaround of that business is on track and Rivers losses are expected to reduce further in FY2017. The Group reported an Underlying EBITDA* of $25.0 million, which included a loss of $9.9 million attributable to Rivers. This represents a 23.1% uplift in Underlying EBITDA on FY2015.

Most of our brands have continued to trade well, helping the Group achieve its fifth consecutive six-month period of positive comparable store sales growth in the second half of FY2016.

The Board is therefore encouraged by the performance of the business. We are optimistic for continued growth in FY2017 as the Rivers losses significantly lessen and the Group continues to build a stronger position in the Australian retail market.

Revenue for FY2016 reached $826.2 million representing 4.4% growth. The Group continued to support the changing shift towards online sales by investing $3.7 million in critical IT systems mostly to support our growing digital strategy. The Group has also invested in and achieved strong growth in online sales. In the past year, online sales grew by 42% to $72.8 million, representing 8.8% of total revenue. Our online sales as a percentage of total revenues are now well ahead of industry peers.

The balance sheet remains financially sound with net debt of $13.3 million, 52.1% lower than FY2015.

We are increasingly seeing the physical and digital worlds come together in a seamless shopping experience. We have invested in 'click & collect' which allows our customers access to products where and when they want it.

Critical to a successful omni-channel strategy is a physical store presence. The Group continues to maintain a strong store presence, with $13.9 million invested in new stores and refurbishments to meet customer needs.

The Group ended the year with 1,078 stores plus an additional 14 Myer concession locations. We opened 28 stores, closed or consolidated 36 stores, and invested heavily in our online presence. A further 10 Myer concession locations have opened in July 2016. We remain Australia's largest specialty retailer of women's apparel, which gives us significant influence in managing future costs.

We have also continued the journey of product development, increasing our ability to stand apart from our competitors, providing our customers with an increase in unique and differentiated products.

We are confident Rivers will become a profitable and growing brand for the Group. Significant effort has been made to integrate Rivers into our operations, to drive efficiencies and refresh its offer and marketing effectiveness, leveraging cheaper digital channels. The focus remains on improving product, reinvigorating the store environment and managing inventory levels as we complete the Rivers turnaround.

A focus on improving logistics resulted in the consolidation of the Group's logistics capabilities into a single location following the closure of the Rivers Ballarat warehouse in February. Centralising our logistic capabilities allows greater flexibility in how we replenish our stores, while keeping unit costs low.

LOOKING FORWARD

Considerable progress has been made in FY2016 to strengthen our business in a fast-changing retail environment.

A key to improved performance is returning Rivers to profitability. This is on track. It is expected the performance of Rivers will continue to improve considerably during the next 12 months. We are confident that we have turned the corner in the revitalisation of the Rivers brand.

The Board remains committed to investing in our growth strategies to deliver an enhanced return in future years. On this basis, the Board has committed to reinvest cash and has not declared a dividend.

The Group operates a hedging program and is hedged for the 2017 financial year at an average exchange rate of 72 cents.

On behalf of the Board, we would like to thank CEO Gary Perlstein and the more than 6,000 team members, whose tireless efforts underpin the success of the Group. We also extend our appreciation to the shareholders for their on-going support.

*Underlying EBITDA is adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs. A reconciliation of Underlying EBITDA to operating loss before tax is provided in note 3 of the financial statements.

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CEO'S *REPORT*

In FY2016, Specialty Fashion Group continued to execute its strategy to be the leading omni-channel retailer in our markets. Specifically, to lead in meeting the needs of women who are often overlooked by fashion—the older and plus-sized segments.

Understanding our customers, and delivering a seamless and consistent online and offline customer experience across all channels, is central to our strategy. Our aim is to enable our customers to shop and engage with our brands—any time, any place, any way.

Our specific growth focus has been to enhance customer engagement, transform our supply chain and costs, reduce Rivers' trading losses, rejuvenate existing brands and carefully expand operations internationally.

These strategies delivered an impressive fifth consecutive six-monthly period of positive Comparable Store Sales Growth (CSG) in the second half of FY2016, and consolidated the Group's position as the largest specialty retailer of women's fashion in Australia.

The Group's focus on digital and online growth saw a 42% increase in online sales representing $72.8 million of the Group's turnover, or 8.8% of total revenue. Our online sales as a percentage of total sales are well ahead of our retail peers, and an outstanding result for the retail demographic we operate in.

BRAND REJUVENATION

We have developed new brand identities for key brands and invested in products to deliver ranges with improved quality and aesthetics, while remaining competitively affordable. We are also improving the shopping experience through our newly designed concept stores.

Customer response to our refurbished stores, and to the launch of new ranges across all brands and categories, has been strong. We've also seen a continued uplift in online sales, supported by a strong trend of repeat purchases by loyal rewards customers.

Increased research and understanding of our target customer base is expected to see the growth of all our brands continue in the 2017 financial year.

RIVERS TRANSFORMATION

Our confidence in the Rivers turnaround continues. Rivers has halved its loss on the previous year and is expected to start trading profitably during the FY2017 year.

The Rivers leadership team is delivering strong improvement across the business. Improved product is resonating with consumers across all categories. Also, cost-effective online marketing is making a real difference in building customer loyalty, with a big uplift in online sales and repeat purchases. The Rivers turnaround is on track, and the worst is well behind us.

The focus is to continue rebuilding Rivers' brand equity and iconic status in FY2017 and to ensure it is contributing to the Group's profitability in future years.

CITY CHIC'S EXPANSION

The growth of City Chic continues to accelerate domestically and internationally online, and through our measured store expansion program.

Locally, City Chic commenced the roll out of 24 new concession locations into Myer during the second half of this year, with 14 concession locations fully operational at 30 June 2016. The remaining 10 locations were launched in July 2016.

Internationally, in addition to its existing presence in 60 Nordstrom stores across the USA, the brand launched its product into 100 Macy's stores. Successful product trials in the UK based retailer, Evans, has been supported by ongoing repeat orders.

ENHANCED CUSTOMER ENGAGEMENT

We continue to develop our dedicated Customer Insights team and invest in customer relationship management (CRM) capabilities that have seen our customer membership database continue to grow during FY2016.

We can now communicate directly with more than 5 million customers by email, representing a distinct and powerful competitive advantage.

The successful rollout of the 'click & collect' initiative throughout all Australian stores continued to accelerate online sales, and is a reminder that a critical pillar of online sales success is an integrated physical store and online experience and presence.

The Group is now a leading 'bricks and clicks' retailer, deeply experienced in leveraging a mix of channels to tailor outstanding customer experiences for each brand and their customers.

MANAGING COSTS

As a value retailer, we have developed cost effective product sourcing initiatives. We source the vast majority of our product from South East Asia. In the financial year we achieved an average exchange rate of 78 cents, compared to 88 cents the year before. While this represents a year-on-year decline, we have strategies in place to mitigate the impact, including hedging for the next 12 months.

Further cost management strategies include using the Group's scale to negotiate with vendors, and the bulk ordering of fabrics to minimise costs. We have also been trialling a number of new vendors in different regions, which not only mitigates cost pressures, but also adds distinctive fabrication and appeal of product sourced through an alternative channel.

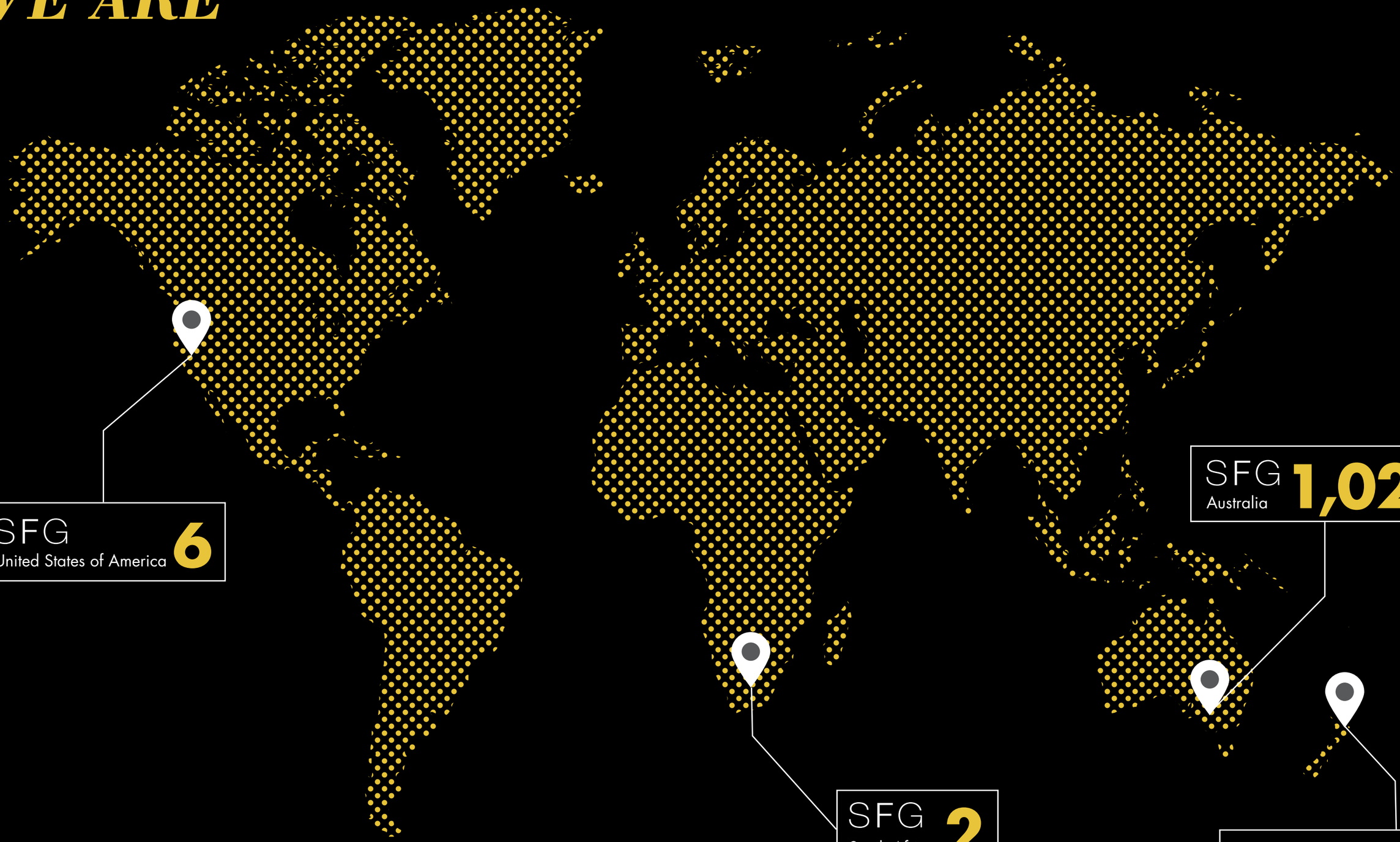
THE OUTLOOK FOR FY2017

The Group is well positioned with its core brands and the appropriate teams are in place to deliver an exceptional customer experience for our loyal members.

We believe the strategies we have in place will ensure our future success, and are excited about the opportunities our digital investments can achieve.

I would like to thank and congratulate the whole Specialty Fashion Group team for their efforts during FY2016. It has been a privilege to work with such a highly dedicated, high energy and passionate team throughout the year. Thank you for all you have done, and I look forward to working with you in the year ahead.

WHERE *WE ARE*


SFG
United States of America
6
SFG
South Africa
2
SFG
Australia
1,027
SFG
New Zealand
57

OUR *BRANDS*

AUTOGRAPH city chic crossroads KATIES Millers rivers AUSTRALIA

We are Specialty Fashion Group (SFG), the largest retailer of women's fashion in Australasia, making women everywhere look good and feel great through our offer of fashion and value. Our brands include Katies, Millers, City Chic, Crossroads, Autograph, and Rivers. As at 30 June 2016, the Group holds an international portfolio of 1,078 stores, 14 concession locations (with an additional 10 concession locations opened in July 2016), seven e-commerce sites and has one of the largest women's customer communities in Australasia.

As a global leader, our aim is to transcend the expectations of our customers while helping to inspire them through our ideas, trends and innovations. Our customers are why we get out of bed in the morning and it is why we are determined to only accept the best.

At SFG, we know that dressing up is a reflection of how we feel about ourselves. We believe that despite age and size, but rather because of it, we can make our customer feel beautiful, no matter which brand they call their own. We live to experience the moment a customer cries with joy when they see themselves in our product and acknowledges their real beauty for the first time. That is our purpose.

Our purpose is to be a global market leader with brands that change the perception of fashion. We are a community of people that attracts and grows game-changers who love to challenge the status quo; we all bear a passion for retail, innovation and our customers.

AUTOGRAPH

www.autographfashion.com.au

Autograph specialises in designing, fitting and styling plus-size women in sizes 14 to 26. Our aim is to create modern attainable fashion that inspires and empowers women to step out looking great and feeling confident.

As a prominent brand within the plus-size segment, we have a portfolio of 138 stores across Australia and New Zealand as well as an online presence. Extending on our growth strategy from the previous year, we launched a 'Brands Store Concept Online' which is a collaboration with a mix of top international designers and local designers, enhancing our product offering to bring the best range of plus-size fashion to our customer; exclusively online. Our sales in the e-commerce space have increased to over 14.5% of total brand sales.

This year, we introduced some new initiatives to include a new category for our brand 'Downtime', and expanding our Intimates and Sleepwear ranges by adding Leisurewear and Loungewear. Moreover, Kate Wasley was named the face of Autograph following our search for a Model Campaign in collaboration with Vivien's Modelling Agency, with over 4,500 entries being submitted.

64k
Facebook Followers

477k
Email Subscribers

875k
Members

5.1 million
Online Visits

138
Stores

city chic

www.citychic.com.au

City Chic is the leading global plus size fashion destination for sizes 14+. The City Chic customer is a confident fashion forward plus size woman aged 18 to 35 who is bold, sexy, glam and chic. She is fun, fashionable and fearless with a hectic lifestyle and a passion for fashion. She is not defined by the way she looks, but by the way she feels and embraces her curves.

As a market leader, we have a portfolio of 104 stores across Australia, New Zealand, South Africa, USA and online. Our growth has continued internationally into department stores including Nordstrom and Macy's in the USA, as well as Evans in the UK.

During FY2016, we expanded in Australia, securing 24 new concession locations in partnership with Myer; 14 were opened in FY2016 with an additional 10 launched in July FY2016.

119k
Facebook Followers

560k
Email Subscribers

591k
Members

10.6 million (8.6m AU/2m US)
Online Visits

104 Stores
plus 14 concession locations in Myer (with an additional 10 concession locations opened in July 2016)

crossroads

www.crossroads.com.au

Crossroads is a unique blend of style, affordability and convenience; a 'local fashion haven', offering on-trend styling in a broad size range 8 to 22. Our ranges include casual and smart wear, and we also cover maternity wear, accessories and footwear. We have 182 stores across Australia and New Zealand, and a growing online presence.

We provide fashion that fits and flatters women aged 35 and over, but who want the style to make her feel forever 30.

Throughout the year we continued on our store rejuvenation journey, enhancing the in-store customer experience. We also launched our first ever Crossroads Direct Mail catalogue in October 2015. We were also proud to partner with an inspirational down-to-earth supermodel Robyn Lawley for our Easter and Mothers' Day catalogues.

98k
Facebook Followers

878k
Email Subscribers

1.7 million
Members

4.5 million
Online Visits

182
Stores

KATIES

www.katies.com.au

Katies is an iconic Australian brand that has been celebrating Australian women with inspired and versatile fashion since 1956. Over the past 12 months, Katies has continued on its journey of repositioning and brand elevation, implementing strategies to emotionally engage with both existing and new customers, shift brand perceptions and drive new purchasing behaviours.

New range extensions include the introduction of our MOVE and workwear capsule collection, as well as Luxe, a new premium capsule collection exclusive to katies.com.au consisting of versatile wardrobe classics in cotton cashmere, 100% Australian wool and genuine leather at compelling value price points.

Brand elevation has been achieved through aspirational and emotive campaigns using unprecedented window displays with consistent and targeted communication of the brands fashionability, modernity, quality and versatility using strategic PR and social media.

Our online business has grown by 24% over last year, supported by strong new member sign-ups.

The Katies store network remains steady; a new brand identity and store design was launched in September 2016 which will be rolled out across the store network.

89k
Facebook Followers

1.1 million
Email Subscribers

1.9 million
Members

5.8 million
Online Visits

148
Stores

Millers WOMAN

www.millers.com.au

Millers, established in 1993, is Australia's largest women's apparel retailer with 327 stores nationally, a further 28 stores in New Zealand and our online presence which has grown by 71% in FY2016.

In September 2015, we launched a rejuvenation project which was a two-year journey of discovery, customer and retail experience research and cross-platform planning; with the ultimate goal of reconnecting with our core consumer. Our customers are predominantly between 45–75 years old who have experienced life, they have a loving family and when it comes to fashion they look for comfort, price and value while not compromising on today's look.

As a consequence of the rejuvenation project, we initiated an ongoing in-store transformation program with new store design and experiences which include comfortable fitting rooms, well-lit product and a vast offering of sizes and styles. On 16 October 2015, we officially opened our first Australian flagship Millers store in Fountain Gate, Victoria.

Additionally, our customers are seeing new advertising featuring our 'Millers & Me—Made for each other' positioning and real Millers' women campaign which was a finalist in the Festival of Global Media Awards for Best Campaign in Commerce 2016.

Further driving engagement and connecting directly with our customers, we introduced the *seeingmeproject* which also launched in September 2015. It is an interactive online hub where our women can find films, interviews, behind the scenes, blogs, have conversations and lots more.

152k
Facebook Followers

1.4 million
Email Subscribers

3 million
Members

7.7 million
Online Visits

355
Stores

www.rivers.com.au

Rivers is an iconic Australian men's and women's brand with over 28 years of heritage. Over the past twelve months, the Rivers' store base has remained constant with 151 stores, totalling 85,000 square metres of retail space. New concept stores have been launched in Watergardens and more recently in Logan.

Building on the growth strategy from FY2015, online sales account for 5.1% total sales, a 48% increase which is a strong result. Our introduction of segmentation modelling, to enable customer targeting, has contributed to a total of 6.85 million visits to the website, an increase of 28%. Customer acquisitions have doubled over the past year resulting in a total membership base of 2 million and more than 687,000 email subscribers. Our loyalty customers now account for 73% of total sales up from 60% the previous year. New ranges and improvements in product quality have also contributed to the strong sales result with positive growth in key categories including performance, swimwear, women's intimates and sleepwear.

In FY2017, we will continue our growth strategy by collaborating with new brands to enhance key categories as well as building our Rivers-tex brand assortment.

885k
Email Subscribers

2 million
Members

6.7 million
Online Visits

151
Stores

"OUR AIM IS TO ENABLE OUR CUSTOMERS TO SHOP AND ENGAGE WITH OUR BRANDS— ANY TIME, ANY PLACE, ANY WAY."

—Gary Perlstein, SFG CEO

OMNI-*CHANNEL*

DISTRIBUTION & LOGISTICS

In FY2016, we continued to see enhancements within our distribution function with the full migration of the Rivers warehouse and distribution functions from Ballarat in Victoria to Toll in Sydney. The migration took place over a two month period during January and February of 2016 and was delivered on time and within budget.

The consolidation into Toll has delivered the following key objectives for Rivers:

- Reduced distribution rates with our provider;
- Reduced lead time for online delivery resulting in a better customer experience; and
- Increased capability and speed to market for unit level replenishment resulting in increased sales in stores.

FY2016 also saw SFG partner with Toll to develop a new automated warehouse facility in Prestons, New South Wales, that will be delivered in FY2017. This state of the art facility will support our projected growth for the next 10 years and will increase our capacity and capability, whilst also delivering long term reduced distribution costs for the Group.

We also continue to drive enhancements to our global capability. We have established a Logistics Hub operation in Shenzhen in Southern China with Cargo Services Far East. The hub currently supports all supplier inbound shipments for City Chic for the US market and also provides services to support the wholesale activity into Macy's, Nordstrom, and wholesale into the UK market. We will continue to drive this in FY2017 to further enhance the Group's supply chain capability through multi-country consolidation and direct to port shipping.

E-COMMERCE

The Group's online sales continued its strong growth trajectory, achieving a 42% increase from prior year. Our online sales as a percentage of total sales are ahead of industry benchmarks at 8.8%, and is an outstanding result for the retail demographic we operate in.

SFG continues to invest in its e-commerce capabilities and will be launching a new e-commerce platform in FY2017.

STORES

During the year we opened 28 new stores and closed or consolidated 36 stores. In addition, we opened 14 concession locations in Myer. SFG continues to invest in its existing store portfolio with the refurbishment of 15 stores in FY2016. Customer response to our refurbished stores, and to the launch of new ranges across all brands and categories, has been strong.

OMNI-CHANNEL *EXPERIENCE*

LAUNCHING A NEW
Digital Experience in FY2017

- Optimise mobile site—fastest growing channel
- Store stock visibility
- Improved customer journey
- Increased choice of delivery options
- Email alerts for back in stock
- Enhanced customer preferences

This is the next phase of our investment in our digital capability. We will continue to invest in Omni-channel, so that in the future we will be able to fulfil our customer's orders with stock from their nearest store, rather than sending it from a centralised distribution centre.

- Quicker for our customers
- Cost effective for us to fulfil
- A customer is able to buy any item in store via digital, even if it's out of stock in that store
- Enables us to better manage our stock sell through

ONLINE SALES
& e-Commerce Benefits

- Integrating digital with traditional retail
- Using digital technology in store to enrich our customers' experience of our brands
- Curating experiences that inspire our customer and drive deeper engagements with our brands
- Using technology that connects our customers with our stores teams. For example, our City Chic brand is working with an app called Booodl that allows our customers to message our store teams to find out if there favourite dress is available in store

SEAMLESS
Customer Experience

We've already built good foundations:

- Our digital channels help to drive footfall and stores online by showcasing our products, promotions and stories
- Same product and promotions online and in store
- Augmented with products that are exclusive to online customers
- Click and Collect capability
- In store returns
- Returns via local collection points
- Customers can earn loyalty points

REFINING
Brand Portfolio

As our digital capability grows and our customers trust in it grows, our store network will change:

- Targeted store portfolio to enhance the omni-channel experience
- Stores will become showrooms to sell our brand not just our products
- Customers will consume experiences, not just products

INVESTMENT IN
Organisational Change & Growth

- Digital transformation across the business
- Using digital technology to enhance our productivity
- Embrace the digital revolution

ENHANCING
The Store Experience

- Online sales growth of 42% in FY2016
- Online now accounts for 8.8% of total Group revenue
- Click and collect sales grew 91% in FY2016

SFG

Corporate Social Responsibility

Specialty Fashion Group (SFG) is committed to supplying our customers the highest quality product at the best possible price in the fastest possible time. We are also dedicated to ensuring a good working environment in our partnership factories. We are endeavouring to develop long-term relationships with our vendor to ensure the best possible outcomes for all involved. We believe in sharing our technical expertise with our supply partners and investing for the future. Better working conditions improve the efficiency of the entire supply chain. Workers who are paid and treated fairly in healthy and safe environments are more productive, deliver a higher standard of quality for our customers and, in turn, create increased value for the mutual benefit of all supply chain partners.

ROAD TO TRANSPARENCY

Over the year we have been focussed on developing our Ethical Sourcing policies to ensure we are working towards building a more transparent supply chain.

This is important in reassuring both our customers and our teams that no workers were exploited in the process of producing our product.

The journey so far…

- We updated our Vendor Code of Conduct to include our ethical sourcing policies and initiatives
- We signed up to the "Make Fashion Traffik Free" protocol
- We achieved a C+ in the 2016 Australian Fashion Report
- We published our Factory list along with our Ethical sourcing policies to the market
- We are now auditing our Tier 2 suppliers—our mills, our wash houses and trim suppliers
- We scored a "SUPER TRANSPARENT" rating in the Oxfam Transparency Scorecard

VENDOR CODE OF CONDUCT

In 2016 we updated our vendor code of conduct to now include:

- Human Rights
- Social accountabilities
- Environmental Policies
- Ethical Sourcing policies
- Product safety compliance
- Standards compliance
- Animal Welfare compliance

Our Vendor Code of Conduct is designed to be fair, achievable, and easy to check. It sets out the social, environmental and standards compliance policies that apply to our entire supply chain including each premises used by our business partners to supply product sold in our stores.

To create a "common language" for effective collaboration, our Code adopts the standards set out in the fundamental conventions of the International Labour Organisation (**ILO**).

HUMAN RIGHTS COMPLIANCE

We expect all our partners to work with us to uphold basic human rights and compliance standards and require that they do not participate in any violation of them.

These basic human rights include, but are not restricted to, the following fundamental freedoms and rights which have been referenced to ILO standards:

- Freedom from discrimination (ILO Convention 111)
- Freedom from slavery or servitude (ILO Conventions 29 & 105)
- Freedom of association (ILO Conventions 87 & 98)
- Freedom from invasion of privacy (ILO Convention 183)
- Living wage (ILO Convention 95 & 131)

Under NO circumstances can any child labour, forced labour or prison labour be used in the manufacture of our garments.

LIVING WAGE

We encourage our vendors to pay above minimum wage to workers with the ultimate goal of paying a living wage. SFG is actively involved in dialogue with other retailers and NGO's in Australia to pursue a unified approach in working towards a living wage.

Living wage is broadly defined as:

The wage which should enable the worker to provide for him/herself and his/her family not merely the basic essentials of food, clothing and shelter but a measure of comfort including education for children, protection against ill health, requirements of essential social needs and a measure of insurance against more important misfortunes and provision for old age. The required amount of income should be obtainable within normal working hours.

A living wage would allow individuals and their families to work themselves out of poverty, which is unlikely for a worker paid minimum wage. The process starts with all vendors paying above minimum wage to all their workers.

ETHICAL SOURCING POLICIES

SFG insist on the boycott of cotton originating from Uzbekistan.

SFG has signed the following pledge with "Responsible sourcing network" and we ask that no vendor engages or purchases cotton fibre, or raw material from Uzbekistan for the production of any goods.

RESPONSIBLE sourcing network

THE BANGLADESH ACCORD

SFG joined the Bangladesh accord in 2013 in a commitment to the safety of workers in factories used. We require all factories to comply, at a minimum, with the fire and building safety standards outlined by the accord. All SFG factories have been publicly disclosed as part of this agreement.

The terms of the accord are outlined and published on the following website and are available to the public **www.bangladeshaccord.org.**

ACCORD on Fire and Building Safety in Bangladesh

"The Accord is an independent agreement designed to make all garment factories in Bangladesh safe workplaces. It includes independent safety inspections at factories and public reporting of the results of these inspections."

MAKE FASHION TRAFFIK FREE PROTOCOL

SFG has signed the Make Fashion Traffik Free Protocol. By signing this protocol SFG acknowledges that human trafficking is present within the cotton, textile and garment supply chain and we are intent on eliminating human trafficking from our business. We have committed to the following:

- Transparency—trace all vendor within our supply chain from cut, make and trim stage back to sourcing of raw material.
- Ensure there is no trafficked labour used to make our products throughout our supply chain from the cut, make and trim stage back to the sourcing of raw materials.
- Auditing through a robust social compliance programme
- Public reporting

STOP THE TRAFFIK
PEOPLE SHOULDN'T BE BOUGHT & SOLD

The protocol was created by Stop The Traffik an independent charity and advocacy group focused on preventing human trafficking.

ENVIRONMENTAL COMPLIANCE

CONCERN FOR THE ENVIRONMENT

We are committed to protecting the environment and ask that our factories and partners also engage in the implementation of the sustainable supply chain principles:

- Reduce
- Reuse
- Recycle

SFG will favour factories and vendor that share our commitment to the environment.

PACKAGING

We encourage all vendors to reduce any excess packaging such as polybags, wrapping paper or additional cartons. Illegal logging is endangering the world's climate and environment, which may lead to deforestation and the loss of biodiversity.

USE OF TECHNOLOGY

We encourage the inclusion of the latest technology into our operation as much as reasonably possible. As well as giving a competitive edge the incorporation of technology saves time, waste and use of excessive resources. This leads to less material waste and saves the environment.

ENERGY CONSERVATION

We ask that our partners and factories engage in the worldwide push to reduce carbon emissions and that at all times there is an emphasis on efficient energy use.

The carbon footprint of clothing is calculated and measured over a products life from manufacture to disposal. Not only including the energy and resources used in growing the crop and then the production manufacturing and transportation of the clothes but also the washing and drying of the garment. To further conserve resources we ask for support in the procurement of fibres that require light washing, reduced dry cleaning and can be line dried.

TEXTILE PROCESSING

We seek partnerships with vendors who are actively trying to reduce over processing and reduce the use of water and harsh chemicals in the production process. An emphasis on the utilisation of environmentally sound chemicals and fibres is encouraged in all partners and strict adherence to waste management is required.

TRANSPORTATION OF GOODS

We ask that our factories and vendor are mindful of limiting the transportation of goods. Excessive movement of goods or the movement of goods without full container load (or freight consolidation) is both energy inefficient and costly. We endeavour to work alongside our vendor to help consolidation of freight and movement wherever possible.

STANDARDS COMPLIANCE

RIGHT OF INSPECTION

To ensure quality and compliance with our standards we reserve the right to regularly conduct factory evaluation visits and to conduct (either by SFG personnel or an appointed agent) pre-production, online and final inspections.

Inspection audits undertaken are based on SA8000 standards taking into account applicable ILO conventions and recommendations, UN conventions and local laws. A few key statistics include:

- We conducted over 11, 000 quality inspections
- We conducted over 400 factory audits
- We now offer factory management training on understanding and implementing better in-house audit systems to help lift their social accountability scores

PRODUCT SAFETY COMPLIANCE

Our customer's safety is our responsibility.

With that we have implemented policies to help ensure we deliver product that meets our strict safety criteria and does not harm anyone in the manufacture or use of our products.

AZO DYES BAN

The Australian Government has classified AZO dyes as a serious carcinogenic poison. We require that no vendor uses AZO dyes in the manufacture of any goods. Over the last 2 years SFG has actively tested and banned the use of AZO dyes and we have implemented a robust testing and auditing process in our production process.

SANDBLASTING BAN

Sandblasting has been directly linked to respiratory and other medical conditions and puts factory workers at unnecessary risk. We insist that no vendor uses sandblasting during the production of any goods and alternate safer methods have been implemented.

CONFLICT MATERIAL BAN

Conflict Materials refer to natural resources whose systematic exploitation and trade in a context of conflict contribute to, benefit from or result in the commission of serious violations of human rights, violations of international humanitarian law or violations amounting to crimes under international law. Conflict Materials are often exploited and trade in countries or areas where there are armed conflicts including the Democratic Republic of the Congo (DRC), Central African Republic, South Sudan, Uganda, Rwanda, Burundi, Tanzania, Zambia, Angola, Congo, Colombia, Cote d'Ivoire, Afghanistan and any other countries or areas of conflict. We require that no vendor uses any Conflict Materials that contribute to the manufacture of SFG goods. Our vendor must document their efforts to determine the source of the relevant materials.

ANIMAL WELFARE COMPLIANCE

ANGORA BAN

SFG insist on the boycott of the use of Angora. We require no vendor uses Angora Yarn in the production of any goods. Our vendor must also ensure that recycled yarns (mainly used in boucle/tweeds or textured woven fabrics) do not contain any Angora content.

FEATHERS & DOWN POLICY

Vendors supplying goods containing feathers or down must ensure that:

- The feathers or down should be a by-product of birds raised for their meat;
- Animal welfare and husbandry should follow local guidelines or if there are no local guidelines the International Finance Corp (IFC) guidelines for Animal Welfare should be followed; and
- There are NO live plucking or force feeding practices.

AUSTRALIAN MERINO WOOL

We ask that no vendor engages or purchases for production of any goods Australian Merino wool from farms where mulesing is practised. Only bales of wool with a Non Mulesing (NM) or Ceased Mulesing (CM) status should be purchased for production of SFG goods. Our vendor must produce an AWTA ITWO combined certificate including the mulesing status for the wool batches purchased for production of SFG goods. Vendor should also demonstrate how the bales of wool purchased for SFG goods are traceable throughout the production process to ensure the integrity of SFG goods.

REAL FUR BAN

SFG has banned the use of real fur. We require that no vendor uses real fur in any production of goods.

BY BEING OPEN & TRANSPARENT ABOUT THESE PARTNERSHIPS, & BY GIVING CUSTOMERS VISIBILITY ON OUR ETHICAL SOURCING POLICIES, IT ALLOWS CUSTOMERS TO MAKE MORE INFORMED PURCHASE DECISIONS.

—Gary Perlstein, SFG CEO

SAFETY, HEALTH & WELLBEING

FY2016 saw the rebranding and launch of SFG's new and innovative Safety, Health & Wellbeing program—OneEighty. There was significant anticipation for the 6-month program and it delivered pleasing results with a 32% injury reduction across all of our retail stores. OneEighty attracted an extremely high level of engagement with teams loving the renewed health and wellbeing focus:

"I love the OneEighty Project, what it stands for and the education and awareness that it provides. It makes me feel safe, cared for and that my health and wellbeing are important to the company."

After the successful implementation of OneEighty, the team set about delivering a new health-outcome based workers' compensation function with the following key achievements:

- Implementation of a new Claim Management system and process
- Implementation of an early intervention program with a 24/7 medical triage hotline
- Recruitment of a new Health Management Advisor and Coordinator

In addition to the positive results achieved for OneEighty during the first half of the financial year, we saw the early intervention and new claims management process pay off in the second half of the financial year. This has lead to a 72% reduction in Lost Time Injuries for H2 (42% overall for FY2016).

The Health & Wellbeing Team is incredibly passionate about its new direction and is excited about the launch of our next OneEighty initiative in FY2017. The message this year is: "A little healthier, a little happier: each day". This year we have partnered with some of Australia's most prominent health experts, from nutritionists to sleep coaches; helping us deliver new and engaging content to continue improving the health and wellbeing of our teams.

"I LOVE THE ONEEIGHTY PROJECT, WHAT IT STANDS FOR AND THE EDUCATION AND AWARENESS THAT IT PROVIDES. IT MAKES ME FEEL SAFE, CARED FOR AND THAT MY HEALTH AND WELLBEING ARE IMPORTANT TO THE COMPANY."

WE STAND FIRM ON HAVING A WORKPLACE THAT IS FREE OF DISCRIMINATION ON ANY GROUNDS...

WE SUPPORT THE RIGHT TO EQUAL OPPORTUNITIES IN LIFE. WE SUPPORT MARRIAGE EQUALITY.

—Gary Perlstein, SFG CEO

DIVERSITY

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

The Company values and recognises the diversity of our Team Members and the added value diversity provides to achieving the Company's overall objectives. The Company's diversity policy outlines diversity objectives in relation to gender, age, ethnicity, cultural background, disability, religion, gender identity, sexual orientation and professional background. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 30 June 2016 are set out below.

FY2016 Diversity Strategy	Achievements
Ensure Gender Equality is addressed in all relevant policies	Completed
Develop a Gender Equality Policy	Completed
Conduct a Pay Equity review and identify any gaps, propose strategies to bridge the gaps identified	Completed
Conduct a Diversity Survey to establish composition of workforce which will drive Diversity initiatives	Completed for retail team members
Publish and train employees on Domestic Violence Policy	Completed
Review the Diversity Policy, ensuring it is robust and current	Review completed
Submit Workplace Gender Equality Report	Report prepared and submitted in accordance to the guidelines set by WGEA

FY2017 OBJECTIVES

1. Develop program to support parents returning to work.
2. Conduct a Diversity Survey with Support Office team members.
3. Submit the workplace Gender Equality Report.
4. Training for Team Members on applicable policies and topics.
5. Review Diversity Policy, ensuring it is robust and current.

GENDER BALANCE

The Company's on-going commitment to reporting on Diversity is in line with the *Workplace Gender Equality Act 2012* (WGE Act 2012). The WGEA Report (1 June 2016) detailed the proportion of women employed at different levels across the Company as follows;

2 of the 5 Board members are women;

- 50% of the Leadership Team are women;
- Overall, across all Team Members, 93% of Team Members are women.
- In addition, 67% of the Group's Senior Management team is female. The full WGEA report and findings are available upon request.

1WOMAN Foundation

18,000+

new items of clothing have been donated so far.

1WOMAN FOUNDATION

The 1Woman Foundation is dedicated to changing the lives of women, 1 woman at a time. We recognise that when a woman is supported, protected, and educated, it makes a real difference to her life and those around her. We established the foundation with the purpose of being able to make real grass root impact within the community we operate in and to provide our Team Members with an opportunity to give back to the community they serve every day.

1Woman was founded as a demonstration of the company's vision, mission and values and to represent our community involvement and belief that we can change lives, 1 woman at a time. 1Woman refers to the different women at the core of the movement—our staff, our customers, our beneficiaries and heroes the idea that every single woman can make a difference.

SFG is also a founding partner of Thread Together. Founded in 2012, Thread Together is a not-for-profit organisation that partners with leading fashion suppliers and social service agencies to re-distribute surplus apparel to vulnerable groups and individuals in the community. This partnership aligns the common purpose of Thread Together and 1Woman Foundation, that is to make a difference and change lives, and allows both organisations to raise awareness and ultimately help more people in need.

ANNUAL REPORT 2016

SPECIALTYFASHION | GROUP

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CORPORATE DIRECTORY

DIRECTORS

Geoff Levy AO, Chairperson
(retired 17 November 2015)

Gary Perlstein

Ian Miller
(retired 17 November 2015)

Anne McDonald, Co-Chairperson
(appointed as Co-Chairperson 17 November 2015)

Ashley Hardwick

Michael Hardwick, Co-Chairperson
(appointed as Co-Chairperson 17 November 2015)

Megan Quinn

COMPANY SECRETARY

Gary Spreckley
(appointed 25 February 2016)

Paul Officer
(resigned 25 February 2016)

NOTICE OF ANNUAL GENERAL MEETING

The Annual General Meeting of Specialty Fashion Group Limited will be held at:

Museum of Sydney
Cnr Phillip and Bridge Street
Level 2, AGL Theatre Room
Sydney, NSW 2000

Thursday, 27 October 2016
10:00 am

REGISTERED OFFICE

151–163 Wyndham Street
Alexandria, NSW 2015

T: (02) 8303 9800
F: (02) 8306 3596

PRINCIPAL PLACE OF BUSINESS

151–163 Wyndham Street
Alexandria, NSW 2015

SHARE REGISTER

Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

T: (02) 8280 7111
F: (02) 9287 0303

AUDITOR

Deloitte Touche Tohmatsu
Chartered Accountants
Level 24, Grosvenor Place
225 George Street
Sydney, NSW 2000

SOLICITORS

Arnold Bloch Leibler
Level 24, Chifley Tower
2 Chifley Square
Sydney, NSW 2000

BANKERS

National Australia Bank
255 George Street
Sydney, NSW 2000

STOCK EXCHANGE LISTING

Specialty Fashion Group Limited shares are listed on the Australian Securities Exchange (ASX code: SFH)

WEBSITE

www.specialtyfashiongroup.com.au

ABN

43 057 569 169

DIRECTORS' REPORT

DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'consolidated entity') consisting of Specialty Fashion Group Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2016.

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—retired 17 November 2015

G. Perlstein

I. Miller—retired 17 November 2015

A. McDonald

A. Hardwick

M. Hardwick

M. Quinn

PRINCIPAL ACTIVITIES

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

DIVIDENDS

Dividends paid during the financial year were as follows:

	Consolidated	
	2016 $'000	2015 $'000
Final dividend for the year ended 30 June 2014 of 2.0 cents per fully paid ordinary share	—	3,845

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

OPERATING & FINANCIAL REVIEW

Review of Operations

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

The Group has one of the largest predominantly women's customer communities in Australasia with over 8.0 million members, and can reach over 5.2 million members through email. The Group's customers are very loyal, with member sales representing over 85% of sales. The total physical store portfolio comprised 1,092 sites (2015: 1,086) including the 14 concession locations in Myer at 30 June 2016, and the brands' products are also available through seven online stores. In addition, City Chic's products are also available in the USA and the UK through Nordstrom, Macy's and Evans.

Review of Financial Performance

The Australian retail industry continued to be affected by macro-economic and political events during the 2016 financial year. Consumer confidence remained relatively subdued and this has had an impact on the financial performance of the Group. Despite the prevalence of these conditions, the Group, excluding Rivers was profitable.

Revenue for the full year ended 30 June 2016 was $826.2 million, 4.4% higher than the prior year. Overall, comparable store sales growth was 4.4%. Sales growth continued to be achieved from new stores in Australia (including Rivers' stores) and abroad. The Group's online sales grew 42.2% to $72.8 million, or 8.8% of total revenue for the year ended 30 June 2016. The Group delivered Underlying Earnings Before Interest, Taxation, Depreciation, Amortisation and Impairment (Underlying EBITDA) of $25.0 million, compared with Underlying EBITDA for the prior year of $20.3 million. A reconciliation of Underlying EBITDA to statutory loss before income tax is included in note 3 of the financial statements. Net loss after tax for the year was $2.2 million, compared with a net loss after tax of $4.5 million reported for the prior year.

Online revenue growth during the year has been enhanced by "click & collect", focused digital marketing strategies and the uptake of City Chic online sales in the USA and UK, as well as an uplift in performance of Rivers' online store. Email valid customers grew to 5.2 million and this has continued to deliver good results in customer engagement during the year. Email campaign responses increased as more sophisticated customer segmentation was developed, and response rates continued to be well above industry averages.

The ongoing transformation of the Group's supply chain to a design and direct sourcing model continued to derive benefits, especially through achieving lower markdowns as well as better cost prices. The Group continues to source product directly—89.0% at 30 June 2016 (2015: 89.0%). These initiatives have helped to protect gross margins against the weakening of the Australian dollar.

Depreciation, amortisation and impairment expense for the year was $21.5 million, 2.1% higher than the prior year. The depreciation and amortisation expense for the year was $20.8 million, up from $20.4 million in the prior year. This excludes store asset impairment expense of $0.6 million (2015: $0.7 million), representing an increase in impairment of store assets.

Review of Financial Position

Specialty Fashion Group ended the year with net debt of $13.3 million at 30 June 2016 (compared with net debt of $27.8 million in the prior year). The Group had access to total bank loan facilities of $70.0 million comprising working capital and trade finance facilities. At the end of the year, the Group had gross debt of $32.2 million (2015: $34.9 million).

The Group maintains a strong focus on working capital management; the Group now has higher working capital funding requirements, as seen through increased trade creditors and lower inventories. There has been an improvement in average supplier terms with the Group focusing on extended payment terms with direct suppliers during the year. There has also been increased focus on inventory ageing during the year. Overall, these factors have contributed to increased working capital.

Trade and other payables at 30 June 2016 were $83.5 million, up from $68.3 million a year earlier. The increase of $15.2 million is the result of higher inventory in transit and capital related accruals. This is partly offset by improved supplier trading terms and lower trade payments of $11.7 million, which is a result of a change in the payment profile associated with a higher proportion of direct sourcing.

The Board has determined not to declare a dividend in respect of 2016. No dividends were declared in respect of 2015.

Outlook

The key focus areas for FY2017 are:

- The Group's brand rejuvenation program;
- The Rivers' transformation into a profitable and growing brand for the Group; and
- The measured expansion of City Chic, both in Australia and abroad.

Material Business Risks

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

Competition and consumer discretionary spending

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

Property portfolio management

The Group currently operates 1,078 physical sites in Australia, New Zealand, USA and South Africa. These sites are leased and are subject to negotiations with each landlord at the end of each lease term. In addition, the Group opened 14 concession locations in Myer. The Group actively manages its portfolio against established financial and operational benchmarks which must be met for new stores to be opened, or renewal of leases in existing stores.

Exchange rates

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

Cotton and other product input prices

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

Occupational Health and Safety (OHS)

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

LIKELY DEVELOPMENTS & EXPECTED RESULTS OF OPERATIONS

The consolidated entity intends to continue its principal activity of fashion retail through Millers, Katies, Crossroads, Autograph, City Chic and Rivers. The consolidated entity will continue to operate in Australia, New Zealand, USA and South Africa while focusing on new stores, online growth, customer relationship management and the supply chain. Further information on likely developments in the operations of the consolidated entity and expected results from operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the consolidated entity.

ENVIRONMENTAL REGULATION

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

INFORMATION ON DIRECTORS

Anne McDonald

Title	Non-Executive Co-Chairperson
Qualifications	B.Ec, FCA, GAICD
Experience & Expertise	Anne McDonald joined the Specialty Fashion Group Board in April 2007 as an independent non-executive director. An experienced non-executive director, Anne brings finance, accounting, risk management and governance skills. A Chartered Accountant by training, Anne was a partner with Ernst & Young for 15 years until 2005, working with large multinational and domestic companies. During that time she served as a member of the Board of Ernst & Young Australia for seven years.
Other Current Directorships	Anne is a non-executive director of listed entity, Spark Infastructure Group and its associated entity, Victoria Power Networks. She is also the chair of WaterNSW (from 1 March 2016). She was appointed as a non-executive director of Link Administration Holdings Ltd from 15 July 2016.
Former Directorships (Last 3 years)	Anne stepped down from the Board of The GPT Group on 4 May 2016 and Sydney Water Corporation on 24 March 2016. Anne also stepped down from the Board of Westpac's Life and General Insurance Businesses in May 2015.
Special Responsibilities	Co-Chairperson of the Board (appointed 17 November 2015); Chairperson of the Audit and Risk Committee; Member of the Nomination and Remuneration Committee.
Interests in Shares	15,000 ordinary shares
Interests in Options	None
Interests in Rights	None

Michael Hardwick

Title	Non-Executive Co-Chairperson
Qualifications	B.Comm
Experience & Expertise	Michael Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. Michael currently serves as the Chief Financial Officer of the Cotton On Group. Michael is a Chartered Accountant by training and has previously worked at PricewaterhouseCoopers in both Melbourne and New York in the transaction advisory practice. He also spent 10 years as a partner with the New York based private equity firm Hudson Valley Capital Partners.
Other Current Directorships	Michael does not hold any other listed company directorships.
Former Directorships (Last 3 years)	Michael has not held any other listed company directorships in the last three years.
Special Responsibilities	Co-Chairperson of the Board (appointed 17 November 2015); Member of the Audit and Risk Committee; Member of the Nomination and Remuneration Committee.
Interests in Shares	220,000 ordinary shares
Interests in Options	None
Interests in Rights	None

Gary Perlstein

Title	Chief Executive Officer
Qualifications	B.Bus
Experience & Expertise	Gary Perlstein is a non-independent director who 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 Limited since 1995 and he was appointed Chief Executive Officer in October 2003. Gary has over 25 years of retailing experience in Australia.
Other Current Directorships	Gary was appointed as a non-executive director of Threads Together, a not-for-profit organisation.
Former Directorships (Last 3 years)	Gary has not held any other listed company directorships in the last three years.
Special Responsibilities	Chief Executive Officer
Interests in Shares	17,862,814 ordinary shares
Interests in Options	None
Interests in Rights	None

Ashley Hardwick

Title	Non-Executive Director
Experience & Expertise	Ashley Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. Ashley is a director and shareholder of the Cotton On Group and has over 20 years of retail experience. He also oversees the property function of the Cotton On Group.
Other Current Directorships	Ashley does not hold any other listed company directorships.
Former Directorships (Last 3 years)	Ashley has not held any other listed company directorships in the last three years.
Special Responsibilities	None
Interests in Shares	38,742,203 ordinary shares held indirectly through NAAH Pty Ltd and NAAH Investments Pty Ltd
Interests in Options	None
Interests in Rights	None

Megan Quinn

Title	Non-Executive Director
Qualifications	GAICD
Experience & Expertise	Megan Quinn joined the Specialty Fashion Group Board in October 2012 as an independent non-executive director. Megan is currently on the Board and National Committee of UNICEF Australia and zipMoney Limited. She is also the Consultant Creative Director of Bank of Melbourne. For the past 25 years, she has built a career specialising in retail (ranging from the value end to luxury), advertising, publishing and design for the fashion, jewellery, hotel, airline, service and finance industries. One of Megan's notable achievements was her being a co-founder of internationally acclaimed NET-A-PORTER in 1999. She consults and speaks internationally, and has held a variety of leadership and senior executive as well as non-executive board roles. Her secondment to London in 1988 with the Mojo advertising agency marked the beginning of 18 years of involvement with clients such as Dell, Qantas, the Australian Tourist Commission, Asprey, Garrard and Patek Philippe and leading retailers such as Harrods, The Arcadia Group and BHS. Megan has also held executive board roles with both Harrods and NET-A-PORTER.
Other Current Directorships	Megan is a director of UNICEF Australia, a not-for-profit organisation. She was appointed as a non-executive director of zipMoney Limited from 22 August 2016.
Former Directorships (Last 3 years)	Megan stepped down from the Fitted For Work Board in February 2014, and is now an Ambassador for the organisation.
Special Responsibilities	Member of the Audit and Risk Committee (appointed 28 May 2015); Chairperson of the Nomination and Remuneration Committee (appointed 28 January 2016).
Interests in Shares	None
Interests in Options	None
Interests in Rights	None

Geoff Levy AO (retired 17 November 2015)

Title	Non-Executive Chairperson
Qualifications	B.Comm, LLB, SF Fin, FAICD
Experience & Expertise	Geoff Levy joined the Specialty Fashion Group Board in April 2005 as a non-independent director. Geoff was previously Chief Executive Officer of Investec Bank (Australia) Pty Limited, a principal of Wentworth Associates and before that a partner in leading law firm, Freehills. He has three decades of experience in the corporate advisory and investing environment where he is regarded as an expert in investing, mergers and acquisitions, capital management and general corporate commercial law. He was appointed an Officer of the Order of Australia in the Queen's Birthday Honours List 2005.
Other Current Directorships	Geoff has been a director on a number of public and government boards and is currently the Non-Executive Chairperson of ASX listed Cromwell Group Limited and Monash Private Capital Pty Limited.
Former Directorships (Last 3 years)	Geoff has not held any other listed directorships in the last three years.
Special Responsibilities	Chairperson of the Board (retired 17 November 2015); Chairperson of the Nomination and Remuneration Committee (retired 17 November 2015).
Interests in Shares	2,365,564 ordinary shares
Interests in Options	None
Interests in Rights	None

Ian Miller (retired 17 November 2015)

Title	Non-Executive Director
Qualifications	B.Comm
Experience & Expertise	Ian Miller, non-independent director, co-founded Specialty Fashion Group in 1993 and was Managing Director until October 2003. Ian has over 35 years of retailing experience. Ian was an executive director from 1993 until 1 January 2007 when he moved to being a non-executive director.
Other Current Directorships	Ian does not hold any other listed company directorships.
Former Directorships (Last 3 years)	Ian has not held any other listed company directorships in the last three years.
Special Responsibilities	None
Interests in Shares	14,509,906 ordinary shares
Interests in Options	None
Interests in Rights	None

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

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

COMPANY SECRETARY

The Company Secretary is Gary Spreckley, B.Com, CA. Gary was appointed to the position of Company Secretary on 25 February 2016. He is also the Chief Financial Officer of Specialty Fashion Group Limited, appointed in December 2014 and has over 25 years commercial experience. In addition to financial and company secretarial matters, Gary has responsibility for overseeing the Group's investor relations, legal, and loss prevention functions.

Paul Officer, B.Com, CA, served as a Company Secretary between 13 October 2014 and 25 February 2016. Paul joined the Company in April 2009, and was responsible for all aspects of day-to-day finance for the Group in his capacity as General Manager—Finance. Paul has over 16 years' experience as a Chartered Accountant having worked in Australia and abroad.

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2016, and the number of meetings attended by each director were:

	Full Board		Nomination & Remuneration Committee		Audit & Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Geoff Levy AO*	4	4	–	–	–	–
Gary Perlstein	12	12	–	–	–	–
Ian Miller*	4	4	–	–	–	–
Anne McDonald	12	12	1	1	5	5
Ashley Hardwick	11	12	–	–	–	–
Michael Hardwick	11	12	1	1	5	5
Megan Quinn**	12	12	1	1	4	5

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

* G. Levy and I. Miller retired as directors on 17 November 2015. Number of meetings attended and held represents meetings held up to their retirement date.

** M. Quinn was appointed as Chairperson of the Nomination and Remuneration Committee on 28 January 2016. There were no Nomination and Remuneration Committee meetings held prior to her appointment.

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REMUNERATION REPORT

REMUNERATION REPORT (AUDITED)

The remuneration report, which has been audited, outlines the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the *Corporations Act 2001* and its Regulations. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors. The remuneration report is set out under the following main headings:

1. Principles used to determine the nature and amount of remuneration
2. Details of remuneration
3. Service agreements
4. Share-based compensation
5. Additional information

1. PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

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

- competitiveness and reasonableness;
- acceptability to the Group's strategic and business objectives and the creation of shareholder value;
- performance linkage/alignment of executive compensation;
- transparency; and
- acceptability to shareholders.

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

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the Nomination and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity. The Nomination and Remuneration Committee has engaged external advisors to develop a simplified remuneration framework which will provide increased transparency, shareholder alignment, lower pay volatility and increased predictability for key management personnel.

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

- including economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and share price growth, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Alignment to program participants' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth; and
- provides a clear structure for earning rewards.

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

Non-Executive Directors' Remuneration

Fees and payments to non-executive directors reflect the demands which are made on, and the responsibilities of, these directors. Non-executive directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairpersons' fees are determined independently to the fees of other non-executive directors, and are based on comparable roles in the external market. The chairpersons are not present at any discussions relating to determination of his or her own remuneration. Non-executive directors do not receive share options or other incentives.

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

Executive Remuneration

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

The Board ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness;

- alignment to the Group's strategic and business objectives and the creation of shareholder value;
- performance linkage and alignment of executive compensation;
- transparency; and
- acceptability to shareholders.

Alignment to shareholders' interests:

- has economic profit as a core component of plan design;
- focuses on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracts and retains high calibre executives.

Alignment to executives' interests:

- rewards capability and experience;
- reflects competitive reward for contribution to growth in shareholder wealth;
- provides a clear structure for earning rewards; and
- provides recognition for contribution.

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

The executive remuneration and reward framework has four components:

- base pay and benefits;
- short term performance incentives;
- long term incentives through participation in the Specialty Fashion Group Limited Employee Long Term Incentive Plan; and
- other remuneration such as superannuation and long service leave.

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

Base Pay & Benefits

Executives receive their base pay and benefits structured as a total employment cost ('TEC') package which may be delivered as a combination of cash and prescribed non-financial benefits at the executives' discretion. Executives are offered a competitive base pay that comprises a fixed component of pay. Base pay for executives is reviewed annually to ensure the executive's pay is competitive with the market. An executive's pay is also reviewed on promotion.

Executives receive benefits including car allowances.

Short Term Incentives

Should the Group achieve pre-determined targets set by the Board, 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. Discretionary STI's are recommended by management to the Nomination and Remuneration Committee notwithstanding target performance criteria set out. Using value creation targets ensures variable awards are only available when value has been created for shareholders and when profit is consistent with the business plan. The incentives are leveraged for performance above the threshold to provide an incentive for executive and employee out-performance. Each executive has a target STI opportunity depending on the accountabilities of the role, impact on the organisation or business unit performance. The annual STI target payment is reviewed annually.

The Board 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 2016, the KPIs linked to short term incentive plans were based on group and/or individual personal objectives, where appropriate to the executive's role and their impact on the consolidated entity's performance. The KPIs required performance in maximising sales and margins, reducing operating costs and achieving specific targets in relation to return on assets, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. The short term incentive payments are adjusted in line with the degree of achievement against the target performance levels.

Long Term Incentives

Information on Specialty Fashion Group Limited's Employee Long Term Incentive Plan is set out later in this note.

Use of Remuneration Consultants

In October 2011, Specialty Fashion Group Limited's Nomination and Remuneration Committee engaged Mercer (Australia) Pty Ltd ('Mercer') to review its existing remuneration policies and provide recommendations in respect of both short term and long term incentive plan design. Under the terms of the engagement, Mercer provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid $38,850 for these services. Remuneration consultants were not engaged during the year ended 30 June 2016.

Voting & Comments Made at the Company's 2015 Annual General Meeting ('AGM')

At the 2015 AGM, 95.8% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2015. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

2. DETAILS OF REMUNERATION

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables. The following key management personnel of the consolidated entity were also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the years ended 30 June 2016 and 30 June 2015.

The key management personnel of the consolidated entity consisted of the following directors of Specialty Fashion Group Limited:

- Geoff Levy AO—Chairperson (retired 17 November 2015)
- Gary Perlstein—Chief Executive Officer
- Ian Miller—Non-Executive Director (retired 17 November 2015)
- Anne McDonald—Non-Executive Director, Co-Chairperson (appointed 17 November 2015)
- Ashley Hardwick—Non-Executive Director
- Michael Hardwick—Non-Executive Director, Co-Chairperson (appointed 17 November 2015)
- Megan Quinn—Non-Executive Director

And the following executives*:

- Alison Henriksen—Chief Financial Officer and Company Secretary (resigned 13 October 2014)
- Gary Spreckley—Chief Financial Officer (appointed on 1 December 2014) and Company Secretary (appointed 25 February 2016)
- Sonia Moura—Human Resources Director

* Tony Karp was appointed as Chief Operating Officer of the Company on 11 July 2016, therefore no disclosure has been included in respect of key management personnel remuneration for the year ended 30 June 2016.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2016	Cash salary and fees $	Bonus $	Car allowance $	Super annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors							
G. Levy AO*	52,083	–	–	4,948	–	–	**57,031**
I. Miller*	31,250	–	–	10,494	–	–	**41,744**
A. McDonald	75,000	–	–	7,125	–	–	**82,125**
A. Hardwick	75,000	–	–	7,125	–	–	**82,125**
M. Hardwick	75,000	–	–	7,125	–	–	**82,125**
M. Quinn	75,000	–	–	7,125	–	–	**82,125**
Executive Directors							
G. Perlstein	740,488	–	71,500	32,804	–	–	**844,792**
Other Key Management Personnel							
G. Spreckley	375,000	–	25,000	19,307	–	–	**419,307**
S. Moura	280,112	–	25,000	21,012	–	–	**326,124**
TOTAL	**1,778,933**	**–**	**121,500**	**117,065**	**–**	**–**	**2,017,498**

* G. Levy and I. Miller retired as directors on 17 November 2015.

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
2015	Cash salary and fees $	Bonus $	Car allowance $	Super annuation $	Long service leave $	Equity-settled $	Total $
Non-Executive Directors							
G. Levy AO	125,000	–	–	11,875	–	–	**136,875**
I. Miller	56,940	–	–	25,185	–	–	**82,125**
A. McDonald	75,000	–	–	7,125	–	–	**82,125**
A. Hardwick	75,000	–	–	7,125	–	–	**82,125**
M. Hardwick	75,000	–	–	7,125	–	–	**82,125**
M. Quinn	75,000	–	–	7,125	–	–	**82,125**
Executive Directors							
G. Perlstein	700,000	–	71,500	71,594	–	–	**843,094**
Other Key Management Personnel							
A. Henriksen*	127,496		12,882	11,214			**151,592**
G. Spreckley**	209,750	–	14,583	21,565	–	–	**245,898**
S. Moura	250,000	–	25,000	25,531	–	–	**300,531**
TOTAL	**1,769,186**	**–**	**123,965**	**195,464**	**–**	**–**	**2,088,615**

* A. Henriksen resigned on 13 October 2014.

** G. Spreckley was appointed on 1 December 2014.

Compensation

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

	Consolidated	
	2016 $	2015 $
Short-term employee benefits	1,900,433	1,893,151
Post-employment benefits	117,065	195,464
	2,017,498	**2,088,615**

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

	Fixed Remuneration		At Risk—STI		At Risk—LTI	
	2016	2015	2016	2015	2016	2015
Executive Directors						
G. Perlstein	78%	69%	22%	19%	–	12%
Other Key Management Personnel						
A. Henriksen	–	47%	–	13%	–	40%
G. Spreckley	77%	78%	23%	22%	–	–
S. Moura	78%	51%	22%	14%	–	35%

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

	Cash Bonus Paid/Payable		Cash Bonus Forfeited	
	2016	2015	2016	2015
Executive Directors				
G. Perlstein	–	–	100%	100%
Other Key Management Personnel				
A. Henriksen	–	–	–	100%
G. Spreckley	–	–	100%	100%
S. Moura	–	–	100%	100%

3. SERVICE AGREEMENTS

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

Gary Perlstein

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

Alison Henriksen

Title	Chief Financial Officer & Company Secretary (resigned 13 October 2014)
Term of Agreement	No term
Details	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

Gary Spreckley

Title	Chief Financial Officer (appointed on 1 December 2014) & Company Secretary (appointed 25 February 2016)
Term of Agreement	No term
Details	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

Sonia Moura

Title	Human Resources Director
Term of Agreement	No term
Details	• Notice period of 3 months • Remuneration review period every 12 months • Eligible for short term incentives • Eligible for long term incentives • No severance period • No termination benefits • No other benefits

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

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

4. SHARE-BASED COMPENSATION

Issue of Shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2016.

Employee Long Term Incentive Plan

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

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

In order to satisfy the performance conditions, the consolidated entity must meet or exceed specified cumulative Return on capital employed ('ROCE') and Underlying Earnings before interest, taxation, depreciation and amortisation (Underlying EBITDA) targets associated with the plan at each vesting date. In addition, plan participants are required to complete a continual period of service from the performance right grant date to the vesting date.

The Board of directors has the discretion to waive or partly waive performance conditions that have not been satisfied.

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

Performance Rights

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

Performance rights granted carry no dividend or voting rights.

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

There were no performance share rights issued to the Chief Executive Officer and other key management personnel during the year ended 30 June 2016 (2015: nil). Refer below table for details.

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

Grant date	Expiry date	Fair value at grant date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
2016								
19/02/2013	30/08/2015	$0.91	$0.00	725,000	–	–	(725,000)	–
31/10/2013	30/08/2016	$0.78	$0.00	200,000	–	–	(200,000)	–
				925,000	**–**	**–**	**(925,000)**	**–**

* These performance rights scheduled to expire on 30 August 2016 have been forfeited as a result of the vesting conditions not being met.

2015								
19/02/2013	30/08/2015	$0.91	$0.00	725,000	–	–	–	725,000
31/10/2013	30/08/2016	$0.78	$0.00	200,000	–	–	–	200,000
				925,000	**–**	**–**	**–**	**925,000**

5. ADDITIONAL INFORMATION

The earnings of the consolidated entity for the five years to 30 June 2016 are summarised below:

	2016 $'000	2015 $'000	2014 $'000	2013 $'000	2012 $'000
Sales revenue	826,240	791,512	685,043	569,475	572,509
(Loss)/profit before income tax	(1,540)	(4,515)	16,317	19,010	(3,301)
(Loss)/profit after income tax	(2,190)	(4,462)	12,475	12,970	(2,810)

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

	2016	2015	2014	2013	2012
Share price at financial year end ($)	0.54	0.63	0.88	0.82	0.51
Total dividends declared (cents per share)	–	–	4.0	4.0	–
Basic (loss)/earnings per share (cents per share)	(1.1)	(2.3)	6.5	6.7	(1.5)
Diluted (loss)/earnings per share (cents per share)	(1.1)	(2.3)	6.5	6.7	(1.5)

Transactions with directors and executives

Refer to note 34 for details about transactions with directors of Specialty Fashion Group Limited and other key management personnel of the consolidated entity, including their personally related parties. These include lease of business premises, advisory fees and other consulting services.

Receivable from and payable to directors and executives

As at 30 June 2016, there were no outstanding trade receivables from or trade payables to directors of Specialty Fashion Group Limited and other key management personnel, including their personally related parties (2015: nil).

Loans to/from directors & executives

As at 30 June 2016, there were no outstanding loans made to/from directors of Specialty Fashion Group Limited and other key management personnel of the consolidated entity, including their personally related parties (2015: nil).

Shares under performance rights

There were no unissued ordinary shares of Specialty Fashion Group Limited under performance rights at the date of this report.

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

Ordinary shares

The number of shares in the parent entity held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below. There were no changes to directors and key management personnel shareholding subsequent to the year end and up to the report date.

	Consolidated	
	2016	2015
Directors and key management personnel shareholding		
Ordinary Shares		
G. Levy AO*	2,365,564	2,365,564
G. Perlstein	17,862,814	17,862,814
I. Miller*	14,509,906	14,509,906
A. McDonald	15,000	15,000
A. Hardwick**	38,742,203	38,742,203
M. Hardwick***	220,000	195,000
Total ordinary shares held by directors and key management personnel	73,715,487	73,690,487

* G. Levy and I. Miller retired as directors on 17 November 2015.

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

*** The only change in shareholding during the year was the acquisition of 25,000 additional shares by M. Hardwick.

This concludes the end of the Remuneration Report, which has been audited

INDEMNITY & INSURANCE OF OFFICERS

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

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

INDEMNITY & INSURANCE OF AUDITOR

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 31 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 31 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF DELOITTE TOUCHE TOHMATSU

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

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

AUDITOR

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

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

On behalf of the directors

Anne McDonald	**Michael Hardwick**	**Gary Perlstein**
Non-Executive Co-Chairperson	Non-Executive Co-Chairperson	Chief Executive Officer

23 August 2016
Sydney

AUDITOR'S INDEPENDENCE DECLARATION

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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225 George Street
Sydney NSW 2000
PO Box N250 Grosvenor Place
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The Board of Directors
Specialty Fashion Group Limited
151-163 Wyndham Street
Alexandria NSW 2015

23 August 2016

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 2016, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely,

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D R White

D R White
Partner
Chartered Accountants

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SPECIALTY FASHION GROUP LIMITED

Deloitte.

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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

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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 2016, the statement of profit or loss and other comprehensive income, the statement of cash flows and the statement of changes in equity for the year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the year's end or from time to time during the financial year as set out on pages 72 to 128.

Directors' Responsibility for the Financial Report

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

Auditor's Responsibility

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

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

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

Auditor's Independence Declaration

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

Opinion

In our opinion:

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

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the year ended on that date; and

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

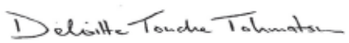
(b) the consolidated financial statements also comply with International Financial Reporting Standards as disclosed in Note 1.

Report on the Remuneration Report

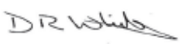
We have audited the Remuneration Report included in pages 43 to 53 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our 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 2016, complies with section 300A of the *Corporations Act 2001*.



DELOITTE TOUCHE TOHMATSU



D R White
Partner
Chartered Accountants
Sydney, 23 August 2016

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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 Group, the directors have taken into account the ASX Corporate Governance Council's Principles of Good Corporate Governance and Best Practice Recommendations (3rd edition). This is supported by an overriding organisation wide commitment to the highest standards of legislative compliance and financial and ethical behaviour.

A description of the Group's main corporate governance practices is set out below. All these practices, unless otherwise stated, were in place for the entire year.

PRINCIPLE 1—LAY SOLID FOUNDATIONS FOR MANAGEMENT & OVERSIGHT

The directors' overriding objective is to increase shareholder value within an appropriate framework which protects the rights and interests of shareholders and ensures the 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 director obligations.

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

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

The Board currently comprises four Non-Executive Directors, two of whom are deemed independent and one Executive Director, the Chief Executive Officer, at the date of signing the directors' report. While the Board is not composed of a majority of independent non-executive directors, all directors are expected to provide independent judgements and views to Board discussions.

The Chairpersons of the Board are non-executive directors who have been elected by the full Board. The Chairpersons are responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their roles and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. The Chief Executive Officer is responsible for implementing group strategies and policies. The Board Charter specifies that these are separate roles to be undertaken by separate people. A regular 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 approvals of the Chairpersons are required, but this will not be unreasonably withheld.

Details of the members of the Board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report on pages 37 to 40 under the heading ''Information on directors''.

Directors' Independence

Any past or present relationship with the Company is carefully examined to assess the likely impact on a director's ability to be objective and exercise independent judgement. The Board review any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed. The Board is confident that suitable processes are in place, as outlined in its Board Charter, to satisfy expectations and requirements in relation to decision making and the management of conflicts of interest. The Directors on the Board of Specialty Fashion Group Limited contribute significant knowledge across a range of areas. Regardless of whether directors are defined as independent,

all directors are expected to provide independent judgements and views to Board discussions.

Performance Evaluation

The Board undertakes periodic self-assessments of its collective performance, the performance of the Chairperson and its committees. 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.

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

Company Secretary

The Board appointed Gary Spreckley as Company Secretary on 25 February 2016. Paul Officer served as a Company Secretary between 13 October 2014 and 25 February 2016. All directors have access to the services and advice of the Company Secretary. Details of the skills, experience and expertise of the Company Secretaries for the reporting period are set out in the directors' report. The Company Secretary is accountable directly to the Board, through the Chairperson, on all matters to do with the proper functioning of the Board and Board Committees.

Diversity

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

The Company values and recognises the diversity of our Team Members and the added value diversity provides to achieving the Company's overall objectives. The Company's diversity policy outlines the Company's diversity objectives in relation to gender, age, ethnicity, cultural background, disability, religion, gender identity, sexual orientation and professional background. It includes requirements for the Board to establish measurable objectives for achieving diversity, and for the Board to assess annually both the objectives, and the Company's progress in achieving them.

Objectives established for achieving gender diversity and progress towards achieving them during the year ended 30 June 2016 are set out below.

FY2016 Diversity Strategy	Achievements
Ensure gender equality is addressed in all relevant policies	Completed
Develop a Gender Equality Policy	Completed
Conduct a pay equity review and identify any gaps, propose strategies to bridge the gaps identified	Completed
Conduct a diversity survey to establish composition of workforce which will drive diversity initiatives	Completed for retail team members
Publish and train employees on Domestic Violence Policy	Completed
Review the Diversity Policy, ensuring it is robust and current	Completed
Submit Workplace Gender Equality Report	Report prepared and submitted in accordance to the guidelines set by WGEA

FY2017 Objectives

1. Develop program to support parents returning to work.
2. Conduct a Diversity Survey with Support Office team members.
3. Submit the Workplace Gender Equality Report.
4. Training for Team Members on applicable policies and topics.
5. Review Diversity Policy, ensuring it is robust and current.

Gender Balance

The Company's ongoing commitment to reporting on Diversity is in line with the *Workplace Gender Equality Act 2012* (WGE Act 2012). The WGEA Report (1 June 2016) detailed the proportion of women employed at different levels across the Company as follows;

- 2 of 5 Board members are women;
- 50% of the Leadership Team are women;
- Overall, across all Team Members, 93% of Team Members are women.

In addition, 67% of the Group's Senior Management team is female. The full WGEA report and findings are available upon request.

PRINCIPLE 2—STRUCTURE THE BOARD TO ADD VALUE

Nomination & Remuneration Committee

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

- M. Quinn—Chairperson (appointed 28 January 2016)
- A. McDonald
- M. Hardwick
- G. Levy—Chairperson (retired 17 November 2015)

The Nomination and Remuneration Committee comprises of three non-executive directors, a majority of whom are independent. The Chairperson of the Committee is Megan Quinn, an independent non-executive director. Details of the Committee with regards to remuneration policies and practices are detailed in "Principle 8—Remunerate fairly and responsibly".

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

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

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

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

PRINCIPLE 3—PROMOTE ETHICAL AND RESPONSIBLE DECISION MAKING

Code of Conduct

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

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

The Code and the Company's Securities Trading Policy (refer summary of policy in 'Trading in Specialty Fashion Group Limited Shares' below) 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 Securities 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 Securities Trading Policy is available on the Company's website.

Trading in Specialty Fashion Group Limited Shares

Directors and senior executives of the Group are subject to the *Corporations Act 2001*, which prohibits buying, selling or subscribing for shares in the Company if they are in possession of inside information. The Company has a Securities Trading Policy which stipulates it is contrary to Company policy for employees to be engaged in short term trading of the Company's securities.

An appropriate time for directors and employees to acquire or sell the Company's shares is when they are not in possession of price sensitive information which is not generally available to the market. Under the policy directors and employees must not deal in the Company's shares during the period between 1 January and 24 hours after the release of the consolidated entity's half yearly results or the period between 1 July and 24 hours after the release of the consolidated entity's annual results.

It is contrary to Company policy for directors and employees to deal in a derivative, the value of which is determined by reference to any unvested security held, until that security has fully and unconditionally vested.

PRINCIPLE 4—SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Audit & Risk Committee

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

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

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

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

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

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

In fulfilling its responsibilities, the Committee receives regular reports from management and external auditors. It also meets in private with the external auditors at least twice a year, more frequently if necessary. The external auditors have a clear line of direct communication at any time to either the Chairperson of the Audit and Risk Committee or the Chairperson of the Board.

The Committee has authority, within the scope of its responsibilities, to seek any information it requires from any employee or external party, and obtain external legal or other independent professional advice.

The Committee reports to the full Board after each committee meeting and relevant papers and minutes are provided to all directors. The number of meetings held by the Audit and Risk Committee is set out in the directors' report.

The Company's Audit and Risk Committee Charter is available on the Company's website.

Financial Report Accountability

The Chief Executive Officer and the Chief Financial Officer who are present for Board discussion of financial matters are required to certify to the Board that the consolidated entity's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the 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.

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.

PRINCIPLE 5—MAKE TIMELY & BALANCED DISCLOSURE

The Company satisfies its continuous disclosure obligations as required by the Listing Rules of the Australian Stock Exchange and the Corporations Law by adhering to its External Communications policy which requires information to be disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the Company. The Company's annual and half yearly reports, investor presentations, 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**.

PRINCIPLE 6—RESPECT THE RIGHTS OF SECURITY HOLDERS

The Company aims to facilitate effective communication with investors to ensure all information in relation to significant matters is communicated in a timely, clear and objective manner.

Information is provided to the Company's shareholders through:

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

The Company hosts briefing sessions for investors and analysts on its half and full year results and other times, as deemed necessary. All material information and presentations are lodged with the ASX and are made available on the Company's website, where there is sound commercial reasons for doing so.

The scheduling of the Annual General Meeting is considered to be convenient to the greatest number of its shareholders. The notice of meeting will be accompanied by explanatory notes on the items of business to accurately explain the nature of the business of the meeting. Shareholders are encouraged to attend the meeting, or if unable to attend, to vote on the moments proposed by appointing a proxy.

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

Information about Specialty Fashion Group Limited and its governance is available via its website.

PRINCIPLE 7—RECOGNISE & MANAGE RISK

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

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

The Company's risk management policy and the operation of the risk management and compliance system is managed by the Company Risk Management Committee which consists of senior executives. 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. A review of the Company's risk management framework was completed during the reporting period.

Risk Management Accountability

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

The number of meetings held by the Nomination and Remuneration Committee is set out in the directors' report. The Company's exposure to economic, environmental and social sustainability risks are also set out in the directors' report.

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

The Company's Audit and Risk Committee Charter is available on the Company's website.

PRINCIPLE 8—REMUNERATE FAIRLY & RESPONSIBLY

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

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

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

Further information on directors' and executives' remuneration is set out in the directors' report under the heading ''Remuneration report''. The number of meetings held by the Nomination and Remuneration Committee is set out in the directors' report.

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ANNUAL FINANCIAL STATEMENTS

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GENERAL INFORMATION

The financial statements cover Specialty Fashion Group Limited as a consolidated entity consisting of Specialty Fashion Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Specialty Fashion Group Limited's functional and presentation currency.

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

151–163 Wyndham Street, Alexandria, NSW 2015

T: (02) 8303 9800
F: (02) 8306 3596

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 23 August 2016. The directors have the power to amend and reissue the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Revenue	**4**	**826,240**	**791,512**
Expenses			
Changes in inventories of finished goods and consumables		(322)	(1,293)
Finished goods and consumables used		(366,867)	(326,602)
Employee benefits expense		(215,242)	(216,597)
Depreciation, amortisation and impairment expense	5	(21,485)	(21,045)
Rental expense	5	(133,416)	(134,529)
Other expenses	5	(87,200)	(92,170)
Finance costs	5	(3,248)	(3,791)
Loss Before Income Tax (Expense)/Benefit		**(1,540)**	**(4,515)**
Income tax (expense)/benefit	6	(650)	53
Loss After Income Tax (Expense)/Benefit for the Year Attributable to the Owners of Specialty Fashion Group Limited	**27**	**(2,190)**	**(4,462)**
Other Comprehensive Income *Items that may be reclassified subsequently to profit or loss*			
Change in the fair value of cash flow hedges taken to equity		(11,777)	10,682
Exchange differences on translation of foreign operations		586	(261)
Income tax expense/(benefit) relating to the components of other comprehensive income		3,533	(3,204)
Other comprehensive income for the year, net of tax		(7,658)	7,217
Total Comprehensive Income for the Year Attributable to the Owners of Specialty Fashion Group Limited		**(9,848)**	**2,755**
		Cents	**Cents**
Basic Loss Per Share	39	(1.1)	(2.3)
Diluted Loss Per Share	39	(1.1)	(2.3)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Assets			
Current Assets			
Cash and cash equivalents	7	18,945	7,144
Trade and other receivables	8	9,469	8,438
Inventories	9	88,733	89,055
Derivative financial instruments	10	8	7,319
Income tax receivable	11	758	2,679
Total current assets		117,913	114,635
Non-Current Assets			
Property, plant and equipment	12	73,633	79,292
Intangibles	13	21,133	18,600
Deferred tax asset	14	8,316	3,765
Total non-current assets		103,082	101,657
Total Assets		**220,995**	**216,292**
Liabilities			
Current Liabilities			
Trade and other payables	15	83,495	68,262
Borrowings	16	–	4,000
Derivative financial instruments	17	4,458	–
Income tax provision	18	217	340
Provisions	19	21,059	21,294
Finance lease liability	20	–	204
Other	21	6,076	5,547
Total current liabilities		115,305	99,647

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

	Notes	Consolidated 2016 $'000	2015 $'000
Non-Current Liabilities			
Trade and other payables		1,192	–
Borrowings	22	32,248	30,916
Provisions	23	8,158	10,248
Other	24	8,472	10,013
Total non-current liabilities		50,070	51,177
Total Liabilities		**165,375**	**150, 824**
Net Assets		**55,620**	**65,468**
Equity			
Issued capital	25	134,497	134,497
Reserves	26	(2,775)	4,883
Accumulated losses	27	(76,102)	(73,912)
Total Equity		**55,620**	**65,468**

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

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CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

	Consolidated			
	Issued Capital $'000	Reserves* $'000	Accumulated Losses $'000	Total Equity $'000
Balance at 1 July 2014	134,497	(2,334)	(65,605)	66,558
Loss after income tax benefit for the year	–	–	(4,462)	(4,462)
Other comprehensive income for the year, net of tax	–	7,217	–	7,217
Total comprehensive income for the year	–	7,217	(4,462)	2,755
Transactions with Owners in their Capacity as Owners				
Dividends paid (note 28)	–	–	(3,845)	(3,845)
Balance at 30 June 2015	134,497	4,883	(73,912)	65,468

	Consolidated			
	Issued Capital $'000	Reserves* $'000	Accumulated Losses $'000	Total Equity $'000
Balance at 1 July 2015	134,497	4,883	(73,912)	65,468
Loss after income tax expense for the year	–	–	(2,190)	(2,190)
Other comprehensive income for the year, net of tax	–	(7,658)	–	(7,658)
Total comprehensive income for the year	–	(7,658)	(2,190)	(9,848)
Balance at 30 June 2016	134,497	(2,775)	(76,102)	55,620

* Reserves includes foreign currency translation, hedging and share-based payments reserves. Refer to note 26 for reconciliation of reserves.

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

CONSOLIDATED STATEMENT OF CASH FLOWS

	Notes	Consolidated 2016 $'000	Consolidated 2015 $'000
Cash Flows from Operating Activities			
Receipts from customers (inclusive of GST)		908,715	871,015
Payments to suppliers (inclusive of GST)		(875,014)	(854,476)
		33,701	16,539
Interest received		99	114
Interest and other finance costs paid		(3,248)	(3,791)
Net income taxes received/(paid)		168	(7,489)
Net cash from operating activities	38	30,720	5,373
Cash Flows from Investing Activities			
Payments for property, plant and equipment		(13,487)	(12,936)
Payments for intangibles	13	(2,895)	–
Proceeds from sale of property, plant and equipment		335	378
Net cash used in investing activities		(16,047)	(12,558)
Cash Flows from Financing Activities			
(Repayments)/proceeds from borrowings		(2,668)	5,796
Finance lease repayments		(204)	(4,745)
Dividends paid	28	–	(3,845)
Net cash used in financing activities		(2,872)	(2,794)
Net increase/(decrease) in cash and cash equivalents		11,801	(9,979)
Cash and cash equivalents at the beginning of the financial year		7,144	17,123
Cash and cash equivalents at the end of the financial year	7	18,945	7,144

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

NOTES TO THE FINANCIAL STATEMENTS

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standard and Interpretation is most relevant to the consolidated entity:

- AASB 2015–3 'Amendments to Australian Accounting Standards arising from the Withdrawal of AASB 1031 Materiality'

BASIS OF PREPARATION

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

These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical Cost Convention

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

Critical Accounting Estimates

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

The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

PARENT ENTITY INFORMATION

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 35. Financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, with the exception of investments in subsidiaries which are measured at cost, and the current/non-current classification of inter-company receivables/payables with wholly owned subsidiaries of the parent entity.

As at 30 June 2016, parent entity has net current liabilities of $13.7 million (2015: net current assets of $22.7 million). This has arisen due to the different classification of inter-company receivables/payables as current/non-current with wholly owned subsidiaries of the parent entity in accordance with AASB 132 *Financial Instruments: Presentation*. These inter-company balances eliminate on consolidation. Notwithstanding the classification of these balances, the parent entity is able to control the timing of payment of these balances by virtue of its control of the respective subsidiary entities. Notwithstanding the net current liability position, the directors believe that the Company can meet its debts as and when they fall due.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Specialty Fashion Group Limited ('Company' or 'parent entity') as at 30 June 2016 and the results of all subsidiaries for the year then ended. Specialty Fashion Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Inter-company transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of

the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

OPERATING SEGMENTS

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

FOREIGN CURRENCY TRANSLATION

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

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Foreign operations

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

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

REVENUE RECOGNITION

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

Retail sales

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

Wholesale revenue

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

Lay-by sales

Revenue is recognised upon receiving final payment from the customer.

Interest

Interest revenue is recognised when it is earned.

Other revenue

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

Customer loyalty program

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

INCOME TAX

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

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

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

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

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

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly-owned entities fully compensate Specialty Fashion Group Limited for any current tax payable assumed and are compensated by Specialty Fashion Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

The amount receivable/payable under the tax funding agreement is due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the inter-company charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

CURRENT AND NON-CURRENT CLASSIFICATION

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

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

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

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

OTHER RECEIVABLES

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

INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable. Costs are assigned to individual items of inventory on the basis of

weighted average costs. Costs also include transfer from equity of any gains/losses on qualifying cash flow hedges relating to purchases of inventories.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

DERIVATIVE FINANCIAL INSTRUMENTS

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

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

Cash flow hedges

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

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

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

Call options

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

PROPERTY, PLANT AND EQUIPMENT

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

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

- Plant and equipment: 3–10 years

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

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

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

LEASES

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

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

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

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

INTANGIBLE ASSETS

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

Goodwill

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

Website

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

Patents and trademarks

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

Software

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

IMPAIRMENT OF NON-FINANCIAL ASSETS

Other non-financial assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

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

TRADE AND OTHER PAYABLES

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

BORROWINGS

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

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

FINANCE COSTS

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

PROVISIONS

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

EMPLOYEE BENEFITS

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are recognised in current liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for long service leave not expected to be settled within 12 months of the reporting date are recognised in non-current liabilities, provided there is an unconditional right to defer settlement of the liability. The liability is measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

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

Share-based payments

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

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

The cost of equity-settled transactions is measured at fair value on grant date. Fair value is independently determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

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

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

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

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

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

FAIR VALUE MEASUREMENT

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

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

ISSUED CAPITAL

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

DIVIDENDS

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

BUSINESS COMBINATIONS

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

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

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

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

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

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

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

EARNINGS PER SHARE

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Specialty Fashion Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

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

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

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

ROUNDING OF AMOUNTS

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2016. The consolidated entity's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the consolidated entity, are set out below.

AASB 9 Financial Instruments

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

AASB 15 Revenue from Contracts with Customers

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. The standard provides a single standard for revenue recognition. The core principle of the standard is that an entity will recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard will require: contracts (either written, verbal or implied) to be identified, together with the separate performance obligations within the contract; determine the transaction price, adjusted for the time value of money excluding credit risk; allocation of the transaction price to the separate performance obligations on a basis of relative stand-alone selling price of each distinct good or service, or estimation approach if no distinct observable prices exist; and recognition of revenue when each performance obligation is satisfied. Credit risk will be presented separately as an expense rather than adjusted to revenue. For goods, the performance obligation would be satisfied when the customer obtains control of the goods. For services, the performance obligation is satisfied when the service has been provided, typically for promises to transfer services to customers. For performance obligations satisfied over time, an entity would select an appropriate measure of progress to determine how much revenue should be recognised as the performance obligation is satisfied. Contracts with customers will be presented in an entity's statement of financial position as a contract liability, a contract asset, or a receivable, depending on the relationship between the entity's performance and the customer's payment. Sufficient quantitative and qualitative disclosure is required to enable users to understand the contracts with customers; the significant judgements made in applying the guidance to those contracts; and any assets recognised from the costs to obtain or fulfil a contract with a customer. The consolidated entity will adopt this standard from 1 July 2018 but the impact of its adoption is yet to be assessed by the consolidated entity.

AASB 16 Leases

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

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below. The directors are required to consider the Company's ability to meet its earnings and cash flow forecasts in order to comply with its bank covenants and to consider its ability to re-new its finance facilities. Consideration of this is set out further in note 22.

Provision for impairment of inventories

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

Impairment of goodwill

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

Impairment of other indefinite life intangible assets

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

Impairment of tangible assets

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

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

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

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

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

Fair value measurement hierarchy

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

NOTE 3. OPERATING SEGMENTS

Identification of reportable operating segments

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

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

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

Major customers

There is no revenue that is significant from any particular customer. Segment revenue from external parties, assets and liabilities are all reported to the Chief Executive Officer in a manner consistent with the financial statements.

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

	Consolidated	
	2016 $'000	2015 $'000
Underlying EBITDA	25,014	20,313
Restructuring costs*	(1,873)	–
Fair value revaluation of derivative financial instruments through profit or loss**	(47)	(106)
Interest revenue	99	114
Finance costs	(3,248)	(3,791)
Depreciation, amortisation and impairment expense	(21,485)	(21,045)
Loss before income tax	(1,540)	(4,515)

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

** To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2016 reflects fair value revaluation of the cotton call options at the end of the reporting period.

NOTE 4. REVENUE

	Consolidated	
	2016 $'000	2015 $'000
Sales revenue		
Sale of goods	824,680	790,384
Other revenue		
Interest	99	114
Other revenue	1,461	1,014
	1,560	1,128
Revenue	826,240	791,512

NOTE 5. EXPENSES

	Consolidated 2016 $'000	Consolidated 2015 $'000
Loss before income tax includes the following specific expenses/(credits):		
Restructuring costs*	1,873	–
Depreciation, amortisation and impairment expense**	21,485	21,045
Interest and finance charges paid/payable	3,248	3,791
Fair value revaluation of derivative financial instruments through profit or loss	47	106
Net loss on disposal of property, plant and equipment	13	592
Defined contribution superannuation expense	15,330	15,821
Rental expense relating to operating leases	133,416	134,529
Net foreign exchange gain	(17,347)	(11,165)
Inventory shrinkage	7,645	5,057
Total	165,710	169,776
Other expenses:		
Utility expenses	13,458	13,538
Other expenses	73,742	78,632

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

** Depreciation, amortisation and impairment expense for the year was $21.5 million (2015: $21.0 million), which includes store asset impairment expense of $0.6 million (2015: $0.7 million).

NOTE 6. INCOME TAX EXPENSE/(BENEFIT)

	Consolidated 2016 $'000	Consolidated 2015 $'000
Income tax expense/(benefit)		
Current tax	1,234	1,407
Deferred tax—origination and reversal of temporary differences	(359)	(1,410)
Prior year over provision	(225)	(50)
Aggregate income tax expense/(benefit)	650	(53)
Deferred tax included in income tax expense/(benefit) comprises:		
Increase in deferred tax assets (note 14)	(359)	(1,410)
Numerical reconciliation of income tax expense/(benefit) and tax at the statutory rate		
Loss before income tax expense	(1,540)	(4,515)
Tax at the statutory tax rate of 30%	(462)	(1,355)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible entertainment	1	24
Sundry items	25	179
	(436)	(1,152)
Prior year over provision	(225)	(50)
Prior year tax losses not recognised now recouped	(193)	–
Difference in overseas tax rates	(6)	2
Foreign currency differences	(26)	(1)
Tax loss not recognised	1,536	1,148
Income tax expense/(benefit)	650	(53)

	Consolidated	
	2016 $'000	2015 $'000
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 14)	(3,533)	3,204
Tax losses not recognised		
Unused tax losses for which no deferred tax asset has been recognised	5,121	3,826
Potential tax benefit @ 30%	1,536	1,148

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

Capital losses

Unused tax losses related to capital losses of $154.9 million (2015: $154.9 million) carried forward to which no deferred tax asset has been recognised.

Income tax losses

As at 30 June 2016, the consolidated entity had carried forward income tax losses of $1.6 million (2015: $1.6 million). These loses were recognised as a deferred tax asset for the years ended 30 June 2016 and 30 June 2015.

Tax consolidation legislation

Tax consolidation legislation Specialty Fashion Group Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 July 2003. The accounting policy in relation to this legislation is set out in note 1.

NOTE 7. CURRENT ASSET—CASH AND CASH EQUIVALENTS

	Consolidated	
	2016 $'000	2015 $'000
Cash at bank and on hand	18,945	7,144

NOTE 8. CURRENT ASSETS—TRADE AND OTHER RECEIVABLES

	Consolidated	
	2016 $'000	2015 $'000
Prepayments	3,787	2,168
Trade and other receivables	5,682	6,270
	9,469	8,438

The Group assesses at the end of each reporting period whether there is objective evidence that the Group's receivables are impaired. Receivables with a short duration are not discounted. A provision for impairment of receivables is not recognised until objective evidence is available that a loss event has occurred. At reporting date the trade and other receivables are not past due and not impaired.

NOTE 9. CURRENT ASSETS—INVENTORIES

	Consolidated	
	2016 $'000	2015 $'000
Inventories at lower of cost and net realisable value	88,733	89,055

NOTE 10. CURRENT ASSETS—DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2016 $'000	2015 $'000
Forward foreign exchange contracts—cash flow hedges*	–	7,318
Call options at fair value**	8	1
	8	7,319

* Derivative financial liability relating to cash flow hedges as at 30 June 2016 is $4.5 million (2015: $Nil)—refer to note 17.

** To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2016 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Refer to note 29 for further information on financial instruments.

NOTE 11. CURRENT ASSETS—INCOME TAX RECEIVABLE

	Consolidated	
	2016 $'000	2015 $'000
Income tax receivable	758	2,679

NOTE 12. NON-CURRENT ASSETS—PROPERTY, PLANT AND EQUIPMENT

	Consolidated	
	2016 $'000	2015 $'000
Plant and equipment—at cost	182,938	248,912
Less: Accumulated depreciation and impairment	(109,305)	(169,620)
	73,633	79,292

	Consolidated
	Plant and Equipment $'000
Balance at 1 July 2014	84,445
Additions	16,307
Disposals	(970)
Exchange differences	555
Impairment expense	(676)
Depreciation expense	(20,369)
Balance at 30 June 2015	79,292
Additions	15,590
Disposals	(348)
Exchange differences	222
Impairment expense	(646)
Depreciation expense	(20,477)
Balance at 30 June 2016	73,633

Impairment of tangible assets

Determining whether property, plant and equipment is impaired requires an estimation of the value-in-use of the cash-generating units (CGUs) to which tangible assets have been allocated. These calculations reflect estimated cash flow projections and requires the use of assumptions, including expected future lease terms; estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates.

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

The cash flow forecast is based on historical trading performance on a CGU level and projected into the future based on expected future lease terms. Growth rates of estimated future cash flows are based on a budget that has been approved by the Board, and projected for the expected future lease term based on an estimated growth rate of 2.5% (2015: 2.5%).

The growth rate has been determined with reference to industry trends. As part of the annual impairment test for property, plant and equipment, management assesses the reasonableness of growth rate assumptions by reviewing historical cash flow projections against actual cash flows.

The discount rates used in the value-in-use calculations are pre-tax and reflect management's estimate of the time value of money, as well as the risks specific to the CGUs. The discount rates have been determined using the average weighted cost of capital and current market risk-free rate, adjusted for relevant business risks. Discount rate applied in the current year value-in-use model: 10.9% (2015: 11.7%).

A terminal growth rate of 2.5% (2015: 2.5%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the expected future lease term.

Impairment losses of $0.6 million (2015: $0.7 million) were recognised in relation to property, plant and equipment during the period.

Property, plant and equipment secured under finance leases

Refer to note 33 for further information on property, plant and equipment secured under finance leases.

NOTE 13. NON-CURRENT ASSETS—INTANGIBLES

	Consolidated	
	2016 $'000	2015 $'000
Goodwill—at cost	10,095	10,095
Brand valuation	8,505	8,505
Other intangible assets	2,895	–
Less: Accumulated amortisation	(362)	–
	2,533	–
	21,133	18,600

Reconciliations

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

	Consolidated			
	Goodwill $'000	Brand Valuation $'000	Other* $'000	Total $'000
Balance at 1 July 2014	10,095	8,505	7	18,607
Disposals	–	–	(7)	(7)
Balance at 30 June 2015	10,095	8,505	–	18,600
Additions	–	–	2,895	2,895
Amortisation expense	–	–	(362)	(362)
Balance at 30 June 2016	10,095	8,505	2,533	21,133

* Includes software, website development costs in relation to e-commerce related activities and trademarks.

Goodwill

Determining whether goodwill is impaired requires an estimation of the value-in-use of the cash-generating units (CGUs) to which goodwill has been allocated. These calculations reflect an estimated cash flow projection based on a five year forecast and requires the use of assumptions, including estimated discount rates; growth rates of estimated future cash flows; and terminal growth rates.

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

The five year cash flow forecast is based on the FY2017 budget that has been approved by the Board and projected for a further four years based on an estimated growth rate of 2.5% (2015: 2.5%). The growth rate has been determined with reference to industry trends. As part of the annual impairment test for goodwill, management assesses the reasonableness of growth rate assumptions by reviewing historical cash flow projections against actual cash flows.

The discount rates used in the value-in-use calculations are pre-tax and reflect management's estimate of the time value of money, as well as the risks specific to the CGUs. The discount rates have been determined using the average weighted cost of capital and the current market risk-free rate, adjusted for relevant business risks. Discount rate applied in the current year value-in-use model: 10.9% (2015: 11.7%).

A terminal growth rate of 2.5% (2015: 2.0%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five year forecast horizon.

No sensitivity analysis was performed given the significant excess headroom at reporting date. There has been no impairment loss recognised relation to goodwill (2015: nil).

Indefinite life intangible asset—Brand valuation

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

The fair value was determined independently using the Relief from Royalty ("RFR") valuation method at acquisition date. The calculations reflect a five year revenue forecast and requires the use of assumptions, including estimated royalty rates; tax rate; estimated discount rates; and expected useful life.

The five year revenue forecast is based on the FY2017 budget that has been approved by the Board and projected for a further four years based on an estimated growth rate of 2.5% (2015: 3.0%). As part of the impairment test for brand valuation, management assesses the reasonableness of growth rate assumptions by reviewing revenue projections against actual revenue.

The royalty rates used in the valuation model are based on rates observed in the market. Royalty rates applied in the valuation model for the current year: 1.0% (2015: 1.0%).

The tax rate applied in the valuation model is based on the corporate tax rate in Australia: 30.0% (2015: 30.0%).

The discount rate applied to present value projected cash flows (or notional cash flows) was derived by making appropriate adjustments to the weighted average cost of capital ("WACC") and expanded capital asset pricing model ("CAPM"). The WACC calculates the rate of return that provides both debt holders and equity holders with a rate of return adequate to compensate them for providing debt and equity capital into an investment with a risk profile comparable to that of Rivers. The discount rate range applied in the current year: 10.9% (2015: 19.6%).

There has been no impairment loss recognised in relation to the brand (2015: nil).

NOTE 14. NON-CURRENT ASSETS—DEFERRED TAX ASSET

	Consolidated	
	2016 $'000	2015 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Tax losses	491	491
Property, plant and equipment	(10,232)	(10,752)
Employee benefits	5,769	5,060
Other provisions and accruals	6,505	7,087
Deferred lease incentives	3,724	3,960
Inventories	638	345
Lay-by debtors	(99)	(113)
Unrealised foreign currency exchange	182	(118)
	6,978	5,960
Amounts recognised in equity:		
Derivative financial instruments	1,338	(2,195)
Deferred tax asset	8,316	3,765
Movements:		
Opening balance	3,765	5,559
Credited to profit or loss (note 6)	359	1,410
Credited/(charged) to equity (note 6)	3,533	(3,204)
Under provision in prior year*	659	–
Closing balance	8,316	3,765

* This represents a reclassification of current tax payable to deferred tax during 2015 and therefore has no impact on the statement of profit or loss and other comprehensive income.

NOTE 15. CURRENT LIABILITIES—TRADE AND OTHER PAYABLES

	Consolidated	
	2016 $'000	2015 $'000
Trade payables	33,050	17,457
Other payables	50,445	50,805
	83,495	68,262

Refer to note 29 for further information on financial instruments.

NOTE 16. CURRENT LIABILITIES—BORROWINGS

	Consolidated	
	2016 $'000	2015 $'000
Bank loans	–	4,000

Refer to note 22 for further information on assets pledged as security and financing arrangements.

Refer to note 29 for further information on financial instruments.

NOTE 17. CURRENT LIABILITIES—DERIVATIVE FINANCIAL INSTRUMENTS

	Consolidated	
	2016 $'000	2015 $'000
Forward foreign exchange contracts—cash flow hedges*	4,458	–

Refer to note 29 for further information on financial instruments.

* Derivative financial asset relating to cash flow hedges as at 30 June 2015: $7.3 million (refer to note 10).

NOTE 18. CURRENT LIABILITIES—INCOME TAX PROVISION

	Consolidated	
	2016 $'000	2015 $'000
Income tax provision	217	340

NOTE 19. CURRENT LIABILITIES—PROVISIONS

	Consolidated	
	2016 $'000	2015 $'000
Provisions—Employee benefits	16,346	16,569
Other provisions	4,713	4,725
	21,059	21,294

Other provisions comprises:

Sales return provision

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

Lease make good

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

Stepped lease provision

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

Movements in provisions

The movement in other provisions during the current financial year is set out below:

	Consolidated 2016
	Other $'000
Carrying amount at the start of the year	4,725
Additional provisions recognised	388
Amounts transferred from non-current liabilities	2,126
Amounts used	(2,526)
Carrying amount at the end of the year	4,713

NOTE 20. CURRENT LIABILITIES—FINANCE LEASE LIABILITY

	Consolidated	
	2016 $'000	2015 $'000
Finance lease	–	204

NOTE 21. CURRENT LIABILITIES—OTHER

	Consolidated	
	2016 $'000	2015 $'000
Deferred lease incentives	5,534	5,068
Deferred revenue	542	479
	6,076	5,547

Deferred lease incentives

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

Deferred revenue

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

NOTE 22. NON-CURRENT LIABILITIES—BORROWINGS

	Consolidated	
	2016 $'000	2015 $'000
Bank loans	32,248	30,916

Refer to note 29 for further information on financial instruments.

Total secured liabilities

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

	Consolidated	
	2016 $'000	2015 $'000
Bank loans	32,248	34,916

Assets pledged as security

The bank loans are secured by a cross guarantee and a mortgage debenture given by certain group companies consisting of fixed and floating charges over all present and future assets of these companies. The bank loan facilities comprise of a working capital facility and trade finance facilities.

Financing arrangements

The following lines of credit were available at reporting date:

	Consolidated	
	2016 $'000	2015 $'000
Total facilities		
Bank loans	70,000	85,700
Visa	500	500
	70,500	86,200
Used at the reporting date		
Bank loans—recognised	32,248	34,916
Bank loans—unrecognised*	7,194	3,914
	39,442	38,830
Visa	19	218
	39,461	39,048
Unused at the reporting date		
Bank loans	30,558	46,870
Visa	481	282
	31,039	47,152

* This represents letters of credit and bank guarantees utilised at reporting date, which are off-balance sheet items.

In June 2016 the Group renewed its external finance facilities such that their maturity date was extended to 31 July 2017. Consequently the external borrowings as at 30 June 2016 totalling $32.2 million have been classified as non-current liabilities. The total available facilities under the trade finance facility at maturity date will be $32.0 million whilst the working capital facility will remain at $20.0 million, reflecting the lower borrowing requirements of the Group. The finance facilities contain specific financial covenants which will require the Group to meet its FY2017 earnings and cash flow forecasts in order to remain compliant. Based on trading to date and agreed budgets the directors believe that these financial covenants will be met and that the Group will be able to either renew its existing finance facilities or find alternative sources of finance in advance of the maturity date of the existing finance facilities being 31 July 2017.

At balance date, bank loan facilities totalling $70.0 million were available to the Group (30 June 2015: $85.7 million). Of this facility, $30.6 million was unused (30 June 2015: $46.9 million).

NOTE 23. NON-CURRENT LIABILITIES—PROVISIONS

	Consolidated	
	2016 $'000	2015 $'000
Provisions—Employee benefits	3,279	3,243
Other	4,879	7,005
	8,158	10,248

Other provisions

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

Movements in provisions

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

	Consolidated 2016
	Other $'000
Carrying amount at the start of the year	7,005
Amounts transferred to current liabilities	(2,126)
Carrying amount at the end of the year	4,879

NOTE 24. NON-CURRENT LIABILITIES—OTHER

	Consolidated	
	2016 $'000	2015 $'000
Deferred lease incentives	8,472	10,013

NOTE 25. EQUITY—ISSUED CAPITAL

	Consolidated			
	2016 Shares	2015 Shares	2016 $'000	2015 $'000
Ordinary shares—fully paid	192,236,121	192,236,121	134,497	134,497

Ordinary shares

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

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

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

Performance share rights

Information relating to the Specialty Fashion Group Limited Employee Long Term Incentive Plan, including details of performance share rights issued, vested and exercised during the financial year and performance share rights outstanding at the end of the financial year, is set out in note 40.

NOTE 26. EQUITY—RESERVES

	Consolidated	
	2016 $'000	2015 $'000
Foreign currency reserve	285	(301)
Hedging reserve—cash flow hedges	(3,121)	(5,123)
Share-based payments reserve	61	(61)
	(2,775)	(4,883)

Foreign currency reserve

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

Hedging reserve—cash flow hedges

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

Share-based payments reserve

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

Movements in reserves

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

	Consolidated			
	Foreign Currency $'000	Hedging $'000	Share-based Payments $'000	Total $'000
Balance at 1 July 2014	(40)	(2,355)	61	(2,334)
Revaluation—gross	–	10,682	–	10,682
Deferred tax	–	(3,204)	–	(3,204)
Currency translation differences arising during the year	(261)	–	–	(261)
Balance at 30 June 2015	(301)	5,123	61	4,883
Revaluation—gross	–	(11,777)	–	(11,777)
Deferred tax	–	3,533	–	3,533
Currency translation differences arising during the year	586	–	–	586
Balance at 30 June 2016	285	(3,121)	61	(2,775)

NOTE 27. EQUITY—ACCUMULATED LOSSES

	Consolidated	
	2016 $'000	2015 $'000
Accumulated losses at the beginning of the financial year	(73,912)	(65,605)
Loss after income tax (expense)/benefit for the year	(2,190)	(4,462)
Dividends paid (note 28)	–	(3,845)
Accumulated losses at the end of the financial year	(76,102)	(73,912)

NOTE 28. EQUITY—DIVIDENDS

Dividends

Dividends paid during the financial year were as follows:

	Consolidated	
	2016 $'000	2015 $'000
Final dividend for the year ended 30 June 2014 of 2.0 cents per fully paid ordinary share	–	3,845

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

Franking credits

	Consolidated	
	2016 $'000	2015 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	44,730	43,213

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- Franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

NOTE 29. FINANCIAL INSTRUMENTS

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

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

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. The capital risk management policy remains unchanged from the 2015 Annual Report.

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

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The consolidated entity is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies. The consolidated entity is subject to certain financing arrangement covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year. Formal notification of this compliance is confirmed on a quarterly basis.

The capital structure of the consolidated entity consists of net debt (borrowings as detailed in note 22 offset by cash and cash equivalents as detailed in note 7) and equity of the consolidated entity (comprising issued capital, reserves and accumulated losses as detailed in notes 25 to 27).

	Consolidated	
Financial Assets	2016 $'000	2015 $'000
Measured at amortised cost:		
Cash and cash equivalents	18,945	7,144
Trade and other receivables	5,682	6,270
Other assets	2,084	–
	26,711	13,414
Measured at fair value:		
Derivative financial instruments—call options at fair value through profit or loss	8	1
Derivative financial instruments—cash flow hedges	–	7,318
	8	7,319
	26,719	20,733

Financial Liabilities	Consolidated 2016 $'000	Consolidated 2015 $'000
Measured at amortised cost:		
Trade and other payables	84,687	68,262
Borrowings	32,248	34,916
Finance lease liability	–	204
	116,935	103,382
Measured at fair value:		
Derivative financial instruments—cash flow hedges	4,458	–
	121,393	103,382

MARKET RISK

Foreign currency risk

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

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

In order to protect against exchange rate movements, the consolidated entity has entered into forward foreign exchange contracts. These contracts are hedging highly probable forecasted cash flows for the ensuing financial year. Management has a risk management policy to hedge 100% of anticipated foreign currency transactions for the subsequent 12 months.

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

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

	Buy US Dollars		Sell Australian Dollars		Future Hedge Rate	
	2016 $'000	2015 $'000	2016 $'000	2015 $'000	2016 $	2015 $
Buy US Dollars						
Maturity:						
Less than 1 year	126,257	167,900	175,145	212,366	0.7218	0.7810

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

In respect of the consolidated entity's hedging position at 30 June 2016, 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 $11.1 million higher/$13.6 million lower (2015: $13.7 million higher/$16.8 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 New Zealand dollar, South African Rand and Chinese RMB against the Australian dollar on post-tax profit and other statement of financial position items would not be significant. This position has not changed from 2015.

Price risk

In order to protect against significant adverse fluctuations in cotton prices, the Group purchased cotton call options with a fair value of $8,000 at 30 June 2016 (2015: $1,000). The expense for the year ended 30 June 2016 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

At 30 June 2016, if the fair value of options had changed by +/-10% from the year-end values with all other variables held constant, the impact on post-tax profit for the year would have been insignificant (2015: not applicable).

Interest rate risk

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

At 30 June 2016, if interest rates had changed by +/-100 basis points from the year-end rates with all other variables held constant, the impact on post-tax profit for the year would have been $0.6 million lower/higher (2015: $0.4 million lower/higher). The weighted average interest rate at 30 June 2016 is 3.78% (2015: 3.82%).

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

	Consolidated 2016		Consolidated 2015	
	Weighted Average Interest Rate %	Balance $'000	Weighted Average Interest Rate %	Balance $'000
Cash and deposits	1.36%	18,945	0.28%	7,144
Bank loans	3.78%	(32,248)	3.82%	(34,916)
Net exposure to cash flow interest rate risk		(13,303)		(27,772)

CREDIT RISK

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

LIQUIDITY RISK

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

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

Inventory management methods and established supplier relationships assist management to prepare rolling forecasts of the consolidated entity's cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the consolidated entity ensures that it has sufficient cash on demand to meet expected operational expenses for the period of 12 months, including the servicing of financial obligations; this excludes the potential impact of extreme circumstances that cannot reasonably be predicted, such as natural disasters. In addition, the consolidated entity maintains the following lines of credit:

In June 2016 the Group renewed its external finance facilities such that their maturity date was extended to 31 July 2017. Consequently the external borrowings as at 30 June 2016 totalling $32.2 million have been classified as non-current liabilities. The total available facilities under the trade finance facility at maturity date will be $32.0 million whilst the working capital facility will remain at $20.0 million, reflecting the lower borrowing requirements of the Group. The finance facilities contain specific financial covenants which will require the Group to meet its FY2017 earnings and cash flow forecasts in order to remain compliant. Based on trading to date and agreed budgets the directors believe that these financial covenants will be met and that the Group will be able to either renew its existing finance facilities or find alternative sources of finance in advance of the maturity date of the existing finance facilities being 31 July 2017.

At balance date, bank loan facilities totalling $70.0 million were available to the Group (30 June 2015: $85.7 million). Of this facility, $30.6 million was unused (30 June 2015: $46.9 million).

Management monitors rolling forecasts of the consolidated entity's liquidity reserve (comprising the undrawn borrowing facilities below) and cash and cash equivalents on the basis of expected cash flows. This is generally carried out at local level in the operating companies of the consolidated entity in accordance with practice and limits set by the consolidated entity. These limits vary by location to take into account the liquidity of the market in which the entity operates. In addition, the consolidated entity's liquidity management policy involves projecting cash flows in major currencies and considering the level of liquid assets necessary to meet these, monitoring balance sheet liquidity ratios against internal and external regulatory requirements and maintaining debt financing plans.

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated	
	2016 $'000	2015 $'000
Bank loans	30,558	46,870
Visa	481	282
	31,039	47,152

Remaining contractual maturities

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

	Consolidated 2016					
	Weighted Average Interest Rate %	1 Year or Less $'000	Between 1 & 2 Years $'000	Between 2 & 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
NON-DERIVATIVES—LIABILITIES						
Non-interest bearing						
Trade and other payables	–	83,495	1,192	–	–	84,687
Interest-bearing—variable						
Borrowings	3.8	–	32,248	–	–	32,248
Total non-derivatives liabilities		83,495	33,440	–	–	116,935

	Consolidated 2015					
	Weighted Average Interest Rate %	1 Year or Less $'000	Between 1 & 2 Years $'000	Between 2 & 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
NON-DERIVATIVES—LIABILITIES						
Non-interest bearing						
Trade and other payables	–	68,262	–	–	–	68,262
Interest-bearing—variable						
Borrowings	3.8	4,000	30,916	–	–	34,916
Interest-bearing—fixed rate						
Finance lease liability	8.4	204	–	–	–	204
Total non-derivatives liabilities		72,466	30,916	–	–	103,382

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

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

	Consolidated 2016				
	1 Year or Less $'000	Between 1 & 2 Years $'000	Between 2 & 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
Derivative Asset/(Liability)					
Call options	8	–	–	–	8
Forward foreign exchange contracts	(4,458)	–	–	–	(4,458)
Total derivatives	(4,450)	–	–	–	(4,450)

	Consolidated 2015				
	1 Year or Less $'000	Between 1 & 2 Years $'000	Between 2 & 5 Years $'000	Over 5 Years $'000	Remaining Contractual Maturities $'000
Derivative Asset/(Liability)					
Call options	1	–	–	–	1
Forward foreign exchange contracts	7,318	–	–	–	7,318
Total derivatives	7,319	–	–	–	7,319

FAIR VALUE OF FINANCIAL INSTRUMENTS

This note provides information about how the consolidated entity determines fair values of various financial assets and financial liabilities. Fair values of financial instruments are categorised by the following levels:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
- Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)
- Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The consolidated entity has financial assets and liabilities which are measured at fair value at the end of each reporting period. Forward foreign exchange contracts (see notes 10 and 17) and call options at fair value through profit and loss (see note 10) are measured at fair value using level 2 inputs.

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

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

NOTE 30. KEY MANAGEMENT PERSONNEL DISCLOSURES

Directors

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

- Geoff Levy AO, Chairperson—(retired 17 November 2015)
- Gary Perlstein, Chief Executive Officer
- Ian Miller, Non-Executive Director—(retired 17 November 2015)
- Anne McDonald, Co-Chairperson—(appointed as Co-Chairperson 17 November 2015)
- Ashley Hardwick, Non-Executive Director
- Michael Hardwick, Co-Chairperson—(appointed as Co-Chairperson 17 November 2015)
- Megan Quinn, Non-Executive Director

Other key management personnel

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

- Alison Henriksen, Chief Financial Officer and Company Secretary—(resigned on 13 October 2014)
- Gary Spreckley, Chief Financial Officer—(appointed on 1 December 2014) and Company Secretary—(appointed 25 February 2016)
- Sonia Moura, Human Resources Director

* Tony Karp was appointed as Chief Operating Officer of the Company on 11 July 2016; therefore no disclosure has been included in respect of key management personnel remuneration for the year ended 30 June 2016.

Compensation

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

	Consolidated	
	2016 $	2015 $
Short-term employee benefits	1,900,433	1,893,151
Post-employment benefits	117,065	195,464
	2,017,498	2,088,615

Employee Long Term Incentive Plan

In December 2012, the Company established the Specialty Fashion Group Limited Employee Long Term Incentive Plan whereby, at the discretion of the Board, senior management were invited to participate in the Specialty Fashion Group Employee Long Term Incentive Plan. During the year ended 30 June 2016, there were no performance rights over ordinary shares granted to senior management (2015: Nil). Details of this plan are detailed in note 40.

Shareholding

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

	Consolidated	
	2016 $	2015 $
Ordinary shares		
Geoff Levy AO*	2,365,564	2,365,564
Gary Perlstein	17,862,814	17,862,814
Ian Miller*	14,509,906	14,509,906
Anne McDonald	15,000	15,000
Ashley Hardwick**	38,742,203	38,742,203
Michael Hardwick	220,000	195,000
Total ordinary shares held by directors and key management personnel	73,715,487	73,690,487

* G. Levy and I. Miller retired as directors on 17 November 2015.

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

	Consolidated	
	2016 $	2015 $
Performance Rights		
Gary Perlstein	–	200,000
Alison Henriksen*	–	500,000
Sonia Moura	–	225,000
Total performance rights held by directors and key management personnel	–	925,000

* Performance rights granted to A. Henriksen expired on 30 August 2015.

NOTE 31. REMUNERATION OF AUDITORS

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

	Consolidated	
Auditor of the parent entity	2016 $	2015 $
Audit services—Deloitte Touche Tohmatsu		
Audit or review of the financial statements	399,000	391,000
	399,000	391,000
Other services—Deloitte Touche Tohmatsu		
Tax compliance services including review of company income tax returns	38,500	57,450
Tax advisory services	43,185	–
Other advisory services	132,000	175,620
	213,685	233,070
	612,685	624,070

	Consolidated	
Network firms of the parent entity auditor	2016 $	2015 $
Audit services—Deloitte Touche Tohmatsu		
Audit or review of the financial statements	9,490	–
	9,490	–
Other services—Deloitte Touche Tohmatsu		
Tax compliance services including review of company income tax returns	57,660	–
Tax advisory services	35,035	24,990
	92,695	24,990
	102,185	24,990

It is the consolidated entity's policy to employ Deloitte on assignments additional to their statutory audit duties where Deloitte's expertise and experience with the consolidated entity are important. These assignments are principally tax advice and other advisory services, or where Deloitte is awarded assignments on a competitive basis. It is the consolidated entity's policy to seek competitive tenders for all major consulting projects.

NOTE 32. CONTINGENT LIABILITIES

The consolidated entity had contingent liabilities at 30 June 2016 in respect of:

Cross guarantees by and between Specialty Fashion Group Limited, Millers Fashion Club (QLD) Pty Limited, Millers Fashion Club (VIC) Pty Limited, Millers Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited. These are described in note 37. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in note 22.

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

NOTE 33. COMMITMENTS

	Consolidated	
	2016 $'000	2015 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	2,298	4,993
Lease commitments—operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	83,280	96,130
One to five years	101,138	133,695
More than five years	1,519	2,819
	185,937	232,644

The Group has entered into operating lease agreements in relation to its stores (2016: 1,092 stores including concession locations). These agreements have terms between one and five years, and in some instances including renewal options. These agreements typically contain market review clauses in the event that the Group exercises its option to renew. The Group does not have an option to purchase the leased asset at the expiry of the lease term.

Not included in the above commitments are contingent rental payments which may arise in the event that sales revenue exceeds a pre-determined amount, which are charged on many of the retail premises leased by the Group. These amounts are calculated as a percentage of the turnover of the store occupying the premises, with the percentage and turnover threshold at which the additional rentals commence varying with each lease agreement.

The Group has entered into a contract for warehouse management services for the next five years, which will give rise to an estimated annual expense of $24 million.

Lease commitments—finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	–	210
Total commitment	–	210
Less: Future finance charges	–	(6)
Net commitment recognised as liabilities	–	204

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

NOTE 34. RELATED PARTY TRANSACTIONS

Parent entity

Specialty Fashion Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 36.

Key management personnel

Disclosures relating to key management personnel are set out in note 30 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2016 $'000	2015 $'000
Payment for other expenses:		
Lease of business premises in which I. Miller and G. Perlstein, directors of the consolidated entity, have an interest*	320,616	560,141
Lease of business premises in which G. Levy, director of the consolidated entity, has an interest*	131,708	463,798
Advisory fees paid to a company that is controlled by a company in which G. Levy, director of the consolidated entity, is a director	253,884	181,334
Consulting fees for training services paid to a company that is associated with G. Perlstein, a director of the consolidated entity	9,000	–

* There is a decrease in lease expense payments from prior year as amounts included in FY2016 represent the portion payable to directors until their retirement date.

I. Miller[1] and G. Perlstein are directors and shareholders of companies that own the business premises at 151–163 Wyndham Street, Alexandria which is leased to the consolidated entity. Lower than market rental for these premises was agreed to commercially offset the benefits to these directors of the improvements to this property by converting warehouse space to office space. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

G. Levy[2] is a director and minority shareholder of the company that owns the business premises at 1–3 Mandible Street, Alexandria which is leased to the consolidated entity. During the 2012 year, the consolidated entity committed to undertake building improvements at these premises to convert warehouse space to office space. The non-executive directors at the time considered the impact these improvements would have on the market value of the property. The consolidated entity pays rent based on the market value of the unimproved premises. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

1. I. Miller retired as director of Specialty Fashion Group Limited on 17 November 2015.
2. G. Levy retired as director of Specialty Fashion Group Limited on 17 November 2015.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

NOTE 35. PARENT ENTITY INFORMATION

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

Statement of profit or loss and other comprehensive income

	2016 $'000	2015 $'000
Loss after income tax expense	(1,197)	(2,003)
Other comprehensive income for the year	(8,244)	7,487
Total comprehensive income for the year	(9,441)	5,484

Statement of financial position

	2016 $'000	2015 $'000
Total current assets	97,669	118,152
Total assets	209,476	204,098
Total current liabilities	111,390	95,480
Total liabilities	160,846	146,027
Equity		
Issued capital	134,497	134,497
Reserves	(3,060)	5,184
Accumulated losses	(82,807)	(81,610)
Total equity	48,630	58,071

As at 30 June 2016, parent entity has net current liabilities of $13.7 million (2015: net current assets of $22.7 million). This has arisen due to the different classification of inter-company receivables/payables as current/non-current with wholly owned subsidiaries of the parent entity in accordance with AASB 132 *Financial Instruments: Presentation*. These inter-company balances eliminate on consolidation. Notwithstanding the classification of these balances, the parent entity is able to control the timing of payment of these balances by virtue of its control of the respective subsidiary entities. Notwithstanding the net current liability position, the directors believe that the Company can meet its debts as and when they fall due.

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The same guarantee disclosure applies to both parent and consolidated accounts. Refer to note 37 for further details.

Contingent liabilities

Not included above are contingent rental payments which may arise in the event that sales revenue exceeds a predetermined amount. Refer to note 33 for further details.

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

	Parent	
	2016 $'000	2015 $'000
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	2,280	4,113

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

NOTE 36. INTERESTS IN SUBSIDIARIES

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1:

		Ownership Interest	
	Principal Place of Business/ Country of Incorporation	2016 %	2015 %
Miller's Fashion Club (QLD) Pty Limited	Australia	100.00%	100.00%
Miller's Fashion Club (VIC) Pty Limited	Australia	100.00%	100.00%
Miller's Fashion Club (WA) Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group Leasing Pty Limited (formerly known as Stylefix Pty Limited)	Australia	80.00%	80.00%
Specialty Fashion Group No. 2 Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group No. 3 Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group No. 4 Pty Limited	Australia	100.00%	100.00%
Yip Eks Pty Limited	Australia	100.00%	100.00%
H&H Corporation Pty Limited	Australia	100.00%	100.00%
McSeveny DA Pty Limited	Australia	100.00%	100.00%
GIP Fashions Pty Limited	Australia	100.00%	100.00%
Crossroads Clothing Co. Pty Limited	Australia	100.00%	100.00%
City Chic International Pty Limited	Australia	100.00%	100.00%
Selbourne Australia Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group New Zealand Limited	New Zealand	100.00%	100.00%
Specialty Fashion Group (Shanghai) Limited Company	China	100.00%	100.00%
Specialty Fashion Group South Africa (Pty) Ltd	South Africa	100.00%	100.00%
Specialty Fashion Group USA Incorporated	United States	100.00%	100.00%

NOTE 37. DEED OF CROSS GUARANTEE

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

- Specialty Fashion Group Limited
- Miller's Fashion Club (QLD) Pty Limited
- Miller's Fashion Club (VIC) Pty Limited
- Miller's Fashion Club (WA) Pty Limited
- GIP Fashions Pty Limited

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

The above companies represent a 'Closed Group' for the purposes of the Class Order, and as there are no other parties to the Deed of Cross Guarantee that are controlled by Specialty Fashion Group Limited, they also represent the 'Extended Closed Group'. All companies in the Closed Group are dormant, except for Specialty Fashion Group Limited. The financial results of the Closed Group are the same as the financial results of the parent entity which are disclosed in the 'Parent entity' note 35.

NOTE 38. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

	Consolidated	
	2016 $'000	2015 $'000
Loss after income tax expense for the year	(2,190)	(4,462)
Adjustments for:		
Depreciation and amortisation expense	20,839	20,369
Impairment of property, plant and equipment	646	676
Foreign exchange differences	364	(807)
Net loss on disposal of non current assets	13	592
Fair value revaluation of derivative financial instruments through profit or loss	47	106
Change in operating assets and liabilities:		
Increase in trade and other receivables	(1,031)	(703)
Decrease in inventories	322	1,293
Increase in deferred tax assets	(1,018)	(1,411)
Increase in derivative assets	(54)	–
Decrease/(increase) in current tax	1,798	(6,088)
Increase/(decrease) in trade and other payables*	14,321	(4,709)
Increase/(decrease) in other provisions	(3,337)	517
Net cash from operating activities	30,720	5,373

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

NOTE 39. LOSS PER SHARE

	Consolidated	
	2016 $'000	2015 $'000
Loss after income tax attributable to the owners of Specialty Fashion Group Limited	(2,190)	(4,462)
	Number	
Weighted average number of ordinary shares used in calculating basic loss per share	192,236,121	192,236,121
Weighted average number of ordinary shares used in calculating diluted loss per share	192,236,121	192,236,121
	Cents	
Basic loss per share	(1.1)	(2.3)
Diluted loss per share	(1.1)	(2.3)

Performance rights

Performance rights over ordinary shares granted to employees under the Executive Equity Participation Plan are considered to be potential ordinary shares and are considered in the determination of diluted earnings/loss per share to the extent to which they are dilutive. As vesting conditions have not been met for existing performance rights, these performance rights do not have a dilutive impact on earnings/loss per share and have not been included in the determination of diluted earnings per share. The performance rights have not been included in the determination of basic earnings per share.

NOTE 40. SHARE-BASED PAYMENTS

Employee Long Term Incentive Plan

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

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

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

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

There were no performance share rights issued during the year ended 30 June 2016 (2015: nil). Refer below table for details.

Set out on the opposite page are summaries of performance rights granted under the plan:

2016								
Grant date	Expiry date	Fair value at grant date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other*	Balance at the end of the year
19/02/2013	30/08/2015	$0.91	$0.0	2,800,000	–	–	(2,800,000)	–
17/09/2013	30/08/2016	$0.84	$0.0	600,000	–	–	(600,000)	–
31/10/2013	30/08/2016	$0.78	$0.0	200,000	–	–	(200,000)	–
21/01/2014	30/08/2016	$0.78	$0.0	200,000	–	–	(200,000)	–
				3,800,000	–	–	(3,800,000)	–

* These performance rights scheduled to expire on 30 August 2016 have been forfeited as a result of the vesting conditions not being met.

2015								
Grant date	Expiry date	Fair value at grant date	Exercise price	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
19/02/2013	30/08/2015	$0.91	$0.0	2,800,000	–	–	–	2,800,000
17/09/2013	30/08/2016	$0.84	$0.0	600,000	–	–	–	600,000
31/10/2013	30/08/2016	$0.78	$0.0	200,000	–	–	–	200,000
21/01/2014	30/08/2016	$0.78	$0.0	200,000	–	–	–	200,000
				3,800,000	–	–	–	3,800,000

Fair value of options granted

No options were granted during the years ended 30 June 2016 or 30 June 2015. The fair value of options at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.

NOTE 41. EVENTS AFTER THE REPORTING PERIOD

No matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

DIRECTORS' DECLARATION

In the directors' opinion:

- the attached financial statements and notes there to comply with the *Corporations Act 2001*, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes there to comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2016 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the consolidated entity will be able to pay its debts as and when they become due and payable; and
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 37 to the financial statements.

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

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

On behalf of the directors

Anne McDonald
Non-Executive
Co-Chairperson

Michael Hardwick
Non-Executive
Co-Chairperson

Gary Perlstein
Chief Executive Officer

23 August 2016
Sydney

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 11 August 2016.

DISTRIBUTION OF EQUITABLE SECURITIES

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

	Number of holders of ordinary shares
1 to 1,000	1,059
1,001 to 5,000	1,876
5,001 to 10,000	609
10,001 to 100,000	622
100,001 and over	87
	4,253
Holding less than a marketable parcel	851

EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

	Ordinary Shares	
	Number held	% of total shares issued
NAAH Pty Ltd/NAAH Investments Pty Ltd	38,742,203	20.15
J P Morgan Nominees Australia Limited	19,916,556	10.36
Icestorm Pty Ltd	16,745,288	8.71
HSBC Custody Nominees (Australia) Limited	16,154,990	8.40
National Nominees Limited	13,431,311	6.99
Citicorp Nominees Pty Limited	9,373,621	4.88
BNP Paribas Noms Pty Ltd	13,094,334	6.81
Landcharm Pty Limited	7,387,666	3.84
Landpeak Pty Limited	7,122,240	3.70
GDL Investments Pty Limited	1,955,564	1.02
T Batsakis Pty Ltd	1,500,000	0.78
RBC Investor Services Australia Nominees Pty Limited	1,227,402	0.64
Mr David Alan McSeveny	1,171,513	0.61
Tank Ventures Pty Ltd	880,000	0.46
Grahger Retail Securities Pty Ltd	856,821	0.45
Snowglaze Investments Pty Ltd	702,720	0.37
LZ New Century Pty Ltd	624,900	0.33
Mr Jason John Taleb	600,000	0.31
Wallbay Pty Ltd	505,966	0.26
Mr Gary Perlstein	414,720	0.22
	152,407,815	79.29

Unquoted equity securities

There are no unquoted equity securities.

SUBSTANTIAL HOLDERS

Substantial holders in the Company are set out below:

	Ordinary Shares	
	Number held	% of total shares issued
NAAH Pty Ltd/NAAH Investments Pty Ltd[1]	38,742,203	20.15
Lazard Asset Mgt Pacific Co	23,393,116	12.17
Mr Gary Perlstein and controlled entities	17,862,814	9.29
Mr Ian Miller and controlled entities	14,509,906	7.55
Celeste Funds Mgt	12,014,591	6.25
Delta Lloyd Asset Mgt	11,159,309	5.81
Renaissance Smaller Companies	10,217,190	5.31

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

VOTING RIGHTS

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

Ordinary shares

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

There are no other classes of equity securities.

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SPECIALTYFASHION | GROUP