

A woman with blonde hair, wearing a bright red, long-sleeved, knee-length dress and black pointed-toe shoes, stands on a wooden plank walkway. She is smiling and looking down at her hands. The background is a studio backdrop depicting a beach scene with blue water, sand, and tall grasses. A black studio stand is visible on the right side of the frame.

CHANGING <sup>the</sup>  
*Perception*  
of **FASHION**

# 2017 ANNUAL REPORT

*Our customer is the  
heartbeat of our  
business. We engage,  
we listen, we learn, we  
create and we repeat.*

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# CHAIR'S REPORT

**The 2017 financial year has been one focused on the Group's continuous business improvement strategy, and effective capital management.**

Despite a challenging year in many parts of the retail sector in Australia, Specialty Fashion Group made a number of positive achievements. The turnaround of the Rivers business to profitability was an important milestone. City Chic's growth both domestically and abroad in traditional and new markets continued its impressive pace, underpinned by consistent improvement in online performance.

While our mature brands<sup>1</sup> enjoyed growth in online sales, trade was generally challenging. We continue to focus on improving performance of these brands to realise their full potential. This will involve both tight cost and margin management as we continue to provide affordable fashion to our customers.

In FY2017, the Group reported underlying EBITDA of \$26.7 million.

Underlying EBITDA of \$26.7 million excludes a one-off adjustment of \$1.4 million relating to costs associated with evaluating a change of control proposal, and provision for City Chic USA store exit costs of \$4.9 million. The successful establishment of the profitable online and wholesale channels in the USA has meant our USA standalone stores were no longer needed to grow this brand in that market. The closure of these stores in September 2017 will enable City Chic to focus on growth channels.

Capital management was also a strong focus of the Board during the year, principally in the following areas:

- Consolidating our store portfolio to maximise earnings and ensure the best utilisation of funds across the business;
- Improving working capital;
- Reducing costs of doing business;
- Reducing debt.

We finished the year with a net debt position of \$8.3 million, an improvement of \$5.0 million on the prior year and an overall improvement of \$19.5 million since FY2015.

On behalf of the Board, we extend our appreciation to all our shareholders for their on-going support, and thank our management team and the more than 5,000 team members, for their continuing commitment and contribution.

<sup>1</sup> Mature brands include Millers, Crossroads, Autograph and Katies

# CEO'S REPORT

**Trading conditions in the retail industry have been very challenging for the past 12 months, and continue to remain so into the new financial year.**

Nevertheless, we are making positive progress in our transition to an omni-channel retailer. The decisions and investments that have and are being made are centred around this objective.

In a tough retail environment, we need to transform the business for the long term, concurrently with delivering the right shorter term operating performance.

In this regard, the Group showed resilience in the 2017 financial year to deliver an improvement in underlying EBITDA earnings. While one-off restructuring and other costs did impact the result, many key operating performance indicators we measure success by showed positive improvement.

Notwithstanding the challenging retail environment, Rivers returning to profit was a key highlight for the Group. The brand is now in a much stronger position and is embarking on its next phase of growth.

Furthermore, City Chic has continued to perform well. The brand has consolidated a leadership position in the Australian market, and is making its mark on an international scale in the USA, the UK and now in Germany.

Product selection, quality and the shopping experience (whether the physical store or online store) are crucial to what our customer wants, and for our brands to succeed in an evolving retail environment. Some brands have performed well this year. Others are working relentlessly to further transform their offers to deliver to the expectations of the modern customer.

In this environment, a disciplined approach to controlling costs and allocating capital to our most profit generating brands is imperative. Optimising our physical store

portfolio was a key focus during the year, and remains so into FY2018 as we review the return on investment of our stores, quickly minimising the impact of any under-performing stores.

Online sales now account for 10.4% of total revenues, and continue to grow at impressive rates across all brands, supported by newly launched e-commerce platforms. We have also launched Afterpay on our online platform, further building momentum in this vital channel. Our online growth reinforces our view that a critical pillar to the success of online sales is an integrated physical store and online experience and presence.

Our CRM platform has in excess of 9 million members, which includes an email base of more than 5.5 million customers who we regularly communicate with. Connection with customers is core to our success, and we continue to work hard every day to improve and strengthen this. Enhancing customer engagement to deliver the ultimate customer experience is our primary goal. This means offering the right product in whatever form our customer wants to shop.

While we have made strong progress on many operational issues, there is no escaping the fact that trading conditions have been challenging, and continue to be so into the new financial year. The Group is striving to be agile in navigating these conditions. Our goal remains to continue to provide great value to our customers, whilst maintaining strong cost discipline and margins.

I would like to thank our customers for being part of our journey in FY2017 and allowing us to be a part of theirs.

To all the Specialty Fashion Group team, I would like to thank you all for your tireless efforts. Your energy and passion continues to drive us towards achieving our vision. Thank you for all you have achieved. I look forward to working with you in the year ahead.

# OUR BRANDS

AUTOGRAPH city chic crossroads KATIES *Millers* 

Fashion is typically about young, skinny women. At Specialty Fashion Group, our customer is mature, plus sized and we have both female and male customers. We know how we dress can be a reflection of how we feel about ourselves, and we also know that clothing has the power to influence how you feel about yourself. Despite age, gender and size our brands help our customers feel good about themselves. We show our female customer she can look and feel great no matter her age and size, but because of it. For our male customer who seeks comfort and practicality, fashion is all about looking as confident as he feels.

Through our Team Members across our 1000+ network of stores, a strong digital presence and a customer community of 9 million members, we work towards achieving our aspirational purpose—to *change the perception of fashion*. We aim to provide the right product where our customer wants it, how they want it and when they want it.

Through our charity foundation, *1Woman* we collaborate with the charity *Thread Together*. Through our collaboration we provide new clothing to people who need it most.

*We will be a global market leader as our brands change the perception of fashion.*

## AUTOGRAPH

[www.autographfashion.com.au](http://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 123 stores across Australia and New Zealand as well as a strong online presence.

As a key growth channel we continued to extend our 'brand store concept' launching new local and international designer brands.

Earlier this year we migrated web platforms now providing New Zealand with a dedicated website and for all customers a mobile optimised platform to shop from. Our sales in the e-commerce space have continued to increase now comprising over 15% of total brand sales.

We introduced some key marketing initiatives including the roll out of new branding across our product. We launched 'style adviser', a digital personalisation technology with the purpose of offering our customers a personalised shopping experience similar to that which they receive in store, together with an SFG first in delivering dynamic personalised emails. We set in place a new retention program to ensure we minimise lapsing of customers, which contributed to a 4% increase in our overall retention rate.

-  **75k**  
Facebook Followers
-  **512k**  
Email Subscribers
-  **800k**  
Members
-  **5.2 million**  
Online Visits
-  **123**  
Stores



# city chic

[www.citychic.com.au](http://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 18–35 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 global market leader, City Chic has continued its transformation as an omni-channel retailer. Our revenue is split 60% in our 116 physical stores; 32% online; and 8% wholesale throughout the world. With a relentless passion for her, we aim to be where she wants us to be, when she wants us to be there, in the format she wants.

In FY2017 we launched new major partnerships with ASOS in the UK and Zalando in Europe. In the US we have grown our partner base to include exciting new box retail formats Stitch fix and Dia&Co—these have shown strong growth for us. Our partnership with Macy's and Nordstrom have also continued their growth predominantly through their digital channels.

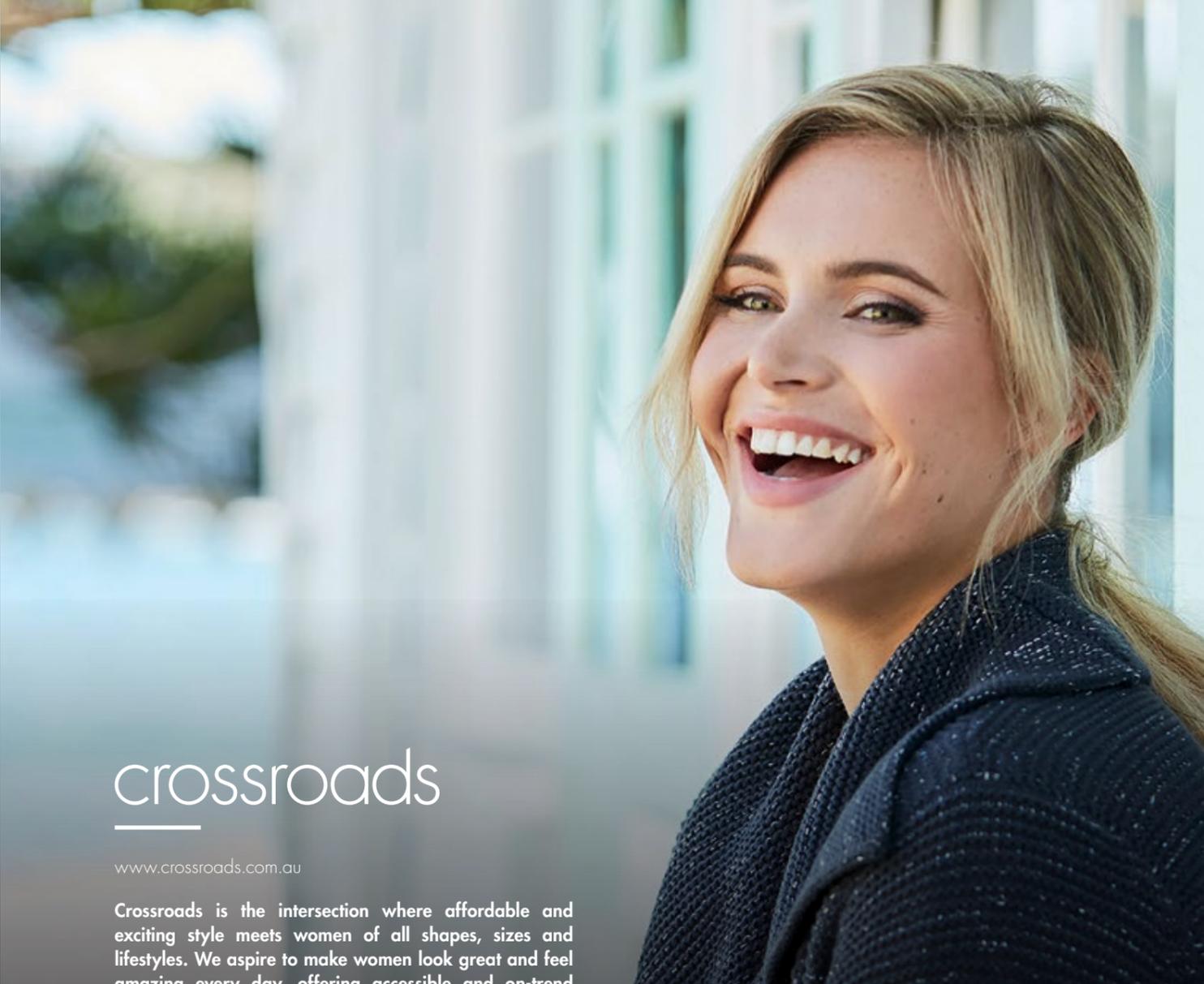
 **135k**  
Facebook Followers

 **500k**  
Email Subscribers

 **500k**  
Members

 **9.6 million**  
AUS Online Visits

 **116**  
Stores



# crossroads

[www.crossroads.com.au](http://www.crossroads.com.au)

Crossroads is the intersection where affordable and exciting style meets women of all shapes, sizes and lifestyles. We aspire to make women look great and feel amazing every day, offering accessible and on-trend fashion for any occasion in sizes 8–22.

With over 160 stores Australia and New Zealand wide, we provide an instore experience that makes our woman feel included in the world of fashion. From leading her to the latest trends to showing her how to wear and style key looks, we always try to add something special to her shopping day.

Crossroads caters for a diverse customer base with our instore customer typically aged 45–54 years and our online customer typically aged 25–34. We provide fun, everyday fashion that fits and flatters our customer helping her both look and feel great.

During FY2017, our Australian and New Zealand websites received a total of 3.6 million user sessions. In November 2016 we successfully launched our website on to a new platform to improve our customers' online experience and conversion rate. With approximately 60% of our traffic and 50% of our online revenue now driven from mobile devices, this transition also included a mobile optimised site.

 **106k**  
Facebook Followers

 **955k**  
Email Subscribers

 **1.4 million**  
Members

 **5.2 million**  
Online Visits

 **161**  
Stores



# KATIES

[www.katies.com.au](http://www.katies.com.au)

**Katies—celebrating over 60 years of style.**

Since 1956 Katies has delivered inspiring, versatile and affordable fashion. With a dedicated design and buying team creating and tailoring clothing that fits and makes its woman feel stylish and comfortable.

Over the past 12 months, Katies has continued to listen to its customers through real time mechanics and qualitative research, implementing strategies and range extensions that resonate with its customers.

New exciting ranges will be rolled out over the coming months. These new range collections embrace natural fibres from linen and silk to 100% Australian cotton. Australia is growing some of the finest cotton in the world and Katies will proudly work alongside a network of cotton farmers in Queensland and New South Wales aiming to deliver premium quality clothing.

Brand elevation has been achieved through aspirational and emotive campaigns and catalogues. Katies has created a brand identity tailored to its audience that has an aspirational feel yet still within reach. Also widely known for unique, feminine prints, Katies will continue to amplify this proposition in the market place by delivering exclusive designs that celebrate its love for print and colour.

-  **95k**  
Facebook Followers
-  **1.2 million**  
Email Subscribers
-  **1.7 million**  
Members
-  **6.6 million**  
AUS Online Visits
-  **146**  
Stores

# Millers

WOMAN

[www.millers.com.au](http://www.millers.com.au)

Millers, established in 1993, is Australia's largest women's apparel retailer with 318 stores nationally and a further 27 in New Zealand, as well as our ever growing online presence.

Our woman is predominantly aged 40–60 years. 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.

This year saw a consolidation of the brand's store portfolio as the online business continues to grow. The launch of the new Millers' website included a New Zealand specific site as well as a dedicated mobile optimised site for both Australia and New Zealand. This has led to a significant shift in traffic and an increase in conversion rate on mobile devices. Furthermore we are seeing growth in click and collect as our woman become more digitally able.

We also explored how we can better represent the Millers core customer and as a brand celebrate their spirit, passion, and accomplishments, through a range of communications that reinforce just how vital and valuable they are. We launched the "Millers For Everything Life Is" campaign, featuring portraits of our Millers' woman, their thoughts and feelings on life while showcasing our fantastic clothes at great value.

Further driving engagement and connecting directly with our customer we started conversations on Facebook and continued with our blogging site [seeingmeproject.com](http://seeingmeproject.com).



-  **176k**  
Facebook Followers
-  **1.5 million**  
Email Subscribers
-  **2.9 million**  
Members
-  **8.6 million**  
Online Visits
-  **345**  
Stores



www.rivers.com.au

Leveraging off nearly 30 years of heritage and knowledge within the apparel and footwear market, Rivers is the iconic Australian brand.

With 148 stores nationwide, the evolution of our new store concept, through increased density and brand specific propping, has helped to deliver an improved financial performance through the year. FY2017 also saw Rivers commence a store refresh program, launching a shop in shop concept and improved adjacency flow, combined with an increased focus on visual merchandising, has significantly improved the instore experience; the end result—a more holistic Rivers environment.

The continual focus on customer acquisition has seen Rivers gain a further 500,000 new members through FY2017 resulting in a total membership base of 2.4 million. Customer acquisition via mobile numbers has grown 62% from last year ending with over 242,000 members, helping to be an effective channel to drive immediate sales results. 80% of our total sales were made up from our loyalty members, an increase against last year's 73%. Online delivered further growth to last year accounting for 6.23% total sales and just shy of 8 million visits to the website. The significant focus on improving the quality and trend relevant product, with a compelling value proposition, has proven positive with our customers and helped achieve strong sales throughout the year.



**1.2 million**  
Email Subscribers



**2.4 million**  
Members

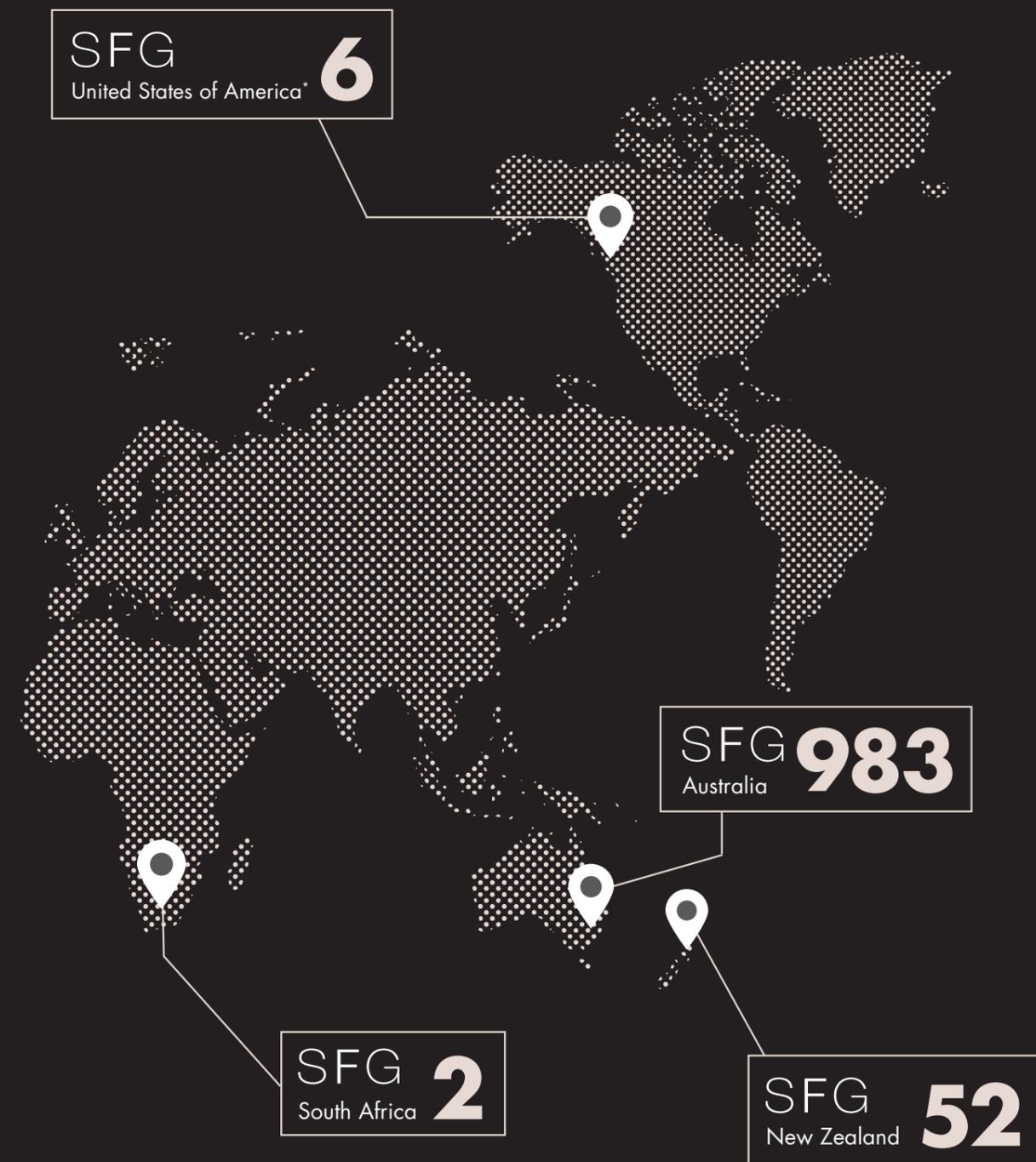


**7.9 million**  
AUS Online Visits



**148**  
Stores

# WHERE WE ARE



\* Our USA physical stores were closed at the end of September 2017.

# SAFETY, HEALTH & WELLBEING

FY2017 saw the first full year of implementation of the Group's new Safety, Health and Workers Compensation initiatives—OneEighty and Recover@Work. These initiatives resulted in an improvement in results, with refunds to the value of 20% of the Group's overall annual premiums (YTD). The results have been a combination of improved incident frequency, injury intervention, premium returns through due diligence reviews and the hard work of the internal team continuously driving improvement.

The Group launched its second Safety, Health and Wellbeing initiative OneEighty, the message for the year was: "A little healthier, a little happier: each day". Partnering with some of Australia's most prominent health experts, from nutritionists to sleep coaches; helping us deliver engaging content to continue improving the health and wellbeing of our teams. The program was well received achieving an engagement score of 70% and a further 13% incident reduction on top of a 30% reduction in the prior year.

This year also saw the Group's first application into alternative insurance arrangements in the Risk States (ACT, WA, NT, TAS)—The program (Risk State Burner) sees the Group's premium paid relating directly on claims experience for the year. The Group reduced its liability exposure by approximately 30% on the FY2016 expiring rate. Other milestones achieved in FY2017:

- National premium reduced by 42% with average premium rate paid reduced by 44% (over 3 years)\*.
- Claims frequency reduction of 50% and average cost per claim down 45%\*.

\* Note: Data is current as at March 31 2017. Due to the nature of Workers Compensation, premiums, frequency and costs will continue to develop over the next 3 years.

*A little happier, a little healthier each day.*

# 1WOMAN FOUNDATION

**Thread Together, 1Woman Foundation and Specialty Fashion Group**

Specialty Fashion Group has been a key supporter and founding partner of Thread Together. Thread Together shares Specialty Fashion Group's and 1Woman Foundation's philosophy of helping one person at a time. Thread Together is recognising that every single person is important and should be afforded optimum dignity at a difficult time in their life. Specialty Fashion Group has committed 1 million units of NEW clothes over time to Thread Together, and provides ongoing support through employee volunteering and financial support to ensure that people in need are supported throughout Australia.

*Providing new clothing & dignity to people who need it most*



CEO of Specialty Fashion Group and Director of Thread Together Gary Perlstein in consultation with other Thread Together executive and significant charity partner

# CORPORATE SOCIAL RESPONSIBILITY

Over the year, the Group focused on building a more transparent supply chain by developing our Ethical Sourcing policies. At our **2016 Global Vendor Conference** in November, we brought together more than 100 of our key strategic vendor partners and important service providers. We focused the conference on our Code of Conduct, social compliance policies and launched our Vendor “MAKE YOUR MARK” program. This program focuses our vendors on the importance of their responsibility to do everything they can to influence change in regards to their workers' wellbeing and work environment. That together we are responsible to ensure there is no worker exploitation.

## SFG RULES OF ENGAGEMENT

1. We commit to an open, honest and transparent relationship.
2. We will not engage in any bribery or corruption at any level through our business or with our partners.
3. We have zero tolerance for the use of child, bonded (slavery) or prison labour.
4. We commit to providing our workers hygienic and safe working conditions.
5. We provide opportunities for our workers to voice their concerns without prejudice.
6. We encourage our workers to participate in health and safety committees.
7. We commit to make a fair living wage the minimum salary we pay our workers.
8. We practice good animal welfare.
9. We commit to protecting the environment and managing our waste sensibly.
10. We know a safe and happy work environment is a productive one.

*We pledge, not only for our customers but the customers who buy our product, that all goods are safe to make, safe to wear or use and safe for the environment.*



*Re-visiting our Code of Conduct face to face at the vendor conference along with everyday interactions has reinforced the consistent social and ethical message that we have embedded within our business and partnerships.*

### Worker Empowerment

In March, we piloted our Worker Grievance hotline in our factories. This hotline (via either email or local phone number in our manufacturing regions) gives all our factory workers the voice to report any issues in workplace safety or their working conditions. We want to give all our workers in our supply chain a voice, and this hotline is a mechanism to help us investigate any worker concerns. The roll out to our entire factory base is underway.

### Back to Farm Traceability

Working towards full transparency and traceability past tier 1 factories in our supply chain has been both complicated and challenging. We continue to map and audit in tier 2 and 3 and have made progress tracing garments from raw materials through to finished product in specific product areas.

- We have mapped the supply chain and traced the chain of custody of product lines using Australia cotton from the farm through to our finished garments. This has allowed us to refine our verification document and audit requirements.

- Our Merino wool programs validated that no wool originates from a farm using the unethical practice of Mulesing.

Our Feather Down products have also been responsibly sourced using the industry accepted Responsible Down Standard with additional traceability verification done through the SFG team.

### Bangladesh Accord—Beyond 2018

With our focus shifting from factory CAP remediation to Worker Safety Committee training we are looking forward to carrying on the great progress already made since we joined the Accord in 2013. We are excited to commit to the new Accord Agreement 2.0 that sees us signing up to the next phase beyond.

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## DIRECTORS

Anne McDonald—Co-Chairperson  
Michael Hardwick—Co-Chairperson  
Gary Perlstein  
Ashley Hardwick  
Megan Quinn

## COMPANY SECRETARY

Claudine Tarabay  
(appointed 10 October 2016)  
Gary Spreckley  
(resigned 10 October 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

Tuesday, 21 November 2017  
10:00am

## 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](http://www.specialtyfashiongroup.com.au)

## ABN

43 057 569 169

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 2017.

## DIRECTORS

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

A McDonald

M Hardwick

G Perlstein

A 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, as well as the wholesale of women's fashion in the USA.

## DIVIDENDS

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

## OPERATING AND FINANCIAL REVIEW

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

The Group has one of the largest predominantly women's customer communities in Australasia with over 9 million members, and can reach over 5.5 million members through email. The total physical store portfolio comprised 1,043 sites including the 14 concession locations in Myer at 30 June 2017 (2016: 1,092 sites including 14 concession locations in Myer). The Group's digital presence remains strong with online sales up 15% and representing 10.4% of total revenue (2016: 8.8%).

## REVIEW OF FINANCIAL PERFORMANCE

Australian retail trading conditions remain subdued, driven by a combination of fragile consumer confidence and low wage growth. Despite these headwinds, Specialty Fashion Group reported an increase in Underlying EBITDA<sup>1</sup> of \$26.7 million which is an increase of 6.6% on the prior year, which reflects a focus on profitability across all facets of the business, underpinned with a determination to reduce input and operating costs.

Revenue for the full year ended 30 June 2017 was \$808.9 million, with comparable sales decline of 2.0%, reflective of heavy promotional activity and tightened margin discipline.

The clear focus in the year was the turnaround of Rivers to a profitable brand, which was achieved through improved product offering together with re-invigorated store look and feel. These initiatives have restored and grown the brand's value offering and customer loyalty base.

Underlying City Chic USA operations continue to grow strongly and trade profitably<sup>2</sup>. The successful establishment of the profitable online and wholesale channels and the physical presence via our wholesale partners (Macy's, Nordstrom and Bloomingdale's) has meant that USA standalone stores can now be closed. This will enable the brand to focus on channels with higher profitable growth potential.

Depreciation, amortisation and impairment expenses for the year were \$24.6 million, which is \$3.1 million higher than last year. The increased charge was impacted by the \$2.5 million impairment of the Group's USA stores.

<sup>1</sup> FY2017 Underlying EBITDA is adjusted for costs related to change of control proposal (\$1.4m) and store exit costs for City Chic USA stores (\$4.9m). Store exit costs include redundancies, restructure, logistics and lease exit costs. A reconciliation of Underlying EBITDA to statutory loss before tax is provided in note 3 of the FY2017 financial statements.

<sup>2</sup> Excluding one-off store exit costs (\$4.9m) and store asset impairment (\$2.5m) relating to City Chic USA stores.

## REVIEW OF FINANCIAL POSITION

Specialty Fashion Group ended the year with net debt of \$8.3 million at 30 June 2017 (compared with net debt of \$13.3 million in the prior year). The Group had access to total facilities of \$52.0 million comprising working capital and trade finance facilities, of which \$24.7 million was unutilised.

The Board has determined not to declare a dividend in respect of 2017. No dividends were declared in respect to 2016.

## OUTLOOK

Trading activities in July 2017 were impacted by heavy promotional activity and we expect this to continue.

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

Key growth priorities for FY2018 are:

- Continue to grow Rivers' profitability and customer penetration;
- Expand City Chic across key multi channels, both in Australia and abroad;
- Rejuvenate the mature brands within our portfolio (Millers, Autograph, Katies and Crossroads); and
- Enhance digital and online proposition and accelerate channel migration.

The Group's focus on continuous business improvements will be monitored, and additional benefits from this are expected.

## MATERIAL BUSINESS RISKS

Specialty Fashion Group operates in an environment of change and uncertainty. There are a range of factors, both specific to the Group and general in nature, which may affect 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 constantly monitoring these developments and is adapting its business model to this changing landscape.

### *Property portfolio management*

The Group currently operates 1,043 physical sites in Australia, New Zealand, USA and South Africa. Of those physical sites, 1,029 are leased and are subject to negotiations with each landlord at the end of each lease term. The remaining 14 sites are 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 by forward cover with the FY2018 program now largely in place.

### *IT systems*

The Group's increasing reliance on IT systems means that outages, disruptions and security breaches could have a detrimental impact on its operating and financial performance, and any failure to maintain and upgrade its IT systems over time has the potential to inhibit the achievement of the Group's business initiatives. To mitigate these risks, the Group continues to invest and develop its in-house technology capabilities to ensure that the Group has reliable IT systems in place.

### *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

On 29 August 2017, the Board of directors announced that it would move to a single Chairperson role for the Company. Anne McDonald will continue to act as Independent Chairperson of the Board. Michael Hardwick will relinquish his role as Co-Chairperson but will continue his contribution as a Non-Executive Director, and has also been appointed Chairperson of the Audit and Risk Committee. These changes will be effective 1 September 2017.

Apart from the above, no other matter or circumstance has arisen since 30 June 2017 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 AND EXPECTED RESULTS OF OPERATIONS

The consolidated entity intends to continue its principal activity of retailing of women's fashion through Millers, Katies, Crossroads, Autograph and City Chic. Rivers will continue its focus on women's and men's value fashion and footwear. The consolidated entity will continue to operate in Australia, New Zealand, USA and South Africa. 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 and Expertise	Anne McDonald joined the Specialty Fashion Group Board in April 2007 as an independent non-executive director. An experienced non-executive director, Anne brings finance, accounting, risk management and governance skills. A Chartered Accountant by training, Anne was a partner with Ernst and 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 and Young Australia for seven years.
Other Current Directorships	Anne is a non-executive director of the following listed and unlisted entities: Spark Infrastructure Group and its associated entity, Victoria Power Networks (2009–present), WaterNSW (2016–present, also acting as Chairperson), Link Administration Holdings Ltd (2016–present) and St Vincent's Healthcare (2017–present).
Former Directorships (Last 3 years)	Anne stepped down from the Board of The GPT Group on 4 May 2016 and Sydney Water Corporation on 24 March 2016. Anne also stepped down from the Board of Westpac's Life and General Insurance Businesses in May 2015.
Special Responsibilities	Co-Chairperson of the Board; 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 and Expertise	Michael Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. Michael currently serves as the Chief Financial Officer of the Cotton On Group. Michael is a Chartered Accountant by training and has previously worked at PricewaterhouseCoopers in both Melbourne and New York in the transaction advisory practice. He also spent 10 years as a partner with the New York based private equity firm Hudson Valley Capital Partners.
Other Current Directorships	Michael does not hold any other listed company directorships.
Former Directorships (Last 3 years)	Michael has not held any other listed company directorships in the last three years.
Special Responsibilities	Co-Chairperson of the Board; 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 and Expertise	Gary Perlstein is the managing director who has played an integral role both in the establishment and in growth of Specialty Fashion Group since it was founded in 1993. Gary has been a director of Specialty Fashion Group Limited since 1995 and he was appointed Chief Executive Officer in October 2003. Gary has over 25 years of retailing experience in Australia.
Other Current Directorships	Gary is a non-executive director of Threads Together, a not-for-profit organisation.
Former Directorships (Last 3 years)	Gary has not held any other listed company directorships in the last three years.
Special Responsibilities	Chief Executive Officer
Interests in Shares	17,862,814 ordinary shares
Interests in Options	None
Interests in Rights	None

### Ashley Hardwick

Title	Non-Executive Director
Experience and Expertise	Ashley Hardwick joined the Specialty Fashion Group Board in May 2012 as a non-independent director. Ashley is a director and shareholder of the Cotton On Group and has over 20 years of retail experience. He also oversees the property function of the Cotton On Group.
Other Current Directorships	Ashley does not hold any other listed company directorships.
Former Directorships (Last 3 years)	Ashley has not held any other listed company directorships in the last three years.
Special Responsibilities	None
Interests in Shares	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 and Expertise	Megan Quinn joined the Specialty Fashion Group Board in October 2012 as an independent non-executive director. Megan is currently on the Board and National Committee of UNICEF Australia, zipMoney Limited and Reece Limited (effective 1 September 2017). She also consults to Westpac. For the past 25 years, she has built a career specialising in retail (ranging from the value end to luxury), advertising, publishing and design for the fashion, jewellery, hotel, airline, service and finance industries. One of Megan's notable achievements was her being a co-founder of internationally acclaimed NET-A-PORTER in 1999. She consults and speaks internationally, and has held a variety of leadership and senior executive as well as non-executive board roles. Her secondment to London in 1988 with the Mojo advertising agency marked the beginning of 18 years of involvement with clients such as Dell, Qantas, the Australian Tourist Commission, Asprey, Garrard and Patek Philippe and leading retailers such as Harrods, The Arcadia Group and BHS. Megan has also held executive board roles with both Harrods and NET-A-PORTER.
Other Current Directorships	Megan is currently on the Board and National Committee of UNICEF Australia, zipMoney Limited (August 2016–present) and Reece Limited (effective 1 September 2017).
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; Chairperson of the Nomination and Remuneration Committee.
Interests in Shares	None
Interests in Options	None
Interests in Rights	None

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

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

**COMPANY SECRETARY**

The Company Secretary is Claudine Tarabay, B.Economics, CA, appointed in October 2016. Claudine is a Chartered Accountant by training and worked at PricewaterhouseCoopers until November 2002. She joined the Company in November 2002 and has over 15 years of retail experience. In addition to company secretarial matters, Claudine has responsibility for overseeing the Group's investor relations, legal, risk and compliance, governance, insurance and intellectual property matters.

Gary Spreckley, B.Com, CA, served as a Company Secretary between February 2016 and October 2016. Gary joined the Company in December 2014, and was responsible for all aspects of day-to-day finance for the Group in his capacity as Chief Financial Officer. Gary has over 25 years commercial experience.

**MEETINGS OF DIRECTORS**

The number of meetings of the Company's Board of Directors ('the Board') held during the year ended 30 June 2017, and the number of meetings attended by each director were:

	Full Board		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
A McDonald	17	19	2	2	7	7
M Hardwick	18	19	2	2	7	7
G Perlstein	19	19	–	–	–	–
A Hardwick	19	19	–	–	–	–
M Quinn	19	19	2	2	7	7

## REMUNERATION REPORT (AUDITED)

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

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

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

## 1. INTRODUCTION

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

Key management personnel of the consolidated entity were also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the years ended 30 June 2017 and 30 June 2016. The key management personnel of the consolidated entity consisted of the following directors and senior executives of Specialty Fashion Group Limited:

Name	Role
<b>Non-Executive Directors</b>	
A McDonald	Co-Chairperson and Non-Executive Director
M Hardwick	Co-Chairperson and Non-Executive Director
A Hardwick	Non-Executive Director
M Quinn	Non-Executive Director
G Levy	Chairperson and Non-Executive Director (retired 17 November 2015)
I Miller	Non-Executive Director (retired 17 November 2015)
<b>Executive Directors</b>	
G Perlstein	Chief Executive Officer
<b>Other Key Management Personnel</b>	
S Moura	General Manager People and Culture
T Karp	Chief Operating Officer (appointed 11 July 2016)
G Spreckley	Chief Financial Officer and Company Secretary (resigned 10 October 2016)

\* Tim Fawaz was appointed as Chief Financial Officer of the Company on 1 July 2017; therefore no disclosure has been included in respect of key management personnel remuneration for the year ended 30 June 2017.

## 2. REMUNERATION STRATEGY AND POLICY

The Nomination and Remuneration Committee (the 'Committee') is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract and retain talented and motivated executives who can enhance the Group's performance through their contributions and leadership.

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

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

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

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

Alignment to program participants' interests:

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

Remuneration policies are developed to provide market competitive remuneration arrangements that support the attraction, engagement and retention of talented team members, and that are aligned with shareholders' interests. During the year, the Committee engaged PricewaterhouseCoopers ('PwC') to review the Company's existing executive remuneration framework as well as to design and implement a Simplified Incentive Plan ('SIP'), which comprises a cash bonus and an equity component measured against strategic key performance indicators ('KPIs'). Subject to approval, it is expected that this plan will be implemented in FY2018. The Board is satisfied that the advice received from PwC is free from undue influence by the members of the key management personnel to whom the recommendation relates. Under the terms of the engagement, PwC provided remuneration recommendations as defined in section 9B of the *Corporations Act 2001* and was paid \$48,000 for these services.

### ***Voting and comments made at the Company's 2016 Annual General Meeting ('AGM')***

At the 2016 AGM, 92.8% of the votes received supported the adoption of the remuneration report for the year ended 30 June 2016. The Company did not receive any specific feedback at the AGM regarding its remuneration practices.

## 3. REMUNERATION FRAMEWORK

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

### ***Non-Executive Directors***

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

ASX listing rules require the aggregate non-executive directors remuneration be determined periodically by a general meeting. The base fees are reviewed by the Nomination and Remuneration Committee on an annual basis, where proposed amendments are recommended for approval by the shareholders at a general meeting. The most recent determination was at the Annual General Meeting held on 8 November 2012, where the shareholders approved an aggregate remuneration of \$600,000. Non-executive director fees have been held constant since 2013.

### ***Executive Directors and other key management personnel***

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

### ***(i) Base pay and benefits***

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

### ***(ii) Short term incentives***

Should the Group achieve pre-determined targets set by the Nomination and Remuneration Committee, then short term incentives ('STI') are available for executives and employees. Cash incentives (bonuses) are payable following finalisation and announcement of the full year audited results. Using value creation targets ensures variable awards are only available when value has been created for shareholders and when profit is consistent with the business plan. The incentives are leveraged for performance above the threshold to provide an incentive for executive and employee out-performance. Each executive has a target STI opportunity depending on the accountabilities of the role, impact on the organisation or business unit performance. The annual STI target payment is reviewed annually.

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

For the year ended 30 June 2017, the KPIs linked to short term incentive plans were based on group and/or individual personal objectives, where appropriate to the executive's role and their impact on the consolidated entity's performance. The KPIs required performance in maximising sales and margins, reducing operating costs and achieving specific targets in relation to return on assets, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods. The short term incentive payments are adjusted in line with the degree of achievement against the target performance levels.

### ***(iii) Long term incentives***

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

The Board is currently reviewing a Simplified Incentive Plan that includes a cash bonus and an equity component measured against strategic KPIs for senior executives. Subject to approval, it is expected that this plan will be implemented in FY2018.

#### 4. REMUNERATION OUTCOMES FOR KEY MANAGEMENT PERSONNEL

##### a) Payments and benefits

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

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

\* Includes severance pay of \$312,500.

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

\* G Levy and I Miller retired as directors of Specialty Fashion Group on 17 November 2015.

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

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

Name	Cash Bonus Paid/Payable		Cash Bonus Forfeited	
	2017	2016	2017	2016
<b>Executive Directors</b>				
G Perlstein	–	–	100%	100%
<b>Other Key Management Personnel</b>				
S Moura	–	–	100%	100%
T Karp	–	–	100%	100%
G Spreckley	–	–	100%	100%

There were no share-based payments granted as compensation to key management personnel during the year ended 30 June 2017 (2016: nil).

**c) Remuneration structure**

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

Name	Fixed Remuneration		At Risk—STI		At Risk—LTI	
	2017	2016	2017	2016	2017	2016
<b>Executive Directors</b>						
G Perlstein	79%	78%	21%	22%	–	–
<b>Other Key Management Personnel</b>						
S Moura	79%	78%	21%	22%	–	–
T Karp	78%	78%	22%	22%	–	–
G Spreckley	85%	77%	15%	23%	–	–

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

**5. SERVICE AGREEMENTS**

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

Name	Gary Perlstein
Title	Chief Executive Officer
Term of Agreement	No term
Details	<ul style="list-style-type: none"> <li>• Notice period of 1 month</li> <li>• Remuneration review period every 12 months</li> <li>• Eligible for short term incentives</li> <li>• Eligible for long term incentives</li> <li>• No severance period</li> <li>• No termination benefits</li> <li>• No other benefits</li> </ul>

Name	Sonia Moura
Title	General Manager People and Culture
Term of Agreement	No term
Details	<ul style="list-style-type: none"> <li>• Notice period of 3 months</li> <li>• Remuneration review period every 12 months</li> <li>• Eligible for short term incentives</li> <li>• Eligible for long term incentives</li> <li>• No severance period</li> <li>• No termination benefits</li> <li>• No other benefits</li> </ul>

Name	Tony Karp
Title	Chief Operating Officer (appointed 11 July 2016)
Term of Agreement	No term
Details	<ul style="list-style-type: none"> <li>• Notice period of 3 months</li> <li>• Remuneration review period every 12 months</li> <li>• Eligible for short term incentives</li> <li>• Eligible for long term incentives</li> <li>• No severance period</li> <li>• No termination benefits</li> <li>• No other benefits</li> </ul>

Name	Gary Spreckley
Title	Chief Financial Officer and Company Secretary (resigned 10 October 2016)
Term of Agreement	No term
Details	<ul style="list-style-type: none"> <li>• Notice period of 3 months</li> <li>• Remuneration review period every 12 months</li> <li>• Eligible for short term incentives</li> <li>• Eligible for long term incentives</li> <li>• No severance period</li> <li>• No termination benefits</li> <li>• No other benefits</li> </ul>

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.

## 6. DISCLOSURES RELATING TO OPTIONS, RIGHTS AND SHARES

### Options

There were no options over ordinary shares of Specialty Fashion Group Limited issued or held during the year ended 30 June 2017 and up to the date of this report (2016: nil).

### Shares under performance rights

There were no ordinary shares of Specialty Fashion Group Limited issued or held under performance rights during the year ended 30 June 2017 and up to the date of this report (2016: nil).

### Ordinary shares

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

	Consolidated	
	2017	2016
<b>Directors' shareholding</b>		
<i>Ordinary Shares</i>		
A McDonald	15,000	15,000
M Hardwick	220,000	220,000
G Perlstein	17,862,814	17,862,814
A Hardwick*	38,742,203	38,742,203
M Quinn	–	–
G Levy AO**	–	2,365,564
I Miller**	–	14,509,906
<b>Total shares held by directors</b>	<b>56,840,017</b>	<b>73,715,487</b>

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

\*\* G Levy and I Miller retired as directors of Specialty Fashion Group Limited on 17 November 2015.

## 7. DISCLOSURES RELATING TO TRANSACTIONS AND BALANCES WITH KEY MANAGEMENT PERSONNEL

### Loans to/from key management personnel

As at 30 June 2017, there were no outstanding loans made to/received from directors of Specialty Fashion Group Limited and other key management personnel of the consolidated entity, including their personally related parties (2016: nil).

### Transactions with key management personnel and their personally related parties

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

	Consolidated	
	2017	2016
<b>Payment for other expenses</b>		
Lease of business premises in which I Miller and G Perlstein, directors of the consolidated entity, have an interest*	296,517	411,204
Lease of business premises in which G Levy, director of the consolidated entity, has an interest*	–	230,804
Consulting fees for training services paid to a company that is associated with G Perlstein, a director of the consolidated entity	1,500	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 and G Levy retired as directors of Specialty Fashion Group Limited on 17 November 2015.

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

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

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

**8. ADDITIONAL INFORMATION RELATING TO EARNINGS OF THE CONSOLIDATED ENTITY**

The earnings of the consolidated entity for the five years to 30 June 2017 are summarised below:

	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000	2013 \$'000
Sales revenue	808,914	826,240	791,512	685,043	569,475
(Loss)/profit before income tax	(6,474)	(1,540)	(4,515)	16,317	19,010
(Loss)/profit after income tax	(8,389)	(2,190)	(4,462)	12,475	12,970

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

	2017	2016	2015	2014	2013
Share price at financial year end (\$)	0.39	0.54	0.63	0.98	0.82
Total dividends declared (cents per share)	-	-	-	4.0	4.0
Basic (loss)/earnings per share (cents per share)	(4.4)	(1.1)	(2.3)	6.5	6.7
Diluted (loss)/earnings per share (cents per share)	(4.4)	(1.1)	(2.3)	6.5	6.7

**This concludes the remuneration report, which has been audited.**

**INDEMNITY AND 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 AND 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 29 to the financial statements.

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

The directors are of the opinion that the services as disclosed in note 29 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and

- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the 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

<b>Anne McDonald</b> Non-Executive Co-Chairperson	<b>Michael Hardwick</b> Non-Executive Co-Chairperson	<b>Gary Perlstein</b> Chief Executive Officer
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29 August 2017  
Sydney



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

29 August 2017

Dear Board Members,

### Specialty Fashion Group Limited

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

As lead audit partner for the audit of the financial statements of Specialty Fashion Group Limited for the financial year ended 30 June 2017, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely,



DELOITTE TOUCHE TOHMATSU



David White  
Partner  
Chartered Accountants

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

### Report on the Audit of the Financial Report

#### Opinion

We have audited the financial report of Specialty Fashion Group Limited (the "Company") and its subsidiaries (the "Group"), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

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

- (i) giving a true and fair view of the Group's financial position as at 30 June 2017 and of its financial performance for the year then ended; and
- (ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### Basis for Opinion

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

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

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

#### Key Audit Matters

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

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Valuation of inventory and inventory obsolescence allowance</b></p> <p>As at 30 June 2017 the carrying value of inventory totalled \$90.8 million, as disclosed in notes 1, 2 and note 9. Inventories are carried at the lower of cost and net realisable value.</p> <p>The Group values its inventory on a weighted average cost method and establishes an obsolescence allowance against its inventory which is determined by reference to the inventory's ageing by season, as well as various other inputs such as historical inventory losses, timing of mark downs, selling prices and market conditions. As a result, there is significant judgement applied in determining the appropriate inventory obsolescence allowance.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Meetings with each brand General Manager to validate the assumptions applied by management and to identify any potential inventory obsolescence issues which had not been taken into account by management,</li> <li>• Assessing the performance of each brand relative to each season in the financial year,</li> <li>• Recalculating the mathematical accuracy of the inventory obsolescence allowance,</li> <li>• Challenging management's estimates and judgements by formulating a number of independent estimates of the inventory obsolescence allowance, including:                             <ul style="list-style-type: none"> <li>▪ the age of all inventory purchased more than a year ago,</li> <li>▪ actual inventory losses incurred in the current financial year, and</li> <li>▪ the net realisable value with reference to the last selling price and average selling price of inventory on hand.</li> </ul> </li> <li>• Performing a retrospective review of the allowance balance from FY16 to FY17 to assess the historical accuracy of management's ability to determine the inventory obsolescence allowance.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 1, 2 and 9 to the financial statements.</p>



Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
<p><b>Impairment assessment of store assets</b></p> <p>As at 30 June 2017 the Group held \$57.3 million of property, plant and equipment as disclosed in notes 1, 2 and 12. Management considers each retail store to be a cash generating unit ("CGU"). Given the continued competitive environment in which the Group operates, there is a risk that the carrying value of its stores assets may be higher than the recoverable amount. When a review for impairment is conducted by the Group, the recoverable amount is determined based on a 'value in use' calculation.</p> <p>The Group prepares a discounted cash flow model for each CGU to estimate its value in use. This requires significant judgement in determining the appropriate inputs into the discounted cash flow model, including:</p> <ul style="list-style-type: none"> <li>▪ Forecast growth rates and gross profit margins,</li> <li>▪ Long term growth rates,</li> <li>▪ Operating cost base,</li> <li>▪ Allocation of head office overhead costs to CGUs,</li> <li>▪ Discount rate, and</li> <li>▪ Lease renewal periods.</li> </ul> <p>As a result of the Group's impairment review, an impairment charge of \$1.4 million was included in the statement of profit or loss and other comprehensive income for the year ended 30 June 2017.</p>	<p>Our procedures included, but were not limited to:</p> <ul style="list-style-type: none"> <li>• Recalculating the mathematical accuracy and integrity of the impairment models,</li> <li>• Challenging the key assumptions utilised in the cash flow forecasts with reference to historical trading performance by brand, historical budgeting and forecast accuracy of the Group, reviewing the Group's history of lease renewals, and comparing forecast long term growth rates to independent macro-economic data for the apparel sector,</li> <li>• Evaluating the nature and amount of head office costs allocated to each CGU,</li> <li>• Engaging our valuation specialists to assist with evaluating the appropriateness of discount rates used in the impairment model,</li> <li>• Reviewing the Group's FY18 budget and the basis on which it has been prepared, including an assessment of the achievability of the Group's strategies, and</li> <li>• Performing a sensitivity analysis on the key assumptions and inputs in the impairment model, to consider the extent of change in those assumptions that either individually or collectively would be required for the assets to be impaired.</li> </ul> <p>We also assessed the appropriateness of the disclosures in Notes 1, 2, 5 and 12 to the financial statements.</p>

**Other Information**

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

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

In connection with our audit of the financial report, our responsibility is to read the other information identified above and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed on the other information that we obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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

## Responsibilities of the Directors for the Financial Report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

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

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

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

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 37 of the Directors' Report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Specialty Fashion Group Limited, for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.



DELOITTE TOUCHE TOHMATSU



David White  
Partner  
Chartered Accountants  
Sydney, 29 August 2017

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 AND OVERSIGHT

The directors' overriding objective is to increase shareholder value within an appropriate framework which protects the rights and interests of shareholders and ensures the 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 reviewed to ensure an appropriate skill mix, personal qualities, expertise and diversity to meet the Board's responsibilities and objectives. When a vacancy exists or there is a need for particular skills, the selection criteria based on the skills deemed necessary are identified.

The Nomination and Remuneration Committee reviews potential candidates for Board appointment and assesses retiring directors standing for re-election, considering a number of factors including skills, experience, expertise and personal qualities to enhance Board effectiveness, as well as any potential conflicts of interest and independence. The Board also undertakes appropriate checks and/or seeks confirmation of key matters in relation to any potential candidates before a person is appointed by the Board or out 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.

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

- Anne McDonald
- Megan Quinn

Ashley Hardwick is not regarded as an independent director under the independence guidelines, by virtue of his beneficial interest holding through NAAH Pty Ltd and NAAH Investments Pty Ltd, a substantial shareholder in Specialty Fashion Group Limited.

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

While the Board is not composed of a majority of independent non-executive directors, all directors are expected to provide and do provide independent judgements and views in Board discussions and do act in the best interests of the Company when making decisions.

The Board is currently chaired by Anne McDonald and Michael Hardwick. The Board recognises the ASX Corporate Governance Council's recommendation that the Chairperson of the Board should be an independent director. On 29 August 2017, the Board announced that it would move to a single Chairperson role for the Company effective 1 September 2017 (refer to note 38). The Chairpersons are responsible for leading the Board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating Board discussions and managing the Board's relationship with the Company's senior executives. The 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 23 to 25 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 reviews any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed. The Board is confident that suitable processes are in place, as outlined in its Board Charter, to satisfy expectations and requirements in relation to decision making and the management of conflicts of interest. The Directors on the Board of Specialty Fashion Group Limited contribute significant knowledge across a range of areas. Regardless of whether directors are defined as independent, all directors are expected to provide independent judgements and views to Board discussions.

### PERFORMANCE EVALUATION

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

There is also a process of formal 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 Claudine Tarabay as Company Secretary on 10 October 2016. Gary Spreckley served as Company Secretary between 25 February 2016 and 10 October 2016. All directors have access to the services and advice of the Company Secretary. Details of the skills, experience and expertise of the Company Secretary for the reporting period are set out in the directors' report. The Company Secretary is accountable directly to the Board, through the Chairpersons, on all matters to do with the proper functioning of the Board and Board Committees.

**DIVERSITY**

Workplace diversity recognises and values the contribution of people from different backgrounds, experiences and perspectives. It is the 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 2017 are set out below.

FY2017 Diversity Strategy	Achievements
Develop program to support parents returning to work	Completed
Conduct a Diversity Survey with Support Office team members	Completed
Submit the workplace Gender Equality Report	Completed
Training for Team Members on applicable policies and topics	Completed
Review Diversity Policy, ensuring it is robust and current	Completed

**FY2018 Objectives**

1. Implement program to support parent's return 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.

**Gender Balance**

The Company's ongoing commitment to reporting on Diversity is in line with the *Workplace Gender Equality Act 2012* (WGEA 2012). The WGEA Report 2017 detailed the proportion of women employed at different levels across the Company as follows:

- 2 of 5 Board members are women;
- 58% of the Leadership Team are women;
- Overall, across all Team Members, 94.4% of Team Members are women.

In addition, 73% of our Senior Management Team is female. The full WGEA report and findings are available upon request, please contact [a.cabrera@sfg.co](mailto:a.cabrera@sfg.co).

**PRINCIPLE 2—STRUCTURE THE BOARD TO ADD VALUE****Nomination and Remuneration Committee**

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

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

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

The Nomination and Remuneration Committee Charter prescribes the structure and responsibilities of the committee which can be found on the 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—ACT ETHICALLY AND RESPONSIBLY****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.

**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.

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.

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

## PRINCIPLE 4—SAFEGUARD INTEGRITY IN CORPORATE REPORTING

### Audit and Risk Committee

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

- 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. As the Chairperson of the Audit and Risk Committee is also Co-Chairperson of the Board, it is recognised that the Company does not fully meet the ASX Corporate Governance Council's recommendations at this time.

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

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

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

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

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

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

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

### Financial Report Accountability

The Chief Executive Officer and the Chief Financial Officer who are present for Board discussion of financial matters are required to certify to the Board that the consolidated entity's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the 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 AND 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 (available on the Company's website) which requires information to be disclosed in a full and timely manner to enable all shareholders and the market to have an equal opportunity to obtain and review information about the 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](http://www.specialtyfashiongroup.com.au)).

## PRINCIPLE 6—RESPECT THE RIGHTS OF SECURITY HOLDERS

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

## PRINCIPLE 7—RECOGNISE AND MANAGE RISK

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

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

The 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.

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.

## PRINCIPLE 8—REMUNERATE FAIRLY AND 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 and performance related bonuses. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

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

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

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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 29 August 2017. The directors have the power to amend and reissue the financial statements.

## CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME FOR THE YEAR ENDED 30 JUNE 2017

	Notes	Consolidated 2017 \$'000	2016 \$'000
<b>Revenue</b>	4	808,914	826,240
<b>Expenses</b>			
Changes in inventories of finished goods and consumables		2,106	(322)
Finished goods and consumables used		(358,182)	(366,867)
Employee benefits expense		(216,976)	(215,242)
Depreciation, amortisation and impairment expense	5	(24,621)	(21,485)
Rental expense	5	(135,854)	(133,416)
Other expenses	5	(79,654)	(87,200)
Finance costs	5	(2,207)	(3,248)
<b>Loss Before Income Tax Expense</b>		<b>(6,474)</b>	<b>(1,540)</b>
Income tax expense	6	(1,915)	(650)
<b>Loss After Income Tax Expense for the Year Attributable to the Owners of Specialty Fashion Group Limited</b>	25	<b>(8,389)</b>	<b>(2,190)</b>
<b>Other Comprehensive Income/(Loss)</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in the fair value of cash flow hedges taken to equity	24	(608)	(11,777)
Exchange differences on translation of foreign operations	24	(178)	586
Income tax expense relating to the components of other comprehensive income	24	182	3,533
Other comprehensive income for the year, net of tax		(604)	(7,658)
<b>Total Comprehensive Income for the Year Attributable to the Owners of Specialty Fashion Group Limited</b>		<b>(8,993)</b>	<b>(9,848)</b>
		<b>Cents</b>	<b>Cents</b>
Basic Loss Per Share	37	(4.4)	(1.1)
Diluted Loss Per Share	37	(4.4)	(1.1)

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  
AS AT 30 JUNE 2017**

	Notes	Consolidated	
		2017 \$'000	2016 \$'000
<b>Assets</b>			
<b>Current Assets</b>			
Cash and cash equivalents	7	17,431	18,945
Trade and other receivables	8	9,054	9,469
Inventories	9	90,839	88,733
Derivative financial instruments	10	3	8
Income tax receivable	11	35	758
<b>Total current assets</b>		<b>117,362</b>	<b>117,913</b>
<b>Non-Current Assets</b>			
Property, plant and equipment	12	57,299	73,633
Intangibles	13	22,983	21,133
Deferred tax asset	14	4,901	5,764
<b>Total non-current assets</b>		<b>85,183</b>	<b>100,530</b>
<b>Total Assets</b>		<b>202,545</b>	<b>218,443</b>

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

	Notes	Consolidated	
		2017 \$'000	2016 \$'000
<b>Liabilities</b>			
<b>Current Liabilities</b>			
Trade and other payables	15	84,067	83,495
Derivative financial instruments	16	4,325	4,458
Income tax provision	17	33	217
Provisions	18	21,029	21,059
Other	19	5,340	6,076
<b>Total current liabilities</b>		<b>114,794</b>	<b>115,305</b>
<b>Non-current Liabilities</b>			
Trade and other payables		–	1,192
Borrowings	20	25,714	32,248
Derivative financial instruments	16	742	–
Provisions	21	10,607	8,158
Other	22	6,613	8,472
<b>Total non-current liabilities</b>		<b>43,676</b>	<b>50,070</b>
<b>Total Liabilities</b>		<b>158,470</b>	<b>165,375</b>
<b>Net Assets</b>		<b>44,075</b>	<b>53,068</b>
<b>Equity</b>			
Issued capital	23	134,497	134,497
Reserves	24	(3,379)	(2,775)
Accumulated losses	25	(87,043)	(78,654)
<b>Total Equity</b>		<b>44,075</b>	<b>53,068</b>

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

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY  
FOR THE YEAR ENDED 30 JUNE 2017**

	Consolidated			
	Issued Capital \$'000	Reserves* \$'000	Accumulated Losses \$'000	Total Equity \$'000
Balance at 1 July 2015	134,497	4,883	(76,464)	62,916
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)	(78,654)	53,068

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

\* Reserves includes foreign currency translation, hedging and share-based payments reserves. Refer to note 24 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  
FOR THE YEAR ENDED 30 JUNE 2017**

	Notes	Consolidated	
		2017 \$'000	2016 \$'000
<b>Cash Flows from Operating Activities</b>			
Receipts from customers (inclusive of GST)		889,059	908,715
Payments to suppliers (inclusive of GST)		(866,036)	(875,014)
		23,023	33,701
Interest received		79	99
Interest and other finance costs paid		(2,207)	(3,248)
Net income taxes (paid)/received		(327)	168
Net cash from operating activities	36	20,568	30,720
<b>Cash Flows from Investing Activities</b>			
Payments for property, plant and equipment		(12,052)	(13,487)
Payments for intangibles	13	(3,872)	(2,895)
Proceeds from sale of property, plant and equipment		376	335
Net cash used in investing activities		(15,548)	(16,047)
<b>Cash Flows from Financing Activities</b>			
Repayments from borrowings		(6,534)	(2,688)
Finance lease repayments		–	(204)
Net cash used in financing activities		(6,534)	(2,872)
Net (decrease)/increase in cash and cash equivalents		(1,514)	11,801
Cash and cash equivalents at the beginning of the financial year		18,945	7,144
Cash and cash equivalents at the end of the financial year	7	17,431	18,945

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

## NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

### NEW, REVISED OR AMENDING ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

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

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

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

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

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

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

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

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

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

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

### 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').

### Changes in accounting policy

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

### 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 33. Financial information for the parent entity has been prepared on the same basis as the consolidated financial statements, with the exception of investments in subsidiaries which are measured at cost, and the current/non-current classification of intercompany receivables/payables with wholly owned subsidiaries of the parent entity.

As at 30 June 2017, the parent entity has net current liabilities of \$10.8 million (2016: net current liabilities of \$13.7 million). This has arisen due to the classification of intercompany receivables/payables as current/non-current with wholly-owned subsidiaries of the parent entity in accordance with AASB 132 *Financial Instruments: Presentation*. These intercompany balances eliminate on consolidation. Notwithstanding the classification of these balances, the parent entity is able to control the timing of the payment of these balances by virtue of its control of the respective subsidiary entities. In addition, the directors believe that the Company can meet its debts as and when they fall due. Refer to note 20 for further details.

## 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 2017 and the results of all subsidiaries for the year then ended. Specialty Fashion Group Limited and its subsidiaries together are referred to in these financial statements as the 'Group' or 'consolidated entity'.

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

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

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

### OPERATING SEGMENTS

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

### FOREIGN CURRENCY TRANSLATION

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

### Foreign currency transactions

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

### Foreign operations

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

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

### REVENUE RECOGNITION

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

#### Retail sales

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

#### Wholesale revenue

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

#### Lay-by sales

Revenue is recognised upon receiving final payment from the customer.

#### Interest

Interest revenue is recognised when it is earned.

## Other revenue

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

## Customer loyalty program

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

## INCOME TAX

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

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

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

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

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

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

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

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

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

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

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

## CURRENT AND NON-CURRENT CLASSIFICATION

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

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

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

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

## CASH AND CASH EQUIVALENTS

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

## OTHER RECEIVABLES

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

## INVENTORIES

Inventories are stated at the lower of cost and net realisable value. Cost comprises purchase and delivery costs, net of rebates and discounts received or receivable. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs also include transfer from equity of any gains/losses on qualifying cashflow hedges relating to purchases of inventories.

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

## DERIVATIVE FINANCIAL INSTRUMENTS

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

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

## Cash flow hedges

Cash flow hedges are used to cover the consolidated entity's exposure to variability in cash flows that is attributable to particular risks associated with a recognised asset or liability or a firm commitment which could affect profit or loss. The effective portion of the gain or loss on the hedging instrument

is recognised in other comprehensive income through the cash flow hedges reserve in equity, whilst the ineffective portion is recognised in profit or loss. Amounts taken to equity are transferred out of equity and included in the measurement of the hedged transaction when the forecast transaction occurs.

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

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

## 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 derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## LEASES

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

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

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

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

## INTANGIBLE ASSETS

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

## Goodwill

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

## Website

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

## Patents and trademarks

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

## Software

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

## IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

## TRADE AND OTHER PAYABLES

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

## BORROWINGS

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

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

## FINANCE COSTS

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

## PROVISIONS

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

## EMPLOYEE BENEFITS

### Short-term employee benefits

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

### Other long-term employee benefits

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

### Defined contribution superannuation expense

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

## Share-based payments

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

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

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

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

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

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

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

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

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

## 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

The table below lists the standards and amendments to standards that were available for early adoption and were applicable to the Group. The reported results and financial position of the Group are not expected to change on adoption of any of the amendments to current standards listed below as they do not result in any changes to the Group's existing accounting policies.

With respect to the new standards on issue but not yet effective, AASB 9 *Financial Instruments* (2014) and AASB 15 *Revenue from Contracts with Customers*, the Group will adopt these standards from 1 July 2018. The Group is yet to assess the full impact of their adoption but does not expect a material effect on the Group's results, financial position and disclosures.

With respect to AASB 16 *Leases*, the Group is yet to assess the full impact of the new standard. The application of AASB 16 is expected to have a material effect on the Group's reported assets and liabilities which will impact key financial ratios. The Group does not intend on adopting this new standard before its mandatory effective date.

Standard/Amendment to standards	Effective date—annual reporting period beginning on or after
AASB 15— <i>Revenue from Contracts with Customers and the relevant amending standards</i>	1 January 2018
AASB 9 (2014)— <i>Financial Instruments and the relevant amending standards</i>	1 January 2018
AASB 2016-5— <i>Amendments to Australian Accounting Standards—Classification and Measurement of Share-based Payment Transactions</i>	1 January 2018
AASB 16— <i>Leases</i>	1 January 2019

## 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.

### 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. Further details are provided in note 12.

### 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 Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA). The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

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

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

	Consolidated	
	2017 \$'000	2016 \$'000
Underlying EBITDA	26,666	25,014
Provision for store exit costs <sup>1</sup>	(4,903)	–
Restructuring costs <sup>2</sup>	–	(1,873)
Fair value revaluation of derivative financial instruments through profit or loss <sup>3</sup>	(131)	(47)
Interest revenue	79	99
Finance costs	(2,207)	(3,248)
Depreciation, amortisation and impairment of property, plant and equipment <sup>4</sup>	(24,621)	(21,485)
Change of control proposal <sup>5</sup>	(1,357)	–
Loss before income tax	(6,474)	(1,540)

<sup>1</sup> Relates to provision for store exit costs for City Chic USA stores. Store exit costs include redundancies, restructure, logistics and lease exit costs.

<sup>2</sup> Restructuring costs include redundancies, lease and other costs associated with the closure of the Rivers' Ballarat warehouse.

<sup>3</sup> To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2017 and year ended 30 June 2016 reflects fair value revaluation of the cotton call options at the end of the reporting period.

<sup>4</sup> Includes one-off store asset impairment of \$2.5 million relating to City Chic USA stores.

<sup>5</sup> Relates to costs associated with change of control proposal.

### Major customers

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

## NOTE 4. REVENUE

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Sales revenue</i>		
Sale of goods	807,761	824,680
<i>Other revenue</i>		
Interest	79	99
Other revenue	1,074	1,461
	1,153	1,560
Revenue	808,914	826,240

## NOTE 5. EXPENSES

	Consolidated	
	2017 \$'000	2016 \$'000
Loss before income tax includes the following specific expenses/(credits):		
Restructuring costs <sup>1</sup>	–	1,873
Depreciation, amortisation and impairment of property, plant and equipment <sup>2</sup>	24,621	21,485
Interest and finance charges paid/payable	2,207	3,248
Defined contribution superannuation expense	16,438	15,330
Rental expense relating to operating leases	130,951	133,416
Provision for store exit costs <sup>3</sup>	4,903	–
Net foreign exchange loss/(gain)	7,610	(17,347)
Inventory shrinkage	6,335	7,645
Total	193,065	165,650
Other expenses:		
Utility expenses	11,055	12,624
Maintenance costs	9,711	7,934
Professional and consulting fees	5,004	4,795
Change of control proposal <sup>4</sup>	1,357	–
Transactional fees and charges	4,340	4,523
Fair value revaluation of derivative financial instruments through profit or loss	131	47
Net (gain)/loss on disposal of plant and equipment	(111)	13
Other	48,167	57,264
Total	79,654	87,200

<sup>1</sup> Restructuring costs include redundancies, lease and other costs associated with the closure of the Rivers' Ballarat warehouse.

<sup>2</sup> Depreciation and impairment expense for the year was \$24.6 million (2016: \$21.5 million), which includes one-off store asset impairment of \$2.5 million relating to City Chic USA stores, offset by asset impairment writeback of \$1.1 million for the Group (2016: impairment expense of \$0.7 million).

<sup>3</sup> Relates to provision for store exit costs for City Chic USA stores. Store exit costs include redundancies, restructure, logistics and lease exit costs.

<sup>4</sup> Relates to costs associated with change of control proposal.

**NOTE 6. INCOME TAX EXPENSE**

	Consolidated	
	2017 \$'000	2016 \$'000
<i>(a) Income tax expense</i>		
Current tax	833	1,234
Deferred tax—origination and reversal of temporary differences	1,045	(359)
Prior year under/(over) provision	37	(225)
Aggregate income tax expense	1,915	650
Deferred tax included in income tax expense comprises:		
Decrease/(increase) in deferred tax assets (note 14)	1,045	(359)
<i>(b) Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(6,474)	(1,540)
Tax at the statutory tax rate of 30%	(1,942)	(462)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible entertainment	29	1
Sundry items	26	25
	(1,887)	(436)
Prior year under/(over) provision	37	(225)
Prior year tax losses not recognised now recouped	–	(193)
Difference in overseas tax rates	(1)	(6)
Foreign currency differences	4	(26)
Tax loss not recognised	3,762	1,536
Income tax expense	1,915	650

	Consolidated	
	2017 \$'000	2016 \$'000
<i>(c) Amounts credited directly to equity</i>		
Deferred tax assets (note 14)	(182)	(3,533)
<i>(d) Income tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	12,540	5,121
Potential tax benefit @ 30%	3,762	1,536

**(e) Income tax losses recognised**

As at 30 June 2017, the consolidated entity had carried forward income tax losses of \$2.0 million (2016: \$1.6 million). These losses were recognised as a deferred tax asset for the years ended 30 June 2017 and 30 June 2016.

**(f) Capital losses not recognised**

As at 30 June 2017, the consolidated entity had carried forward capital losses of \$154.9 million (2016: \$154.9 million). These losses have not been recognised as a deferred tax asset for the years ended 30 June 2017 and 30 June 2016.

**(g) Tax consolidation legislation**

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

**NOTE 7. CURRENT ASSETS—CASH AND CASH EQUIVALENTS**

	Consolidated	
	2017 \$'000	2016 \$'000
Cash at bank and on hand	17,431	18,945

**NOTE 8. CURRENT ASSETS—TRADE AND OTHER RECEIVABLES**

	Consolidated	
	2017 \$'000	2016 \$'000
Prepayments	3,150	3,787
Other receivables	5,904	5,682
	9,054	9,469

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	
	2017 \$'000	2016 \$'000
Inventories at lower of cost and net realisable value	90,839	88,733

**NOTE 10. CURRENT ASSETS—DERIVATIVE FINANCIAL INSTRUMENTS**

	Consolidated	
	2017 \$'000	2016 \$'000
Call options at fair value*	3	8

\* To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options. The expense for the year ended 30 June 2017 and 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 27 for further information on financial instruments.

**NOTE 11. CURRENT ASSETS—INCOME TAX RECEIVABLE**

	Consolidated	
	2017 \$'000	2016 \$'000
Income tax receivable	35	758

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

	Consolidated	
	2017 \$'000	2016 \$'000
Plant and equipment—at cost	177,839	182,938
Less: Accumulated depreciation and impairment	(120,540)	(109,305)
	57,299	73,633

	Consolidated	
	Plant and Equipment \$'000	
Balance at 1 July 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
Additions		6,603
Disposals		(265)
Exchange differences		(73)
Impairment expense		(1,383)
Depreciation expense		(21,216)
Balance at 30 June 2017		57,299

### 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 2.25% (2016: 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% (2016: 10.9%).

Impairment expense of \$1.4 million (2016: \$0.7 million) was recognised in relation to property, plant and equipment during the period. This includes a one-off store asset impairment charge of \$2.5 million relating to City Chic USA stores, offset by an impairment writeback of \$1.1 million for the Group.

### NOTE 13. NON-CURRENT ASSETS—INTANGIBLES

	Consolidated	
	2017 \$'000	2016 \$'000
Goodwill—at cost	10,095	10,095
Brand valuation	8,505	8,505
Other intangible assets	6,491	2,895
Less: Accumulated amortisation	(2,108)	(362)
	4,383	2,533
	22,983	21,133

### 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 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
Additions	–	–	3,872	3,872
Amortisation expense	–	–	(2,022)	(2,022)
Balance at 30 June 2017	10,095	8,505	4,383	22,983

\* 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 used 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 FY2018 budget that has been approved by the Board and projected for a further four years based on an estimated growth rate of 2.25% (2016: 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% (2016: 10.9%).

A terminal growth rate of 2.5% (2016: 2.5%) has been assumed in the value-in-use calculation and reflects the long-term growth expectations beyond the five year forecast horizon.

No sensitivity analysis was performed given the significant excess headroom at reporting date. There has been no impairment loss recognised in relation to goodwill (2016: 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 FY2018 budget that has been approved by the Board and projected for a further four years based on an estimated growth rate of 2.25% (2016: 2.5%). 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% (2016: 1.0%).

The tax rate applied in the valuation model is based on the corporate tax rate in Australia: 30.0% (2016: 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% (2016: 10.9%).

There has been no impairment loss recognised in relation to the brand (2016: nil).

## NOTE 14. NON-CURRENT ASSETS—DEFERRED TAX ASSET

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Deferred tax asset comprises temporary differences attributable to:</i>		
Amounts recognised in profit or loss:		
Tax losses	589	491
Property, plant and equipment	(9,808)	(10,232)
Indefinite life intangible assets	(2,551)	(2,551)
Employee benefits	5,705	5,769
Other provisions and accruals	5,263	6,504
Deferred lease incentives	3,350	3,724
Inventories	900	638
Lay-by debtors	(73)	(99)
Unrealised foreign currency exchange	6	182
	3,381	4,426
Amounts recognised in equity:		
Derivative financial instruments	1,520	1,338
Deferred tax asset	4,901	5,764
<i>Movements:</i>		
Opening balance	5,764	1,213
(Charged)/credited to profit or loss (note 6)	(1,045)	359
Credited to equity (note 24)	182	3,533
Underprovision in prior year	–	659
Closing balance	4,901	5,764

**NOTE 15. CURRENT LIABILITIES—TRADE AND OTHER PAYABLES**

	Consolidated	
	2017 \$'000	2016 \$'000
Trade payables	35,404	33,050
Other payables	48,663	50,445
	84,067	83,495

Refer to note 27 for further information on financial instruments.

**NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS**

	Consolidated	
	2017 \$'000	2016 \$'000
<b>Current</b>		
Forward foreign exchange contracts—cash flow hedges (current)	4,325	4,458
<b>Non-current</b>		
Forward foreign exchange contracts—cash flow hedges (non-current)	742	—
<b>Total</b>	5,067	4,458

Refer to note 27 for further information on financial instruments.

**NOTE 17. CURRENT LIABILITIES—INCOME TAX PROVISION**

	Consolidated	
	2017 \$'000	2016 \$'000
Income tax provision	33	217

**NOTE 18. CURRENT LIABILITIES—PROVISIONS**

	Consolidated	
	2017 \$'000	2016 \$'000
Provisions—Employee benefits	16,365	16,346
Other provisions	4,664	4,713
	21,029	21,059

**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 each class of provision during the current financial year, other than employee benefits, are set out below:

	Consolidated 2017 Other \$'000
Carrying amount at the start of the year	4,713
Additional provisions recognised	1,616
Amounts transferred from non-current	785
Amounts used	(2,450)
Carrying amount at the end of the year	4,664

**NOTE 19. CURRENT LIABILITIES—OTHER**

	Consolidated	
	2017 \$'000	2016 \$'000
Deferred lease incentives	4,772	5,534
Deferred revenue	568	542
	5,340	6,076

**Deferred lease incentives**

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

**Deferred revenue**

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

**NOTE 20. NON-CURRENT LIABILITIES—BORROWINGS**

	Consolidated	
	2017 \$'000	2016 \$'000
Bank loans	25,714	32,248

Refer to note 27 for further information on financial instruments.

**Total secured liabilities**

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

	Consolidated	
	2017 \$'000	2016 \$'000
Bank loans	25,714	32,248

**Assets pledged as security**

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

**Financing arrangements**

The following lines of credit were available at reporting date:

	Consolidated	
	2017 \$'000	2016 \$'000
Total facilities		
Bank loans	52,000	70,000
Corporate credit card	4,500	4,500
	56,500	74,500
Used at the reporting date		
Bank loans—recognised	25,714	32,248
Bank loans—unrecognised*	1,605	7,194
Total bank loans	27,319	39,442
Corporate credit card	390	392
	27,709	39,834
Unused at the reporting date		
Bank loans	24,681	30,558
Corporate credit card	4,110	4,108
	28,791	34,666

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

In June 2017 the Group renewed its external finance facilities such that their maturity date was extended to 28 February 2019. Consequently the external borrowings at 30 June 2017 totalling \$25.7 million have been classified as non-current liabilities. At balance date, bank loan facilities totalling \$52.0 million were available to the Group (30 June 2016: \$70.0 million). Of these facilities, \$24.7 million was unused (30 June 2016: \$30.6 million).

The total available facilities are subject to a continuing amortisation programme. This will result in the total available facility reducing to \$35.0 million by 30 June 2018. It is the expectation of the directors that the facility arrangements of the Company will be reassessed well in advance of their maturity date and finance facilities secured that continue to be appropriate for the needs of the Company.

The existing finance facilities contain specific financial covenants. Based on the Company's trading to date and agreed budgets, the directors believe these covenants will be met.

**NOTE 21. NON-CURRENT LIABILITIES—PROVISIONS**

	Consolidated	
	2017 \$'000	2016 \$'000
Provisions—Employee benefits	3,286	3,279
Other	7,321	4,879
	10,607	8,158

**Other provisions**

Other provisions include provision for stepped leases which represents 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 2017	
		Other \$'000
Carrying amount at the start of the year		4,879
Additional provisions recognised		3,227
Amounts transferred to current		(785)
Carrying amount at the end of the year		7,321

**NOTE 22. NON-CURRENT LIABILITIES—OTHER**

	Consolidated	
	2017 \$'000	2016 \$'000
Deferred lease incentives	6,613	8,472

**NOTE 23. EQUITY—ISSUED CAPITAL**

	Consolidated			
	2017 Shares	2016 Shares	2017 \$'000	2016 \$'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.

**NOTE 24. EQUITY—RESERVES**

	Consolidated	
	2017 \$'000	2016 \$'000
Foreign currency reserve	107	285
Hedging reserve—cash flow hedges	(3,547)	(3,121)
Share-based payments reserve	61	61
	(3,379)	(2,775)

**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 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)
Revaluation—gross	–	(608)	–	(608)
Deferred tax	–	182	–	182
Currency translation differences arising during the year	(178)	–	–	(178)
Balance at 30 June 2017	107	(3,547)	61	(3,379)

**NOTE 25. EQUITY—ACCUMULATED LOSSES**

	Consolidated	
	2017 \$'000	2016 \$'000
Accumulated losses at the beginning of the financial year	(78,654)	(73,912)
Recognition of deferred tax liability on indefinite life intangibles*	–	(2,552)
	(78,654)	(76,464)
Loss after income tax expense of the year	(8,389)	(2,190)
Accumulated losses at the end of the financial year	(87,043)	(78,654)

\* Recognition of deferred tax liability on indefinite life intangibles in accordance with a change in accounting policy as detailed in note 1.

**NOTE 26. EQUITY—DIVIDENDS****Dividends**

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

**Franking credits**

	Consolidated	
	2017 \$'000	2016 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	45,832	44,730

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 27. 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 2016 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 20 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 23 to 25).

Financial Assets	Consolidated	
	2017 \$'000	2016 \$'000
<i>Measured at amortised cost:</i>		
Cash and cash equivalents	17,431	18,945
Trade and other receivables	5,904	5,682
	23,335	24,627
<i>Measured at fair value:</i>		
Derivative financial instruments—call options at fair value through profit or loss	3	8
	23,338	24,635

Financial Liabilities	Consolidated	
	2017 \$'000	2016 \$'000
<i>Measured at amortised cost:</i>		
Trade and other payables	84,067	84,687
Borrowings	25,714	32,248
	109,781	116,935
<i>Measured at fair value:</i>		
Derivative financial instruments—cash flow hedges	5,067	4,458
	114,848	121,393

**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. Under the Group's risk management policy, foreign currency transactions are hedged for the subsequent 18 months with foreign currency transactions over the next 6 months hedged between 80% to 100%.

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

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

	Buy US Dollars		Sell Australian Dollars		Future Hedge Rate	
	2017 \$'000	2016 \$'000	2017 \$'000	2016 \$'000	2017 \$	2016 \$
<b>Buy US Dollars</b>						
Maturity:						
Less than 1 year	141,640	126,257	188,883	175,145	0.7501	0.7218
Between 1 and 2 years	26,000	–	34,742	–	0.7485	0.7218

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 2017, 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 \$14.3 million higher/\$17.5 million lower (2016: \$11.1 million higher/\$13.6 million lower) had the Australian dollar weakened/strengthened by 10% against the US dollar, arising mainly from foreign forward exchange contracts designated as cash flow hedges.

The impact of fluctuations in New Zealand dollar, South African Rand and Chinese RMB against the Australian dollar on post-tax profit and other balance sheet items would not be significant. This position has not changed from 2016.

### Price risk

In order to protect against significant adverse fluctuations in cotton prices, the Group purchased cotton call options with a fair value of \$3,000 at 30 June 2017 (2016: \$8,000). The expense for the year ended 30 June 2017 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

At 30 June 2017, 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 (2016: 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 2017, 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 \$0.4 million lower/higher (2016: \$0.6 million lower/higher). The weighted average interest rate at 30 June 2017 is 3.53% (2016: 3.78%).

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

Consolidated	Consolidated 2017		Consolidated 2016	
	Weighted Average Interest Rate %	Balance \$'000	Weighted Average Interest Rate %	Balance \$'000
Cash and deposits	1.06%	17,431	1.36%	18,945
Bank loans	3.53%	(25,714)	3.78%	(32,248)
Net exposure to cash flow interest rate risk		(8,283)		(13,303)

### 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 2017, the Group renewed its external finance facilities such that their maturity date was extended to 28 February

2019. The bank loan facilities comprise of a working capital facility of \$20.0 million and trade finance facilities of \$32.0 million. At balance date, bank loan facilities totalling \$52.0 million were available to the Group (30 June 2016: \$70.0 million). Of this facility, \$24.7 million was unused (30 June 2016: \$30.6 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	
	2017 \$'000	2016 \$'000
Bank loans	24,681	30,558
Corporate credit card	4,110	4,108
	28,791	34,666

### 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 2017					
	Weighted Average Interest Rate %	1 Year or Less \$'000	Between 1 and 2 Years \$'000	Between 2 and 5 Years \$'000	Over 5 Years \$'000	Remaining Contractual Maturities \$'000
<b>NON-DERIVATIVES—LIABILITIES</b>						
<i>Non-interest bearing</i>						
Trade and other payables	–	84,067	–	–	–	84,067
<i>Interest-bearing—variable</i>						
Borrowings	3.53	–	25,714	–	–	25,714
Total non-derivatives liabilities		84,067	25,714	–	–	109,781

	Consolidated 2016					
	Weighted Average Interest Rate %	1 Year or Less \$'000	Between 1 and 2 Years \$'000	Between 2 and 5 Years \$'000	Over 5 Years \$'000	Remaining Contractual Maturities \$'000
<b>NON-DERIVATIVES—LIABILITIES</b>						
<i>Non-interest bearing</i>						
Trade and other payables	–	83,495	1,192	–	–	84,687
<i>Interest-bearing—variable</i>						
Borrowings	3.78	–	32,248	–	–	32,248
Total non-derivatives liabilities		83,495	33,440	–	–	116,935

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 2017				
	1 Year or Less \$'000	Between 1 and 2 Years \$'000	Between 2 and 5 Years \$'000	Over 5 Years \$'000	Remaining Contractual Maturities \$'000
<b>Derivative Asset/(Liability)</b>					
Call options	3	–	–	–	3
Forward foreign exchange contracts	(4,325)	(742)	–	–	(5,067)
Total derivatives	(4,322)	(742)	–	–	(5,064)

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

## FAIR VALUE OF FINANCIAL INSTRUMENTS

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

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

The consolidated entity has financial assets and liabilities which are measured at fair value at the end of each reporting period. Forward foreign exchange contracts (see note 16) 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 counterparties. There were no transfers between levels during the financial year.

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

## NOTE 28. KEY MANAGEMENT PERSONNEL DISCLOSURES

### Directors

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

- A McDonald—Non-Executive Director, Co-Chairperson
- M Hardwick—Non-Executive Director, Co-Chairperson
- G Perlstein—Chief Executive Officer
- A Hardwick—Non-Executive Director
- M Quinn—Non-Executive Director
- G Levy—Chairperson and Non-Executive Director (retired 17 November 2015)
- I Miller—Non-Executive Director (retired 17 November 2015)

### 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\*:

- S Moura—General Manager People and Culture
- T Karp—Chief Operating Officer (appointed 11 July 2016)
- G Spreckley—Chief Financial Officer and Company Secretary (resigned 10 October 2016)

\* Tim Fawaz was appointed as Chief Financial Officer of the Company on 1 July 2017; therefore no disclosure has been included in respect of key management personnel remuneration for the year ended 30 June 2017.

### Compensation

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

	Consolidated	
	2017 \$	2016 \$
Short-term employee benefits	2,498,451	1,900,433
Post-employment benefits	122,338	117,065
	<u>2,620,789</u>	<u>2,017,498</u>

### Shareholding

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

	Consolidated	
	2017	2016
<b>Directors' shareholding</b>		
A McDonald	15,000	15,000
M Hardwick	220,000	220,000
G Perlstein	17,862,814	17,862,814
A Hardwick*	38,742,203	38,742,203
M Quinn	–	–
G Levy AO**	–	2,365,564
I Miller**	–	14,509,906
Total shares held by directors	<u>56,840,017</u>	<u>73,715,487</u>

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

\*\* G Levy and I Miller retired as directors of Specialty Fashion Group Limited on 17 November 2015.

**NOTE 29. 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, and its network firms:

	Consolidated	
	2017 \$	2016 \$
<b>Auditor of the parent entity</b>		
<i>Audit services—Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	393,000	399,000
<i>Other services—Deloitte Touche Tohmatsu</i>		
Tax compliance services including review of company income tax returns	30,000	38,500
Tax advisory services	19,100	43,185
Other advisory services	5,000	132,000
	54,100	213,685
	447,100	612,685
<b>Network firms of the parent entity auditor</b>		
<i>Audit services—Deloitte Touche Tohmatsu</i>		
Audit or review of the financial statements	10,720	9,490
<i>Other services—Deloitte Touche Tohmatsu</i>		
Tax compliance services including review of company income tax returns	64,150	57,660
Tax advisory services	71,435	35,035
Other advisory services	1,460	–
	137,045	92,695
	147,765	102,185

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 30. CONTINGENT LIABILITIES**

The consolidated entity had contingent liabilities at 30 June 2017 in respect of:

Cross guarantees by and between Specialty Fashion Group Limited and Millers Fashion Club (QLD) Pty Limited. These are described in note 35. No deficiencies of assets exist in any of these companies.

Security for borrowings is detailed in note 20.

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

**NOTE 31. COMMITMENTS**

	Consolidated	
	2017 \$'000	2016 \$'000
<i>Capital commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	2,192	2,298
<i>Lease commitments—operating</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	74,651	83,280
One to five years	93,977	101,138
More than five years	832	1,519
	169,460	185,937

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

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

**NOTE 32. RELATED PARTY TRANSACTIONS****Parent entity**

Specialty Fashion Group Limited is the parent entity.

**Subsidiaries**

Interests in subsidiaries are set out in note 34.

**Key management personnel**

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

**Transactions with related parties**

The following transactions occurred with related parties:

	Consolidated	
	2017 \$	2016 \$
<i>Payment for other expenses:</i>		
Lease of business premises in which I Miller and G Perlstein, directors of the consolidated entity, have an interest*	296,517	411,204
Lease of business premises in which G Levy, director of the consolidated entity, has an interest*	–	230,804
Consulting fees for training services paid to a company that is associated with G Perlstein, a director of the consolidated entity	1,500	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 and G Levy retired as directors of Specialty Fashion Group Limited on 17 November 2015.

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

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

**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 33. PARENT ENTITY INFORMATION**

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

**Statement of profit or loss and other comprehensive income**

Parent	2017 \$'000	2016 \$'000
Revenue	754,040	775,883
Expenses	(751,079)	(776,281)
Profit/(loss) before income tax	2,961	(398)
Income tax expense	(955)	(799)
Profit/(loss) after income tax	2,006	(1,197)
Other comprehensive loss	(428)	(8,244)
<b>Total comprehensive income/(loss)</b>	<b>1,578</b>	<b>(9,441)</b>

**Statement of financial position**

Parent	2017 \$'000	2016 \$'000
Total current assets	99,858	97,669
Total assets	197,485	209,476
Total current liabilities	110,617	111,390
Total liabilities	151,832	160,846
<b>Equity</b>		
Issued capital	134,497	134,497
Foreign currency reserve	–	(2)
Hedging reserve–cash flow hedges	(3,547)	(3,119)
Share-based payments reserve	61	61
Accumulated losses	(85,358)	(82,807)
<b>Total equity</b>	<b>45,653</b>	<b>48,630</b>

### 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 35 for further details.

As at 30 June 2017, the parent entity has net current liabilities of \$10.8 million (2016: net current liabilities of \$13.7 million). This has arisen due to the classification of intercompany receivables/payables as current/non-current with wholly-owned subsidiaries of the parent entity in accordance with AASB 132 *Financial Instruments: Presentation*. These intercompany balances eliminate on consolidation. Notwithstanding the classification of these balances, the parent entity is able to control the timing of the payment of these balances by virtue of its control of the respective subsidiary entities. In addition, the directors believe that the Company can meet its debts as and when they fall due. Refer to note 20 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 31 for further details.

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

	Parent	
	2017 \$'000	2016 \$'000
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	2,192	2,298

### 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 34. 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:

	Principal Place of Business/Country of Incorporation	Ownership Interest	
		2017 %	2016 %
Miller's Fashion Club (QLD) Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group No. 1 Pty Limited (formerly known as Specialty Fashion Group Leasing Pty Limited)	Australia	80.00%	80.00%
Specialty Fashion Group No. 2 Pty Limited	Australia	100.00%	100.00%
Crossroads Clothing Co. Pty Limited	Australia	100.00%	100.00%
City Chic International Pty Limited	Australia	100.00%	100.00%
Specialty Fashion Group New Zealand Limited	New Zealand	100.00%	100.00%
Specialty Fashion Group (Shanghai) Limited Company	China	100.00%	100.00%
Specialty Fashion Group South Africa (Pty) Ltd	South Africa	100.00%	100.00%
Specialty Fashion Group USA Incorporated	United States	100.00%	100.00%
Miller's Fashion Club (VIC) Pty Limited (deregistered 25 April 2017)	Australia	–	100.00%
Miller's Fashion Club (WA) Pty Limited (deregistered 13 March 2017)	Australia	–	100.00%
Specialty Fashion Group No. 3 Pty Limited (deregistered 24 April 2017)	Australia	–	100.00%
Specialty Fashion Group No. 4 Pty Limited (deregistered 2 March 2017)	Australia	–	100.00%
Yip Eks Pty Limited (deregistered 2 March 2017)	Australia	–	100.00%
H&H Corporation Pty Limited (deregistered 2 March 2017)	Australia	–	100.00%
McSeveny DA Pty Limited (deregistered 13 March 2017)	Australia	–	100.00%
GIP Fashions Pty Limited (deregistered 25 April 2017)	Australia	–	100.00%
Selbourne Australia Pty Limited (deregistered 2 March 2017)	Australia	–	100.00%

**NOTE 35. 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

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 33.

**NOTE 36. RECONCILIATION OF LOSS AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES**

	Consolidated	
	2017 \$'000	2016 \$'000
Loss after income tax expense for the year	(8,389)	(2,190)
<i>Adjustments for:</i>		
Depreciation and amortisation expense	23,238	20,839
Impairment of property, plant and equipment	1,383	646
Foreign exchange differences	(251)	364
Net (gain)/loss on disposal of non current assets	(111)	13
Fair value revaluation of derivative financial instruments through profit or loss	131	47
Other	208	-
<i>Change in operating assets and liabilities:</i>		
Decrease/(increase) in trade and other receivables	415	(1,031)
(Increase)/decrease in inventories	(2,106)	322
Decrease/(increase) in deferred tax assets	1,045	(1,018)
Increase in derivative assets	(126)	(54)
Decrease/(increase) in current tax	540	1,798
Increase in trade and other payables*	4,765	14,321
Decrease in other provisions	(174)	(3,337)
<b>Net cash from operating activities</b>	<b>20,568</b>	<b>30,720</b>

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

**NOTE 37. LOSS PER SHARE**

	Consolidated	
	2017 \$'000	2016 \$'000
Loss after income tax attributable to the owners of Specialty Fashion Group Limited	(8,389)	(2,190)
	Number	
Weighted average number of ordinary shares used in calculating basic earnings per share	192,236,121	192,236,121
Weighted average number of ordinary shares used in calculating diluted earnings per share	192,236,121	192,236,121
	Cents	
Basic loss per share	(4.4)	(1.1)
Diluted loss per share	(4.4)	(1.1)

There were no dilutive potential ordinary shares outstanding as at 30 June 2017 (2016: nil).

**NOTE 38. SHARE-BASED PAYMENTS****Employee Long Term Incentive Plan**

There were no performance share rights outstanding as at 30 June 2017 (2016: nil).

**Fair value of options granted**

No options were granted during the years ended 30 June 2017 or 30 June 2016. 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 39. EVENTS AFTER THE REPORTING PERIOD**

On 29 August 2017, the Board of directors announced that it would move to a single Chairperson role for the Company. Anne McDonald will continue to act as independent Chairperson of the Board. Michael Hardwick will relinquish his role as Co-Chairperson but will continue his contribution as a Non-Executive Director, and has also been appointed Chairperson of the Audit and Risk Committee. These changes will be effective 1 September 2017.

Apart from the above, no other matter or circumstance has arisen since 30 June 2017 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.

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 2017 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 35 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

29 August 2017  
Sydney



**Michael Hardwick**  
Non-Executive  
Co-Chairperson



**Gary Perlstein**  
Chief Executive Officer

## SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 31 July 2017.

### 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	1,017
1,001 to 5,000	1,757
5,001 to 10,000	540
10,001 to 100,000	637
100,001 and over	97
	4,253
Holding less than a marketable parcel	1,168

## 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	20,909,189	10.88
Icestorm Pty Ltd	16,745,288	8.71
BNP Paribas Nominees Pty Ltd	13,683,543	7.12
HSBC Custody Nominees (Australia) Limited	13,513,470	7.03
Citicorp Nominees Pty Limited	8,984,291	4.67
National Nominees Limited	8,076,402	4.20
Landcharm Pty Limited	7,387,666	3.84
Landpeak Pty Limited	7,122,240	3.70
One Managed Invst Funds Ltd	3,482,931	1.81
T Batsakis Pty Ltd	2,700,000	1.40
GDL Investments Pty Limited	1,955,564	1.02
Mr David Alan McSeveny	1,171,513	0.61
TALMAL Pty Ltd	950,000	0.49
Tank Ventures Pty Ltd	880,000	0.46
Mr Hedley Sandler and Mrs Beverley Sandler	825,000	0.43
Bellino Pty Ltd	755,000	0.39
Snowglaze Investments Pty Ltd	702,720	0.37
TDA Securities Pty Ltd	600,000	0.31
Wallbay Pty Ltd	505,966	0.26
	<b>149,692,986</b>	<b>77.85</b>

### 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 <sup>1</sup>	38,742,203	20.15
Lazard Asset Mgt Pacific Co	23,002,370	11.97
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
Renaissance Smaller Companies	10,217,190	5.31

<sup>1</sup> 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.



*Our aim is to enable  
our customers to shop  
and engage with our  
brands — any time,  
any place, any way.*

CONTACT US

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