



SPECIALTY FASHION | GROUP
Annual Report 2009

millers

crossroads

Katies

AUTOGRAPH

city chic

QUEENSPARK

Our Brands

OUR HIGHLIGHTS	3
OUR VISION	4
OUR CULTURE	6
OUR PRESENCE	9
OUR GROWTH	10
OUR BRANDS	12
CHAIRMAN'S REVIEW	14
CEO'S REPORT	16
BOARD OF DIRECTORS	18
DIRECTOR'S REPORT	21
CORPORATE GOVERNANCE STATEMENT	33

Financial Report

36	INCOME STATEMENTS
37	BALANCE SHEETS
38	STATEMENTS OF CHANGES IN EQUITY
39	CASH FLOW STATEMENTS
40	NOTES TO THE FINANCIAL STATEMENTS
77	DIRECTORS' DECLARATION
78	INDEPENDENT AUDIT REPORT TO THE MEMBERS
80	SHAREHOLDER INFORMATION
82	CORPORATE DIRECTORY





Our Highlights

- Sales up 4.2% to \$560.6m after a strong second half
- EBITDA of \$53.2m compared to \$53m in the prior year
- NPAT of \$22.6m, up from \$21.2m in prior year
- Strong operating cash flows of \$39.6m
- Net debt reduced by 32.1% to \$25.8m
- Disciplined inventory management
- Business Improvement Program – “Project Revitalise” – continuing



Our Vision

...to become Australia's leading specialty fashion, multi-branded women's apparel business. Through our brands we aim to offer women of all ages and sizes contemporary fashion at competitive prices. By enhancing the in store experience and adopting business best practice, we aim to build customer loyalty while achieving maximum returns for our shareholders. Recognising the value of our people to achieve this vision we aim to create a unique work environment driving our goal to be an employer of choice.



Our Culture



S.H.I.R.T

SHIRT is at the very core of everything we do at Specialty Fashion Group and it sets us apart from our competition. Standing for Service, Humility, Integrity, Respect and Trust, these values drive our every interaction. We have successfully rolled out SHIRT across the group, and this investment reflects in the strength of our organisation and passion of our people.

Our People

Our people are our greatest asset. Our success is based on our ability to attract, retain, develop and motivate the best people with the right capabilities at all levels of the business. We want to be an employer of choice.

Succession Planning

Across the business we recognise the need for succession planning which will ensure that the needs of the business going forward are considered and provided for.

Our people are talented individuals all of whom have something unique to offer. We have therefore developed a personal development program which will support and develop them as they grow within the business. This ensures that we will have the breadth and depth of leadership to take Specialty Fashion Group to the next level.

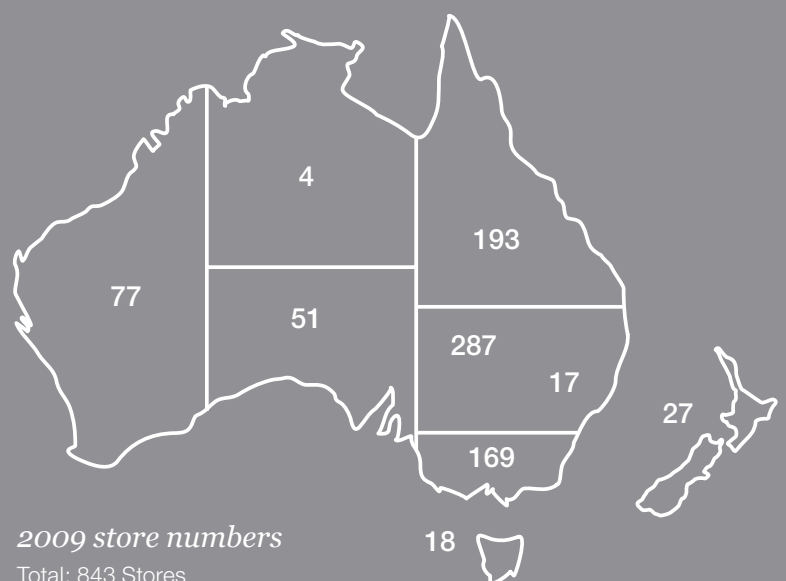




Our Presence

	2009	2008
Millers	371	364
Crossroads	138	142
Katies	145	142
Autograph	122	118
City Chic	46	39
Queenspark	21	8
Total	843	813
AUS	816	788
NZ	27	25
Total	843	813

30 net new stores in the last year!



2009 store numbers

Total: 843 Stores



Our Growth

Our Growth

Specialty Fashion Group remains the largest women's apparel retail group in Australia. In terms of store portfolio, we have executed a determined property strategy in relation to store openings and closures to drive performance improvement and create a strong platform for future growth. We now have 843 stores across our six Brands.

We are in the process of rolling out our strategy of offering digital stores delivering online sales across our brands. Initial indications are that we are attracting new and regular customers that are purchasing online without impacting our store sales.

To ensure the Group continues to pursue the right strategy, the Board discusses strategic issues at every Board meeting, and dedicates two full days a year to reviewing the Group's strategy. The Senior Leadership Team also holds monthly sessions to discuss and review the direction. We also invest significant resources in ensuring our strategy is communicated across the entire business to ensure that all stakeholders accountable for delivering our strategy are aligned.





Our Brands

millers

Everyday fashion essentials targeted at the value conscious 50 plus year old mother and daughter.

371 Millers stores across Australia & New Zealand.

crossroads

Affordable, casual, workwear and dress fashion in sizes 8-22.

138 Crossroads stores across Australia.

Katies

Katies offers the forever 40 women looking for classic fashion, a range of quality clothing for all occasions at exceptional value.

145 Katies stores across Australia.



AUTOGRAPH

Fashion in larger sizes (sizes 14-30) for value conscious women aged 30+ wanting a flattering interpretation of the latest fashion look.

122 Autograph stores across Australia.

city chic

Fashion forward brand that operates in the size 14+ market aimed at ages 18-30. 'Be bold, be sexy, be sassy, be chic'.

46 City Chic stores across Australia and New Zealand.

QUEENSPARK

Queenspark targets the modern, fashionable, contemporary women. With affordable prices, the brand has grown our portfolio through expanding our demographic reach.

21 Queenspark stores across Australia.

CHAIRMAN'S REPORT

I am pleased to report to shareholders a very solid result in what was a challenging trading year for retailers and a year in which a major fraud was uncovered in our company.

As you would know, from company releases and the press we recently became aware that over the last five years approximately \$16.7 million (including \$1.5 million GST) of expenditure was falsely charged to the company. This was out of total property expenditure of \$150 million.

As a result of this discovery, the company terminated the employment of Simon Feldman as Head of the property department on 15th of May 2009 and the courts have found him and others liable to repay the misappropriated funds.

Approximately \$10.8 million of the falsely charged expenditure had been capitalised to fixed assets over the five-year period and \$4.4 million had been accounted for through profits. For fiscal 2009, fraudulent expenditure of \$1.8 million (compared with \$5.4 million in the prior year) had been charged to the company's profit, being made up of falsely charged expenditures, costs incurred, fixed asset write offs and offset by insurance recoveries.

We have received \$5 million in insurance recoveries with our insurers in relation to these fraudulent activities as well as undertaking legal action with the assistance of forensic accountants to recover any remaining funds. However, the prospects of further material recoveries is unlikely and we, unfortunately, consider the balance of the loss being irrecoverable.

This entire episode has been deeply disturbing to the Board and our executive management team. Still, we must move forward. Part of this process has been to completely review our systems and controls, in conjunction with our Auditors. Furthermore, the company is in the process of re-examining its formalised risk management system.

Whilst Gary will elaborate in his CEO report which follows, the strategic initiatives that originated from Project Revitalise are positively impacting on our operations. The positive impact of this undertaking will continue in fiscal 2010 and beyond.

Essentially, Project Revitalise has delivered tremendous rigour to our daily operations. It allows us to better target customers with sophisticated marketing strategies; it drives an improved inventory management system as well as streamlining our sourcing of goods; and, most importantly, it helps to differentiate our exceptional brands in a very competitive marketplace.

The importance of these performance improvements cannot be underestimated. We have been able to maintain our gross margins in an extremely tough trading environment. Specialty Fashion Group is well positioned for future growth.

We have prudently managed our balance sheet, reducing our net debt to a two-year low of \$25.8 million, from \$37.9 million a year earlier. We have renewed our bank facility to September 2010.

Our operating cash flows rose to \$39.6 million for the year ended 30 June 2009, a \$7 million, or 22.2% improvement compared to the previous corresponding period.

We have decided to not pay a final dividend until we have greater clarity on the outlook for trading conditions. Because of the continuing uncertainty of markets, we believe that conserving our cash is a prudent course of action. However, we will review our operating results at the end of each half and make the appropriate decisions regarding dividend payments at that point in time.

Whilst we have experienced a very challenging year, the Board remains confident that Specialty Fashion Group is in good shape to grow. Our cash flows are very solid and we have disciplined inventory management and cost efficiencies.

Our brands are well positioned and we maintain a continual program to close underperforming stores. We are confident that the company is well positioned to take advantage of an upturn in economic activity and win our market share of consumer spending.

Finally, on behalf of the Board, I would like to acknowledge the strong leadership of our CEO, Gary Perlstein, in what has been a trying and challenging period as well as the support of Gary's entire team.



Geoffrey Levy AO
Chairman



I am pleased to report to shareholders that despite one of the most challenging retail environments for many years we achieved a 4.2% rise in annual sales to \$560.6 million, driven by a strong second-half performance, in which like-for-like sales rose 6.5%.

The repositioning of the group's brands, which we started more than two years ago under our Project Revitalise initiative, allowed us to capture a robust share of consumer spending, particularly through the Mother's Day and June sale period.

Project Revitalise commenced two years ago and has been the catalyst for performance improvement. This strategic program involves continually improving the calibre of our brands by reinvigorating stores through targeted spending; direct sourcing of goods from Asia to drive margins and improving our marketing programs to better serve our database of almost 4 million customers; our new marketing initiatives have improved the response rate of our customers. We expect these rates to further improve as our marketing strategies become ever more sophisticated.

Our sourcing initiatives, along with our improved inventory management, have allowed us to maintain gross margins and deliver strong stock turns. These were very pleasing results given the difficult economic times and the ongoing discounting via our competitors.

Through its focused efforts the executive team has driven improvements throughout the company and we are well placed to capitalise on the benefits from the hard work of the past two years. Our programme of continuous improvement will always continue, and the foundations for further growth have now been laid.

The discovery of the fraudulent activity was profoundly disturbing for the executive team, and indeed our entire company, and unfortunately overshadowed to some extent what was a successful year.

The group delivered Net Profit after Tax of \$22.6 million, up 6.3% from \$21.2 million a year earlier after the 2008 accounts were re-stated as required under the accounting standards.

The executive team remains committed to our goal of making our brands compelling to consumers and closely monitoring the performances of our stores. As at 30 June we had 843 stores, up from 813 at the same time a year earlier. During fiscal 2009, we opened 58 new stores and closed 28 underperforming stores. We will continue to review our store portfolio as we seek continuous improvement and better returns from our assets.

We will continue to identify, reward and protect our members, activate members through cross selling and other strategies and communicate with members who have lapsed with targeted offers designed to drive them back in-store.

CEO's REPORT



Our gross margins held steady during one of the most challenging of times for retailers. This is a testament to the gains we've made through Project Revitalise and these ongoing initiatives position us well for future growth.

The strong second-half performance in fiscal 2009 was buoyed by the federal government's stimulus packages, but it is also evident that we captured our fair share of consumer spending, and we have seen some momentum of that period carry forward into the current financial year.

The economic and trading outlook remains uncertain, however despite this uncertainty, we are extremely well positioned to take advantage of any upturn in economic activity and any increase in discretionary spending by our customers.

The quality of our brands – Millers, Crossroads, Katies, Autograph, City Chic and Queenspark – proves that our strategies under Project Revitalise are working and that we are Australia's leading specialty fashion, multi-branded woman's apparel business.

I would like to thank everyone at Specialty Fashion Group and especially the store teams for their loyalty and determination over this past year. The hard work of the executive team along with all our team members to continue to deliver the best results for our shareholders and deliver the best value and service for our customers will help drive the success of the business into the future.

A handwritten signature in black ink, appearing to read 'G. Perlstein'.

Gary Perlstein
CEO

Board of directors



Geoffrey Levy, AO

B.Comm, LLB, FFIN, MAICD
Non-Executive Chairman

Geoff Levy retired as Executive Chairman of Investec Bank (Australia) limited ("Investec") on 1 January 2008 and assumed the Non-Executive position of Deputy Chair. Geoff was previously CEO of Investec, a principal of Wentworth Associates and before that a partner in the leading law firm, Freehills. He has over two decades of experience in the corporate advisory environment where he is regarded as an expert in mergers and acquisitions, capital raisings and general corporate commercial law. Geoff has been a director on a number of public and government boards and is currently a Non-Executive Chairman of Cromwell Group Limited.

In the last three years, he previously served on the boards of listed companies, Mirvac, Ten Network Holdings and STW Group Limited. Geoff was appointed an Officer of the Order of Australia in the 2005 Queen's Birthday Honours List.



Gary Perlstein

B.Bus
Chief Executive Officer

Gary Perlstein has played an integral role both in the establishment and growth of Specialty Fashion Group since it was founded in 1993.

He was appointed CEO in October 2003. Gary has 18 years retailing experience in Australia. Gary has been a Director of Specialty Fashion Group since 1995.



Joel Bloom

B.Comm
Non-Executive Director

Joel Bloom joined the Specialty Fashion Group Board in March 2005. Joel is a Chartered Accountant by training and was the joint founder of Go-Lo, a national chain of Discount Variety Stores. Joel has had over 20 years of retailing experience in Australia.



Ian Miller

B.Comm

Non-Executive Director

Ian Miller co-founded Specialty Fashion Group in 1993 and was its Managing Director until October 2003. Ian has had over 30 years of retailing experience. Ian was an Executive Director from 1993 until 1 January 2007 when he moved to being a Non-Executive Director.



John Murphy

CA, FCPA, B.Comm, M.Comm
Non-Executive Director

John Murphy is the Managing Director of Investec Wentworth Private Equity Limited and is a board member of the following listed companies: Ariadne Australia limited, Staging Connections Group Limited and Gale Pacific Limited.

Mr Murphy is also a Non-Executive Director of First Opportunity Fund Limited and Investec Bank (Australia) Limited. During the last 3 years, Mr Murphy has also been a Non-Executive Director of the following listed companies: Australian Pharmaceutical Industries Limited (2004–2007).



Anne McDonald

B.Ec, FCA, GAICD
Non-Executive Director

Anne joined the Specialty Fashion Group board in April 2007.

Anne is a Chartered Accountant by training and is currently a Director of the GPT Group, Spark Infrastructure Group, and Westpac's Life Insurance and General Insurance businesses. She chairs the Audit Committee for a number of those entities. She is also a Director of Health Super Pty Ltd (as trustee of Health Superannuation Fund).

Ms McDonald was a partner with Ernst & Young for 15 years until 2005. During that time she served as a member of the Board of Ernst & Young Australia for seven years.

She was previously a Director of the Private Health Insurance Administration Council, a Commonwealth Government statutory authority, for four years.

As part of her community work Anne is a director of St Vincent's Healthcare Group which oversees the St Vincent's group of national hospitals and aged care facilities.



Contents

21	DIRECTOR'S REPORT
33	CORPORATE GOVERNANCE STATEMENT
	FINANCIAL REPORT
36	INCOME STATEMENTS
37	BALANCE SHEETS
38	STATEMENTS OF CHANGES IN EQUITY
39	CASH FLOW STATEMENTS
40	NOTES TO THE FINANCIAL STATEMENTS
77	DIRECTORS' DECLARATION
78	INDEPENDENT AUDIT REPORT TO THE MEMBERS
80	SHAREHOLDER INFORMATION
82	CORPORATE DIRECTORY

This financial report covers both Specialty Fashion Group Limited as an individual entity and the consolidated entity consisting of Specialty Fashion Group Limited and its subsidiaries. The financial report is presented in the Australian currency.

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

Specialty Fashion Group Limited
151–163 Wyndham Street
Alexandria NSW 2015.

A description of the nature of the consolidated entity's operations and its principal activities is included in the review of operations and activities in the directors' report on page 21, both of which are not part of this financial report.

The financial report was authorised for issue by the directors on 25 September 2009. The company has the power to amend and reissue the financial report.

Directors' Report

For the year ended 30 June 2009

Your directors present their report on the consolidated entity (referred to hereafter as the Group) consisting of Specialty Fashion Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2009.

DIRECTORS

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

- G Levy AO
- G Perlstein
- A I Miller
- J Murphy
- J Bloom
- A McDonald

Information on the qualifications, experience and special responsibilities of the Board of Directors is set out on pages 18 and 19.

PARTICULARS OF DIRECTORS' INTERESTS IN SHARES AND OPTIONS OF SPECIALTY FASHION GROUP LIMITED

DIRECTOR	ORDINARY SHARES	OPTIONS
G Levy AO	2,365,564	–
G Perlstein	17,862,814	–
A I Miller	14,419,906	–
J Murphy	–	–
J Bloom	–	–
A McDonald	15,000	–

The particulars of directors' interests in shares and options are as at the date of this report.

PRINCIPAL ACTIVITIES

During the year the principal activities of the Group, constituted by Specialty Fashion Group Limited and the entities it controlled during the year, consisted of the retailing of women's clothing in Australia and New Zealand.

DIVIDENDS – SPECIALTY FASHION GROUP LIMITED

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

	2009 \$'000	2008 \$'000
No interim ordinary dividend was declared for the year ended 30 June 2009 (2008 – 8.0 cents per fully paid share).	–	15,419
No final ordinary dividend was declared for the year ended 30 June 2009. Final ordinary dividend for the year ended 30 June 2008 of 2.0 cents (2007 3.0 cents) per fully paid share paid on 18 September 2008.	3,830	5,817
Special dividend for the year ended 30 June 2007 of 3.5 cents per fully paid share paid on the 20 September 2007.	–	6,787
	3,830	28,023

REVIEW OF OPERATIONS

Comments on the operations and financial position of the Group and its business strategies are set out in the Chairman's Review and Chief Executive Officer's Report.

As at 30 June 2009, store numbers reached 843, which included 30 net new stores through organic growth.

Directors' Report (cont.)

For the year ended 30 June 2009

EARNINGS PER SHARE

	2009 CENTS	2008* CENTS
(a) Basic earnings per share		
Basic earnings per share from continuing operations	11.8	11.1
Basic earnings per share attributable to the ordinary equity holders of the company	11.8	11.1
(b) Diluted earnings per share		
Diluted earnings per share from continuing operations	11.7	10.8
Basic earnings per share attributable to the ordinary equity holders of the company	11.7	10.8

* Restated to reflect impact of fraudulent expenditure (refer note 7).

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

At the date of this report the following matter has arisen since 30 June 2009 that has significantly affected, or may significantly affect:

- (a) the Group operations in future financial years; or
- (b) the results of those operations in future financial years; or
- (c) the consolidated entity's state of affairs in future financial years.

Agreement of the renewal of the bank loan facilities until 30 September 2010 was executed on 4 September 2009.

LIKELY DEVELOPMENTS AND EXPECTED RESULTS OF OPERATIONS

Comments on likely developments and expected results of the operations of the Group are included in this report under the Chairman's Review and Chief Executive Officer's Report on pages 14-17.

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

ENVIRONMENTAL REGULATION

The Group is not subject to any significant environmental regulation.

COMPANY SECRETARY

The company secretary is Mr H Herman B.Comm, CA. Mr Herman was appointed to the position of Company Secretary in March 2005. Mr Herman is also the Executive General Manager of Specialty Fashion Group Limited and was Chief Financial Officer from April 2004 until 1 September 2009. Mr Herman has over 15 years commercial experience.

MEETINGS OF DIRECTORS

The numbers of meetings of the Company's Board of Directors and of each Board committee held during the year ended 30 June 2009, and the numbers of meetings attended by each director were:

	FULL MEETINGS OF DIRECTORS		MEETINGS OF COMMITTEES AUDIT	
	A	B	A	B
G Levy	14	15	*	*
G Perlstein	15	15	*	*
A I Miller	13	15	*	*
J Murphy	14	15	4	4
J Bloom	15	15	4	4
A McDonald	15	15	4	4

A = Number of meetings attended.

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

* = Not a member of the relevant committee.

CONTINUATION IN OFFICE OF DIRECTORS

In accordance with the Constitution, Mr G Levy and Mr A I Miller retire as directors at the annual general meeting and, being eligible, offer themselves for re-election.

REMUNERATION REPORT

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

- A Principles used to determine the nature and amount of remuneration
- B Details of remuneration
- C Service agreements
- D Share based compensation
- E Additional information.

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

A Principles used to determine the nature and amount of remuneration

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

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

Directors' Report (cont.)

For the year ended 30 June 2009

REMUNERATION REPORT (CONT.)

Alignment to shareholders' interests:

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

Alignment to executives' interests:

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

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

Non-Executive Directors

Fees and payments to Non-Executive Directors reflect the demands which are made on, and the responsibilities of, the directors.

Non-Executive Directors' fees and payments are reviewed annually by the Board. The Chairman's fees are determined independently to the fees of Non-Executive Directors based on comparative roles in the external market. The Chairman is not present at any discussions relating to determination of his own remuneration. Non-Executive Directors do not receive share options.

Directors' fees

The current base remuneration was last reviewed with effect from December 2008. At this time the Board approved a 20% reduction in directors' fees and 10% reduction in the salary of G. Perlstein, Chief Executive Officer.

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

Executive pay

The executive pay and reward framework has three components:

- base pay and benefits, including superannuation
- short-term performance incentives, and
- long-term incentives through participation in the Specialty Fashion Group Limited Senior Executive Option Plan and Specialty Fashion Group Limited Long-term Incentive Plan.

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

Base pay

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

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

Benefits

Executives receive benefits including car allowances.

Short-term incentives

Should the Group achieve pre-determined targets set by the Remuneration Committee, then short-term incentives (STI) are available for executives. 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 out-performance.

Each executive has a target STI opportunity depending on the accountabilities of the role and impact on the organisation. The STI target annual payment is reviewed annually.

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

For the year ended 30 June 2009, the KPIs linked to short term incentive plans were based on group or individual business objectives where appropriate to the executive's role and their impact on the Group's performance. The KPIs required performance in maximising sales and margins, reducing operating costs and achieving specific targets in relation to return on assets, as well as other key, strategic non-financial measures linked to drivers of performance in future reporting periods.

The short-term bonus payments are adjusted in line with the degree of over achievement against the target performance levels.

Long-term incentives

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

B Details of remuneration

Amounts of remuneration

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

The key management personnel of the Group are the directors of Specialty Fashion Group Limited (see pages 18 and 19) and those executives that report directly to the Chairman. The executives are:

- Gary Perlstein – Chief Executive Officer
- Howard Herman – Executive General Manager and Company Secretary

The above key management personnel of the Group are also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2009. All of the above persons were also key management personnel for the year ended 30 June 2008. There has been no change to the directors disclosed above since 30 June 2009 up to the date of this report. Changes to key management personnel disclosed above since 30 June 2009 up to the date of this report include:

- Alison Henriksen – Chief Financial Officer – appointed 31 August 2009.

Key management personnel and other executives of the Group

	SHORT-TERM EMPLOYEE BENEFITS			POST-EMPLOYMENT BENEFITS		SHARE-BASED PAYMENTS	
2009	CASH, SALARY AND FEES	CASH BONUS	NON-MONETARY BENEFITS	TERMINATION BENEFITS	SUPER-ANNUATION#	OPTIONS	TOTAL
NAME	\$	\$	\$	\$	\$	\$	\$
Non-Executive Directors							
G Levy	79,500	—	—	—	7,155	—	86,655
A I Miller	53,000	—	—	—	4,770	—	57,770
J Murphy	53,000	—	—	—	—	—	53,000
J Bloom	53,000	—	—	—	4,770	—	57,770
A McDonald	53,000	—	—	—	4,770	—	57,770
Sub total Non-Executive Directors	291,500	—	—	—	21,465	—	312,965
Executive Directors							
G Perlstein	659,167	—	71,500	—	59,325	—	789,992
Other key management personnel							
H Herman	304,500	—	35,000	—	27,405	—	366,905
Total key management personnel compensation (Group)	1,255,167	—	106,500	—	108,195	—	1,469,862

The above key management personnel of the Group are also the key management personnel of Specialty Fashion Group Limited (the parent entity) for the year ended 30 June 2009.

Directors' Report (cont.)

For the year ended 30 June 2009

REMUNERATION REPORT (CONT.)

B Details of remuneration (cont.)

Key management personnel and other executives of the Group

	SHORT TERM EMPLOYEE BENEFITS			POST EMPLOYMENT BENEFITS		SHARE BASED PAYMENTS	
2008 NAME	CASH, SALARY AND FEES \$	CASH BONUS \$	NON- MONETARY BENEFITS \$	TERMINATION BENEFITS \$	SUPER- ANNUATION \$	OPTIONS \$	TOTAL \$
Non-Executive Directors							
G Levy	90,000	–	–	–	–	–	90,000
A I Miller	80,000	–	–	–	5,400	–	85,400
J Murphy	60,000	–	–	–	–	–	60,000
J Bloom	60,000	–	–	–	–	–	60,000
A McDonald	60,000	–	–	–	5,400	–	65,400
G Novis (from 1 July 2007 to 28 September 2007)	15,000	–	–	–	–	–	15,000
Sub-total Non-Executive Directors	365,000	–	–	–	10,800	–	375,800
Executive Directors							
G Perlstein	738,753	–	71,500	–	63,000	–	873,253
Other key management personnel							
H Herman	296,367	–	35,000	–	28,215	–	359,582
Total key management personnel compensation (Group)	1,400,120	–	106,500	–	102,015	–	1,608,635

The cash bonuses are dependent on the satisfaction of performance conditions as set out in the section headed short-term incentives above. All other elements of remuneration are not directly related to performance.

Employee Benefits

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

NAME	FIXED REMUNERATION		AT RISK-STI		AT RISK-LTI	
	2009	2008	2009	2008	2009	2008
G Perlstein	100	100	–	–	–	–
Other key management personnel of Group						
H Herman	100	100	–	–	–	–

C Service agreements

The following table summarises the individual details of service agreements that are in place for Specialty Fashion Group Limited's directors as well as for each of the specified executives that comprise Specialty Fashion Group Limited's Executive Committee.

NAME	OFFICE HELD	TERM OF AGREEMENT	NOTICE PERIOD	SEVERANCE PERIOD	REMUN-ERATION REVIEW PERIOD	ELIGIBLE FOR STI?	ELIGIBLE FOR LTI?	ELIGIBLE FOR TERMINATION BENEFIT?	ELIGIBLE FOR OTHER BENEFIT?
Executive Directors									
G Perlstein	Chief Executive Officer	No term	1 month	None	12 months	Yes	Yes	No	No
Non-Executive Directors									
G Levy	Chairman Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A I Miller	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
J Bloom	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
J Murphy	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
A McDonald	Non-Executive Director	Stands for re-election every 3 years	None	None	None	No	No	No	No
Other key management personnel									
H Herman	Executive General Manger	No term	1 month	None	12 months	Yes	Yes	No	No

Directors' Report (cont.)

For the year ended 30 June 2009

REMUNERATION REPORT (CONT.)

D Share-based compensation

Options

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

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

The terms and conditions of each grant of options affecting remuneration in the previous, this or future reporting periods are as follows:

GRANT DATE	DATE EXERCISABLE	EXPIRY DATE	EXERCISE PRICE	VALUE PER OPTION AT GRANT DATE
04/01/2005	1/3 after June 2006, 1/3 after June 2007, 1/3 after June 2008	31/08/2011	\$1.13	\$0.11
09/06/2006	1/3 after June 2007, 1/3 after June 2008, 1/3 after June 2009	31/08/2012	\$1.86	\$0.51

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

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

Details of options over ordinary shares in the company provided as remuneration to each director of Specialty Fashion Group Limited and each of the key management personnel of the Group are set out below. When exercisable, each option is convertible into one ordinary share of Specialty Fashion Group Limited. Further information on the options is set out in note 38 to the financial statements.

NAME	NUMBER OF OPTIONS GRANTED DURING THE YEAR		NUMBER OF OPTIONS VESTED DURING THE YEAR	
	2009	2008	2009	2008

Other key management personnel of the Group

H Herman	–	–	333,444	400,221
----------	---	---	---------	---------

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

There were no options granted to Directors or other key management personnel of the Group during the year ended 30 June 2009 or 30 June 2008.

Shares provided on exercise of remuneration options

Details of ordinary shares in the company provided as a result of the exercise of remuneration options to each director of Specialty Fashion Group Limited and other key management personnel of the Group are set out below:

NAME	DATE OF EXERCISE OF OPTIONS	NUMBER OF ORDINARY SHARES ISSUED ON EXERCISE OF OPTIONS DURING THE YEAR	
		2009	2008
Other key management personnel of the Group			
H Herman	30 August 2007/16 February 2007	–	400,221

The amounts paid per ordinary share by each director and other key management personnel on the exercise of options at the date of exercise was \$1.13.

No amounts are unpaid on any shares issued on the exercise of options.

Details of remuneration: cash bonuses and options

For each cash bonus and grant of options included in the tables on pages 25-26, the percentage of the available bonus or grant that was paid, or that vested, in the financial year, and the percentage that was forfeited because the person did not meet the service and performance criteria is set out below. No part of the bonuses is payable in future years. The options vest over three years, provided the vesting conditions are met (see page 29 above). No options will vest if the conditions are not satisfied, hence the minimum value of the option yet to vest is nil. The maximum value of the options yet to vest has been determined by using the grant date fair value that has not been expensed as at the reporting date.

CASH BONUS						OPTIONS		
NAME	PAID %	FORFEITED %	YEAR GRANTED	VESTED %	FORFEITED %	FINANCIAL YEARS IN WHICH OPTIONS MAY VEST	MINIMUM TOTAL VALUE OF GRANT YET TO VEST \$	MAXIMUM TOTAL VALUE OF GRANT YET TO VEST \$
G Perlstein	—	100	—	—	—		—	—
H Herman	—	100	2005	33	—	2007	—	—
			2005	33	—	2008	—	—
			2005	33	—	2009	—	—

Directors' Report (cont.)

For the year ended 30 June 2009

REMUNERATION REPORT (CONT.)

Share-based compensation: Options

There were no options granted as share-based compensation to Directors or other key management personnel of the Group in the current year (2008: nil).

Share options granted to directors and the most highly remunerated officers

There were no options over unissued ordinary shares of Specialty Fashion Group Limited granted during or since the end of the financial year to the directors or other key management personnel of the Group as part of their remuneration.

Shares under option

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

DATE OPTIONS GRANTED	EXPIRY DATE	ISSUE PRICE OF SHARES	NUMBER UNDER OPTION
04/01/2005	31/08/2011	\$1.13	1,973,774
09/06/2006	31/08/2012	\$1.86	280,000
			2,253,774

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

Restricted share rights

In September 2007, the consolidated entity established the Specialty Fashion Group Limited Long-term Incentive Plan. Under this plan restricted share rights over shares in the company can be issued to executive officers, senior executives and senior staff members selected by the directors. Up to the date of this report, 2,142,857 performance rights had been issued under this plan.

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

Shares issued on the exercise of options

No ordinary shares of Specialty Fashion Group Limited were issued during the year ended 30 June 2009 (2008: 1,124,891) and up to the date of this report on the exercise of options under the Specialty Fashion Group Limited Senior Executive Option Plan. No amounts are unpaid on any of the shares.

E Additional information

Performance of Specialty Fashion Group Limited

The overall level of executive reward takes into account the performance of the Group over a number of years, with greater emphasis given to the current and prior year. Over the past 5 years, the Group's profit from continuing activities after income tax has grown at an average rate of 35% per annum. During the same period, average executive remuneration has grown by approximately 8% per annum.

Loans to executives

Information on loans to executives, including amounts, interest rates and repayment terms are set out in note 28 to the financial statements.

Insurance of officers

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

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

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities of the consolidated 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.

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

Non-audit services

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

Details of the amounts paid or payable to the auditor (PricewaterhouseCoopers) for audit and non-audit services provided during the year are set out in note 29.

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

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 32.

Rounding of amounts

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

Auditor

PricewaterhouseCoopers continues in office in accordance with section 327 of the *Corporations Act 2001*.

This report is made in accordance with a resolution of directors.



G Perlstein
Director



G Levy AO
Director

Sydney
25 September 2009

Directors' Report (cont.)

For the year ended 30 June 2009

PRICEWATERHOUSECOOPERS

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney

Australia
www.pwc.com/au
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999

AUDITOR'S INDEPENDENCE DECLARATION

As lead auditor for the audit of Specialty Fashion Group Limited for the year ended 30 June 2009, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Specialty Fashion Group Limited and the entities it controlled during the period.

K. Stubbins

K Stubbins
Partner
PricewaterhouseCoopers

Sydney
25 September 2009

Corporate governance statement

For the year ended 30 June 2009

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

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

THE BOARD OF DIRECTORS

The Board of Directors' charter for the operation of the Board includes reference to the following broad principles:

- composition of the Board
- what proportion of the Board should be Non-Executive Directors
- whether the Chairman should be a Non-Executive Director
- policy for appointment, retirement and length of term of directors; and
- the Board should comprise directors with a broad range of skills and experience.

Responsibilities and processes

The Board review any transactions between the organisation and the directors, or any interest associated with the directors, to ensure the structure and the terms of the transaction is in compliance with the *Corporations Act 2001* and is appropriately disclosed. The Board's responsibilities include overseeing the appointment and induction process for directors and Committee members, and the selection, appointment and succession planning process of the Company's Chief Executive Officer.

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

Board members

Details of the members of the board, their experience, expertise, qualifications, term of office and independent status are set out in the directors' report under the heading "Information on directors". There are five Non-Executive Directors, four of whom are deemed independent under the principles set out below, and one Executive Director at the date of signing the directors' report.

Directors are initially appointed by the full Board, subject to election by shareholders at the next annual general meeting.

Chairman and Chief Executive Officer (CEO)

The Chairman of the Board is a Non-Executive Director who is elected by the full Board.

The Chairman is responsible for leading the board, ensuring directors are properly briefed in all matters relevant to their role and responsibilities, facilitating board discussions and managing the board's relationship with the company's senior executives.

The CEO is responsible for implementing Group strategies and policies. The board charter specifies that these are separate roles to be undertaken by separate people.

Independent professional advice

Directors and Board committees have the right, in connection with their duties and responsibilities, to seek independent professional advice at the company's expense. Prior written approval of the Chairman is required, but this will not be unreasonably withheld.

Performance assessment

The Board intends to adopt a Performance Evaluation process which involves an annual formal review of its effectiveness.

Board committees

The board has established committees to assist in the execution of its duties and to allow detailed consideration of complex issues. A current committee of the Board is the Audit Committee consisting of Non-Executive Directors. Each committee has its own charter setting out the authority delegated to it by the Board and the manner in which the committee is to operate. The committee structure and membership is reviewed on an annual basis.

Corporate governance statement (cont.)

For the year ended 30 June 2009

THE BOARD OF DIRECTORS (CONT.)

Nomination and Remuneration committee

As the Company has a relatively small number of directors, the full Board effectively acts as a Nominations Committee and the Remuneration Committee. For the Nomination Committee's responsibilities performed by the Board refer to the section: "The Board of Directors" above.

The Board 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 Board, having regard to performance, and relevant comparative information, reviews executive remuneration and other terms of employment annually. As well as a base salary, remuneration packages include superannuation, retirement and termination entitlements, performance related bonuses and fringe benefits. Executives are also eligible to participate in the option plan and long term incentive share rights plan. Remuneration packages are set at levels that are intended to attract and retain executives capable of managing the consolidated entity's operations.

Remuneration of Non-Executive Directors is determined by the Board within the maximum amount approved by the shareholders from time to time.

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

AUDIT COMMITTEE

The audit committee consists of the following Non-Executive Directors:

- A McDonald (Chairperson)
- J Murphy
- J Bloom

The main responsibilities of the Audit Committee are to:

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

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

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

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

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

CONTINUOUS DISCLOSURE POLICY

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

RECOGNISE AND MANAGE RISK

The Board has ultimate responsibility for the Company's system of internal control and for regularly reviewing its effectiveness. The main aim of the system of internal control is the management of business risks. The focus of the Company's risk management and internal control system is on maintaining a high level of risk awareness across the organisation at strategic and operational levels. The philosophy towards risk is not to be risk averse and thus potentially constrain prospects for growth, but to enable risks to be identified, discussed, mitigated and monitored in a balanced manner.

The Board believes it is incumbent upon the Company to re-examine the effectiveness of the risk management framework. The Company is in the process of re-examining its formalised risk management system incorporating an integrated risk management programme aimed at ensuring risks are identified, assessed and appropriately managed. Risk is inherent in all enterprises and the Company faces a range of risks as a company operating in the retail and wholesale apparel markets. The key areas of risk for the Company include risks relating to changes in the industry and competitive environment, strategic growth, relationships with and reliance on key employees, operational controls, supply chain continuity, development and use of information systems, financial reporting and regulatory compliance.

In relation to the financial statements for the year ended 30 June 2009, the Chief Executive Officer and the Chief Financial Officer are required to certify to the Board that the Company's financial statements comply with Accounting Standards, give a true and fair view, of the financial position and performance of the company and consolidated entity; the financial statements and notes thereto are in accordance with the *Corporations Act 2001* and this statement is founded on a sound system of risk management and internal compliance and control systems which, in all material respects, implement the policies adopted by the Board of Directors.

ENVIRONMENTAL PLAN

The company recognises the importance of environmental and occupational health and safety issues and is committed to the highest level of performance. The Group commenced work on establishing an Environmental Plan in order to achieve environmental efficiency within the business. The plan focuses on achieving environmental efficiency:

- Through finding ways to minimize, if not eliminate, packaging wastage and the focus will be to reduce, recycle, reuse or compost all packaging
- Encouraging employees to actively participate in the management of environmental and occupational health and safety issues
- Using energy and other resources efficiently including improved building and shop fitting design; and
- Encouraging the adoption of high environmental standards by the Group's suppliers, contractors and distributors.

A significant amount of work is yet to be done, but we are committed to making further efforts to reduce negative impacts on the environment.

CODE OF CONDUCT

The Group's Code of Conduct applies to all employees of the organisation and sets out the standards within which employees and directors are expected to act. In summary employees and directors are required to act with the utmost integrity and objectivity at all times in their dealings.

Unethical conduct will not be tolerated. The Group intends that the spirit of the Code will be adopted as well as the letter of the standards therein.

The Code covers the following:

- act honestly, professionally and in good faith and in the best interests of the Company as a whole
- use due care and diligence in fulfilling the functions of office and exercising the powers attached to that office
- use the powers of office for a proper purpose, in the best interests of the Company as a whole
- recognise the primary responsibility is to the Company's shareholders but should, where appropriate, have regard for the interests of all stakeholders of the Company
- not make improper use of information acquired as a Director or employee
- not take improper advantage of their position
- not allow personal interests, or the interests of any associated person, to conflict with the interests of the Company
- be independent in judgment and actions

- confidential information received by a Director in the course of the exercise of directorial duties remain the property of the Company from which it was obtained and it is improper to disclose it, or allow it to be disclosed, unless that disclosure has been authorised or is required by law
- correct conduct
- comply with the spirit, as well as the letter, of the law and with the principles of this Code
- declare any vested interest in any matter discussed at the Board meetings and to remain separate from and independent of the process.

Directors and senior executives of the Company are subject to the *Corporations Act 2001*, which prohibits buying, selling or subscribing for shares in the Company if they are in possession of inside information. Directors and senior executives must not undertake any transactions at any time without the prior approval of the Chairman (or, in the case of the Chairman, another Non-Executive Director). If the transaction is proposed to occur within the period of three months prior to the release to the ASX of the Company's annual results or half yearly results, or at any other time when the Chairman (or Non-Executive Director) is in any doubt about whether inside information is in existence, then the prior approval of the Board is also required, and the transaction may only occur if the Board has received supporting advice from the Company's external legal advisers.

To allow information to be fully disseminated in the market, buying or selling within twenty four hours after an announcement to the ASX, that in the opinion of the Board could have a material impact on the share price, is not permitted without the prior approval of the Board, and only after obtaining supporting advice from the Company's external legal advisers.

The issue of shares under the Dividend Reinvestment Program (DRP) is permitted.

The Code will be regularly reviewed and updated as necessary to ensure it reflects the highest standards of integrity and professionalism.

Income statements

For the year ended 30 June 2009

	NOTES	CONSOLIDATED		PARENT	
		2009 \$'000	2008* \$'000	2009 \$'000	2008* \$'000
Revenue from continuing operations	5	560,554	538,042	546,358	516,134
Changes in inventories of finished goods and consumables		(1,874)	7,905	(467)	5,961
Finished goods and consumables		(238,106)	(242,231)	(233,103)	(230,221)
Employee benefits expense		(127,668)	(128,981)	(125,675)	(125,513)
Depreciation and impairment expense	6	(17,611)	(14,066)	(17,395)	(13,696)
Rental expense relating to operating leases		(98,174)	(88,329)	(95,773)	(84,256)
Other expenses		(41,238)	(33,142)	(38,928)	(30,513)
Insurance recoveries relating to fraudulent expenditure	7	5,000	–	5,000	–
Fraudulent expenditure	7	(6,827)	(5,445)	(6,652)	(4,791)
Finance costs	6	(3,243)	(3,146)	(3,243)	(3,146)
Profit before income tax		30,813	30,607	30,122	29,959
Income tax expense	8	(8,250)	(9,373)	(7,904)	(8,975)
Profit from continuing operations after income tax expense		22,563	21,234	22,218	20,984
Profit for the year attribute to the members of Speciality Fashion Group Limited		22,563	21,234	22,218	20,984

		2009 CENTS	2008 CENTS
Earnings per share for profit from ordinary activities:			
Basic earnings per share	37	11.8	11.1
Diluted earnings per share	37	11.7	10.8

* Restated to reflect impact of fraudulent expenditure (refer note 7).

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

Balance sheets

As at 30 June 2009

		CONSOLIDATED		PARENT	
	NOTES	2009 \$'000	2008* \$'000	2009 \$'000	2008* \$'000
ASSETS					
Current assets					
Cash and cash equivalents	9	8,044	7,089	7,632	6,518
Trade and other receivables	10	10,388	3,917	10,301	3,902
Inventories	11	43,985	41,577	42,756	39,407
Total current assets		62,417	52,583	60,689	49,827
Non-current assets					
Other financial assets	13	–	–	2,911	2,960
Property, plant and equipment	14	73,261	68,024	71,347	65,637
Deferred tax assets	15	4,648	9,951	4,648	9,951
Intangible assets	16	11,806	11,855	2,006	2,006
Total non-current assets		89,715	89,830	80,912	80,554
Total assets		152,132	142,413	141,601	130,381
LIABILITIES					
Current liabilities					
Trade and other payables	17	53,429	55,364	55,798	55,653
Derivative financial liabilities	12	3,515	10,347	3,515	10,347
Current tax liabilities	20	3,909	2,692	3,712	2,777
Provisions	19	9,985	8,636	9,799	8,115
Borrowings	18	33,800	–	33,800	–
Other current liabilities	21	2,418	1,458	2,418	1,458
Total current liabilities		107,056	78,497	109,042	78,350
Non-current liabilities					
Borrowings	22	–	45,000	–	45,000
Provisions	23	8,346	8,566	8,288	8,566
Other non-current liabilities	24	5,959	3,305	5,821	3,285
Total non-current liabilities		14,305	56,871	14,109	56,851
Total liabilities		121,361	135,368	123,151	135,201
Net assets/(liabilities)		30,771	7,045	18,450	(4,820)
EQUITY					
Contributed equity	25	131,993	131,680	131,993	131,680
Reserves	26(a)	(2,981)	(7,661)	(1,900)	(6,470)
Accumulated losses	26(b)	(98,241)	(116,974)	(111,643)	(130,030)
Total equity		30,771	7,045	18,450	(4,820)

* Restated to reflect impact of fraudulent expenditure (refer note 7).

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

Statements of changes in equity

For the year ended 30 June 2009

	NOTES	CONSOLIDATED		PARENT	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Total equity at the beginning of the financial year		7,045	19,361	(4,820)	6,915
Restatement due to fraudulent expenditure	26	–	(2,045)	–	(2,045)
Restated total equity at the beginning of the financial year		7,045	17,316	(4,820)	4,870
Changes in the fair value of cash flow hedges, net of tax		4,784	27	4,782	27
Exchange differences on translation of foreign operations		109	(831)	–	–
Net income/(expense) recognised directly in equity		4,893	(804)	4,782	27
Profit for the year		22,563	21,234	22,218	20,984
Total recognised income and expense for the year		27,456	20,430	27,000	21,011
Transactions with equity holders in their capacity as equity holders:					
Contributions of equity, net of transaction costs	25	313	1,265	313	1,265
Share buy back	25	–	(4,335)	–	(4,335)
Dividends provided for or paid	27	(3,830)	(28,023)	(3,830)	(28,023)
Employee share based payments	26	150	30	150	30
Shares to be issued	33	(363)	362	(363)	362
		(3,730)	(30,701)	(3,730)	(30,701)
Total equity at the end of the financial year		30,771	7,045	18,450	(4,820)
Total equity at the beginning of the financial year		7,045	19,361		6,915

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

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Effect of restatement due to fraudulent expenditure				
Profit as stated in 2008 financial report	–	23,014	–	22,145
Restatement due to fraudulent expenditure	–	(1,780)	–	(1,161)
Restated profit	–	21,234	–	20,984

Cash flow statements

For the year ended 30 June 2009

	NOTES	CONSOLIDATED		PARENT	
		2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash flows from operating activities					
Receipts from customers (inclusive of goods and services tax)		616,315	590,271	600,699	566,147
Payments to suppliers and employees (inclusive of goods and services tax)		(569,988)	(548,771)	(554,231)	(525,767)
		46,327	41,500	46,468	40,380
Interest received		268	243	267	243
Borrowing costs		(3,243)	(3,146)	(3,243)	(3,146)
Income taxes paid		(3,778)	(9,454)	(3,715)	(9,454)
Net cash inflow from operating activities	36	39,574	29,143	39,777	28,023
Cash flows from investing activities					
Payments for property, plant and equipment		(23,589)	(26,698)	(23,633)	(25,629)
Payments for acquisition of business, net of cash acquired		–	(2,530)	–	(2,631)
Loan payments to related parties		–	–	–	(267)
Net cash outflow from investing activities		(23,589)	(29,228)	(23,633)	(28,527)
Cash flows from financing activities					
(Repayment)/Proceeds from borrowings		(11,200)	31,515	(11,200)	32,000
Proceeds from issue of shares on exercise of options		–	1,265	–	1,265
On market share buy-back		–	(4,335)	–	(4,335)
Dividends paid		(3,830)	(28,023)	(3,830)	(28,023)
Net cash inflow/(outflow) from financing activities		(15,030)	422	(15,030)	907
Net increase in cash and cash equivalents		955	337	1,114	403
Cash and cash equivalents at the beginning of the financial year		7,089	6,752	6,518	6,115
Cash and cash equivalents at end of year	9	8,044	7,089	7,632	6,518

The above cash flow statements should be read in conjunction with the accompanying notes.

Notes to the financial statements

For the year ended 30 June 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

(a) Basis of preparation

This general purpose financial report has been prepared in accordance with Australian Accounting Standards, other authoritative pronouncements of the Australian Accounting Standards Board, Urgent Issues Group Interpretations and the *Corporations Act 2001*.

Compliance with IFRS

The Financial report of Specialty Fashion Group Limited also complies with the International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board (IASB).

Historical cost convention

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

Critical accounting estimates

The preparation of financial statements in conformity with AIFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

(b) Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all entities controlled by Specialty Fashion Group Limited ("company" or "parent entity") as at 30 June 2009 and the results of all controlled entities for the year then ended. Specialty Fashion Group Limited and its controlled entities together are referred to in this financial report as the Group or the consolidated entity. The effects of all transactions between entities in the consolidated entity are eliminated in full.

Entities are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

(c) Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different to those of other business segments.

(d) Foreign currency translation

(i) Functional and presentation currency

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

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year – end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(iii) Group companies

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

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

On consolidation, exchange differences arising from the translation of any net investment in foreign entities, and of borrowings and other financial instruments designated as hedges of such investments, are taken to shareholders' equity. When a foreign operation is sold or any borrowings forming part of the net investment are repaid, a proportionate share of such exchange differences are recognised in the income statements, as part of the gain or loss on sale where applicable.

(e) Revenue recognition

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

(i) Retail Sales

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

(ii) Lay-by sales

Lay-by sales are recognised at the point of sale when a significant deposit is received. The cash outstanding at balance date is shown as a debtor.

(iii) Interest revenue

Interest revenue is recognised when it is earned.

(iv) Customer loyalty programme

Specialty Fashion Group Limited operates a loyalty programme where customers accumulate points for purchases made which entitle them to discounts on future purchases. The award points are recognised as a separately identifiable component of the initial sale transaction, by allocating the fair value of the consideration received between the award points and the other components of the sale such that the award points are recognised at their fair value. Revenue from the award points is recognised when the points are redeemed. The amount of revenue is based on the number of points redeemed relative to the total number expected to be redeemed. Award points expire 24 months after the initial sale.

(v) Insurance recoveries

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

(f) Income tax

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

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

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

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

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

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

In addition to its own current and deferred tax amounts, Specialty Fashion Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from the unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. During the year ended 30 June 2009 the Group had no such leases.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases (note 31). Payments made under operating leases (net of any incentives received from the lessor) are charged to the income statements on a straight-line basis over the period of the lease.

Notes to the financial statements (cont.)

For the year ended 30 June 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(h) Business combinations

The purchase method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. Cost is measured as the fair value of the assets given, shares issued or liabilities incurred or assumed at the date of exchange plus costs directly attributable to the acquisition. Where equity instruments are issued in an acquisition, the fair value of the instruments is their published market price as at the date of exchange, unless, in rare circumstances, it can be demonstrated that the published price at the date of exchange is an unreliable indicator of fair value and that other evidence and valuation methods provide a more reliable measure of fair value. Transaction costs arising on the issue of equity instruments are recognised directly in equity.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (note 1 (o)). If the cost of acquisition is less than the Group's share of the fair value of the identifiable net assets of the subsidiary acquired, the difference is recognised directly in the income statements, but only after a reassessment of the identification and measurement of the net assets acquired.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Where settlement contracts are subject to future contingent consideration, the group will bring this to account through goodwill arising on the acquisition when additional consideration is probable and can be reliably measured.

(i) Impairment of assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at each reporting date.

(j) Cash and cash equivalents

For cash flow statements presentation purposes, cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value, and bank overdrafts. Bank overdrafts are shown within borrowings in current liabilities on the balance sheets.

(k) Trade receivables

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

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

(i) Loans receivable

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

(l) Inventories

Finished goods are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of weighted average costs. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale. Cost includes transfer from equity of any gains/losses on qualifying cashflow hedges relating to purchases of inventories.

(m) Derivatives and hedging activities

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged. The Group designates certain derivatives as hedges of the cash flows of recognised assets and liabilities and highly probable forecast transactions (cash flow hedges).

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

The fair values of various derivative financial instruments used for hedging purposes are disclosed in note 12. Movements in the hedging reserve in shareholders' equity are shown in note 26. The full fair value of a hedging derivative is classified as a non-current asset or liability when the remaining maturity of the hedged item is more than 12 months; it is classified as a current asset or liability when the remaining maturity of the hedged item is less than 12 months.

(i) Cash flow hedge

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity in the hedging reserve. The gain or loss relating to the ineffective portion is recognised immediately in the income statements within other income or other expense.

Amounts accumulated in equity are recycled in the income statement in the periods when the hedged item affects profit or loss (for instance when the forecast sale that is hedged takes place). The gain or loss relating to the effective portion of interest rate swaps hedging variable rate borrowings is recognised in the income statement within 'finance costs'. The gain or loss relating to the effective portion of forward foreign exchange contracts hedging export sales is recognised in the income statement within 'sales'. However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory or fixed assets) the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the cost of the asset. The deferred amounts are ultimately recognised in profit or loss as cost of goods sold in the case of inventory, or as depreciation in the case of fixed assets.

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

(n) Property, plant and equipment

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated using the straight line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives, ranging from 4 to 14 years.

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

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

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

During 2009, the estimated useful life of certain store assets was revised from 8 years to 10 years to reflect the extended utilisation of these assets. The effect in the current period was a decrease in depreciation expense of \$2.6 million.

(o) Intangible assets

(i) Goodwill

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

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

(p) Trade and other payables

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

(q) Borrowing costs

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

(r) Provisions

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

(s) Employee benefits

(i) Wages and salaries, annual leave and sick leave

Liabilities for wages and salaries, including non-monetary benefits, annual leave and accumulating sick leave expected to be settled within 12 months of the reporting date are recognised as liabilities in respect of employees' services up to the reporting date and are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and measured at the rates paid or payable.

Notes to the financial statements (cont.)

For the year ended 30 June 2009

1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONT.)

(ii) Long service leave

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

(iii) Superannuation

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

Contributions to the funds are recognised as an expense as they become payable, information relating to the plan is set out in note 38.

(iv) Share-based payments

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

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

The fair value at grant date is independently determined using a Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the vesting and performance criteria, the impact of dilution, the non-tradeable nature of the option, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk-free interest rate for the term of the option.

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

Upon the exercise of options, the balance of share-based payments reserve relating to those options is transferred to share capital. The market value of shares issued to employees for no cash consideration under the employee share scheme is recognised as employee benefits expense with a corresponding increase in equity when the employees become entitled to the shares.

(v) Bonus plans

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

(t) Contributed equity

Ordinary shares are classified as equity (note 25).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

(u) Dividends

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

(v) Earnings per share

(i) Basic earnings per share

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

(ii) Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(w) Maintenance and repairs

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

(x) Rounding of amounts

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

(y) New accounting standards and interpretations

Certain new accounting standards and UIG interpretations have been published that are not mandatory for 30 June 2009 reporting periods. The Group's assessment of the impact of these new standards and interpretations is set out below.

(i) AASB 8 *Operating Segments* and AASB 2007-3 *Amendments to Australian Accounting Standards arising from AASB 8* (effective from 1 January 2009)

Management have assessed that AASB 8 will not result in a significant change in the approach to segment reporting, as it requires adoption of a 'management approach' to reporting on financial performance. The Group will adopt AASB 8 from 1 July 2009.

(ii) Revised AASB 123 *Borrowing Costs* and AASB 2007-6 *Amendments to Australian Accounting Standards arising from AASB 123* (effective from 1 January 2009)

The revised AASB 123 is applicable to annual reporting periods commencing on or after 1 January 2009. It has removed the option to expense all borrowing costs and -when adopted- will require the capitalisation of all borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset. There will be no impact on the financial report of the Group, as the Group already capitalises borrowing costs relating to qualifying assets.

(iii) Revised AASB 101 *Presentation of Financial Statements and AASB 2007-8 Amendments to Australian Accounting Standards arising from AASB 101* (effective from 1 January 2009)

The September 2007 revised AASB 101 requires the presentation of a statement of comprehensive income and makes changes to the statement of changes in equity, but will not affect any of the amounts recognised in the financial statements. If an entity has made a prior period adjustment or has reclassified items in the financial statements, it will need to disclose a third balance sheet (statement of financial position), this one being as at the beginning of the comparative period. The Group will apply the revised standard from 1 July 2009.

(iv) AASB 2008-1 *Amendments to Australian Accounting Standard-Share-based Payments: Vesting Conditions and Cancellations* (effective from 1 January 2009)

AASB 2008-1 clarifies that vesting conditions are service conditions and performance conditions only and that other features of a share based payment are not vesting conditions. It also specifies that all cancellations, whether by the entity or by other parties, should receive the same accounting treatment. The Group will apply the revised standard from 1 July 2009, but it is not expected to have a significant impact on the accounting for the Group's share-based payments.

(v) Revised AASB 3 *Business Combinations*, AASB 127 *Consolidated and Separate Financial Statements* and AASB 2008-3 *Amendments to Australian Accounting Standards arising from AASB 3 and AASB 127* (effective 1 July 2009)

The revised AASB 3 continues to apply the acquisition method to business combinations, but with some significant changes. For example, all payments to purchase a business are to be recorded at fair value at the acquisition date, with contingent payments classified as debt subsequently remeasured through the income statements.

(z) Restatement of comparatives

Where applicable, the 2008 comparatives have been restated to take into account the effect of fraudulent expenditure. Please refer note 7 for further information.

2 FINANCIAL RISK MANAGEMENT

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

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

The Group and parent entity hold financial assets in the form of cash and cash equivalents (refer note 9) and trade and other receivables (refer note 10). The Group and the parent entity holds financial liabilities in form of borrowings (refer note 18) and derivative financial instruments (refer note 12).

Notes to the financial statements (cont.)

For the year ended 30 June 2009

(a) Market risk

(i) Foreign exchange risk (Group and parent – referred to in note as Group)

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

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

Forward contracts are used to manage foreign exchange risk by using external forward currency contracts.

The group's risk management policy is to hedge all of the anticipated purchases in US dollars for the subsequent 6 months. Approximately 100% (2008: 100%) of projected purchases qualify as "highly probable" forecast transactions for hedge accounting purposes.

Given the Group's fully hedged position at 30 June 2009, 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 \$2.8 million higher/\$3.5 million lower (2008: \$3.4 million higher/\$2.8 million lower) had the Australian dollar weakened/strengthened by 10% against the US dollar, arising mainly from foreign forward exchange contracts designated as cash flow hedges.

The impact of fluctuations in NZ dollar and South African rand against the Australian dollar on post tax profit and other balance sheet items would not be significant. This position has not changed from 2008.

(ii) Price risk

Neither the Group nor the parent entity are exposed to commodity or equity securities price risk.

(iii) Credit risk

Credit risk is managed on a group basis. Credit risk arises from cash and cash equivalents, derivatives and deposits with banks. Sales to retail customers are settled in cash or using major credit card, mitigating risk. For banks only independently rated parties with a minimum rating of "AA" are accepted. The maximum exposure to credit card risk at reporting date is the carrying amount of the financial assets mentioned above.

(b) Cash flow and fair value interest rate risk

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

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

At 30 June 2009, if interest rates had changed by 100 basis points from the year-end rates with all other variables held constant, post-tax profit for the year would have been \$0.6 million lower/higher (2008: change of +/-100 bps: \$0.3million lower/\$0.3million higher) mainly as a result of higher level of borrowings in 2008. The weighted average interest rate at 30 June 2009 is 4% (2008: 7.91%).

(c) Liquidity risk

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

Inventory management methods and established supplier relationships assist management to prepare rolling forecasts of the Group's cash flow requirements to monitor the liquidity position and optimise its cash return on investments. Typically the Group ensures that it has sufficient 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 Group maintains the following lines of credit: \$2million (2008: \$2million) overdraft facility that is secured. Interest would be payable at a rate of 8.83% (2008: 11.63%).

Bank loan facilities that comprise of working capital facilities to the value of \$61million (2008: \$61million) that can be drawn. The working capital facilities may be drawn at any time subject to annual review. The facility is drawn down upon through 30-day maturity commercial bills that renews automatically at the discretion of the Group. Interest is payable at the variable interest rate applicable at renewal date. This is a facility which expires in September 2009.

For additional information on borrowings refer note 18.

Maturities of financial liabilities

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

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

AT 30 JUNE 2009	LESS THAN 1 YEAR \$'000	BETWEEN 1-2 YEARS \$'000	BETWEEN 2-5 YEARS \$'000	OVER 5 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES \$'000
Trade and other payables	53,429	–	–	–	53,429	53,429
Borrowings	33,800	–	–	–	33,800	33,800
Total non-derivatives	87,229	–	–	–	87,229	87,229
Gross Settled						
(inflow)	(45,389)	–	–	–	(45,389)	–
outflow	48,904	–	–	–	48,904	3,515
Total derivatives	3,515	–	–	–	3,515	3,515

AT 30 JUNE 2008	LESS THAN 1 YEAR \$'000	BETWEEN 1-2 YEARS \$'000	BETWEEN 2-5 YEARS \$'000	OVER 5 YEARS \$'000	TOTAL CONTRACTUAL CASH FLOWS \$'000	CARRYING AMOUNT (ASSETS)/ LIABILITIES \$'000
Trade and other payables	55,364	–	–	–	55,364	55,364
Borrowings	3,560	45,890	–	–	49,450	45,000
Total non-derivatives	58,924	45,890	–	–	104,814	100,364
Gross settled						
(inflow)	(44,943)	–	–	–	(44,943)	–
outflow	55,290	–	–	–	55,290	10,347
Total derivatives	10,347	–	–	–	10,347	10,347

3 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that may have a financial impact on the entity and that are believed to be reasonable under the circumstances.

(a) Critical accounting estimates and assumptions

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

(i) Estimated impairment of goodwill and other assets

The Group tests annually whether goodwill has suffered any impairment, in accordance with the accounting policy stated in note 1(o). The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions. Refer to note 16 for details of these assumptions and the potential impact of changes to the assumptions.

Store assets are tested for impairment as the individual store is assessed to be the cash generating unit (refer note 1(i)) based on value-in-use calculations. These assets are also assessed for reversal annually. These assessments require the use of assumptions, including forecast future cash flows.

(ii) Provisions

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

Notes to the financial statements (cont.)

For the year ended 30 June 2009

4 SEGMENT INFORMATION

Specialty Fashion Group Limited operated in only one business segment for the 12 month period to 30 June 2009 and the 12 month period to 30 June 2008 being the sale of women's apparel through retail outlets.

5 REVENUE

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
From continuing operation				
<i>Sales revenue</i>				
Sale of goods	559,948	536,610	545,838	514,679
<i>Other revenue</i>				
Interest	268	243	268	243
Other revenue	338	1,189	252	1,212
	606	1,432	520	1,455
	560,554	538,042	546,358	516,134

6 EXPENSES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit before income tax includes the following specific expenses:				
Depreciation and impairment of property, plant and equipment (a)	17,611	14,066	17,395	13,696
Superannuation expense	8,280	8,445	8,280	8,445
Finance costs	3,243	3,146	3,243	3,146
Rental expense relating to operating leases	98,174	88,329	95,773	84,256
Loss on sale of property, plant and equipment	74	74	93	92

(a) Includes impairment charge of \$7,979,887 and impairment reversal of \$2,622,133 – net impairment of \$5,357,754 (2008: net impairment – \$609,000).

7 FRAUDULENT EXPENDITURE – PRIOR PERIOD RESTATEMENT

Summary of cash impact of the fraudulent expenditure:

In the current financial year the Company became aware that over the last five years approximately \$16.7 million (including \$1.5 million GST) of expenditure had been falsely charged to the company, out of total property expenditures of approximately \$150 million for that period. This resulted in the Company making cash payments of approximately \$16.7 million during this five year period. The Company recovered \$5 million in August 2009 through an insurance claim.

In reviewing the accounting impact of the \$15.2 million (ex GST), approximately \$10.8 million had been capitalised to fixed assets over the period and \$4.4 million had been accounted for through profits over the last five years.

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Asset write off	3,718	3,287	3,543	2,633
Other P&L expenditure	3,109	2,158	3,109	2,158
Insurance recoveries	(5,000)	–	(5,000)	–
	1,827	5,445	1,652	4,791

Summary of accounting restatement impacts net of tax:

Note that the accounting restatements include the reversal of the impacts of the depreciation and impairment charges recorded in prior years.

(a) As at 1 July 2007

For the Company and Group there has been a decrease in plant and equipment of \$2,922,000. Accumulated losses has increased by \$2,045,000. Deferred Tax Assets increased by \$877,000.

(b) As at 30 June 2008

For the Group there has been a decrease in plant and equipment of \$5,151,000. (Company: decrease of \$4,581,000). Net Profit has decreased by \$1,780,000. (Company: decrease of \$1,161,000). Accumulated losses has increased by \$3,825,000. (Company: increase of \$3,206,000). Deferred Tax Assets for the Company and Group has increased by \$1,375,000. Foreign Currency Translation Reserves increased by \$48,000.

8 INCOME TAX EXPENSE

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(a) Income tax expense				
Current tax	6,139	10,925	5,793	10,527
Deferred tax	2,238	(1,530)	2,238	(1,530)
Over provided in prior years	(127)	(22)	(127)	(22)
	8,250	9,373	7,904	8,975
(b) Numerical reconciliation of income tax expense to prima facie tax payable				
Profit from continuing operations before income tax expense	30,813	30,607	30,122	29,959
Tax at the Australian tax rate of 30% (2008 – 30%)	9,245	9,182	9,037	8,988
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:				
Investment allowance	(913)	–	(913)	–
Difference in overseas tax rates	–	18	–	–
Share options	45	9	45	9

Notes to the financial statements (cont.)

For the year ended 30 June 2009

8 INCOME TAX EXPENSE (CONT.)

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(b) Numerical reconciliation of income tax expense to prima facie tax payable (cont.)				
Sundry items	–	–	(138)	–
Over provision	(127)	(22)	(127)	(22)
Under provision of tax due to fraudulent expenditure restatement	–	186	–	–
	8,250	9,373	7,904	8,975

(c) Amounts recognised directly in equity

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

Net deferred tax charged directly to equity (note 15)	(2,051)	(12)	(2,051)	(12)
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(d) Tax consolidation legislation

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

(e) Capital losses

Carried forward capital losses total \$24,140,000 (2008: \$24,140,000). These losses have not been recognised as a deferred tax asset.

9 CURRENT ASSETS-CASH AND CASH EQUIVALENTS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Cash at bank and in hand	8,044	7,089	7,632	6,518

(a) Risk exposure

The Group and the parent entity's exposure to interest rate risk is discussed in note 2. The maximum exposure to credit risk at the reporting date is the carrying amount of each class of cash and cash equivalents mentioned above.

10 CURRENT ASSETS-TRADE AND OTHER RECEIVABLES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Other receivables	9,263	3,472	9,182	3,459
Prepayments	1,125	445	1,119	443
	10,388	3,917	10,301	3,902

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

(b) Other receivable includes \$1,045,000 (2008: \$993,000) in staff loans. Refer to note 28.

11 CURRENT ASSET- INVENTORIES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Inventories on hand at lower of cost and net realisable value	43,985	41,577	42,756	39,407

12 DERIVATIVE FINANCIAL INSTRUMENTS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Current liabilities				
Forward foreign exchange contracts – cash flow hedges	3,515	10,347	3,515	10,347

(a) Instruments used by the Group

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

(i) Forward exchange contracts-cash flow hedges

In order to protect against exchange rate movements, the Group has entered into forward exchange contracts to purchase US Dollars (2008: USD and NZD contracts).

These contracts are hedging highly probable forecast purchases for the ensuing financial year. The contracts are timed to mature when payments for major shipments of inventory are scheduled to be made. The fair value of forward exchange contracts is determined using forward exchange market rates at reporting date.

The cash flows are expected to occur within one year from the balance date. At balance date, the details of outstanding contracts are:

	SELL AUSTRALIAN DOLLARS		AVERAGE EXCHANGE RATE	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Buy US Dollars				
Maturity less than 1 year	48,905	54,336	0.7489	0.7644
Buy NZ dollars				
Maturity less than 1 year		955		1.1516

The portion of the gain or loss on the hedging instrument that is determined to be an effective hedge is recognised directly in equity. When the cashflow occurs, the Group adjusts the initial measurement of the component recognised in the balance sheet by the related amount deferred in equity.

Group and parent entity

(b) Risk exposures

Credit risk arises from the potential failure of counter parties to meet their obligations under the respective contracts at maturity. This arises on derivative financial instruments with unrealised gains. At reporting date \$3,515,000 is payable (Australian dollar equivalents) for the Group from forward foreign exchange contracts (2008 – \$10,347,000 was payable). The maximum exposure to credit risk at the reporting date is the carrying amount of each class of derivative financial asset mentioned above.

(c) Interest rate risk exposure

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

Notes to the financial statements (cont.)

For the year ended 30 June 2009

13 NON-CURRENT ASSETS – OTHER FINANCIAL ASSETS

	2009 \$'000	PARENT 2008 \$'000
Net Investment in subsidiaries (note 34)	2,911	2,960

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

CONSOLIDATED	PLANT AND EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
At 1 July 2007			
Cost as previously stated	115,290	3,566	118,856
Fraudulent expenditure	(3,397)	–	(3,397)
Restated cost	111,893	3,566	115,459
Accumulated depreciation and impairment as previously stated	(61,884)	(517)	(62,401)
Fraudulent expenditure	475	–	475
Restated accumulated depreciation and impairment	(61,409)	(517)	(61,926)
Restated net book amount	50,484	3,049	53,533
Year ended 30 June 2008			
Restated opening net book amount	50,484	3,049	53,533
Additions*	27,805	–	27,805
Business acquired	981	–	981
Exchange differences	(229)	–	(229)
Depreciation and impairment charge*	(13,602)	(464)	(14,066)
Restated closing net book amount	65,439	2,585	68,024
At 30 June 2008			
Restated cost	134,468	3,566	138,034
Restated accumulated depreciation and impairment	(69,029)	(981)	(70,010)
Restated net book amount	65,439	2,585	68,024
Year ended 30 June 2009			
Restated opening net book amount	65,439	2,585	68,024
Additions	22,877	–	22,877
Exchange differences	(29)	–	(29)
Depreciation and impairment charge	(17,254)	(357)	(17,611)
Restated closing net book amount	71,033	2,228	73,261
At 30 June 2009			
Cost	153,865	3,566	157,431
Accumulated depreciation and impairment	(82,832)	(1,338)	(84,170)
Net book amount	71,033	2,228	73,261

14 NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT (CONT.)

PARENT	PLANT AND EQUIPMENT \$'000	LEASEHOLD IMPROVEMENTS \$'000	TOTAL \$'000
At 1 July 2007			
Cost as previously stated	111,678	3,566	115,244
Fraudulent expenditure	(3,397)	–	(3,397)
Restated cost	108,281	3,566	111,847
Accumulated depreciation and impairment as previously stated	(59,211)	(517)	(59,728)
Fraudulent expenditure	475	–	475
Restated accumulated depreciation and impairment	(58,736)	(517)	(59,253)
Restated net book amount	49,545	3,049	52,594
Year ended 30 June 2008			
Restated opening net book amount	49,545	3,049	52,594
Additions*	26,739	–	26,739
Depreciation and impairment charge*	(13,232)	(464)	(13,696)
Restated closing net book amount	63,052	2,585	65,637
At 30 June 2008			
Restated cost	129,616	3,566	133,182
Restated accumulated depreciation and impairment	(66,564)	(981)	(67,545)
Restated net book amount	63,052	2,585	65,637
Year ended 30 June 2009			
Restated opening net book amount	63,052	2,585	65,637
Additions	23,114	–	23,114
Depreciation and impairment charge	(17,047)	(357)	(17,404)
Closing net book amount	69,119	2,228	71,347
At 30 June 2009			
Cost	149,237	3,566	152,803
Accumulated depreciation and impairment	(80,118)	(1,338)	(81,456)
Net book amount	69,119	2,228	71,347

* Includes restatement to reflect impact of fraudulent expenditure (refer note 7).

Notes to the financial statements (cont.)

For the year ended 30 June 2009

15 NON-CURRENT ASSETS – DEFERRED TAX ASSETS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
The balance comprises temporary differences attributable to:				
Employee benefits	3,615	3,485	3,615	3,485
Other provisions and accruals	5,857	2,809	5,857	2,809
Deferred lease incentives	1,723	1,176	1,723	1,176
Tax losses*	271	315	271	315
Inventories	(85)	(165)	(85)	(165)
Lay-by debtors	(179)	(159)	(179)	(159)
Depreciation	(6,105)	(613)	(6,105)	(613)
Insurance recovery	(1,500)	–	(1,500)	–
	3,597	6,848	3,597	6,848
Amounts recognised directly in equity				
Cash flow hedges (note 26(a))	1,051	3,103	1,051	3,103
Total deferred tax assets	4,648	9,951	4,648	9,951
Movements:				
Opening balance at 1 July	9,951	7,910	9,951	7,910
Credited/(charged) to the income statement (note 8)	(3,252)	1,531	(3,252)	1,531
Charged to equity	(2,051)	(12)	(2,051)	(12)
Acquisition of subsidiary (note 33)	–	522	–	522
Closing balance at 30 June	4,648	9,951	4,648	9,951

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

16 NON-CURRENT ASSETS – INTANGIBLE ASSETS

CONSOLIDATED	GOODWILL \$'000	TOTAL \$'000
At 1 July 2007		
Cost	12,085	12,085
Accumulated impairment	(2,022)	(2,022)
Net book amount	10,063	10,063
Year ended 30 June 2008		
Opening net book amount	10,063	10,063
Additions	32	32
Acquisition of subsidiary	1,760	1,760
Closing net book amount	11,855	11,855
Cost	11,855	11,855
Accumulated impairment	–	–
Closing Net book amount	11,855	11,855
Year ended 30 June 2009		
Opening net book amount	11,855	11,855
Earnout Agreement	(49)	(49)
Closing net book amount	11,806	11,806
Cost	11,806	11,806
Accumulated impairment	–	–
Net book amount	11,806	11,806
PARENT		
Year ended 30 June 2008		
Opening net book amount	1,974	1,974
Additions	32	32
Closing net book amount	2,006	2,006
At 30 June 2009		
Cost	2,006	2,006
Accumulated impairment	–	–
Net book amount	2,006	2,006

Notes to the financial statements (cont.)

For the year ended 30 June 2009

(a) Impairment tests for goodwill

Goodwill is allocated to the Group's cash-generating units (CGUs) identified according to business segment.

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

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

Growth rate – 2% (2008: 2.7%)

Discount rate – 11.1% (2008: 10.5%)

(b) Impairment charge

There has been no impairment charge taken in the current year in relation to goodwill (2008: nil).

17 CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Trade payables	13,966	23,930	13,966	23,720
Amounts due to related parties	–	–	2,731	1,372
Other payables	39,463	31,434	39,101	30,561
	53,429	55,364	55,798	55,653

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

18 CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Secured				
Bank loans	33,800	–	33,800	–
Total current borrowings	33,800	–	33,800	–

(a) Bank loans

Other loans are repayable at call and bear interest at 4.15% per annum (2008: 7.71%).

As the bank renewal facility documents were not signed at 30 June 2009, the borrowings have been classified as current liabilities.

Subsequent to year end the agreement of the renewal of the bank loan facilities until 30 September 2010 was executed on 4 September 2009.

(b) Security

Information about the security relating to each of the secured liabilities and further information on the bank overdrafts and bank loans are set out in note 22.

19 CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee benefits	7,551	7,377	7,407	6,967
Other provisions	2,434	1,259	2,392	1,148
	9,985	8,636	9,799	8,115

(a) Movements in provisions

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

CONSOLIDATED – 2009 CURRENT		OTHER PROVISIONS \$'000
Carrying amount at start of year		1,259
Additional provisions recognised		1,175
Carrying amount at end of year		2,434
PARENT – 2009 CURRENT		OTHER PROVISIONS \$'000
Carrying amount at start of year		1,148
Additional provisions recognised		1,244
Carrying amount at end of year		2,392

20 CURRENT LIABILITIES – CURRENT TAX LIABILITIES

	CONSOLIDATED			PARENT
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Income tax	3,909	2,692	3,712	2,777

21 CURRENT LIABILITIES – OTHER CURRENT LIABILITIES

	CONSOLIDATED			PARENT
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deferred lease incentives	1,966	1,458	1,966	1,458
Deferred income	452	–	452	–
	2,418	1,458	2,418	1,458

22 NON-CURRENT LIABILITIES – BORROWINGS

	CONSOLIDATED			PARENT
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Bank loans	–	45,000	–	45,000

(a) Total secured liabilities

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

Bank overdrafts and bank loans	33,800	45,000	33,800	45,000
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Notes to the financial statements (cont.)

For the year ended 30 June 2009

(b) Financing arrangements

The Group and the parent entity had access to the following undrawn borrowing facilities at the reporting date:

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Credit standby arrangements				
Total facilities				
Bank loans and bill facilities	61,048	61,179	–	–
Bank overdrafts	2,000	2,000	–	–
Visa, encashment and guarantee facilities	2,017	2,013	–	–
	65,065	65,192	–	–
Used at balance date				
Bank loans and bill facilities	33,800	45,000	–	–
Bank overdrafts	–	–	–	–
Visa, encashment and guarantee facilities	438	762	–	–
	34,238	45,762	–	–
Unused at balance date				
Bank overdraft, bank loans and bill facilities	29,248	18,179	–	–
Visa, encashment and guarantee facilities	1,579	1,251	–	–
	30,827	19,430	–	–
Bank loan facilities				
Total facilities	65,065	65,192	–	–
Used at balance date	34,238	45,762	–	–
Unused at balance date	30,827	19,430	–	–

The bank finance arrangements are secured by a cross guarantee and a mortgage debenture given by certain group companies consisting of fixed and floating charges over all present and future assets of these companies.

The bank loan facilities comprise of working capital facilities (including overdraft facilities). The working capital facilities may be drawn at any time and are subject to annual review.

The current interest rates are 8.83% on the overdraft and 4.15% on the bank loans (2008: 11.63% and 7.91% respectively).

Subsequent to year end the agreement of the renewal of the bank loan facilities until 30 September 2010 was executed on 4 September 2009.

(c) Interest rate risk exposures

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

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

2009	FLOATING INTEREST RATE \$'000	FIXED INTEREST RATE		TOTAL \$'000
		1 YEAR OR LESS \$'000	NON-INTEREST BEARING \$'000	
Cash and deposits (note 9)	8,044	–	–	8,044
Receivables (note 10)	–	10,388	–	10,388
Bank loans (note 18)	(33,800)	–	–	(33,800)
Net financial assets/(liabilities)	(25,756)	10,388	–	(15,368)

2008	FLOATING INTEREST RATE \$'000	NON-INTEREST BEARING \$'000	TOTAL \$'000
Cash and deposits (note 9)	7,089	–	7,089
Receivables (note 10)	–	3,917	3,917
Bank loans	(45,000)	–	(45,000)
Weighted average interest rate on the cash and deposits is 2.5% (2008: 6.75%) and on the loans is 4.15% (2008: 7.91%)			
Net financial assets/(liabilities)	(37,911)	3,917	(33,994)

(d) Fair value

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

23 NON-CURRENT LIABILITIES – PROVISIONS

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Employee benefits – long service leave	4,644	4,399	4,644	4,399
Other provisions	3,702	4,167	3,644	4,167
	8,346	8,566	8,288	8,566

Notes to the financial statements (cont.)

For the year ended 30 June 2009

(a) Movements in provisions

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

	OTHER PROVISIONS \$'000
Consolidated 2009	
Non-current	
Carrying amount at start of year	4,167
Credited to the income statements	(465)
Carrying amount at end of year	3,702
	OTHER PROVISIONS \$'000
Parent – 2009	
Non-current	
Carrying amount at start of year	4,167
Credited to the income statements	(523)
Carrying amount at end of year	3,644

24 NON-CURRENT LIABILITIES – OTHER NON-CURRENT LIABILITIES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Deferred lease incentives	5,959	3,305	5,821	3,285

25 CONTRIBUTED EQUITY

	PARENT		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000

(a) Share capital

Ordinary shares fully paid	190,520,581	190,095,022	131,993	131,680
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(b) Movements in ordinary share capital:

DATE	DETAILS	NUMBER OF SHARES	\$'000
1 July 2008	Opening balance	190,095,019	131,680
29 September 2008	Earnout Issue	425,562	313
30 June 2009	Balance	190,520,581	131,993

(c) Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on winding up of the company in proportion to the number of and amounts paid on the shares held.

On a show of hands every holder of ordinary shares present at a meeting in person or by proxy, is entitled to one vote, and upon a poll each share is entitled to one vote.

(d) Options

Information relating to the Specialty Fashion Group Limited Senior Executive Option Plan, including details of options issued, exercised and lapsed during the financial year and options outstanding at the end of the financial year, is set out in note 38.

(e) Restricted share rights

Information relating to the Specialty Fashion Group Limited Employee Share Plan, including details of restricted share rights issued during the financial year is set out in note 37.

(f) Capital risk management

The capital structure of the company consists of equity attributable to the equity holders and debt (as shown in Note 22). The company manages its capital with the objective of maintaining an efficient structure to minimise the cost of capital by:

- Managing the level of debt that is prudent, facilitates the execution of the operation plan and provides flexibility for growth.
- Managing the amount of equity and expectation of return for dividends.

As part of its strategy for delivering long term sustainable growth in earnings per share, the company has been returning capital to shareholders by way of on market share buybacks in addition to dividends. The Company is in compliance with its debt covenants with formal notification of this compliance confirmed on a bi-annual basis.

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

26 RESERVES AND ACCUMULATED LOSSES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
(a) Reserves				
Hedging reserve – cash flow hedges	(2,461)	(7,243)	(2,461)	(7,243)
Share-based payments reserve	561	411	561	411
Foreign currency translation reserve	(1,081)	(1,191)	–	–
Shares to be issued (note 33)	–	362	–	362
Balance at 30 June	(2,981)	(7,661)	(1,900)	(6,470)
Movements:				
<i>Hedging reserve – cash flow hedges</i>				
Balance at 1 July	(7,243)	(7,270)	(7,243)	(7,270)
Revaluation (note 12)	(2,461)	(4,150)	(2,461)	(4,150)
Transfer to net profit-net of tax	7,243	3,342	7,243	3,342
Transfer to inventory and other assets-net	–	835	–	835
Balance at 30 June	(2,461)	(7,243)	(2,461)	(7,243)

Notes to the financial statements (cont.)

For the year ended 30 June 2009

26 RESERVES AND ACCUMULATED LOSSES (CONT.)

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Movements:				
<i>Share-based payments reserve</i>				
Balance at 1 July	411	381	411	381
Options issued under employee share plan expense/(writeback)	–	(180)	–	(180)
Restricted share rights plan expense	150	210	150	210
Balance at 30 June	561	411	561	411
Movements:				
<i>Foreign currency translation reserve</i>				
Balance at 1 July	(1,191)	(360)	–	–
Currency translation differences arising during the year	110	(830)	–	–
Balance at 30 June	(1,081)	(1,190)	–	–

(b) Accumulated losses

Movements in accumulated losses were as follows:

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Opening accumulated losses	(116,974)	(108,140)	(130,030)	(120,946)
Fraudulent expenditure	–	(2,045)	–	(2,045)
Restated balance	(116,974)	(110,185)	(130,030)	(122,991)
Net profit for the year	22,563	21,234	22,217	20,984
Dividends	(3,830)	(28,023)	(3,830)	(28,023)
Balance	(98,241)	(116,974)	(111,643)	(130,030)

(c) Nature and purpose of reserves

(i) Hedging reserve – cash flow hedges

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

(ii) Share-based payments reserve

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

(iii) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are taken to the foreign currency translation reserve, as described in note 1(d). The reserve is recognised in profit and loss when the net investment is disposed of.

27 DIVIDENDS

	2009 \$'000	PARENT 2008 \$'000
(a) Ordinary shares		
Dividends paid during the year (all fully franked based on tax paid at 30%)		
No interim dividend for the year ended 30 June 2009 was declared (2008 – 8.0 cents paid 10 March 2008).	–	15,419
Final dividend for the year ended 30 June 2008 of 2.0 cents (2007 – 3.0 cents) per fully paid share paid 18 September 2008.	3,830	5,817
No special dividend for the year ended 30 June 2009 was declared (2008 – 3.5 cents per fully paid share paid 20 September 2007).	–	6,787
	3,830	28,023

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Franking credits available for subsequent financial years based on a tax rate of 30% (2008 – 30%)	28,823	26,749	28,823	26,749

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

- (a) franking credits that will arise from the payment of the amount of the provision for income tax
- (b) franking debits that will arise from the payment of dividends recognised as a liability at the reporting date, and
- (c) franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

28 KEY MANAGEMENT PERSONNEL DISCLOSURES

(a) Key management personnel compensation

	CONSOLIDATED		PARENT	
	2009	2008	2009	2008
Short-term employee benefits	1,308,667	1,506,620	1,308,667	1,506,620
Post employment benefits	108,195	102,015	108,195	102,015
	1,416,862	1,608,635	1,416,862	1,608,635

Detailed remuneration disclosures are provided in sections A-C of the remuneration report on pages 23 to 27.

Notes to the financial statements (cont.)

For the year ended 30 June 2009

28 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

(b) Equity instrument disclosures relating to key management personnel

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

Details of options provided as remuneration and shares issued on the exercise of such options, together with terms and conditions of such options, can be found in section D of the remuneration report on pages 28 to 29 and note 38.

(ii) Option holdings

The numbers of options over ordinary shares in the company held during the financial year by key management personnel of Specialty Fashion Group Limited are set out below.

2009	BALANCE AT START OF THE YEAR	EXERCISED DURING THE YEAR	CANCELLED DURING THE YEAR	EXECUTIVE RESIGNATION	BALANCE AT END OF THE YEAR	VESTED AND UNVESTED EXERCISABLE
NAME						
Other key management personnel of the Group						
H Herman	333,444	–	–	–	333,444	333,444

All vested options are exercisable at the end of the year.

2008	BALANCE AT START OF THE YEAR	EXERCISED DURING THE YEAR	CANCELLED DURING THE YEAR	EXECUTIVE RESIGNATION	BALANCE AT END OF THE YEAR	VESTED AND UNVESTED EXERCISABLE
NAME						
Other key management personnel of the Group						
H Herman	733,665	(400,221)	–	–	333,444	– 333,444

No options are held by any of the directors of Specialty Fashion Group Limited.

(iii) Share holdings

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

2009	BALANCE AT START OF THE YEAR	MOVEMENTS DURING THE YEAR	BALANCE AT END OF THE YEAR
NAME			
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	–	17,862,814
A I Miller	14,419,906	–	14,419,906
G Levy	699,398	1,666,166	2,365,564
J Murphy	–	–	–
J Bloom	–	–	–
A McDonald	15,000	–	15,000
Other key management personnel of the Group			
Ordinary shares			
H Herman	731,727	–	731,727

2008	BALANCE AT START OF THE YEAR	MOVEMENTS DURING THE YEAR	BALANCE AT END OF THE YEAR
NAME			
Directors of Specialty Fashion Group Limited			
Ordinary shares			
G Perlstein	17,862,814	–	17,862,814
A I Miller	14,419,906	–	14,419,906
G Levy	699,398	–	699,398
J Murphy	–	–	–
J Bloom	–	–	–
G Novis	369,350	(369,350)	–
A McDonald	15,000	–	15,000
Other key management personnel of the Group			
Ordinary shares			
H Herman	331,506	400,221	731,727

Notes to the financial statements (cont.)

For the year ended 30 June 2009

28 KEY MANAGEMENT PERSONNEL DISCLOSURES (CONT.)

(c) Loans to key management personnel

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

(i) Aggregates for key management personnel

GROUP	BALANCE OF LOANS AT THE START OF THE YEAR	INTEREST PAID AND PAYABLE FOR THE YEAR	INTEREST NOT CHARGED	BALANCE AT THE END OF THE YEAR	NUMBER IN GROUP AT THE END OF THE YEAR
2009	993,011	51,665	–	1,044,676	3

Loans outstanding at the end of the current year include an unsecured loan of \$798,435 (2008: \$758,948) to H Herman, a key management personnel of Specialty Fashion Group Limited. This loan has been renewed to 30 June 2010. Interest is payable on this loan at the company's cost of funds rate.

No write-downs or allowances for doubtful receivables have been recognised in relation to any loans made to key management personnel.

No loans were made to directors in 2009 or any other prior period.

(d) Other transactions with key management personnel

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

Aggregate amounts of each of the above types of other transactions with key management personnel of Specialty Fashion Group Limited:

	2009 \$'000	2008 \$'000
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have an interest	467,711	433,458

29 REMUNERATION OF AUDITORS

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

	CONSOLIDATED		PARENT	
	2009 \$	2008 \$	2009 \$	2008 \$
(a) PricewaterhouseCoopers Australia				
Audit and review of financial reports	358,929	349,734	337,942	328,756
Accounting advice and assistance	5,238	34,000	–	34,000
Total remuneration for audit and other assurance services	364,167	383,734	337,942	362,756
Taxation services				
Tax compliance services, including review of company income tax returns	31,000	20,000	31,000	20,000
Tax advisory services	23,730	76,000	23,730	76,000
Total remuneration for taxation services	54,730	96,000	54,730	96,000
Total remuneration of PricewaterhouseCoopers Australia	418,897	479,734	392,672	458,756
(b) Related practices of PricewaterhouseCoopers Australia				
Taxation services – New Zealand				
Tax compliance services, including review of company income tax returns	11,080	15,000	–	–
Tax advisory services	19,052	–	–	–
Total remuneration of related practices of PricewaterhouseCoopers Australia	30,132	15,000	–	–
Total Remuneration	449,029	494,734	392,672	458,756

It is the Group's policy to employ PricewaterhouseCoopers on assignments additional to their statutory audit duties where PricewaterhouseCoopers' expertise and experience with the Group are important. These assignments are principally tax advice and due diligence reporting on acquisitions, or where PricewaterhouseCoopers is awarded assignments on a competitive basis. It is the Group's policy to seek competitive tenders for all major consulting projects.

30 CONTINGENCIES

(a) Contingent liabilities

The parent entity and Group had contingent liabilities at 30 June 2009 in respect of:

Contingent consideration

Additional contingent consideration in respect of the acquisition of the Queenspark Australia Pty Ltd subsidiary in the form of shares may be payable in the circumstances detailed in note 33.

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

Security for borrowings is detailed in note 22.

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

Notes to the financial statements (cont.)

For the year ended 30 June 2009

31 COMMITMENTS

(a) Capital commitments

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

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Property, plant and equipment				
Payable:				
Within one year	5,028	3,795	5,028	3,795
Later than one year but not later than five years	–	1,500	–	1,500
	5,028	5,295	5,028	5,295

(b) Lease commitments

(i) Non cancellable operating leases

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

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Commitments for minimum lease payments in relation to non-cancellable operating leases are payable as follows:				
Within one year	59,918	53,788	58,805	53,240
Later than one year but not later than five years	124,049	109,891	122,246	109,460
Later than five years	11,239	7,131	11,240	7,131
	195,206	170,810	192,291	169,831

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

32 RELATED PARTY TRANSACTIONS

(a) Parent entities

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

(b) Subsidiaries

All transactions and balance within the wholly owned group have been eliminated on consolidation. Interests in subsidiaries are set out in note 34.

(c) Key management personnel

Disclosures relating to key management personnel are set out in note 28.

33 BUSINESS COMBINATION

Current period

The Group did not make any acquisitions in the current year,

Prior period

(a) Summary of acquisition

On 1 November 2007 the parent entity acquired 100% of the share capital in Queenspark Australia Pty Limited

Details of the net assets acquired and goodwill are as follows:

	\$'000
Purchase consideration (refer to (b) below):	
Cash paid	2,500
Shares issued on Earnout	313
Direct costs relating to the acquisition	98
Total purchase consideration	2,911
Fair value of net identifiable assets acquired (refer to (c) below)	1,200
Goodwill (refer to (c) below and note 16)	1,711

(b) Cash flow information

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Outflow of cash to acquire subsidiary, net of cash acquired				
Cash consideration	–	2,599	–	2,599
Cash	–	(101)	–	(101)
Outflow of cash	–	2,498	–	2,498

(c) Assets and liabilities acquired

The assets and liabilities arising from the acquisition are as follows:

	ACQUIREE'S CARRYING AMOUNT	FAIR VALUE \$'000	FAIR VALUE \$'000
Cash		101	101
Trade receivables		190	190
Inventories		1,405	1,405
Plant and equipment		981	981
Deferred tax asset		522	522
Trade and other payables		(860)	(860)
Provision for employee benefits		(254)	(254)
Borrowings		(485)	(485)
Loans		(400)	(400)
Net assets		1,200	1,200
Net identifiable assets acquired			1,200

Notes to the financial statements (cont.)

For the year ended 30 June 2009

34 SUBSIDIARIES

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

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING	
			2009	2008
Miller's Fashion Club (QLD) Pty Limited*	Australia	Ordinary	100	100
Miller's Fashion Club (VIC) Pty Limited*	Australia	Ordinary	100	100
Miller's Fashion Club (WA) Pty Limited*	Australia	Ordinary	100	100
Specialty Fashion Group No. 1 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 2 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 3 Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group No. 4 Pty Limited	Australia	Ordinary	100	100
Yip Eks Pty Limited	Australia	Ordinary	100	100
H&H Corporation Pty Limited	Australia	Ordinary	100	100
McSeveny DA Pty Limited	Australia	Ordinary	100	100
GLP Fashions Pty Limited*	Australia	Ordinary	100	100
Queenspark Australia Pty Limited	Australia	Ordinary	100	100
Selbourne Australia Pty Limited	Australia	Ordinary	100	100
Specialty Fashion Group New Zealand Limited	New Zealand	Ordinary	100	100

* These subsidiaries have been granted relief from the necessity to prepare financial reports in accordance with Class Order 98/1418 issued by the Australian Securities and Investments Commission. For further information refer to note 35.

35 DEED OF CROSS GUARANTEE

Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited are parties to a deed of cross guarantee under which each company guarantees the debts of the others. By entering into the deed, the wholly owned entities have been relieved from the requirement to prepare a financial report and directors' report under Class Order 98/1418 (as amended) issued by the Australian Securities & Investments Commission.

(a) Consolidated income statement and a summary of movements in consolidated retained profits

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'.

Set out below is a consolidated income statement for the year ended 30 June 2009 of the Closed Group consisting of Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited.

	2009 \$'000	2008 \$'000
Income statement		
Revenue from continuing operations	546,358	516,134
Changes in inventories of finished goods and consumables	(467)	5,961
Finished goods and consumables	(233,103)	(230,221)
Employee benefits expense	(125,675)	(125,513)
Depreciation and impairment expense	(17,395)	(13,696)
Other expenses	(38,928)	(30,513)
Rental expense relating to operating leases	(95,773)	(84,256)
Fraudulent expenditure	(6,652)	(4,791)
Other income fraudulent expenditure	5,000	–
Borrowing costs	(3,243)	(3,146)
Profit before income tax	30,122	29,959
Income tax expense	(7,904)	(8,975)
Profit for the year	22,218	20,984
Retained profits at the beginning of the financial year		
As previously stated	(130,030)	(120,946)
Fraudulent expenditure	–	(2,045)
Restated balance	(130,030)	(122,991)
Profit for the year	22,218	20,984
Dividends provided for or paid	(3,830)	(28,023)
Retained profits at the end of the financial year	(111,642)	(130,030)

Notes to the financial statements (cont.)

For the year ended 30 June 2009

(b) Balance sheets

Set out below is a consolidated balance sheet as at 30 June 2009 of the Closed Group consisting of Specialty Fashion Group Limited, Miller's Fashion Club (QLD) Pty Limited, Miller's Fashion Club (VIC) Pty Limited, Miller's Fashion Club (WA) Pty Limited and GIP Fashions Pty Limited.

	2009 \$0'00	2008 \$0'00
Current assets		
Cash and cash equivalents	7,632	6,518
Trade and other receivables	10,301	3,902
Inventories	42,756	39,407
Total current assets	60,689	49,827
Non-current assets		
Property, plant and equipment	71,347	65,637
Intangible assets	2,006	2,006
Deferred tax assets	4,648	9,951
Other financial assets	2,911	2,960
Total non-current assets	80,912	80,554
Total assets	141,601	130,381
Current liabilities		
Trade and other payables	55,798	55,653
Borrowings	33,800	–
Provisions	9,799	8,115
Derivative financial instruments	3,515	10,347
Current tax liabilities	3,712	2,777
Other current liabilities	2,418	1,458
Total current liabilities	109,042	78,350
Non-current liabilities		
Borrowings	–	45,000
Provisions	8,288	8,566
Other non-current liabilities	5,821	3,285
Total non-current liabilities	14,109	56,851
Total liabilities	123,151	135,201
Net assets	18,450	(4,820)
Equity		
Contributed equity	131,993	131,680
Reserves	(1,900)	(6,470)
Accumulated losses	(111,643)	(130,030)
Total equity	18,450	(4,820)

36 RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH INFLOW FROM OPERATING ACTIVITIES

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Profit for the year	22,563	21,234	22,218	20,984
Depreciation and impairment	17,611	14,066	17,395	13,696
Share based payments	150	30	150	30
Net exchange differences	110	–	–	–
Change in operating assets and liabilities, net of effects from purchase of controlled entity				
Decrease in trade debtors	(6,472)	(1,311)	(6,403)	(1,510)
Decrease in inventories	(2,409)	(5,162)	(3,348)	(5,961)
Decrease/(Increase) in deferred tax assets	3,256	(157)	3,256	–
Increase in trade creditors and other liabilities	1,117	1,545	1,953	1,203
Increase in provision for income taxes payable	1,215	621	934	369
Increase in other provisions	2,433	1,516	3,622	1,845
Net cash inflow from operating activities	39,574	32,382	39,777	30,656

37 EARNINGS PER SHARE

	CONSOLIDATED	
	2009 CENTS	2008 CENTS
(a) Basic earnings per share		
Basic EPS from ordinary activities	11.8	11.1
(b) Diluted earnings per share		
Diluted EPS from ordinary activities	11.7	10.8

Notes to the financial statements (cont.)

For the year ended 30 June 2009

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

	CONSOLIDATED	
	2009 \$'000	2008 \$'000
Basic earnings per share		
Profit from ordinary activities	22,563	21,234
	22,563	21,234
Diluted earnings per share		
Profit from ordinary activities attributable to the ordinary equity holders of the company used in calculating basic earnings per share	22,563	21,234
Interest savings on options	–	104
Profit attributable to the ordinary equity holders of the company used in calculating diluted earnings per share	22,563	21,338

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

	CONSOLIDATED	
	2009 NUMBER	2008 NUMBER
Weighted average number of ordinary shares used as the denominator in calculating basic earnings per share	190,415,360	192,002,051
Adjustments for calculation of diluted earnings per share:		
Options	2,142,857	3,955,852
Weighted average number of ordinary shares and potential ordinary shares used as the denominator in calculating diluted earnings per share	192,558,217	195,957,903

(e) Information concerning the classification of securities

(i) Options

Options granted to employees under the Specialty Fashion Group Limited Senior Executive Option Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The options have not been included in the determination of basic earnings per share. Details relating to the options are set out in note 38.

(ii) Restricted share rights

Restricted share rights granted to employees under the Specialty Fashion Group Limited Long-term Incentive Plan are considered to be potential ordinary shares and have been included in the determination of diluted earnings per share to the extent to which they are dilutive. The restricted share rights have not been included in the determination of basic earnings per share. Details relating to the restricted share rights are set out in note 38.

38 SHARE BASED PAYMENTS

(a) Employee Option Plan

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

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

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

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

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

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

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	VESTED AND EXERCISABLE AT END OF THE YEAR NUMBER
Consolidated and parent – 2009								
4 January 2005	31 August 2011	\$1.13	1,973,774	–	–	–	1,973,774	1,973,774
9 June 2006	31 August 2012	\$1.86	280,000	–	–	–	280,000	280,000
Total			2,253,774	–	–	–	2,253,774	2,253,774
Weighted average exercise price			\$1.21	–	–	–	\$1.21	\$1.21

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT START OF THE YEAR NUMBER	GRANTED DURING THE YEAR NUMBER	EXERCISED DURING THE YEAR NUMBER	EXPIRED DURING THE YEAR NUMBER	BALANCE AT END OF THE YEAR NUMBER	VESTED AND EXERCISABLE AT END OF THE YEAR NUMBER
Consolidated and parent – 2008								
2 July 2001	30 November 2007	\$5.69	48,000	–	–	(48,000)	–	–
2 August 2001	30 November 2007	\$6.94	229,334	–	–	(229,334)	–	–
4 January 2005	31 August 2011	\$1.13	3,098,665	–	(1,124,891)	–	1,973,774	899,333
9 June 2006	31 August 2012	\$1.86	280,000	–	–	–	280,000	186,667
Total			3,655,999	–	(1,124,891)	(277,334)	2,253,774	1,086,000
Weighted average exercise price			\$1.61	–	\$1.13	\$3.73	\$1.21	\$1.25

Fair value of options granted

No options were granted during the years ended 30 June 2009 or 30 June 2008. 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.

Notes to the financial statements (cont.)

For the year ended 30 June 2009

(b) Restricted share rights

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

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

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

	CONSOLIDATED		PARENT	
	2009 NUMBER	2008 NUMBER	2009 NUMBER	2008 NUMBER
Rights issued under the plan to participating employees in September 2007	–	2,142,857	–	2,142,857

(c) Expenses arising from share-based payment transactions

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

	CONSOLIDATED		PARENT	
	2009 \$'000	2008 \$'000	2009 \$'000	2008 \$'000
Restricted share rights issued under employee share plan	150	30	150	30

Directors' declaration

For the year ended 30 June 2009

In the directors' opinion:

(a) the financial statements and notes set out on pages 36 to 76 are in accordance with the *Corporations Act 2001*, including:

- (i) complying with Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements; and
- (ii) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the financial year ended on that date; and

(b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

(c) at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group identified in note 35 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.

The directors have been given the declarations by the chief executive officer and chief financial officer required by section 295A of the *Corporations Act 2001*.

This declaration is made in accordance with a resolution of the directors.



G Perlstein
Director



G Levy AO
Director

Sydney
25 September 2009

Independent Auditors' report

For the year ended 30 June 2009



Independent auditor's report to the members of Specialty Fashion Group Limited

Report on the financial report

We have audited the accompanying financial report of Specialty Fashion Group Limited (the company), which comprises the balance sheet as at 30 June 2009, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration for both Specialty Fashion Group Limited and the Specialty Fashion Group (the consolidated entity). The consolidated entity comprises the company and the entities it controlled at the year end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances. In Note 1(a), the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that compliance with the Australian equivalents to International Financial Reporting Standards ensures that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards.

Auditor's responsibility

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

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

Our procedures include reading the other information in the Annual Report to determine whether it contains any material inconsistencies with the financial report.

Our audit did not involve an analysis of the prudence of business decisions made by directors or management.

PricewaterhouseCoopers
ABN 52 780 433 757

Darling Park Tower 2
201 Sussex Street
GPO BOX 2650
SYDNEY NSW 1171
DX 77 Sydney
Australia
Telephone +61 2 8266 0000
Facsimile +61 2 8266 9999
www.pwc.com/au



**Independent auditor's report to the members of
Specialty Fashion Group Limited (continued)**

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

Independence

In conducting our audit, we have complied with the independence requirements of the *Corporations Act 2001*.

Auditor's opinion

In our opinion:

- (a) the financial report of Specialty Fashion Group Limited is in accordance with the *Corporations Act 2001*, including:
 - (i) giving a true and fair view of the company's and consolidated entity's financial position as at 30 June 2009 and of their performance for the year ended on that date; and
 - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*; and
- (b) the financial report also complies with International Financial Reporting Standards as disclosed in Note 1(a).

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 23-30 of the directors' report for the year ended 30 June 2009. 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.

Auditor's opinion

In our opinion, the Remuneration Report of Specialty Fashion Group for the year ended 30 June 2009, complies with section 300A of the *Corporations Act 2001*.

PricewaterhouseCoopers

PricewaterhouseCoopers

K. Stubbins

K Stubbins
Partner

Sydney
September 2009

Shareholder information

For the year ended 30 June 2009

The shareholder information set out below was applicable as at 9 September 2009.

A. DISTRIBUTION OF EQUITY SECURITIES

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

HOLDING	CLASS OF EQUITY SECURITY ORDINARY SHARES	
	SHARES	OPTIONS
1 – 1,000	1,510	–
1,001 – 5,000	3,193	–
5,001 – 10,000	1,066	–
10,001 – 100,000	970	8
100,000 and over	90	5
	6,829	13

There were 589 holders of less than a marketable parcel of ordinary shares.

B. EQUITY SECURITY HOLDERS

Twenty largest quoted equity security holders

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

NAME	09 SEP 2009	%IC
Chalmsbury Nominees Pty Ltd	37,280,818	19.57%
National Nominees Limited	32,369,534	16.99%
Citicorp Nominees Pty Limited	19,926,711	10.46%
Landpeak Pty Limited	7,122,240	3.74%
Landcharm Pty Limited	6,344,640	3.33%
HSBC Custody Nominees (Australia) Limited	6,181,419	3.24%
J P Morgan Nominees Australia Limited	4,439,914	2.33%
Ligon 205 Pty Ltd	3,221,823	1.69%
ANZ Nominees Limited	2,918,479	1.53%
UDT Enterprises Pty Ltd	2,260,268	1.19%
GDL Investments Pty Limited	1,955,564	1.03%
RYE Holdings Pty Ltd	1,507,420	0.79%
Mr Anthony Koroman & Mrs Deley Sangmo Bhutia	1,200,000	0.63%
Wallbay Pty Ltd	1,069,555	0.56%
Citicorp Nominees Pty Limited	1,063,980	0.56%
Mr David Alan Mcsevery	983,271	0.52%
Landcharm Pty Ltd	933,120	0.49%
Cogent Nominees Pty Limited	909,079	0.48%
Mr Andrew Rudolph Sypkes & Mrs Elizabeth Anne Sypkes	856,000	0.45%
Mr Howard Gary Herman	731,727	0.38%
Total	133,275,562	69.96%

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Unquoted equity securities		
Options issued under the Specialty Fashion Group Limited Senior Executive Option Plan to take up ordinary shares	2,253,774	13

The number of unissued ordinary shares under these options is 8,104,004. No person holds 20% or more of these securities.

C. SUBSTANTIAL HOLDERS

Substantial holders in the company are set out below:

	NUMBER HELD	PERCENTAGE
Ordinary shares		
NAAH Pty Ltd (NAAH Unit Trust) and controlled entities	37,913,596	19.90%
Lazard Asset Management Pacific	26,029,097	13.66%
Mr G Perlstein and controlled entities	17,862,814	9.38%
Mr A I Miller and controlled entities	14,419,906	7.57%
National Australia Bank Limited Group	9,670,529	5.08%

D. VOTING RIGHTS

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

(a) Ordinary shares

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

(b) Options

No voting rights.

Corporate Directory

DIRECTORS

G Levy AO
G Perlstein
A I Miller
J Murphy
J Bloom
A McDonald

SECRETARY

H Herman

NOTICE OF ANNUAL GENERAL MEETING

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

The Sebel Surry Hills
28 Albion Street
Surry Hills

Time: 2pm

Date: Monday 26 October 2009

PRINCIPAL REGISTERED OFFICE IN AUSTRALIA

151–163 Wyndham Street
Alexandria NSW 2015

Telephone: (02) 9310 2233
Facsimile: (02) 9310 2255

SHARE REGISTRY

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

Telephone: (02) 8280 7111
Facsimile: (02) 9287 0303

AUDITOR

PricewaterhouseCoopers
Chartered Accountants
Darling Park Tower 2
201 Sussex Street
Sydney NSW 1171

SOLICITORS

Freehills
Level 38, MLC Centre
19–29 Martin Place
Sydney NSW 2000

BANKERS

National Australia Bank
255 George Street
Sydney NSW 2000

STOCK EXCHANGE LISTINGS

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

WEBSITE ADDRESS

www.specialtyfashiongroup.com.au







