

SPECIALTYFASHION | GROUP

ASX announcement/Media release

14 February 2011

Specialty Fashion Group Announces First Half Results

Specialty Fashion Group Limited (ASX: SFH), confirmed today revenue for the half year ended 31 December 2010 of \$312.7 million and EBITDA of \$34.1 million, in line with profit guidance announced on the 13th January 2011. Trading for the half year included the results of the Queenspark brand, until it was sold in October 2010, and the revenue and EBITDA of the ongoing group was \$308.8 million and \$34.6 million respectively. Net profit for the half year was \$16.8 million.

Operating cash flows were \$45.9 million and the Group doubled its capital expenditure programme to \$20.1 million in comparison to the same period of the prior year, reflecting the investments made in the store portfolio and IT systems to support the Group's growth strategy. The Company held cash of \$16.9 million and no debt at the end of the half year.

Commenting on the results, Gary Perlstein, Chief Executive Officer said "Specialty's FY11 first half results reflect a very difficult trading environment. Although we were able to source product with a much more favourable exchange rate in comparison to the prior year, our gross profit margin was 57.3%, only slightly higher than prior year as we competed to maintain market share in a high discounting environment. We were not able to achieve growth in our sales in the half, and therefore leverage the additional costs incurred by our group. These were primarily rental and wages incurred from a larger store base, inflation, and investments in people which we have made to support our growth strategies. The consequence of this was a decrease in our profitability in the half."

Mr Perlstein further stated that "We have remained undaunted and focused on our core strategies of investing in our store portfolio, direct sourcing team and systems, and customer community relationship management capabilities. Whilst the benefits of these strategies will not be immediately evident in the trading result, we are confident that we have made and continue to make the right investment decisions in order that the Group will reap the benefits in the long term. We have also pursued new growth opportunities to broaden our market reach through the acquisition of the La Senza licence and investment in e-commerce. The partnership with La Senza is working well and opening a multitude of channels for expansion. The launch of City Chic's US online business in November has enabled us to export the success of the brand's unique offering to the plus size girl in America. We expect to generate superior investment returns."

Chairman Geoff Levy said "The Board remains confident that the strategies adopted by the Group are the right ones, and that when consumers' appetite for discretionary spend improves there will be a significant improvement in the Group's trading and profit. Given this and the Company's sound balance sheet position the Board is comfortable to declare a fully franked interim dividend of 4 cents per share."

2011 Floods and Cyclone

At the peak of the flood crisis in Queensland and New South Wales 78 of the Company's stores were closed for a day, and during the month of January there was an impact on the trading of the stores that were in the affected areas. Fortunately only three stores were damaged by the floods. We have also had a small number of stores closed for a short time in February due to the cyclone in North Queensland. It is expected that the loss of trade and assets will be recovered through insurance claims.

Outlook

Despite unprecedented flooding primarily in Queensland, the Group's trading for the first six weeks of the second half has reflected an improvement in dollar spend per customer as less discounting has been necessary than during the Christmas period. Early indications are that new season product has been well received by our customers. However, Mr Perlstein said, "With only six weeks under our belt it's too early to form a view as to how trading will generally be in the second half. There is a new headwind that the apparel retailers will have to manage, being the inflationary impact of higher yarn prices and increasing Chinese labour costs. The Australian consumer has become accustomed to price deflation for a number of years and therefore retailers will find it challenging to pass these increases in product costs onto their customers. Product differentiation will become even more important in order to compete and convince the customer that she is receiving value from her purchases, hence the focus we have had on transforming our product sourcing."

INVESTOR ENQUIRIES:

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Chief Financial Officer
Specialty Fashion Group
(02) 8303 3435

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Appendix 4D

Half year report

Name of entity

Specialty Fashion Group Limited

ABN

43 057 569 169

Half yearly
(tick)



Previous corresponding period

Preliminary
final (tick)



Financial year ended ('current period')

31 December 2010

31 December 2009

For announcement to the market

				31 Dec 2009 \$'000		31 Dec 2010 \$'000
Revenues from continuing and discontinued activities	down	1.6%	from	317,724	to	312,653
Revenues from continuing activities	down	0.1%	from	309,236	to	308,806
EBITDA from continuing and discontinued operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down	25.9%	from	46,005	to	34,124
EBITDA – from continuing operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down	23.8%	from	45,417	to	34,621
Profit after tax from continuing activities	down	35.2%	from	26,477	to	17,151
Net profit/(loss) from discontinued operations	down	322%	from	157	to	(348)
Profit after tax from ordinary activities attributable to the members of Specialty Fashion Group Limited.	down	36.9%	from	26,634	To	16,803
Dividends (distributions)			Amount per security	Franked amount per security		
Interim dividend			4.0¢	4.0¢		
Previous corresponding period			4.0¢	4.0¢		

Brief explanation of any of the figures reported above and commentary on the results for the period:

REFER PRESS RELEASE ATTACHED

Specialty Fashion Group Limited
Directors' Report
For the half-year ended 31 December 2010

The directors present their report on the consolidated entity consisting of Specialty Fashion Group Limited and the entities it controlled at the end of, or during, the half-year ended 31 December 2010.

Directors

The following persons were directors of Specialty Fashion Group Limited during the half-year and up to the date of this report:

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

Review of Operations

Specialty Fashion Group achieved \$312.7 million revenue and EBITDA of \$34.1 million from continuing and discontinued activities. Trading for the half year included the results of the Queenspark brand, until it was sold in October 2010, and the revenue and EBITDA of the ongoing group was \$308.8 million and \$34.6 million respectively. Net profit for the half year was \$16.8 million.

Operating cash flows were \$45.9 million and the Group doubled its capital expenditure programme to \$20.1 million in comparison to the same period of the prior year, reflecting the investments made in the store portfolio and IT systems to support the Group's growth strategy. The Company held cash of \$16.9 million and no debt at the end of the half year.

Rounding of amounts to the nearest thousand dollars

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 and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars in accordance with that class order.

Auditors' independence declaration

A copy of the auditors' independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 4 and forms part of this report.

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



G Levy
Director



G Perlstein
Director

Sydney
14 February 2011

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

14 February 2011

Dear Board Members

Specialty Fashion Group Limited

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

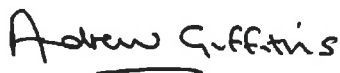
As lead audit partner for the review of the financial statements of Specialty Fashion Group Limited for the financial half-year ended 31 December 2010, I declare that to the best of my knowledge and belief, there have been no contraventions of:

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

Yours sincerely



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants

Consolidated statement of comprehensive income

	Notes	Dec 2010	Dec 2009
		\$'000	\$'000
Revenue from ordinary activities	3	308,806	309,236
Changes in inventories of finished goods and consumables		(7,446)	2,219
Finished goods and consumables		(124,439)	(135,237)
Employee benefits expense		(68,875)	(64,314)
Depreciation and impairment		(9,289)	(7,109)
Rental expense relating to operating leases		(51,398)	(45,969)
Other expenses from ordinary activities		(21,937)	(20,377)
Borrowing costs expense		(858)	(739)
Profit from ordinary activities before income tax expense	4	24,564	37,710
Income tax expense		(7,413)	(11,233)
Profit for the period from continuing operations		17,151	26,477
(Loss)/profit from discontinued operation	5	(348)	157
Profit for the period		16,803	26,634
Other comprehensive income			
Changes in fair value of cash flow hedges		(13,306)	263
Exchange differences on translation of foreign operations		(338)	152
		(13,644)	415
Income tax relating to the components of other comprehensive income		3,992	(79)
Other comprehensive income for the half year, after income tax expense		(9,652)	336
Total comprehensive income attributable to the members of SFG for the half year		7,151	26,970

Earnings per share attributable to the members of Specialty Fashion Group Limited

		Dec 2010	Dec 2009
From continuing and discontinued operations			
Basic EPS	9	8.8 cents	14.0 cents
Diluted EPS	9	8.6 cents	13.9 cents
From continuing operations			
Basic EPS		9.0 cents	13.9 cents
Diluted EPS		8.8 cents	13.8 cents

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

Consolidated statement of financial position

	31 Dec 2010	30 June 2010	31 Dec 2009
	\$'000	\$'000	\$'000
Current assets			
Cash	16,922	2,705	29,293
Receivables	8,725	3,967	6,599
Inventories	38,356	45,802	41,766
Derivative financial instruments	-	2,941	-
Total current assets	64,003	55,415	77,658
Non-current assets			
Property, plant and equipment	88,014	79,881	75,918
Deferred tax assets	5,074	400	5,001
Intangible assets	10,095	11,806	11,806
Total non-current assets	103,183	92,087	92,725
Total assets	167,186	147,502	170,383
Current liabilities			
Payables	59,835	47,218	72,205
Derivative financial instruments	10,364	-	3,252
Current tax liabilities	6,403	3,100	7,731
Provisions	13,256	13,157	14,197
Other	1,967	2,600	2,713
Total current liabilities	91,825	66,075	100,098
Non-current liabilities			
Borrowings	-	8,000	-
Provisions	7,828	6,289	5,534
Other	8,123	6,547	5,705
Total non-current liabilities	15,951	20,836	11,239
Total liabilities	107,776	86,911	111,337
Net assets	59,410	60,591	59,046
Equity			
Contributed equity	132,492	132,492	131,993
Reserves	(6,706)	3,653	(1,340)
Accumulated losses	(66,376)	(75,554)	(71,607)
Total equity	59,410	60,591	59,046

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

Consolidated statement of changes in equity

	Contributed equity \$'000	Share-based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2009	131,993	561	(2,461)	(1,081)	(98,241)	30,771
Profit for the half year	-	-	-	-	26,634	26,634
Revaluation of cash flow hedges	-	-	184	-	-	184
Exchange differences on translation of foreign operations	-	-	-	152	-	152
Total comprehensive income for the half year	-	-	184	152	26,634	26,970
Transactions with equity holders in their capacity as equity holders:						
Employee share based payments	-	1,305	-	-	-	1,305
Balance at 31 December 2009	131,993	1,866	(2,277)	(929)	(71,607)	59,046
Balance at 1 July 2010	132,492	2,490	2,059	(896)	(75,554)	60,591
Profit for the half year	-	-	-	-	16,803	16,803
Revaluation of cash flow hedges	-	-	(9,314)	-	-	(9,314)
Exchange differences on translation of foreign operations	-	-	-	(338)	-	(338)
Total comprehensive income for the half year	-	-	(9,314)	(338)	16,803	7,151
Transactions with equity holders in their capacity as equity holders:						
Employee share based payments	-	(707)	-	-	-	(707)
Dividends paid	-	-	-	-	(7,625)	(7,625)
Balance at 31 December 2010	132,492	1,783	(7,255)	(1,234)	(66,376)	59,410

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

Consolidated cash flow statement

	Notes	Dec 2010 \$'000	Dec 2009 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		344,411	349,646
Payments to suppliers and employees (inclusive of goods and services tax)		(292,830)	(276,531)
		51,581	73,115
Interest received		90	141
Borrowing costs		(858)	(739)
Income taxes paid		(4,867)	(7,858)
Net cash inflow from operating activities		45,946	64,659
Cash flows from investing activities			
Payments for property, plant and equipment		(20,188)	(9,708)
Proceeds from sale of property, plant and equipment		131	98
Proceeds from sale of business	5	3,953	-
Net cash outflow from investing activities		(16,104)	(9,610)
Cash flows from financing activities			
Repayment of borrowings		(8,000)	(33,800)
Dividends paid		(7,625)	-
Net cash outflow from financing activities		(15,625)	(33,800)
Net increase in cash held		14,217	21,249
Cash at the beginning of the financial period		2,705	8,044
Cash at the end of the financial period		16,922	29,293

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

Notes to the financial statements

1. Summary of significant accounting policies

This half year consolidated interim financial report is a general purpose financial report for the half year ended 31 December 2010 and has been prepared in accordance with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim financial report does not include notes of the type normally included in an annual financial report. Accordingly, it is to be read in conjunction with the annual report for the year ended 30 June 2010 and any public announcements made by Specialty Fashion Group Limited (the Company) during the half year in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Other than changes in accounting policies as listed below, the accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period.

Changes in accounting policy

The Group has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (the AASB) that are relevant to their operations and effective for the current reporting period.

The adoption of these amendments has not resulted in any changes to the Group's accounting policies and have no affect on the amounts reported in current or prior periods.

2. Segment information

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

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

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

The Chief Executive Officer and Board of Directors assesses the performance of the operating segments based on a measure of EBITDA and net profit before tax.

A reconciliation of profit before income tax to EBITDA from continuing and discontinued operations is provided as follows:

	Dec 2010	Dec 2009
	\$'000	\$'000
Profit before income tax expense	24,564	37,710
Interest expense	858	739
Interest income	(90)	(141)
Depreciation and impairment expense	9,289	7,109
EBITDA from continuing operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	34,621	45,417
EBITDA from discontinued operations	(497)	588
Total Group EBITDA	34,124	46,005

Appendix 4D
Half year report

3. Revenue

	Dec 2010	Dec 2009
	\$'000	\$'000
From continuing operations		
Sales revenue		
Sale of goods	308,667	309,020
Other revenue		
Interest	90	141
Other revenue	49	75
Revenue from ordinary activities	308,806	309,236

From discontinued operations

Sales revenue		
Sale of goods	3,847	8,488

4. Expenses from continuing operations

	Dec 2010	Dec 2009
	\$'000	\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	131,885	133,018
Depreciation and impairment expense	9,289	7,109
Borrowing costs	858	739
Rental expense relating to operating leases	51,398	45,969

5. Discontinued operations

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

During the half year ended 31 December 2010 Queenspark made a trading loss after tax of \$859,000 partly offset by the gain on disposal of \$511,000. During the 6 months ended 31 December 2009 a trading profit after tax of \$157,000 was achieved.

The Queenspark business was sold for \$5.5 million, \$4 million being cash consideration with the remaining \$1.5 million payable in equal instalments over 3 years. The business was sold to private investors, which includes management of the brand.

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

Appendix 4D
Half year report

	Dec 2010
	\$'000
Cash consideration as per the sale agreement	4,000
Less: Trade payables assumed by buyer	(47)
Cash received as per cash flow statement	3,953

6. Financing Arrangements

At balance date, bank loan facilities totalling \$100 million were available to the Company. Of this facility, \$100 million was unused.

7. Dividends

	Dec 2010		Dec 2009	
	Amount per security Cents	Total amount \$'000	Amount per security Cents	Total amount \$'000
Interim dividend for the half year ended 31 December 2010 (fully franked at 30%)	4 cents	7,724	4 cents	7,707

	June 2010		June 2009	
	Amount per security Cents	Total amount \$'000	Amount per security Cents	Total amount \$'000
Final dividend for the year ended 30 June 2010 (fully franked at 30%)	4 cents	7,625	-	-

No final dividend was declared for the year ended 30 June 2009.

8. Franking credits

	Dec 2010	Dec 2009
	\$'000	\$'000
Adjusted franking account balance	46,927	33,281

9. Earnings per share

	Dec 2010	Dec 2009
Basic EPS attributable to members of Specialty Fashion Group Limited from continuing and discontinued operations	8.8 cents	14.0 cents
Weighted average number of ordinary shares used in the calculation of Basic EPS	191,064,224	190,520,584
Diluted EPS attributable to members of Specialty Fashion Group Limited from continuing and discontinued operations	8.6 cents	13.9 cents
Weighted average number of ordinary shares used in the calculation of Diluted EPS	194,933,668	191,782,621

10. Net tangible assets per security

	Dec 2010	Dec 2009
Net tangible asset backing per ordinary security	25.8 cents	24.8 cents

11. Related party transactions

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

	Dec 2010 \$'000	Dec 2009 \$'000
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have interest.	288	229

12. Events occurring after the reporting period

Since the 31 December 2010, the Directors have declared an interim dividend of 4c per fully paid ordinary share, fully franked based on a corporate tax rate paid at 30%. The aggregate amount of the proposed dividend expected to be paid on 25 March 2011, but not recognised as a liability is \$7,724,302.

Information on audit

This report is based on accounts to which one of the following applies.

- | | | | |
|--------------------------|--|-------------------------------------|--|
| ☐ | The accounts have been audited. | ☒ | The accounts have been subject to review. |
| ☐ | The accounts are in the process of being audited or subject to review. | ☐ | The accounts have <i>not</i> yet been audited or reviewed. |



G Perlstein
Director

Sydney
14 February 2011

Specialty Fashion Group Limited
Statutory Directors' Declaration – half year
31 December 2010

In the directors' opinion:

(a) the financial statements and notes set out on pages 5 to 13 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 consolidated entity's financial position as at 31 December 2010, and of its performance for the half-year ended on that date, and

(b) there are reasonable grounds to believe that Specialty Fashion Group Limited will be able to pay its debts as and when they become due and payable.

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



G Levy
Director



G Perlstein
Director

Sydney
14 February 2011

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

We have reviewed the accompanying half-year financial report of Specialty Fashion Group Limited, which comprises the statement of financial position as at 31 December 2010, the statement of comprehensive income, the statement of cash flows and the condensed statement of changes in equity for the half-year ended on that date, selected explanatory notes and, the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the end of the half-year or from time to time during the half-year as set out on pages 5 to 14.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Specialty Fashion Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Auditor's Independence Declaration

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

Deloitte.

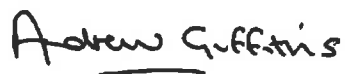
Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Specialty Fashion Group Limited is not in accordance with the *Corporations Act 2001*, including:

- (a) giving a true and fair view of the consolidated entity's financial position as at 31 December 2010 and of its performance for the half-year ended on that date; and
- (b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.



DELOITTE TOUCHE TOHMATSU



A V Griffiths

Partner

Chartered Accountants

Sydney, 14 February 2011