

Appendix 4D Half year report

Name of entity

Specialty Fashion Group Limited (SFH)

ABN

43 057 569 169

Half yearly
(tick)

Preliminary
final (tick)

1. Details of the reporting period

Current reporting period

31 December 2015

Previous corresponding period

31 December 2014

2. Results for announcement to the market

				31 Dec 2014 \$'000		31 Dec 2015 \$'000
2.1 Revenue	up	5.2%	from	413,020	to	434,303
2.2 Profit after income tax expense	up	50.6%	from	5,855	to	8,818
2.3 Profit after income tax expense attributable to the members of Specialty Fashion Group Limited	up	50.6%	from	5,855	to	8,818

				31 Dec 2014 \$'000		31 Dec 2015 \$'000
EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs) ¹	up	19.2%	from	22,617	to	26,955

¹ Reconciliation of operating profit before income tax to EBITDA is provided as follows:

	31 Dec 2014 \$'000	31 Dec 2015 \$'000
EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss and restructuring costs)	22,617	26,955
Restructuring costs	-	(1,527)
Fair value revaluation of derivative financial instruments through profit or loss	(94)	5
Interest revenue	55	45
Finance costs	(2,089)	(1,627)
Depreciation, amortisation and impairment of property, plant and equipment	(11,304)	(10,271)

Profit before income tax	9,185	13,580
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2.4 Dividends (distributions)	Amount per security	Franked amount per security
<i>Current period:</i>		
Interim dividend for the half year ended 31 December 2015	-	-
Final dividend for the year ended 30 June 2015	-	-
<i>Previous corresponding period:</i>		
Interim dividend for the half year ended 31 December 2014	-	-
Final dividend for the year ended 30 June 2014	2.0 cents	2.0 cents
2.5 Record date for determining entitlements to the dividend:	Refer section 5.0	

2.6 Brief explanation of any of the figures reported above and commentary on the results for the period: Refer to the directors' report – Operating and financial review on page 3 of the 2016 Interim Report.

3.0 Net tangible assets per security

	31 Dec 2014 cents	31 Dec 2015 cents
Net tangible asset backing per ordinary security	31.6	29.0

4.0 Control gained or lost over entities during the period

Not applicable.

5.0 Details of dividend/distribution

Current period

No interim dividend was declared for the half year ended 31 December 2015.

For the year ended 30 June 2015, no final dividend was paid.

Previous corresponding period

For the half year ended 31 December 2014, no interim dividend was paid.

For the year ended 30 June 2014, a fully franked dividend of 2.0 cents per share was paid to the holders of fully paid ordinary shares on 26 September 2014.

6.0 Details of dividend/distribution reinvestment plan

Not applicable.

7.0 Details of associates and joint venture entities

Not applicable.

8.0 Accounting standards used by foreign entities

All consolidated foreign entities prepare financial information under International Financial Reporting Standards which are consistent with Australian Accounting Standards.

9.0 Qualification of audit/review

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

- | | |
|---|---|
| <input type="checkbox"/> The accounts have been audited. | <input checked="" type="checkbox"/> The accounts have been subject to review. |
| <input type="checkbox"/> The accounts are in the process of being audited or subject to review. | <input type="checkbox"/> The accounts have <i>not</i> yet been audited or reviewed. |

10.0 Attachments

Details of attachments (if any):

The interim report of Specialty Fashion Group Limited for the half year ended 31 December 2015 is attached.

11.0 Signed



G Perlstein
Director

Sydney
23 February 2016

Specialty Fashion Group Limited

ABN 43 057 569 169

Interim Report - 31 December 2015

Specialty Fashion Group Limited

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31 December 2015

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This general purpose interim financial report does not include all the notes of the type normally included in an annual financial report. Accordingly, this interim financial report is to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

Specialty Fashion Group Limited
Directors' report
31 December 2015

The directors present their report on the consolidated entity consisting of Specialty Fashion Group Limited (the 'Company') and the entities it controlled (the 'Group') at the end of, or during, the half year ended 31 December 2015.

Directors

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

G Levy AO (*resigned 17 November 2015*)
G Perlstein
I Miller (*resigned 17 November 2015*)
A McDonald
A Hardwick
M Hardwick
M Quinn

Operating and financial review

Specialty Fashion Group continues to operate within the women's fashion retail sector in Australia, New Zealand, USA and South Africa through Millers, Katies, Crossroads, Autograph, and City Chic. The Group continues to grow its footprint into the mature, value segment of the specialty fashion group through the Rivers brand.

The Group has one of the largest predominantly women's customer communities in Australasia with over 9.3 million members, and can reach over 4.8 million members through email. The Group's customers are very loyal, with member sales representing 89% of sales in relation to Millers, Katies, Crossroads, Autograph and City Chic. The Rivers membership database has increased to 1.7 million during the first half of FY2016. The total physical store portfolio comprised 1,089 at 31 December 2015 (31 December 2014: 1,105).

The Group achieved revenue of \$434.3 million (31 December 2014: \$413.0 million) and Underlying EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for the fair value revaluation of derivative financial instruments through profit or loss and restructuring costs) (refer to note 3) of \$27.0 million (31 December 2014: \$22.6 million) from continuing activities. Net profit for the half year ended 31 December 2015 was \$8.8 million (31 December 2014: \$5.9 million).

Operating cash flows were \$36.8 million (31 December 2014: \$30.4 million) and the Group's gross capital expenditure was \$7.6 million (31 December 2014: \$10.7 million). At 31 December 2015, the Group held cash and cash equivalents of \$13.3 million (31 December 2014: \$15.7 million) and outstanding borrowings of \$11.9 million at the end of the half year (31 December 2014: \$10.7 million).

A review of the operations of the Group is set out in the ASX announcement on the results for the half year ended 31 December 2015.

No interim dividend was declared for the half years ended 31 December 2015 and 31 December 2014.

Rounding of amounts

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

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5 and forms part of this report.

Specialty Fashion Group Limited
Directors' report
31 December 2015

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors



A McDonald
Director



M Hardwick
Director



G Perlstein
Director

23 February 2016

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

23 February 2016

Dear Board Members

Specialty Fashion Group Limited

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

As lead audit partner for the review of the financial statements of Specialty Fashion Group Limited for the half-year ended 31 December 2015, 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

David White
Partner
Chartered Accountants
Sydney

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 consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of cash flows and the consolidated 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 8 to 21.

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 gives a true and fair view and 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 2015 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*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Specialty Fashion Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review report.

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 2015 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



David White
Partner
Chartered Accountants
Sydney, 23 February 2016

Specialty Fashion Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the half year ended 31 December 2015

	Notes	Consolidated Dec 2015 \$'000	Dec 2014 \$'000
Revenue	4	434,303	413,020
Expenses			
Changes in inventories of finished goods and consumables		(4,473)	(1,943)
Finished goods and consumables used		(181,431)	(162,564)
Employee benefits expense		(111,750)	(109,117)
Depreciation, amortisation and impairment expense		(10,271)	(11,304)
Rental expense		(67,822)	(65,499)
Other expenses	5	(43,349)	(51,319)
Finance costs		(1,627)	(2,089)
Profit before income tax expense	5	13,580	9,185
Income tax expense		(4,762)	(3,330)
Profit after income tax expense for the half year attributable to the owners of Specialty Fashion Group Limited	12	8,818	5,855
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Change in the fair value of cash flow hedges taken to equity		(992)	14,686
Exchange differences on translation of foreign operations		594	72
Income tax expense/(income) relating to the components of other comprehensive income		297	(4,406)
Other comprehensive income for the half year, net of tax		(101)	10,352
Total comprehensive income for the half year attributable to the owners of Specialty Fashion Group Limited		<u>8,717</u>	<u>16,207</u>

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

		Dec 2015	Dec 2014
From continuing operations			
Basic EPS	18	4.6 cents	3.0 cents
Diluted EPS	18	4.6 cents	3.0 cents

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

Specialty Fashion Group Limited
Consolidated statement of financial position
As at 31 December 2015

	Notes	Consolidated		Dec 2014 \$'000
		Dec 2015 \$'000	Jun 2015 \$'000	
Assets				
Current assets				
Cash and cash equivalents		13,305	7,144	15,715
Receivables		13,129	8,438	10,908
Inventories		84,581	89,055	88,681
Derivative financial instruments	6	6,385	7,319	11,333
Income tax receivable		37	2,679	343
Total current assets		117,437	114,635	126,980
Non-current assets				
Property, plant and equipment		74,498	79,292	83,129
Intangibles		18,600	18,600	18,607
Deferred tax assets		4,917	3,765	3,896
Total non-current assets		98,015	101,657	105,632
Total assets		215,452	216,292	232,612
Liabilities				
Current liabilities				
Trade and other payables		80,944	68,262	84,058
Borrowings	7	11,904	4,000	10,716
Income tax payable		1,808	340	4,571
Provisions		22,255	21,294	21,250
Finance lease	8	-	204	1,515
Other		1,624	5,547	3,628
Total current liabilities		118,535	99,647	125,738
Non-current liabilities				
Borrowings		-	30,916	-
Payables		1,192	-	-
Provisions		8,899	10,248	10,597
Finance lease	9	-	-	4,384
Other	10	12,466	10,013	12,639
Total non-current liabilities		22,557	51,177	27,620
Total liabilities		141,092	150,824	153,358
Net assets		74,360	65,468	79,254
Equity				
Issued capital		134,497	134,497	134,497
Reserves	11	4,957	4,883	8,352
Accumulated losses	12	(65,094)	(73,912)	(63,595)
Total equity		74,360	65,468	79,254

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

Specialty Fashion Group Limited
Consolidated statement of changes in equity
For the half year ended 31 December 2015

Consolidated	Issued capital \$'000	Share based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2014	134,497	61	(2,355)	(40)	(65,605)	66,558
Profit after income tax expense for the half year	-	-	-	-	5,855	5,855
Other comprehensive income for the half year, net of tax	-	-	10,280	72	-	10,352
Total comprehensive income for the half year	-	-	10,280	72	5,855	16,207
Performance rights over ordinary shares	-	334	-	-	-	334
Dividends paid (note 13)	-	-	-	-	(3,845)	(3,845)
Balance at 31 December 2014	134,497	395	7,925	32	(63,595)	79,254

Consolidated	Issued capital \$'000	Share based payments reserve \$'000	Hedging reserve \$'000	Foreign currency translation reserve \$'000	Accumulated losses \$'000	Total equity \$'000
Balance at 1 July 2015	134,497	61	5,123	(301)	(73,912)	65,468
Profit after income tax expense for the half year	-	-	-	-	8,818	8,818
Other comprehensive income for the half year, net of tax	-	-	(695)	594	-	(101)
Total comprehensive income for the half year	-	-	(695)	594	8,818	8,717
Performance rights over ordinary shares	-	175	-	-	-	175
Balance at 31 December 2015	134,497	236	4,428	293	(65,094)	74,360

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

Specialty Fashion Group Limited
Consolidated statement of cash flows
For the half year ended 31 December 2015

	Notes	Consolidated Dec 2015 \$'000	Dec 2014 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		477,768	454,579
Payments to suppliers and employees (inclusive of GST)		<u>(437,921)</u>	<u>(416,548)</u>
		39,847	38,031
Interest received		45	55
Interest and other finance costs paid		(1,627)	(2,089)
Income taxes paid		<u>(1,458)</u>	<u>(5,551)</u>
Net cash from operating activities		<u>36,807</u>	<u>30,446</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(7,598)	(10,668)
Proceeds from disposal of property, plant and equipment		<u>168</u>	<u>113</u>
Net cash used in investing activities		<u>(7,430)</u>	<u>(10,555)</u>
Cash flows from financing activities			
Dividends paid	13	-	(3,845)
Repayment of borrowings		(23,012)	(18,403)
(Repayment)/drawdown of finance leases		<u>(204)</u>	<u>949</u>
Net cash used in financing activities		<u>(23,216)</u>	<u>(21,299)</u>
Net increase/(decrease) in cash and cash equivalents		6,161	(1,408)
Cash and cash equivalents at the beginning of the financial half year		<u>7,144</u>	<u>17,123</u>
Cash and cash equivalents at the end of the financial half year		<u><u>13,305</u></u>	<u><u>15,715</u></u>

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

Specialty Fashion Group Limited
Notes to the financial statements
31 December 2015

Note 1. General information

The interim financial report covers Specialty Fashion Group Limited as a consolidated entity consisting of Specialty Fashion Group Limited and the entities it controlled for the half year ended 31 December 2015. The interim financial report is presented in Australian dollars, which is Specialty Fashion Group Limited's functional and presentation currency.

The interim financial report consists of the financial statements, notes to the financial statements and the directors' declaration.

Specialty Fashion Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. A description of the nature of the Group's operations and its principal activities is included in the directors' report, which is not part of the financial report.

The interim financial report was authorised for issue, in accordance with a resolution of directors, on 23 February 2016. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

These general purpose financial statements for the interim half year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 *'Interim Financial Reporting'* and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 *'Interim Financial Reporting'*.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2015 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Comparative figures are shown for 31 December 2014 in addition to 30 June 2015 in the consolidated statement of financial position due to the seasonality of the business and the impact this has on working capital. There has been no restatement of figures in prior periods.

Net current liability position

The interim financial report has been prepared on a going concern basis, which assumes that the Group will be able to discharge its liabilities in the normal course of business.

As at 31 December 2015 the Group has net current liabilities of \$1.1 million. This is as a consequence of \$11.9 million of borrowings being included within current liabilities due to the Group's loan facilities maturing on 30 June 2016 and 30 November 2016. The Group has a history of successfully renegotiating its banking facilities with its existing and long-standing lenders. Negotiations have commenced with the Group's lenders in accordance with the Group's own internal timelines for refinancing. In addition, the Group was in compliance with its covenants as at 31 December 2015, and the directors are confident that the Group will continue to be compliant with its covenants for the remaining period of its existing loan facilities. These covenants include specific requirements in respect of the Group's Fixed Charge Cover Ratio and Gearing Ratio and are required to be tested for compliance on a quarterly basis.

At the date of this report and having considered the above factors, the directors are confident that the Group will be able to continue as a going concern.

Note 2. Significant accounting policies (continued)

New, revised or amending Accounting Standards and Interpretations adopted

Australian Accounting Standards and Interpretations thereof that have recently been amended but are not yet mandatory have not been early adopted by the Group for the half year ended 31 December 2015.

Standard/Interpretation	Effective for annual reporting periods beginning on or after	Expected to be initially applied in the financial year ending
AASB 9 <i>Financial Instruments, and the relevant amending standards</i>	1 January 2018	30 June 2019
AASB 15 <i>Revenue from Contracts with Customers</i> and AASB 2014-5 <i>Amendments to Australian Accounting Standards arising from AASB 15*</i>	1 January 2018	30 June 2019

*AASB 15 *Revenue from Contracts with Customers* applies to annual reporting periods beginning on or after 1 January 2018, and may be applied to annual reporting periods beginning on or after 1 January 2015 but before 1 January 2018. This Standard specifies the accounting for the incremental costs of obtaining a contract with a customer and for the costs incurred to fulfil a contract with a customer if those costs are not within the scope of another Standard. Management has not assessed the impact of the Standard on the Group's financial position or performance.

The International Accounting Standards Board has released IFRS 16 *Leases*, which is effective from 1 January 2019 and expected to be initially applied in the financial year ending 30 June 2020. It has yet to be adopted by the Australian Accounting Standards Board. The new standard requires lessees to capitalise leases by initially recognising a lease asset and lease liability for the present value of future lease payments. Management has not yet assessed the impact of applying the new standard.

The Group has adopted all of the new, revised or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are relevant to the Group's operations and mandatory for the annual period beginning on or after 1 July 2015:

- AASB 2015-3 *Amendments to Australian Accounting Standards – Withdrawal of AASB 1031 Materiality. Completes the withdrawal of references to AASB 1031 in all Australian Accounting Standards and Interpretations allowing that Standard to effectively be withdrawn.*
- AASB 2015-4 *Amendments to Australian Accounting Standards- Financial Reporting Requirements for Australian Groups with a Foreign Parent.*

The adoption of these new, revised or amended Accounting Standards and Interpretations has no impact on the Group's financial position or performance.

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, the revaluation of derivative financial instruments.

Note 3. Operating segments

Identification of reportable operating segments

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

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

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

Specialty Fashion Group Limited
Notes to the financial statements
31 December 2015

Note 3. Operating segments (continued)

Major customers

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.

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

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Underlying EBITDA	26,955	22,617
Restructuring costs*	(1,527)	-
Fair value revaluation of derivative financial instruments through profit or loss**	5	(94)
Interest revenue	45	55
Finance costs	(1,627)	(2,089)
Depreciation, amortisation and impairment of property, plant and equipment	(10,271)	(11,304)
Profit before income tax	<u>13,580</u>	<u>9,185</u>

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

** To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options with a fair value of \$59,000 as at 31 December 2015 (31 December 2014: \$12,000). The expense for the half year ended 31 December 2015 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Note 4. Revenue

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	433,901	412,679
<i>Other revenue</i>		
Interest	45	55
Other revenue	357	286
	<u>402</u>	<u>341</u>
Revenue	<u><u>434,303</u></u>	<u><u>413,020</u></u>

Specialty Fashion Group Limited
Notes to the financial statements
31 December 2015

Note 5. Expenses from continuing operations

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	185,904	164,507
Restructuring costs*	1,527	-
Depreciation, amortisation and impairment expense**	10,271	11,304
Interest and finance charges paid/payable	1,627	2,089
Rental expense relating to operating leases	67,822	65,499
Fair value revaluation of derivative financial instruments through profit or loss	(5)	94
Net (gain)/loss on disposal of property, plant and equipment	(32)	488
Share-based payment expense	175	334
Defined contribution superannuation expense	7,752	7,916
Other expenses:		
Utility expenses	6,168	6,308
Other	37,181	45,011

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

** Depreciation and impairment expense for the year was \$10.3 million (2014: \$11.3 million), which includes store asset impairment write-back of \$0.1 million (2014: write-back of \$0.7 million).

Note 6. Current assets – Derivative financial instruments

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Forward foreign exchange contracts - cash flow hedges at fair value	6,326	11,321
Call options at fair value*	59	12
	6,385	11,333

* To protect against significant adverse fluctuations in cotton prices, the Company purchased cotton call options with a fair value of \$59,000 as at 31 December 2015 (31 December 2014: \$12,000). The expense for the half year ended 31 December 2015 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Specialty Fashion Group Limited
Notes to the financial statements
31 December 2015

Note 7. Current liabilities – Borrowings

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Bank loans	<u>11,904</u>	<u>10,716</u>

At 31 December 2015, the Company had outstanding borrowings of \$11.9 million (31 December 2014: \$10.7 million).

The Company's loan facilities comprise of working capital facilities of \$23.7 million and trade finance facilities of \$50.0 million. At balance date, bank loan facilities totalling \$73.7 million were available to the Company (31 December 2014: \$70.0 million).

Of the \$11.9m borrowings, \$2.0 million matures on 30 June 2016, with the balance maturing on 30 November 2016. The borrowings have therefore been classified within current liabilities.

Note 8. Current liabilities – Finance lease

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Finance lease*	<u>-</u>	<u>1,515</u>

* In the prior year, the Company had access to an asset finance facility of \$8.0 million, of which \$2.1 million was unused.

Note 9. Non-current liabilities – Finance lease

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Finance lease*	<u>-</u>	<u>4,384</u>

Refer to commentary in note 8.

Note 10. Non-current liabilities – Other

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Deferred lease incentives	<u>12,466</u>	<u>12,639</u>

Note 11. Equity – Reserves

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Foreign currency reserve	293	32
Hedging reserve - cash flow hedges	4,428	7,925
Share-based payments reserve	<u>236</u>	<u>395</u>
	<u>4,957</u>	<u>8,352</u>

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Note 12. Equity – Accumulated losses

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Accumulated losses at the beginning of the financial half year	(73,912)	(65,605)
Profit after income tax expense for the half year	8,818	5,855
Dividends paid (note 13)	-	(3,845)
	<u> </u>	<u> </u>
Accumulated losses at the end of the financial half year	<u>(65,094)</u>	<u>(63,595)</u>

Note 13. Equity – Dividends

Dividends

Dividends paid during the financial half year were as follows:

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Final dividend for the year ended 30 June 2014 of 2.0 cents per fully paid ordinary share	-	3,845
	<u> </u>	<u> </u>

No dividends were declared or paid for the half year ended 31 December 2015.

Franking credits

	Consolidated	
	Dec 2015	Dec 2014
	\$'000	\$'000
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>48,668</u>	<u>48,170</u>

Note 14. Net tangible assets per security

	Consolidated	
	Dec 2015	Dec 2014
	Cents	Cents
Net tangible assets per security		
Net tangible asset backing per ordinary security	<u>29.0</u>	<u>31.6</u>

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Note 15. Financial instruments

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

Consolidated – Dec 2015	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Derivative asset					
Call options	59	-	-	-	59
Forward foreign exchange contracts	6,326	-	-	-	6,326
Total derivatives	6,385	-	-	-	6,385

Consolidated – Dec 2014	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Derivative asset					
Call options	12	-	-	-	12
Forward foreign exchange contracts	11,321	-	-	-	11,321
Total derivatives	11,333	-	-	-	11,333

Fair value of financial instruments

This note provides information about how the consolidated entity determines fair values of various financial assets and financial liabilities.

Fair values of financial instruments are categorised by the following levels:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices)

Level 3: Inputs for the asset or liability that are not based on observable market data (unobservable inputs)

The consolidated entity has financial assets and liabilities which are measured at fair value at the end of each reporting period. Forward foreign exchange contracts (see note 6) and call options at fair value through profit and loss (see note 6) are measured at fair value using level 2 inputs.

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

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

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Note 16. Related party transactions

Parent entity

Specialty Fashion Group Limited is the parent entity.

Transactions with related parties

The following transactions occurred with related parties:

	Dec 2015	Consolidated
	\$'000	Dec 2014
		\$'000
Amounts recognised as expense		
Lease of business premises in which I Miller and G Perlstein, directors of the consolidated entity, have an interest	264	278
Lease of business premises in which G Levy, director of the consolidated entity, has an interest	216	214
	<u>480</u>	<u>492</u>

I Miller¹ and G Perlstein are directors and shareholders of companies that own the business premises at 151-163 Wyndham Street, Alexandria which is leased to the consolidated entity. Lower than market rental for these premises was agreed to commercially offset the benefits to these directors of the improvements to this property by converting warehouse space to office space. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

G Levy² is a director and minority shareholder of the company that owns the business premises 1-3 Mandible Street, Alexandria which is leased to the consolidated entity. During the 2012 year, the consolidated entity committed to undertake building improvements at these premises to convert warehouse space to office space. The non-executive directors at the time considered the impact these improvements would have on the market value of the property. The consolidated entity pays rent based on the market value of the unimproved premises. The non-executive directors were satisfied that the overall arrangement is in the best interests of all shareholders.

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

¹ I Miller resigned as Director of Specialty Fashion Group Limited on 17 November 2015.

² G Levy resigned as Director of Specialty Fashion Group Limited on 17 November 2015.

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Note 17. Events after the reporting period

No matter or circumstance has arisen since 31 December 2015 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Note 18. Earnings per share

	Dec 2015	Dec 2014
Basic EPS attributable to members of Specialty Fashion Group Limited from continuing operations	4.6 cents	3.0 cents
Weighted average number of ordinary shares used in the calculation of basic EPS	192,236,121	192,236,121
Diluted EPS attributable to members of Specialty Fashion Group Limited from continuing operations	4.6 cents	3.0 cents
Weighted average number of ordinary shares used in the calculation of diluted EPS	192,236,121	196,036,121

Specialty Fashion Group Limited
Directors' declaration
31 December 2015

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 *'Interim Financial Reporting'*, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 31 December 2015 and of its performance for the financial half year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors



A McDonald
Director



M Hardwick
Director



G Perlstein
Director

23 February 2016