

SPECIALTY FASHION | GROUP

ASX Announcement/Media Release

20 February 2012

Specialty Fashion Group Announces First Half Results

Specialty Fashion Group Limited (ASX: SFH) confirms revenue for the half year ended 31 December 2011 of \$307.3 million, delivering Earnings Before Interest Taxation Depreciation and Amortisation (EBITDA) of \$21.9 million, in line with the results guidance provided by the Company on 18 January 2012. Net profit for the half year was \$6.2 million.

The challenging economic climate for the half year ended 31 December 2011 was underpinned by extremely cautious consumer sentiment (resulting in a disappointing Christmas trading period), a strong Australian dollar and comparatively high product cost inflation, however Specialty Fashion Group expects product cost inflation to ease in the second half of the financial year and into FY2013.

In spite of the prevailing conditions, the Company remained focused on protecting gross profit margins (57.6% for the half year) through an improved product mix, reduced inventory levels, and supply chain innovations to further improve gross margins in the coming periods.

In addition, the Company has aggressively pursued online sales growth and the delivery of omnichannel shopping experiences through leveraging its customer relationship management capabilities, growing its email membership to 1.7 million customers and completing the implementation of a new database platform.

Operating cash flows were \$31.9 million and the Company had a net cash position of \$6.2 million at the end of the half year, maintaining a strong balance sheet. The Group has available debt facilities of \$85 million, of which \$2 million was used at the end of the half year.

The Company has determined it should retain cash reserves and not to declare an interim dividend, due to the ongoing challenging trading conditions and no indication of improved consumer sentiment at the present time.

Recalibrating our Group

The Company expects the challenging trading conditions to continue throughout the 2012 financial year. However, the targeted strategic initiatives in relation to Ecommerce, customer relationship management and the supply chain are progressing well. The store rationalisation program previously announced is underway and has resulted in the closure of seven stores since the beginning of January and the Company expects up to a further 15 store closures before 30 June 2012.

Specialty Fashion Group CEO, Gary Perlstein, commented: "We remain committed to our strategy of recalibrating our group of businesses through discipline, innovation and expansion into new sales channels, in order to maintain the financial health of the Company in the short-term and ensure we are well set for long-term growth in the future."

ENDS

INVESTOR ENQUIRIES:

Alison Henriksen
Chief Financial Officer
Specialty Fashion Group
(02) 8303 3435

MEDIA ENQUIRIES:

John Gardner / Stephanie Sim
MAGNUS Investor Relations + Corporate
Communication
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About Specialty Fashion Group

Specialty Fashion Group is the largest specialty retailer of women's fashion in Australasia, through Millers, Katies, Crossroads, Autograph, City Chic and La Senza. The company operates 900 stores in Australia and New Zealand, and its brands' products are also available online at www.millers.com.au, www.katies.com.au, www.crossroads.com.au, www.autographfashion.com.au, www.citychic.com.au, www.lasenza.com.au, and in the USA at www.citychiconline.com.

Appendix 4D

Half year report

Name of entity

Specialty Fashion Group Limited

ABN

43 057 569 169

Half yearly
(tick)

Preliminary
final (tick)

Financial year ended ('current period')

31 December 2011

Previous corresponding period

31 December 2010

For announcement to the market

				31 Dec 2010 \$'000		31 Dec 2011 \$'000
Revenues from continuing activities	down	0.5%	from	308,806	to	307,276
Revenues from continuing and discontinued activities	down	1.7%	from	312,653	to	307,276
EBITDA – from continuing operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down	36.7%	from	34,621	to	21,921
EBITDA from continuing and discontinued operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	down	35.8%	from	34,124	to	21,921
Profit after tax from continuing activities	down	64.1%	from	17,151	to	6,156
Net profit/(loss) from discontinued operations	up	100%	from	(348)	to	-
Profit after tax from ordinary activities attributable to the members of Specialty Fashion Group Limited.	down	63.4%	from	16,803	To	6,156
Dividends (distributions)				Amount per security		Franked amount per security
Interim dividend				-		-
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 2011

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 2011.

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
W Tang

Review of Operations

Specialty Fashion Group achieved \$307.3 million revenue and EBITDA of \$21.9 million from continuing activities. Net profit for the half year was \$6.2 million.

Operating cash flows were \$31.9 million and the Group capital expenditure was \$9.3 million, reflecting the reduction in capital expenditure expected to be required by the Group in the future. The Company held cash of \$8.2 million and an outstanding bank loan of \$2 million 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.

Signed in accordance with a resolution of the directors made pursuant to section 306(3) of the Corporations Act 2001.



G Levy
Director



G Perlstein
Director

Sydney
20 February 2012

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

20 February 2012

Dear Board Members

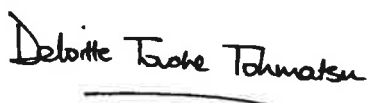
Specialty Fashion Group Limited

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.

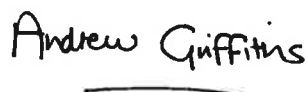
As lead audit partner for the review of the financial statements of Specialty Fashion Group Limited for the financial half-year ended 31 December 2011, I declare that to the best of my knowledge and belief, there have been no contraventions of:

- (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 faithfully



DELOITTE TOUCHE TOHMATSU



A V Griffiths
Partner
Chartered Accountants

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 condensed statement of financial position as at 31 December 2011, and 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 7 to 15.

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 2011 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 company's financial position as at 31 December 2011 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

DELOITTE TOUCHE TOHMATSU

Andrew Griffiths

A V Griffiths
Partner
Chartered Accountants
Sydney, 20 February 2012

Consolidated statement of comprehensive income

	Notes	Dec 2011	Dec 2010
		\$'000	\$'000
Revenue from continuing operations	3	307,276	308,806
Changes in inventories of finished goods and consumables		(4,177)	(7,446)
Finished goods and consumables		(126,181)	(124,439)
Employee benefits expense		(73,453)	(68,875)
Depreciation and impairment		(11,691)	(9,289)
Rental expense relating to operating leases		(56,164)	(51,398)
Other expenses from ordinary activities		(25,255)	(21,937)
Finance costs		(1,409)	(858)
Profit before income tax	4	8,946	24,564
Income tax expense		(2,790)	(7,413)
Profit for the period from continuing operations		6,156	17,151
(Loss)/profit from discontinued operations		-	(348)
Profit for the period		6,156	16,803
Other comprehensive income			
Changes in fair value of cash flow hedges		8,024	(13,306)
Exchange differences on translation of foreign operations		(50)	(338)
		7,974	(13,644)
Income tax relating to the components of other comprehensive income		(2,407)	3,992
Other comprehensive income for the half year, after income tax expense		5,567	(9,652)
Total comprehensive income attributable to the members of SFG for the half year		11,723	7,151

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

		Dec 2011	Dec 2010
From continuing and discontinued operations			
Basic EPS	7	3.2 cents	8.8 cents
Diluted EPS	7	3.2 cents	8.6 cents
From continuing operations			
Basic EPS		3.2 cents	9.0 cents
Diluted EPS		3.2 cents	8.8 cents

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

Consolidated balance sheet

	31 Dec 2011	30 June 2011	31 Dec 2010
	\$'000	\$'000	\$'000
Current assets			
Cash and cash equivalents	8,183	5,592	16,922
Trade and other receivables	6,258	4,682	8,725
Inventories	41,664	45,839	38,356
Current tax receivables	1,634	-	-
Total current assets	57,739	56,113	64,003
Non-current assets			
Other non-current receivables	580	793	-
Property, plant and equipment	89,987	93,120	88,014
Deferred tax assets	1,560	3,436	5,074
Intangible assets	10,095	10,095	10,095
Total non-current assets	102,222	107,444	103,183
Total assets	159,961	163,557	167,186
Current liabilities			
Trade and other payables	58,430	48,055	59,835
Derivative financial instruments	1,401	9,425	10,364
Current tax liabilities	356	289	6,403
Provisions	14,084	12,981	13,256
Other	1,955	3,027	1,967
Total current liabilities	76,226	73,777	91,825
Non-current liabilities			
Borrowings	2,000	22,000	-
Provisions	10,864	9,983	7,828
Other	8,807	7,205	8,123
Total non-current liabilities	21,671	39,188	15,951
Total liabilities	97,897	112,965	107,776
Net assets	62,064	50,592	59,410
Equity			
Contributed equity	134,287	133,867	132,492
Reserves	(1,674)	(6,570)	(6,706)
Accumulated losses	(70,549)	(76,705)	(66,376)
Total equity	62,064	50,592	59,410

The above consolidated balance sheet 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 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
Balance at 1 July 2011	133,867	852	(6,598)	(824)	(76,705)	50,592
Profit for the half year	-	-	-	-	6,156	6,156
Revaluation of cash flow hedges	-	-	5,617	-	-	5,617
Exchange differences on translation of foreign operations	-	-	-	(50)	-	(50)
Total comprehensive income for the half year	-	-	5,617	(50)	6,156	11,723
Transactions with equity holders in their capacity as equity holders:						
Employee share based payments	420	(671)	-	-	-	(251)
Dividends paid	-	-	-	-	-	-
Balance at 31 December 2011	134,287	181	(981)	(874)	(70,549)	62,064

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

Consolidated statement of cash flows

	Notes	Dec 2011 \$'000	Dec 2010 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of goods and services tax)		338,117	344,411
Payments to suppliers and employees (inclusive of goods and services tax)		(300,068)	(292,830)
		<u>38,049</u>	<u>51,581</u>
Interest received		125	90
Borrowing costs		(1,409)	(858)
Income taxes paid		(4,891)	(4,867)
Net cash inflow from operating activities		<u>31,874</u>	<u>45,946</u>
Cash flows from investing activities			
Payments for property, plant and equipment		(9,329)	(20,188)
Proceeds from sale of property, plant and equipment		46	131
Proceeds from sale of business		-	3,953
Net cash outflow from investing activities		<u>(9,283)</u>	<u>(16,104)</u>
Cash flows from financing activities			
Repayment of borrowings		(20,000)	(8,000)
Dividends paid		-	(7,625)
Net cash outflow from financing activities		<u>(20,000)</u>	<u>(15,625)</u>
Net increase in cash held		2,591	14,217
Cash at the beginning of the financial period		5,592	2,705
Cash at the end of the financial period		<u>8,183</u>	<u>16,922</u>

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

Notes to the financial statements

1. Summary of significant accounting policies

Statement of compliance

The half year consolidated interim financial report is a general purpose financial report prepared in accordance with the *Corporations Act 2001* and AASB 134 *Interim Financial Reporting*. The interim 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 2011 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*.

Basis of preparation

The condensed consolidated financial statements have been prepared on the basis of historical costs, except for the revaluation of financial instruments. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted.

The accounting policies and methods of computation adopted in the preparation of the half year financial report are consistent with those adopted and disclosed in the Company's 2011 annual financial report for the financial year ended 30 June 2011, except for the impact of the Standards and Interpretations described below. These accounting policies are consistent with Australian Accounting Standards.

New or revised Standards and Interpretations that are first effective in the current reporting period

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.

There are no new and revised Standards and amendments thereof and Interpretations effective for the current reporting period that are relevant to the Group.

The adoption of all the new and revised Standards and Interpretations has not resulted in any changes to the Group's accounting policies and has no effect on the amounts reported for the current or prior periods. The new and revised Standards and Interpretations has not had a material impact and not resulted in changes to the Group's presentation of, or disclosure in, its half year financial report.

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 assess the performance of the operating segments based on a measure of EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation).

Appendix 4D
Half year report

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

	Dec 2011	Dec 2010
	\$'000	\$'000
Profit before income tax expense	8,946	24,564
Interest expense	1,409	858
Interest income	(125)	(90)
Depreciation and impairment expense*	11,691	9,289
EBITDA from continuing operations (Earnings before interest, taxation, depreciation, impairment and amortisation)	21,921	34,621
EBITDA from discontinued operations	-	(497)
Total Group EBITDA	21,921	34,124

*Impairment expense for the half-year is \$1,764,038 (31 Dec 2010: impairment reversal of \$235,909).

3. Revenue

	Dec 2011	Dec 2010
	\$'000	\$'000
From continuing operations		
Sales revenue		
Sale of goods	307,072	308,667
Other revenue		
Interest	125	90
Other revenue	79	49
Revenue from ordinary activities	307,276	308,806
From discontinued operations		
Sales revenue		
Sale of goods	-	3,847

4. Expenses from continuing operations

	Dec 2011	Dec 2010
	\$'000	\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	130,358	131,885
Depreciation and impairment expense	11,691	9,289
Borrowing costs	1,409	858
Rental expense relating to operating leases	56,164	51,398

5. Financing Arrangements

At balance date, bank loan facilities totalling \$85 million were available to the Company (30 June 2011: \$100 million). Of this facility, \$83 million was unused (30 June 2011: \$100 million). The bank loan facilities comprise of working capital facilities and strategic investment facilities, which may be drawn at any time.

6. Dividends

	Dec 2011		Dec 2010	
	Amount per security Cents	Total amount \$'000	Amount per security Cents	Total amount \$'000
Interim dividend for the half year (fully franked at 30%)	-	-	4 cents	7,724

No interim dividend was declared for the half year ended 31 December 2011.

	June 2011		June 2010	
	Amount per security Cents	Total amount \$'000	Amount per security Cents	Total amount \$'000
Final dividend for the year (fully franked at 30%)	-	-	4 cents	7,625

No final dividend was declared for the year ended 30 June 2011.

7. Franking credits

	Dec 2011 \$'000	Dec 2010 \$'000
Adjusted franking account balance	43,978	46,927

8. Earnings per share

	Dec 2011	Dec 2010
Basic EPS attributable to members of Specialty Fashion Group Limited from continuing and discontinued operations	3.2 cents	8.8 cents
Weighted average number of ordinary shares used in the calculation of Basic EPS	191,964,810	191,064,224
Diluted EPS attributable to members of Specialty Fashion Group Limited from continuing and discontinued operations	3.2 cents	8.6 cents
Weighted average number of ordinary shares used in the calculation of Diluted EPS	192,069,854	194,933,668

9. Net tangible assets per security

	Dec 2011	Dec 2010
Net tangible asset backing per ordinary security	27.1 cents	25.8 cents

Movements in ordinary share capital

Date	Details	Number of shares
1 January 2010	Opening balance	190,520,581
5 March 2010	Issue of shares on exercise of options	444,112
1 November 2010	Issue of shares under Company's Long Term Incentive Plan	303,571
31 December 2010	Balance	191,268,264
1 January 2011	Opening balance	191,268,264
1 February 2011	Issue of shares under Company's Long Term Incentive Plan	142,857
22 February 2011	Issue of shares on exercise of options	275,000
30 May 2011	Issue of shares under Company's Long Term Incentive Plan	100,000
13 September 2011	Issue of shares under Company's Long Term Incentive Plan	300,000
31 December 2011	Balance	192,086,121

10. 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 2011 \$'000	Dec 2010 \$'000
Amounts recognised as expense		
Lease of business premises in which A I Miller and G Perlstein have interest.	254	288

11. Events occurring after the reporting period

There were no matter or circumstance which have arisen since 31 December 2011 that has significantly affected, or may significantly affect the Group's operations in future financial years or the results of those operations in future financial years, or the Group's state of affairs in future financial years.

Specialty Fashion Group Limited
Statutory Directors' Declaration – half year
31 December 2011

The directors declare that:

- (a) in the directors' opinion, 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; and
- (b) in the directors' opinion, the attached financial statements and notes thereto are in accordance with the Corporations Act 2001, including compliance with accounting standards and giving a true and fair view of the financial position and performance of the consolidated entity.

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

On behalf of the Directors



G Levy
Director



G Perlstein
Director

Sydney
20 February 2012

Information on audit

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. |



G Perlstein
Director

Sydney
20 February 2012