

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 2013

Previous corresponding period

31 December 2012

2. Results for announcement to the market

					31 Dec 2012 \$'000		31 Dec 2013 \$'000
2.1	Revenue	up	4.2%	from	311,171	to	324,281
2.2	Profit after income tax expense	down	9.7%	from	17,970	to	16,229
2.3	Profit after income tax expense attributable to the members of Specialty Fashion Group Limited	down	9.7%	from	17,970	to	16,229

					31 Dec 2012 \$'000		31 Dec 2013 \$'000
	EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss) ¹	down	16.2%	from	37,190	to	31,178

Specialty Fashion Group Limited
Appendix 4D
Half year report

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

	31 Dec 2012 \$'000	31 Dec 2013 \$'000
EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for fair value revaluation of derivative financial instruments through profit or loss)	37,190	31,178
Fair value revaluation of derivative financial instruments through profit or loss	-	(153)
Interest revenue	148	268
Finance costs	(488)	(604)
Depreciation, amortisation and impairment of property, plant and equipment	(11,184)	(9,268)
Profit before income tax	25,666	21,421

2.4 Dividends (distributions)	Amount per security	Franked amount per security
Current period:		
Interim dividend for the half year ended 31 December 2013	2.0 cents	2.0 cents
Final dividend for the year ended 30 June 2013	2.0 cents	2.0 cents
Previous corresponding period:		
Interim dividend for the half year ended 31 December 2012	2.0 cents	2.0 cents
Final dividend for the year ended 30 June 2012	-	-
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 2013 Interim Report.

3.0 Net tangible assets per security

	31 Dec 2012 cents	31 Dec 2013 cents
Net tangible asset backing per ordinary security	32.2	31.4

4.0 Control gained or lost over entities during the period

Not applicable.

5.0 Details of dividend/distribution

Current period

For the year ended 30 June 2013, a fully franked dividend of 2.0 cents per share was paid to the holders of fully paid ordinary shares on 26 September 2013.

On 25 February 2014, the directors declared a fully franked interim dividend of 2.0 cents per share to the holders of fully paid ordinary shares, payable to shareholders on 28 March 2014. This dividend has not been included as a liability in these consolidated interim financial statements, and will be paid to all shareholders on the Register of Members as at 17 March 2014. The aggregate amount of the proposed dividend expected to be paid to shareholders is \$3,844,722.

Previous corresponding period

For the half year ended 31 December 2012, a fully franked interim dividend of 2.0 cents per share was paid to the holders of fully paid ordinary shares on 19 March 2013.

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 2013 is attached.

11.0 Signed

A handwritten signature in black ink, appearing to read 'G Perlstein', written in a cursive style.

G Perlstein
Director

Sydney
25 February 2014

Specialty Fashion Group Limited

ABN 43 057 569 169

Interim Report - 31 December 2013

Specialty Fashion Group Limited
Contents
31 December 2013

	Page
Directors' report	3
Auditor's independence declaration	4
Independent auditor's review report to the members of Specialty Fashion Group Limited	5
Interim financial statements	
Consolidated statement of profit or loss and other comprehensive income	7
Consolidated statement of financial position	8
Consolidated statement of changes in equity	9
Consolidated statement of cash flows	10
Notes to the interim financial statements	11
Directors' declaration	19

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 2013 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 2013

The directors present their report on the consolidated entity consisting of Specialty Fashion Group Limited (the 'Company') and the entities it controlled (the 'Group' or 'consolidated entity') at the end of, or during, the half year ended 31 December 2013.

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
G Perlstein
I Miller
J Bloom (resigned 31 October 2013)
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 Australasia through Millers, Maties, Autograph, Crossroads and City Chic. On 27 November 2013, the Group acquired the business and net assets of Rivers (Australia) Pty Ltd (Rivers'), an iconic Australian apparel and footwear brand. The acquisition is part of the Group's long-term growth strategy to expand its footprint in the mature, value segment of the specialty fashion market and marks the Group's entrance into value footwear, men's and children's clothing.

The Group achieved \$324.3 million revenue (31 December 2012: \$311.2 million) and EBITDA (Earnings before interest, taxation, depreciation, impairment and amortisation, adjusted for the fair value revaluation of derivative financial instruments through profit or loss) of \$31.2 million (31 December 2012: \$37.2 million) from continuing activities. Net profit for the half year ended 31 December 2013 was \$16.2 million (31 December 2012: \$18.0 million), which includes a discount on acquisition of \$4.6 million and acquisition related costs of \$1.3 million.

Operating cash flows were \$28.7 million (31 December 2012: \$46.2 million) and the Group capital expenditure was \$13.1 million (31 December 2012: \$6.2 million). The Group held cash and cash equivalents of \$48.9 million (31 December 2012: \$45.6 million) and outstanding borrowings of \$26.3 million at the end of the half year (31 December 2012: nil).

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 4 and forms part of this report.

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



G Levy
Director



G Perlstein
Director

25 February 2014

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

25 February 2014

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 2013, 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
- (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 condensed statement of financial position as at 31 December 2013, and the statement of profit or loss and other 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 19.

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 2013 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 2013 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, 25 February 2014

Specialty Fashion Group Limited
Consolidated statement of profit or loss and other comprehensive income
For the half year ended 31 December 2013

	Notes	Dec 2013 \$'000	Consolidated Dec 2012 \$'000
Revenue	4	324,281	311,171
Changes in inventories of finished goods and consumables		990	(13,121)
Finished goods and consumables used		(119,172)	(104,036)
Employee benefits expense		(85,754)	(75,465)
Depreciation and impairment expense		(9,268)	(11,184)
Rental expense		(58,424)	(56,098)
Other expenses		(33,968)	(25,113)
Finance costs		(604)	(488)
Net discount on acquisition	13	3,340	-
Profit before income tax expense		21,421	25,666
Income tax expense		(5,192)	(7,696)
Profit from continuing operations after income tax expense	5	16,229	17,970
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Changes in fair value of cash flow hedges		(2,654)	(310)
Exchange differences on translation of foreign operations		528	65
Income tax benefit relating to the components of other comprehensive income		796	93
Other comprehensive income after income tax benefit		(1,330)	(152)
Total comprehensive income attributable to the members of Specialty Fashion Group Limited		14,899	17,818
Earnings per share (EPS) attributable to the members of Specialty Fashion Group Limited			
From continuing operations		Dec 2013	Dec 2012
Basic EPS	15	8.4 cents	9.3 cents
Diluted EPS	15	8.3 cents	9.3 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 2013

		Consolidated		
	Notes	Dec 2013	Jun 2013	Dec 2012
		\$'000	\$'000	\$'000
Assets				
Current assets				
Cash and cash equivalents		48,907	38,576	45,621
Receivables		9,525	6,607	7,596
Inventories		66,587	40,692	35,039
Derivative financial instruments	6	2,481	5,193	-
Income tax receivable		170	1,568	86
Total current assets		127,670	92,636	88,342
Non-current assets				
Receivables		-	283	405
Derivative financial instruments	6	17	111	-
Property, plant and equipment		88,647	71,622	74,911
Intangibles		18,607	10,095	10,095
Deferred tax assets		2,522	491	-
Total non-current assets		109,793	82,602	85,411
Total assets		237,463	175,238	173,753
Liabilities				
Current liabilities				
Trade and other payables		78,556	66,979	59,813
Derivative financial instruments	6	-	-	429
Current tax liabilities		3,329	-	3,604
Provisions		19,010	14,271	14,700
Finance lease	8	238	229	-
Other		3,284	4,235	3,834
Total current liabilities		104,417	85,714	82,380
Non-current liabilities				
Borrowings	7	26,330	-	-
Deferred tax liabilities		-	1,828	121
Provisions		13,807	12,111	12,036
Finance lease	8	2,847	422	-
Other		11,175	7,601	7,219
Total non-current liabilities		54,159	21,962	19,376
Total liabilities		158,576	107,676	101,756
Net assets		78,887	67,562	71,997
Equity				
Contributed equity		134,497	134,497	134,497
Reserves	9	2,396	3,455	(955)
Accumulated losses	10	(58,006)	(70,390)	(61,545)
Total equity		78,887	67,562	71,997

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
As at 31 December 2013

	Contributed equity	Share-based payments reserve	Hedging reserve	Foreign currency translation reserve	Accumulated losses	Total equity
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Balance at 1 July 2012	134,497	61	(83)	(781)	(79,515)	54,179
Profit after income tax for the half year	-	-	-	-	17,970	17,970
Revaluation of cash flow hedges, net of tax	-	-	(217)	-	-	(217)
Exchange differences on translation of foreign operations	-	-	-	65	-	65
Total comprehensive income for the half year	-	-	(217)	65	17,970	17,818
Transactions with equity holders in their capacity as equity holders:						
Performance rights over ordinary shares	-	-	-	-	-	-
Dividends paid	-	-	-	-	-	-
Balance at 31 December 2012	134,497	61	(300)	(716)	(61,545)	71,997
Balance at 1 July 2013	134,497	258	3,572	(375)	(70,390)	67,562
Profit after income tax for the half year	-	-	-	-	16,229	16,229
Revaluation of cash flow hedges, net of tax	-	-	(1,858)	-	-	(1,858)
Exchange differences on translation of foreign operations	-	-	-	528	-	528
Total comprehensive income for the half year	-	-	(1,858)	528	16,229	14,899
Transactions with equity holders in their capacity as equity holders:						
Performance rights over ordinary shares	-	271	-	-	-	271
Dividends paid	-	-	-	-	(3,845)	(3,845)
Balance at 31 December 2013	134,497	529	1,714	153	(58,006)	78,887

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 2013

		Consolidated	
	Note	Dec 2013	Dec 2012
		\$'000	\$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		357,009	342,989
Payments to suppliers and employees (inclusive of GST)		(326,743)	(298,124)
		30,266	44,865
Interest received		268	148
Interest and other finance costs paid		(604)	(488)
Income taxes received		-	3,220
Income taxes paid		(1,228)	(1,578)
Net cash from operating activities		28,702	46,167
Cash flows from investing activities			
Net payment for acquisition of Rivers	13	(3,889)	-
Payments for property, plant and equipment		(13,134)	(6,178)
Proceeds from sale of property, plant and equipment		1,091	1,547
Net cash used in investing activities		(15,932)	(4,631)
Cash flow from financing activities			
Repayment of borrowings		(1,028)	(6,500)
Finance lease drawdown		2,434	-
Dividends paid	11	(3,845)	-
Net cash used in financing activities		(2,439)	(6,500)
Net increase in cash and cash equivalents		10,331	35,036
Cash and cash equivalents at the beginning of the financial half year		38,576	10,585
Cash and cash equivalents at the end of the financial half year		48,907	45,621

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

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

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 2013. 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 25 February 2014. The directors have the power to amend and reissue the financial report.

Note 2. Significant accounting policies

This general purpose financial report for the interim half year reporting period ended 31 December 2013 has 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*'.

This general purpose interim financial report does not include all the notes of the type normally included in annual financial reports. Accordingly, this financial report is to be read in conjunction with the annual report for the year ended 30 June 2013 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, except for the policies stated below.

New, revised or amended Accounting Standards and Interpretations adopted

Australian Accounting Standards and Interpretations thereof that have recently been amended but are not yet effective have not been adopted for the reporting period ended 31 December 2013. Australian Accounting Standards that have recently been amended but are not yet effective and have not been early adopted by the Group are outlined in the table below:

Reference	Affected Standard(s)	Application date of standard*
AASB 9	AASB 9: <i>Financial Instruments</i> , AASB 2009-11 Amendments to Australian Accounting Standards arising from AASB 9	1 January 2017
AASB 2011-4	Amendments to Australian Accounting Standards to Remove Individual Key Management Personnel Disclosure Requirements	1 July 2013
AASB 2012-3	Amendments to Australian Accounting Standards – Offsetting Financial Assets and Financial Liabilities	1 January 2014
AASB 2013-3	Amendments to Australian Accounting Standards - Recoverable Amount Disclosures for Non-Financial Assets	1 January 2014
AASB 2013-4	Amendments to Australian Accounting Standards – Novation of Derivatives and Continuation of Hedge Accounting	1 January 2014
AASB 2013-5	Amendments to Australian Accounting Standards – Investment Entities	1 January 2014

* Application date of the standard is for the reporting periods beginning on or after the date shown in the above table.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 2. Significant accounting policies (continued)

The adoption of the standards and amendments listed above in future periods is not expected to result in substantial changes to the Group's accounting policies.

The Group has adopted all of the new and revised effective / applicable standards, amendments and interpretations issued by the Australian Accounting Standards Board ("AASB") that are relevant to the Group's operations and mandatory for annual periods beginning on or after 1 January 2013.

The Group has applied the following standards and amendments for the first time in the half year reporting period commencing 1 July 2013:

- AASB 10 *Consolidated Financial Statements*
- AASB 12 *Disclosure of Interests in Other Entities*
- AASB 13 *Fair Value Measurement*
- AASB 119 *Employee Benefits (2011)*
- AASB 128 *Investments in Associates and Joint Ventures*
- AASB 127 *Separate Financial Statements*
- AASB 2010-7 Amendments to Australian Accounting Standards arising from AASB 9
- AASB 2011-7 Amendments to Australian Accounting Standards arising from the Consolidation and Joint Arrangement standards
- AASB 2011-9 Amendments to Australian Accounting Standards – Presentation of Items of Other Comprehensive Income
- AASB 2012-2 Amendments to Australian Accounting Standards – Disclosures – Offsetting Financial Assets and Financial Liabilities
- AASB 2012-5 Amendments to Australian Accounting Standards arising from Annual Improvements 2009-2011 Cycle

The adoption of these new and revised standards, amendments and interpretations has affected the presentation only and has no impact on the Group's financial position or performance.

Note 3. Operating Segments

Identification of reportable operating segments

The consolidated entity is organised into one operating segment being fashion retail. This operating segment is based on the internal reports that are reviewed and used by the Chief Executive Officer 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 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.

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.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 3. Operating Segments (continued)

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

	Consolidated	
	Dec 2013	Dec 2012
	\$'000	\$'000
EBITDA	31,178	37,190
Fair value revaluation of derivative financial instruments through profit or loss*	(153)	-
Interest revenue	268	148
Finance costs	(604)	(488)
Depreciation, amortisation and impairment of property, plant and equipment	<u>(9,268)</u>	<u>(11,184)</u>
Profit before income tax	<u><u>21,421</u></u>	<u><u>25,666</u></u>

* To protect against significant adverse fluctuations in cotton prices, the company purchased cotton call options with a fair value of \$49,000 as at 31 December 2013 (31 December 2012: nil). The expense for the half year ended 31 December 2013 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Note 4. Revenue

	Consolidated	
	Dec 2013	Dec 2012
	\$'000	\$'000
<i>Sales revenue</i>		
Sale of goods	323,818	310,729
<i>Other revenue</i>		
Interest	268	148
Other revenue	<u>195</u>	<u>294</u>
	<u>463</u>	<u>442</u>
Revenue	<u><u>324,281</u></u>	<u><u>311,171</u></u>

Note 5. Expenses from continuing operations

	Consolidated	
	Dec 2013	Dec 2012
	\$'000	\$'000
Profit before income tax expense includes the following specific expenses:		
Cost of sales of goods	118,182	117,157
Depreciation and impairment of property, plant and equipment	9,268	11,184
Interest and finance charges paid/payable	604	488
Fair value revaluation of derivative financial instruments through profit or loss	153	-
Net loss on disposal of property, plant and equipment	319	2
Share based payment expense	271	-
Defined contribution superannuation expense	5,848	5,081
Rental expense relating to operating leases	<u>58,424</u>	<u>56,098</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 6. Derivative financial instruments

	Dec 2013	Consolidated
	\$'000	Dec 2012
		\$'000
Current asset/(liability)		
Forward foreign exchange contracts - cash flow hedges	2,449	(429)
Call options at fair value*	32	-
	<u>2,481</u>	<u>(429)</u>
Non-current asset/(liability)		
Call options at fair value*	17	-
	<u>17</u>	<u>-</u>

* To protect against significant adverse fluctuations in cotton prices, the company purchased cotton call options with a fair value of \$49,000 as at 31 December 2013 (31 December 2012: nil). The expense for the half year ended 31 December 2013 reflects the fair value revaluation of the cotton call options at the end of the reporting period.

Note 7. Financing arrangements

The Group amended its bank loan facilities on 27 November 2013, which comprise of a working capital facility of \$20.0 million and trade finance facilities of \$50.0 million. These facilities may be drawn at any time. At balance date, bank loan facilities totalling \$70.0 million were available to the Company (31 December 2012: \$40.0 million). Of this facility, \$43.7 million was unused (31 December 2012: \$40.0 million).

Note 8. Finance leases

	Dec 2013	Consolidated
	\$'000	Dec 2012
		\$'000
Current liability		
Finance lease*	238	-
	<u>238</u>	<u>-</u>
Non-current liability		
Finance lease*	2,847	-
	<u>2,847</u>	<u>-</u>

* The finance lease liability balances at 31 December 2013 include total asset finance facility drawdowns of \$2.5 million. An asset finance facility totalling \$8.0 million was available to the Company at 31 December 2013 (31 December 2012: nil). Of this facility, \$5.5 million was unused (31 December 2012: nil).

Note 9. Equity - reserves

	Dec 2013	Consolidated
	\$'000	Dec 2012
		\$'000
Foreign currency reserve	54	(716)
Hedging reserve - cash flow hedges	1,714	(300)
Share-based payments reserve	529	61
	<u>2,297</u>	<u>(955)</u>

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 10. Equity - accumulated losses

	Consolidated	
	Dec 2013	Dec 2012
	\$'000	\$'000
Accumulated losses at the beginning of the financial half year	(70,390)	(79,515)
Profit after income tax expense for the half year	16,229	17,970
Dividends paid (note 11)	(3,845)	-
	<hr/>	<hr/>
Accumulated losses at the end of the financial half year	<u>(58,006)</u>	<u>(61,545)</u>

Note 11. Dividends

A fully franked interim dividend of 2.0 cents per share was declared for the half year ended 31 December 2012 and paid to holders of fully paid ordinary shares on 19 March 2013. Subsequent to the half year ended 31 December 2013, the directors declared a fully franked interim dividend to the holders of fully paid ordinary shares. Refer to note 13 for additional details.

A fully franked final dividend of 2.0 cents per share was declared for the year ended 30 June 2013 and paid to holders of fully paid ordinary shares on 26 September 2013. No final dividend was declared for the year ended 30 June 2012.

Franking credits

	Dec 2013	Dec 2012
	'000	'000
Adjusted franking credit account balance	<u>44,250</u>	<u>45,400</u>

Note 12. Related party transactions

Parent entity

Specialty Fashion Group Limited is the parent entity.

Transactions with related parties

I Miller and G Perlstein are directors and shareholders of companies that own the business premises at 151-163 Wyndham Street, Alexandria which is leased to the consolidated entity. During the 2004 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 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.

G Levy 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.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

	Dec 2013	Dec 2012
	\$'000	\$'000
Amounts recognised as expense		
Lease of business premises in which I Miller and G Perlstein have an interest	269	261
Lease of business premises in which G Levy has an interest	213	202
	482	463

Receivable from and payable to related parties

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

Loans to/from related parties

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

Terms and conditions

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

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 13. Business combinations

On 27 November 2013, Specialty Fashion Group Limited acquired the business and net assets of Rivers (Australia) Pty Ltd ('Rivers') for the net cash consideration transferred of \$3.9 million. The acquisition is part of the Group's long-term growth strategy to expand its footprint in the mature, value segment of the specialty fashion market and marks the Group's entrance into value footwear, men's and children's clothing.

The values identified in relation to the acquisition of the business and net assets of Rivers are provisional as at 31 December 2013 and comprise of the following:

	Fair value
	\$'000
Inventories	24,956
Other current assets	1,206
Property, plant and equipment	12,838
Deferred taxes	2,220
Intangible assets	8,505
Trade payables and sundry creditors	(8,454)
Borrowings	(27,358)
Provisions	(5,373)
Identifiable net assets acquired	<u>8,540</u>
Amount settled in cash on acquisition	5,000
Post-acquisition adjustment to purchase price	(1,111)
Net cash outflow on acquisition	<u>3,889</u>
Discount on acquisition	<u>4,651</u>
Acquisition related costs	(1,311)
Net discount on acquisition	<u>3,340</u>

The Group purchased the business and net assets of Rivers at a discount to the fair value of its net assets due to a low purchase price, which was influenced by a motivated seller with a desire to exit the business, and also reflected the difficulties encountered by Rivers in a challenging retail environment.

As the net cash consideration paid of \$3.9 million exceeds the identifiable fair value of net assets acquired, this represents a bargain purchase in accordance with the accounting standards. A discount on acquisition of \$4.6 million excluding acquisition costs has been recognised in the operating result of Specialty Fashion Group Limited for the half year ended 31 December 2013.

Consideration transferred

Acquisition related costs amounting to \$1.3 million are not included as part of consideration transferred and have been recognised as an expense in the consolidated statement of profit or loss and other comprehensive income. These amounts are provisional at 31 December 2013 and the Group is currently obtaining the information necessary to finalise its valuation.

Identifiable net assets

The fair value of the identifiable net assets has been determined provisionally at 31 December 2013 as the acquisition was completed late in the period. The Group is currently obtaining the information necessary to finalise its valuation.

Rivers' contribution to the Group's results

From the date of acquisition, Rivers has contributed to Group revenue \$26.6 million from the sale of goods.

Management is unable to quantify the impact on the financial results of the Group for the half year ended 31 December 2013 should the acquisition have occurred at the beginning of the financial period, as the acquisition of Rivers' business and net assets excludes the right to disclose historical financial records relating to the entity pre-acquisition.

Specialty Fashion Group Limited
Notes to the consolidated interim financial statements
31 December 2013

Note 14. Events after the reporting period

On 25 February 2014 the directors declared a fully franked interim dividend of 2.0 cents per share to the holders of fully paid ordinary shares, payable to shareholders on 28 March 2014. This dividend has not been included as a liability in these consolidated interim financial statements, and will be paid to all shareholders on the Register of Members as at 17 March 2014. The aggregate amount of the proposed dividend expected to be paid to shareholders is \$3,844,722.

No other matter or circumstance has arisen since 31 December 2013 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 15. Earnings per share

	Dec 2013	Dec 2012
Basic EPS attributable to members of Specialty Fashion Group Limited from continuing operations	8.4 cents	9.3 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	8.3 cents	9.3 cents
Weighted average number of ordinary shares used in the calculation of diluted EPS	195,451,422	192,236,121

Note 16. Net tangible assets per security

	Dec 2013	Dec 2012
Net tangible asset backing per ordinary security	31.4 cents	32.2 cents

Specialty Fashion Group Limited
Directors' declaration

In the directors' opinion:

- the attached interim financial statements and notes thereto 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 interim financial statements and notes thereto give a true and fair view of the Group's financial position as at 31 December 2013 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



G Levy
Director



G Perlstein
Director

25 February 2014