SPECIALTYFASHION | GROUP

2014 Annual General Meeting

20 November 2014

Chairman's Address

Ladies and gentlemen.

Welcome to the Specialty Fashion Group Annual General Meeting.

In years to come, I am certain that we will look back on the 2014 financial year as being a momentous and pivotal year in the Company's history where substantial investments were made in both the Company's core brands, together with the investment in Rivers. We also continue to implement strategies initiated in previous years.

The acquisition of the Rivers business in November 2013 represents an opportunity for the group to expand its footprint in the value retail segment. The group is able to leverage its existing supply chain for women's apparel, and also extend the product offering to include menswear and footwear. Rivers is a highly recognisable Australian brand, renowned for quality and comfort. Rivers was acquired at minimal initial capital outlay which reflects the fact that this is a serious turn-around situation that takes time, investment and patience. While the Rivers turn-around will be a medium to long term undertaking, one year into the acquisition we are starting to see light at the end of the tunnel. Considerable progress has been made in integrating the 159 stores located throughout Australia into the group, and the brand represents a significant opportunity for portfolio growth in coming years. Gary will elaborate further in the CEO's address.

In these challenging times, the group continues to focus on maintaining a strong balance sheet, and ended the 2014 year with net debt of $12m, and undrawn facilities of $44m. This had been achieved through careful monitoring of the group's working capital position, as well as maintaining a focus on curtailing costs. In particular, the group seeks to renegotiate rental agreements with landlords when they are up for renewal in order to offset the impact of inevitable inflation in store wages, and rental increases in the remaining store portfolio. This approach has allowed the group to make strategic investments in Millers and the other brands. We continue on our cost reduction program as we fine tune the supply chain and further improve the architecture of our business.

During the year the group opened 70 stores, closed 20 stores and acquired 159 Rivers stores. This resulted in a portfolio of 1,095 stores at the end of the financial year (compared to 886 stores at the end of the 2013 financial year).

For the 2014 financial year, the group delivered Net Profit after Tax of $12.5m. In light of this result, the Board has decided to pay a final dividend of 2 cents per share, amounting to a full year dividend of 4cents per share.

Looking Ahead

Despite the continuing challenges that persist in the discretionary spend segment of the market such as the ongoing macro-economic uncertainty, I remain confident that the group has the appropriate strategies in place to achieve long term success. The Rivers turn around strategies are only starting to show signs of bearing fruit and the rate of losses in that business is slowing. Gary will elaborate further during his address.

On behalf of the Board I would like to thank Gary Perlstein, the leadership of the business and all the team members who tirelessly work to achieve the group's goals. In particular, I would like to thank Alison Henriksen who left us recently, and whom many of the investment community would have worked with, for her contribution to the group over the past 5 years. I would like to welcome our new CFO, Gary Spreckley, who commences officially as of 1 December 2014. I look forward to working with management over the coming year to ensure that the group achieves deserved success in the future, and I thank the shareholders for their continued support.

That concludes my address.

It gives me great pleasure to hand over to Gary for the CEO's address.

CEO's Address

Thank you Geoff.

Good afternoon and welcome.

The 2014 financial year represented a period of investment for the group. Not only did we pursue our existing strategies of rejuvenating Millers and our core brands, but we also invested in Rivers, which is an iconic Australian brand associated with comfort and quality. We also continued our international expansion, albeit at a measured pace.

Group turnover from continuing operations was $685m, which was up 20.3% on the year before. The increase was driven mainly by the new Rivers stores that are now included in the portfolio. Online revenue grew to $31m which is up 42.5% on a year earlier, and now represents almost 5% of group turnover. These achievements were tempered by overall negative comparable store growth of -0.7% for the year, which was the result of intense competition in the value retail space.

The gross margin achieved by the group was a record 63.1%, which was 124 basis points higher than the previous year. This was largely achieved through increasing the proportion of product sourced directly from factories in South East Asia to 84% (up from 64% a year earlier). Direct sourcing allows the group to closely monitor product quality, to take advantage of reductions in input costs such as reduced fabric prices, and removes profit margins earned by agents. We are also able to improve the uniqueness of our product, which ultimately results in lower mark downs.

The overall result for the Group was a slight decline in Net Profit after Tax to $12.5m.

The most exciting development during the year was the acquisition of the Rivers business. In recent years, Rivers had been adversely affected by aggressive discounting in the market place and significant levels of inventory accumulation. For the modest outlay of $3.9m, the net assets of the business were acquired in November 2013, and in the second half of the financial year we have pursued rebuilding the brand and integrating the operations. This discounting activity, whilst crucial to accelerate the improvement of the business in the medium to long term, negatively impacts short-term performance. Your Company will always focus on the best course of action that provides long term benefits, rather than pursuing short term and temporary solutions. By doing so we operate the business on best practice principles, and avoid any unnecessary inefficient investment in dated inventories. Due to Rivers' low acquisition cost, which resulted in a discount on acquisition of $3.4m, as well as the substantial amount of low cost stock acquired, the group has been afforded the necessary time to begin to turn the business around.

As with any acquisition, there have been complexities that would normally be associated with integrating two distinct businesses. However, considerable progress has been made, and by the end of the financial year, a brand team had been established in Sydney, that is capable of leveraging the group's resources. The majority of the acquired inventory had been sold by the end of the year. However, given the lead times involved in procuring new stock, noticeable improvements in store, which will positively affect the financial performance of the brand, are anticipated over the next six months. We remain confident that the turn-around efforts are on-track, despite the current challenges, and that Rivers will make a real and meaningful contribution to the group's profitability in future years.

Another highlight for the year has been the continued improvement seen in the Millers brand. Following the appointment of a new leader and leadership team 18 months ago, Millers has had continued positive momentum and we are confident that this new and experienced team have the skill to further enhance the growth of the brand. Given the size of Millers its contribution to the success of Specialty Fashion Group is very meaningful. The new range has been favourably received by customers, and resulted in positive comparable store sales growth, and improved margins, particularly in the second half of the year. The brand's continued improvement resulted in a record Mothers' Day trading period. This investment extends beyond the product range as the brand improves how product is merchandised and marketed to our most valuable age and demographic segments. Millers is also trialling a new store design, and to date, the results have been very encouraging.

During the year, the group has continued to explore international opportunities for City Chic in both South Africa and the USA. Two stores have been opened in South Africa, while in the USA City Chic has complemented its online business with wholesale distribution through Nordstrom. The US business will be further supported by 4 new physical stores that have been opened with a further two opening within the next 4 months taking the total to six in California. International expansion has been deliberately modest, and will only be scaled up once the group has established appropriate levels of performance in the new territories, and when we understand the nuances of each new market.

The group continues to focus on strategies that were commenced in previous years, including moving to an inventory replenishment model that will allow greater flexibility in maintaining appropriate stock levels in stores. This is being undertaken through consolidating the various warehouse locations into a single facility, thereby streamlining processes and controlling distribution costs. The group has also been able to implement "click and collect" which allows customers to reserve product online and collect it at their favourite store. Customers have warmly embraced this new shopping channel and it enhances the customer's omni-channel experience.

Looking Ahead

For the first quarter of the new financial year, comparable store sales growth was 4.6% reflecting a strong performance from the core Specialty Fashion Group's brands. The core business is performing well reflecting the positive investments and improvements made over the past number of years. However, as mentioned, Rivers is still very much in the turn-around stage and although, as Geoff said, there is light at the end of the tunnel, positive contributions from this brand will be challenging to achieve in the short term. With the next month and a half being the most significant in the group's trading cycle, it is not appropriate at this point to provide sales or profit guidance for the first six months of the 2015 financial year.

I would like to thank everyone at Specialty Fashion Group for their dedication over the past year. I also thank our investors for their continued support. The outstanding efforts of our whole 6,000 plus team, has placed the Company in a strong position for the future.

Specialty Fashion Group remains committed to being a leading omni-channel retailer, competing on brand and customer engagement, rather than price discounting, to increase profitability for its shareholders. Whilst trading conditions continue to be challenging in the short term we look forward to improving further on a solid performance in the medium to long term, and we are looking forward to the future with energy, passion and confidence.