

Managing Director's address to the Annual Meeting 22 May 2009

Thanks Rosanne. I too would like to welcome you to our 2009 Annual Meeting.

Thank you for coming. Being in the retail business these days is certainly not for the faint hearted.

A couple of weeks ago we released our 1st quarter result. Group sales for the quarter ended 26 April 2009 were \$90.2 million, flat on the same quarter last year. On a same store basis, the Group's sales were 0.9% behind the same period last year.

Homeware sales were down 3.4% to \$58.7m for the quarter. On a same store basis, Homeware sales were down 4.6%. Rebel Sport increased sales 6.6% to \$31.5m with same store sales at the same level. I have to tell you we were delighted with this result. Rebel Sport has shown itself to be vulnerable to the recession because of the high level of indirect competition it faces, as well as the discretionary nature of its product offering. To see Rebel Sport come back to this extent is testament to the strength of this brand, and the determination of my management team to leave no stone unturned, as we set about to make Rebel fitter and stronger.

The Group's gross margin performance for the first quarter of 2009 was above the first quarter last year, as was the profit. Furthermore, I have every

expectation that I will report to you at the half year, that our profit will be greater than that for the corresponding period in 2008.

Let me tell you how we've got to where we are. You will recall that 2 years ago we informed you that we would need to invest in updating our merchandising and financial systems, and that this investment would pay back handsomely in incremental profits and cost savings. This is, what you're seeing now.

You will have noticed at the end of January 2009 we had some \$63m in the bank compared to \$49m the prior year. Key reason was this investment we made two years ago. Our people now are able to review merchandise ranges every week, exploring new and different ways to remove poor selling goods from the stores and replacing with fast selling product. Total group inventory for the year just past was \$57m or 15% under that of the prior year. And this year I'm confident, inventories will be lower again.

The recent improvement in margin is also largely due to our ability to forecast our inventory requirements more accurately. So at season's end, we don't still have high stocks in our stores, that must be cleared with high discounts. There now exists a host of analytics in use by our merchandise people. Perhaps you've already noticed in our stores a very high incidence of in-stock of the best sellers and wider ranges, not deeper.

Having made this progress, I can tell you that the retail climate remains challenging. Our competitors continue to discount heavily which in turn requires us to strengthen our promotional programme. I now believe and you can see it from the first quarter numbers that we can be aggressive, just like the other

guys, but we now know how to be both aggressive and profitable at the same time.

The costs within the Group have been a major focus in the past 18 months as we've sought to ensure the company is operating at maximum efficiency. We implemented a cost reduction programme across Head Office, which includes buying, marketing, distribution, operations and administration. Firstly, we've moved away from a retail brand focus to a function focus. By this I mean, the prior structure had a hierarchy of GM Operations, Store Manager and Regional Manager in each of our homewares and sporting goods brands. The switch to a function focus meant we now have one Group manager for buying and this is Fraser Collins, and one GM for operations, Steve Salmon and no regional managers. I will speak a little later about the regional manager function inside the Group.

Perhaps of all the initiatives to be taken this year, the changes to the management of our stores will involve the greatest number of people and I believe will create the greatest financial rewards, for both the company and our new profit share partners. Remember me speaking earlier about the disestablishment of the regional management function. Our 7 regional managers all came from the store management ranks and its fair to say they were our very best store managers. Now with a total of 89 stores, many of these people will go back into the stores as senior profit share partners looking after up to four stores each. We expect that many of them, perhaps most, will substantially improve their remuneration, through a sharing of those stores incremental profit.

We place a great deal of importance, and recognize the value of our experienced people and intend to use that to drive profitability in stores. Additionally, some of our most experienced store management team will work very closely with our buyers to assist in the product ranging of many categories. We think their everyday contact with our customers, puts them in a unique position of first hand knowledge. It's all about getting the right product in the right stores at the right time.

Along with store operations and the buying of merchandise, sits advertising, and in a retail business like ours, driving shoppers into our stores is mission-critical. We know from years of tracking sales and advertising, that sales are highly advertising dependent. This is clearly one area we cannot afford to get wrong. Therefore its not surprising that we are always looking for ways to improve effectiveness and at the same time lowering cost. Earlier this year, we took the decision to out-source our advertising management function, which in effect brings our advertising agency into direct contact with our buyers. We know that this unlikely association, combined with more consistent input from my senior team will deliver even greater sales lifts, for our retail brands.

Briefly to our retail brands. We recently opened a new Briscoes Homeware store in Masterton, added new Living & Giving stores at the Atrium in downtown Auckland in the Queensgate Centre in Lower Hutt, a little north of Wellington. Living & Giving Lampton Quay in Wellington has recently been re-fitted and is the largest store in that chain and very shortly we will open a new store in Riccarton Mall, Christchurch.

While both Briscoes and Rebel Sport are showing definite signs of improvement, LG continues to struggle. We are experimenting with our product offer, and constantly re-evaluating and adapting our promotional programme to maximize profitability. But it will continue to be challenging, at this highly discretionary end of the market.

And a word about Rebel Sport. The first quarter sales lift I mentioned earlier was extremely pleasing. I talked about the positive impact of better stock management in Rebel Sport, and the over all improved first qtr result. We are more than ever convinced that our naming rights sponsorship of the Rebel Sport Super 14 has given our brand a much-needed profile, which we believe has translated into sales. This season we stepped up our association with the competition, by taking on Sky TV's Super 14 broadcast sponsorship so that we would own both the live and televised product. In addition, we have been able to convince the electronic media to use the full name of the competition in sports broadcasts and this has given Rebel Sport virtually constant exposure during the competition. For this I want to especially thank MediaWorks for their support.

When you think about it, our sales are coming back, margin is climbing, and we've got way more people than ever, thinking about producing sustainable profits, and all this in the worst recession I've ever experienced.

Last month I attended my second World Retail Congress, a 3 day conference in Europe where presentations were given by some of the world's most successful past and present retailers.

The conference opened with leading economists forecasting that the end of the recession is in sight, and will be led by a recovery in the US and China, followed by Europe. They appeared confident that by the end of the year or early next year, we will see the US economy growing again.

I was encouraged by Dr William Fung, Group Managing Director of Li & Fung, a company that supplies retailers worldwide with product, when he said, and I quote: "The only silver lining I see is we are operating on unprecedented lower levels of inventory and trading will be sharper. What my retail customers are telling me is keep the inventories low, let's chase business and have a quick response".

One of the major themes of the 2009 conference was sustainability with one speaker challenging retailers to embrace sustainability in the same way that they embraced IT 10 years ago. Quite clearly, while some retailers have made progress in this regard, many have much ground to make up in important environmental areas including sourcing, recycling and packaging. It is evident to us all that consumers are demanding a greater focus on tangible environmental sustainability from retailers and we all, Briscoe Group included, must rise to the challenge.

Many other themes were addressed at what was a highly stimulating conference. These included store design (how to make the shopping experience more compelling for little cost) multi-channel marketing, an issue Briscoe Group is beginning to grapple with and the importance of company culture in staff retention to name but a few.

I very much enjoy attending this annual retail think tank and almost always find myself both challenged and supported. While there is a lot New Zealand retailers can learn from the best practitioners in the world, equally, there's a great deal we can be proud of.

In conclusion, we in NZ have yet to see the light at the end of this dark, financial crisis tunnel. And yes there will be retail opportunities we can explore and perhaps invest in. I am already seeing a number of brands under the enormous pressure of slowing sales, declining margin, high operating costs and debt. I believe our company will emerge from these difficult times stronger and be positioned to take the lead roll in re-shaping the NZ retail landscape.