



21 March 2005

Company Announcements  
Australian Stock Exchange Limited  
Level 4  
20 Bridge St  
Sydney NSW 2000

Dear Sir,

We enclose a copy of the following document which is being forwarded to all shareholders of the company:

- Directors Update for the 6 months to 31 December 2004

Yours faithfully,

A handwritten signature in blue ink, appearing to read 'Howard Knapp'.

Howard Knapp  
Company Secretary

**diversified | specialty | retail**

Unit 7, 29 Bridge Road, Stanmore NSW 2048  
Telephone: (02) 8594-9292 Facsimile: (02) 9550-3573

[www.retailcube.com.au](http://www.retailcube.com.au)

ABN 85 108 096 251

# directors UPDATE



## Dear Shareholder

### Results for the six months to December 2004

Recently your company published its results for the six months to December 2004. We have summarised developments in the comments below. The results can be found in detail on our web site.

The six months have been a very busy and challenging period for management. The period was characterised by an unexpected softening of sales in two specialist sectors as the half year progressed. This exposed a number of weaknesses in the operations of the companies and required management to take vigorous counter measures. These measures were additional to the integration and operational plans already being implemented.

In brief, Sales Revenue reached \$32,873,884, Pretax Profits \$1,954,555 and Net Profit \$1,431,542. Earnings per share were 1.70 cents and a maiden fully franked dividend of 1.2 cents per share has been declared.

These results were significantly less than budgeted for. During the half year the unexpected soft retail sales for Amazing Paints and King of Knives combined with pressure on gross margins, the need to progress with new store openings, various upgrading programs and programs that were implemented to combat the poor sales environment, adversely affected results. Directors do expect recovery to set in this half year but it will take time to fully mature. Combined with the current uncertainty in the retail sector as a whole, it is very difficult to forecast future performance with any certainty.

Importantly management has not allowed itself to be distracted from the task of developing the basis for the future growth of the Group. In the six months Retail Cube has:

- opened six new King of Knives/Chef King stores and refurbished four;
- opened five new The Athlete's Foot stores;
- opened one new Amazing Paints store;
- a further ten new store openings are planned to take place before June 2005, these being:
  - six King of Knives stores
  - three The Athlete's Foot stores, and
  - one Amazing Paints store;

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- rolled out a Point of Sales system at the Amazing Paints chain of stores;
- implemented remedial action at Amazing Paints;
- prepared for the introduction of franchising of the King of Knives chain, expected to be implemented in the last quarter of this financial year;
- reviewed a number of acquisition opportunities, at this stage none have satisfied management's investment criteria;
- strengthened general management as follows:
  - from 1 March 2005, Michael Hirschowitz has been promoted to the new position of Head of Franchising and New Business Development for the Group;
  - Suresh Kumar has been promoted to the position of Chief Financial Officer;
  - the functions of Company Secretary and Human Resources Management have been brought in-house; and
  - a new head of The Athlete's Foot's New Zealand's operations has been appointed;
- brought forward the upgrading of the IT capacity at King of Knives including the new Point of Sales system to commence in the current half year.

Despite the difficulties that we have faced in the past half year, the company does face the future with confidence that it can build on the foundations which have been laid.


Finally, your company has strengthened its Board by inviting Mr Michael Hale to join it, an invitation he has accepted.

Michael is a professional investor, and Chairman and a director of various listed and unlisted companies. He was the founder of the Hale Agency, which was one of the most successful medium sized advertising agencies in Australia. He has also filled the positions of Chairman and CEO of Young and Rubicam Australia, a director of Saatchi and Saatchi London, and a director of Foote Cone & Belding UK and Australia. He has extensive marketing and advertising industry experience having been involved with leading international brands through his positions held with some of the world's largest and most successful advertising agencies. He has been involved with the marketing and advertising for paint brands, franchisee concepts and a number of major retailers.

**Yours sincerely**



**Eric J Melman**  
Chairman



**Robert Estcourt**  
Chief Executive Officer