



16 May 2005

Company Announcements Office  
Australian Stock Exchange Limited

By Electronic Lodgment

Dear Sir,

RE: DIRECTORS' UPDATE

We attach a Directors' Update on recent developments and their impact upon the company.

Yours faithfully,

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

Howard Knapp  
Company Secretary

**diversified | specialty | retail**

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## Directors Update

### Update on recent developments

In our October and March newsletters and February announcement of interim results we warned that weak retail sector demand was affecting all our brands and results for the year would fall short of prospectus forecasts.

In the last three months conditions in the retail market have undoubtedly weakened further. The trading results in two of our three operating companies have suffered and we now consider it prudent not to pay a final dividend. The results and immediate prospects of the individual companies are discussed in greater detail below.

**Amazing Paints** The specialist retail paint category is particularly badly affected by the downturn in the market. We believe Amazing Paints are doing better than the market but still sales are below last year's levels. Remedial action taken in recent months has led to an improvement in margins. The company will only breakeven in the six months to June 2005.

**King of Knives** sales have been below last year levels. As King of Knives makes most of its profit in the first half of the financial year this, together with difficult trading conditions in the current period, has made it impossible to make up for the first half profit shortfall previously reported. However good progress has been made in introducing the franchising program. Shareholders will recall that our initial target was to establish franchise stores in the 2006 financial year. We have successfully brought this program forward and are well advanced in finalising agreements with four potential franchisees. We expect three franchisee sales should be complete by the end of the current financial year on 30 June 2005. If this is achieved then the King of Knives and pretax profits for the year will approach \$1.2m.

Despite the extremely tough retail climate **The Athlete's Foot** continues to trade well. It is in line with budget and well ahead of last year. This ensures an excellent result and is despite some sales of stores to franchisees planned for this financial year now likely to occur in the future. We expect pretax profits to approach \$2.4m. This result indicates the strength of the brand and quality of management and staff.

Corporate, compliance, interest and amortization costs are expected to approach \$2.2m. These costs include \$700,000 of amortization of goodwill which will not be required under IFRS Standards in FY 2006, subject to an impairment test.

The expansion and modernisation program continues;

- **King of Knives:**
  - The financial year will end with ten more stores than at the beginning of the year;

- A further five new company owned store openings are planned before Christmas;
  - The first franchises are now being finalised and we expect a further roll out in the 2006 financial year.
  - The management structure has been strengthened;
  - An upgraded Point of Sales system has been successfully tested. Its roll out will commence shortly.
- **The Athlete's Foot:**
    - The financial year will end with eight more stores than at the beginning of the year;
    - A further four franchise stores are expected to be opened by Christmas;
    - New management is in place in New Zealand.
- **Amazing Paints;**
    - One new store has been opened
    - The first phase of the company's major refurbishment program is nearing completion.
    - Shortly we will start on the second phase of the refurbishment program which will include an upgrading of Amazing Paints' service offering.
    - We expect to commence franchising Amazing Paints stores in 2006.
  - Further acquisition opportunities have been evaluated, but none have met the Boards investment criteria. The company continues to look for acquisitions that will leverage the company's strengths and add value to shareholders.

Directors are confident that the benefits from the program of modernisation, expansion and franchising will increasingly bear fruit over the next 24 months.