RCG Corporation Ltd

CHAIRMAN'S ADDRESS TO SHAREHOLDERS
ANNUAL GENERAL MEETING - 27 NOVEMBER 2008

Fellow shareholders, ladies and gentlemen,

As 2008 was my first full financial year as Chairman, I am delighted to be able to report that it was a record year for the business and one in which The Athlete's Foot delivered an outstanding result despite deteriorating market conditions.

The tough decisions taken by your board during the 2007 financial year and the focussed dedication of both management and staff through the 2008 financial year have paid off handsomely. RCG has delivered a full year after tax profit of $4.98m, up from $1.94m profit from continuing operations in the prior year. This is an increase of 152% on the prior year and is by far the most profitable year in the company's brief history.

The Athlete's Foot

This result is attributable in the main to the exceptional performance of The Athlete's Foot, which delivered a pre-tax profit of $6.96m, an increase of 69% over the previous year. This increase in profit has been driven primarily by significant increases in sustainable revenues. Group turnover for the year (including franchise store sales) was $145.6m, an increase of 13.9% on the previous year, which is in line with the average annual growth rate over the last 7 years. Like-for-like sales were up 8.4% on the previous year. The Athlete's Foot opened 12 new stores during the year, taking the total number of stores at year end to 132.

The resilience and strength of The Athlete's Foot brand in the extremely volatile market that we have seen over the past six months has been remarkable. Despite this, no retail business is immune from the effects of the global financial crisis and the uncertainty it brings to Australian consumers.

Nonetheless, we believe that The Athlete's Foot has a unique and defendable market position based on selling fit and function, rather than price and fashion. Furthermore, the business is not unduly dependant on any single month for its sales or profitability and is not dependent on Christmas trade to the same extent as other retailers are. December is an average turnover month for the business because it has more a "self-purchase" focus than a "gift-purchase" offering. This dramatically increases the predictability of the business, both operationally and financially.

Moreover, the vast majority of The Athlete's Foot stores are franchised. The Athlete's Foot's franchise network is made up of highly skilled, successful and motivated business owners who operate as a cohesive force to promote and strengthen the brand. Franchisees spend a substantial proportion of their time driving their businesses from “beyond the lease-line”, that is building long term relationships with medical practitioners, schools, athletics clubs and other groups of potential customers.

These factors, together with The Athlete's Foot’s older, more affluent target customer and its “needs” as opposed to “wants” solution-based selling process stand the business in good stead to withstand better than most the challenging economic climate that is likely to confront us all for the remainder of the 2009 financial year.

Despite the challenging economic environment, The Athlete's Foot has had a good start to the financial year, with like-for-like sales for the four months to the end of October up 5.4%. The first three weeks of November have continued to show positive like-for-like growth.

On the business development front, I am delighted to announce the launch of The Athlete's Foot’s new larger format store concept with the opening of the first such store at the Macquarie Centre in Sydney in late October. This new format is the result of an exhaustive investigation by management into the best ways to leverage off the strength and success of The Athlete's Foot brand without diluting or risking the brand identity in any way.

The result of many months of intensive research and development, the concept combines a new contemporary new store design with a substantially extended product range in a much larger store environment, but still retains The Athlete's Foot branding and identity throughout. We are extremely pleased with the initial results of the store, which have significantly exceeded our expectations across all benchmark indicators. The concept has been universally applauded by customers, suppliers, the landlord and the franchisee.

The performance of the store in the short time that it has been open strongly supports our market research on the expanded range in a larger format store. Based on this, it is our intention to rollout these new format stores in a measured but concerted way over the coming months and years. It is our expectation that many existing franchisees will want to switch to the new format and we will be working closely with landlords and franchisees to identify and secure appropriate sites.

Corporate

On the corporate side of the RCG business, we are in an enviable position. After having conducted a capital raising and disposed of the loss making King of Knives business during the first half of the 2008 financial year, we have an exceptionally strong balance sheet. As at the end of October we have $26.2m in cash on hand, which represents 13.3c per share, and no interest bearing debt at all.

As we have previously stated, we have been focussed on the task of identifying and examining potential acquisitions on a full-time basis for a number of months. Our strategic objective is to acquire substantial businesses that are synergistic with our existing business where our skills and resources can be leveraged to maximum effect. Since October 2007, we have reviewed more than 40 potential acquisition or investment opportunities. However, whilst we are actively pursuing opportunities, we will continue to be patient, diligent and thorough in our approach in order to ensure that we not only make an appropriate acquisition, we also protect our existing business from any increase in risk.

You will also no doubt be aware that on 14th November we announced a general share buy-back of up to 10% of our issued shares over the next 12 months. If implemented the proposed share buy-back should deliver long term value to our shareholders.

Conclusion

In conclusion, I reiterate that the 2008 financial year was an exceptional one for your company in every respect. The business is in an exceptionally strong financial position with our substantial and liquid balance sheet and our ongoing positive cashflows.

There is however no doubt that the 2009 financial year will be conducted in a much more challenging economic and trading environment than 2008. Despite this, we are confident of meeting our earlier guidance of consolidated profit before tax in the range of $7.4m - $7.75m, with a bias toward the lower end of that range. A consolidated pre-tax profit of $7.4m would represent a 24% increase on FY08, an excellent result in any circumstances, but an exceptional one in the current economic environment.

In closing, I would like to commend the management, staff and franchisees for the results they have achieved and for their focus and determination to improve on them.

And finally I would also like to thank our shareholders for their support and encouragement over the last 12 months.