

# COUNTRY ROAD

20 OCTOBER 2010

## ANNOUNCEMENT TO THE AUSTRALIAN SECURITIES EXCHANGE

### CHAIRMAN'S ADDRESS TO SHAREHOLDERS

#### Year in Review

It was a challenging year in the Australian retail environment. As we passed the anniversary of the 2008/09 government stimulus packages and faced six interest rate increases, discretionary consumer spending declined. This created a highly competitive retail market, largely driven by aggressive discounting across the sector. Despite the tough trading environment, Country Road continued to expand delivering a solid year of sales growth.

Total sales for the year increased 8.5% to \$372.1 million on the prior year. Total revenue for the year was up 9.7% to \$381 million. This result was driven by sales growth in our retail stores of 8.7%. On a like-for-like store basis, we achieved 1.5% growth in sales.

Importantly this year saw the successful launch of our Trenergy brand, in South Africa on August 19 and in Australia on September 3. At the end of the financial year Trenergy was trading in six stores in Australia and a further 18 stores in South Africa. This new brand has expanded the Country Road brand values and proposition to a new customer base and initial sales results have been encouraging.

Over the past year, we have also continued to grow our Country Road brand in South Africa with the launch of a further two concession stores, together with two new combined Country Road and Trenergy stand alone stores. At present we operate in 20 stores across South Africa.

Closer to home, we opened five new Country Road stores across Australia and New Zealand and invested in the refurbishment and expansion of a further five key stores. These projects combined with the opening of Trenergy stores saw us spend in excess of \$20 million on capital investments in the year and has positioned the retail store network well for future growth.

The initial set up costs of our Trenergy brand, combined with the challenging discount led market conditions of the retail sector have significantly impacted our margins and, as such, our profit before tax was down on the prior year by 20.2% to \$17.5 million.

#### For further information, please contact:

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## **Year Ahead**

We remain committed to increasing our customer base in both brands. We will continue to focus on opportunities for the rollout of Trenergy and the ongoing expansion of Country Road. Whilst we are excited about these expansion plans for both brands, we are mindful of the persisting difficult conditions in the retail sector in Australia and will be prudent in our working capital management.

Since the end of the financial year we have opened three new Trenergy stores and one further Country Road store. We plan to open a further four Country Road and three Trenergy stores within the coming year. Our online store, [www.countryroad.com.au](http://www.countryroad.com.au) launched at the end of August 2010 and initial results are encouraging. We are excited to embark on this e-commerce journey and are pleased to provide our customers with the opportunity to purchase Country Road and Trenergy merchandise from anywhere in Australia and New Zealand.

Due to South African regulatory requirements, Country Road has this year restructured its commercial arrangements with Woolworths in relation to the Country Road and Trenergy brands in South Africa. Country Road has been acutely aware that this has needed to be an arms length arrangement. We have taken all necessary steps to ensure that the arrangement has been set up to be commercially appropriate and that the interests of all shareholders have been protected.

In Australia initiatives implemented over the last year for controlling costs and effectively managing inventories will continue to be a key business focus. Management has implemented fresh cost saving strategies to maximise returns to our shareholders.

### **Trading update for the quarter ending 25 September 2010**

Trading conditions have been challenging through the first quarter and we expect these difficult trading conditions to carry on through Christmas. We hope for some improvement in retail trade from early 2011.

In Australia retail sales were down 4.7% and concession sales down 7.6%. This was however offset by the inclusion of the strong performance of the South African business where we have continued with the expansion of the Country Road and Trenergy brands.

Total Country Road sales for the quarter were up 5.1% on the corresponding period last year.

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