Chairman's Review (on behalf of all directors) – Annual Meeting 2016

Firstly thank you for joining us today at, what is now, our 15th Annual Meeting.

Today is our opportunity to present to you, our shareholders, the Directors' Reports on the financial and operational performance of Briscoe Group Limited for the 53 week period ended 31 January 2016. In addition however we want to take this opportunity to provide you with an overview of the Company's operations and the Board's views as to our future given the anticipated trading environment.

The 2015/16 financial year result posted for the year ended 31 January 2016 represented another record profit produced by the Group, in fact, our fifth consecutive year of producing a record bottom line profit and one which represents a compound growth in net profit after tax generated over the last five years of 16.9%; a performance we are very proud of given the challenging competitive environments faced by New Zealand retailers.

The year produced a number of highlights to bring to your attention, but of particular note from the Board's perspective, is the continual drive by Rod and his executive team to improve all aspects of the business and their realisation that excellence in retail is an ever-moving target.

From the on-going refinement of product ranges, to subtle promotional changes made to surprise and delight customers, to store development programs to grow store numbers and rejuvenate existing ones, to those 'behind the scenes' projects which streamline process and systems - there is a relentless drive to keep improving this business.

The continued strength of Rebel Sport is certainly a highlight, delivering a 36% increase in earnings before interest and tax over the previous year. This outstanding performance built further on the 45% and 22% increases already produced for the previous two years.

Briscoes Homeware also produced impressive EBIT growth in excess of 20% for the 2015/16 year, and continues to provide an extensive range of quality brands as well as attracting other brand owners who have recognised the unique opportunity that Briscoes Homeware presents for their brands in the New Zealand market.

Another highlight of the year was the continued strong performance of the Group's online business. With sales growth above 40% on the previous year, and online transactions representing 4.5% of the Group's sales for the January 2016 year, we anticipate continued strong growth and recognise how important it is for us to offer relevant channels by which shoppers can transact with us.

Also during last year we invested $68.68 million to purchase a 19.9% shareholding in Kathmandu Holdings Limited. The Group's takeover offer for the remaining shares in Kathmandu closed during September with insufficient acceptances to satisfy the minimum acceptance condition and thus lapsed in accordance with its terms. We were disappointed that our offer was unsuccessful as we believe there would be significant benefits for the shareholders of both companies from merging the two businesses. As Kathmandu's largest single shareholder, we continue to watch its performance very closely.

Briscoe Group's first quarter results for the current year 2016/17, released earlier this month, were very pleasing. Growth across all key performance indicators is a strong start to the new financial year and while we are proud of what has been achieved to date, we are under no illusions as to the challenges still to be faced this year in a climate of a weaker NZD in relation to the USD, and intense competition across all retail sectors but in particular within the homeware sector.

The Group remains in a strong financial position with a $17.6 million cash balance reported at year-end and no interest-bearing liabilities. This compares to $89.7 million for the previous year; the reduction being primarily a result of the acquisition of shares in Kathmandu.

The Board is keen to pursue further retail growth opportunities and to extend the Group's reach both organically or inorganically through acquisition. We have a track record of continually pushing for organic growth whether from establishing new stores in new areas, store refurbishments or online enhancements to mention just a few initiatives. We have proven how successful we can be in organic growth in both our Homewares and Sporting Goods categories over many years and believe there is still scope for more. We also see significant growth opportunities from improving the in-store experience and Rod will expand on this in his presentation.

Opportunities for inorganic growth through potential acquisitions, (the Kathmandu initiative for example) or a new start-up in another retail segment or international expansion, will continue to be evaluated on the basis of their potential to add value to Briscoe Group and its shareholders. We continue to be of the view that single stream retail such as we have focussed on with homeware and sporting goods is a more attractive investment that the department store model. This approach, supported by strong omni-channel options for our customers does, we believe, afford the best investment returns.

Financial performance for the 2015-16 Year:

Sales revenue was $552.89 million, compared with $507.06 million previously. On a same-store basis, sales increased for the year by 5.4 % over 2014-15.

Gross profit increased from $197.25 million to $223.87 million, equating to a gross profit margin of 40.5 % compared with 38.9 % for the previous year. The increase in margin reflecting the continued focus the Group has on inventory and promotion management, the impact of the new stock receipting technology introduced to all stores during the previous year, continued refinement of local and international product ranges, and prudent foreign exchange cover put in place prior to the commencement of the financial year. Rod will expand further on some of the inventory control initiatives which have been so important in protecting the gross profit margin.

Net profit after tax was $47.14 million, compared to the $39.30 million for last year, an improvement of 19.9 %.

These results were for the 53 week period from 26 January 2015 to 31 January 2016 compared to the 52 week period last year from 27 January 2014 to 25 January 2015.

Inventories totalled $80.20 million at year end, being $6.70 million higher than the $73.51 million reported for last year, reflecting the three additional stores opened by the Group during the year, increased stockholdings to satisfy the significant increases experienced in online sales and increased levels of product imported directly by the Group.

In addition to the purchase of shares in Kathmandu, other capital expenditure of $13.18 million was made during the year including for property transactions, store fit-outs and refurbishments and enhancements to systems software, including the online web platform.

Dividend:

The directors as you are aware resolved to pay a final dividend of 9.50 cents per share, fully imputed. When added to the interim dividend of 6.00 cents per share, that brought the total dividend for the year to 15.50 cents per share, representing 72% of the Group’s tax paid earnings. During the last four years the Group has paid out 76% of tax paid earnings in normal dividends and 90% when the special dividend paid in June 2012 is included.

We are always testing our strategies and decisions in terms of “what is best for the company and our shareholders”. As well as for operational matters, this process and discipline is central to the assessments we make from time to time about distributions to shareholders by way of regular dividends or special capital distributions, both of which can also be affected by the pursuit of growth opportunities for the Company. We expect to continue with these criteria and balances in the formulation of our strategies and in our decision making.

Executive Share Option Plan:

The Board continues to be of the view that all shareholders benefit from the issue to key senior executives of long-term, appropriately-priced share options that crystallise only on delivery of increased shareholder value. In 2003 the Group established an Executive Share Option Plan. The Board intends to issue up to a further 1,700,000 options in the current 2016-17 financial year. This will result in the total number of share options issued under the scheme since its inception and still exercisable being equivalent to 3.2 % of the current issued share capital.

The first eight tranches of options, issued between 2003 and 2010 have expired with 4,017,500 options being exercised from a total of 9,244,000 options issued.

The ninth tranche expired on the 21 October 2015 with 1,250,000 options being exercised from the original 1,437,000 options issued. The tenth tranche became exercisable at a price of $1.55 each from 31 October 2015. Of the 1,437,000 options issued in that tranche, 570,000 are still exercisable. The holders have until 31 October 2016 to exercise their remaining options.

Disclosures will continue to be made in relation to the share options issued by the Group as and when options are exercised or lapse.

Community Sponsorship:

You are well aware of our continued commitment as a key partner of *Cure Kids* and believe it’s important to put our support and resources behind a cause that fits our values. To date we have raised in excess of $4.9 million to help them fund leading-edge research to enhance the quality of life for thousands of Kiwi children and their families. This is a wonderful achievement for any company and we are very proud of our efforts to date.

Alaister Wall continues as a director of Cure Kids, with support for the charity also coming from throughout the Group and from Group suppliers and other parties we work with.

In addition to our alignment with Cure Kids we support a wide variety of local community based charities, sports clubs and other initiatives by donating product to support fundraising efforts.

As a company we are astutely aware of the responsibilities of corporate citizenship and recognise the appropriateness of an organisation such as ours giving back to the community of New Zealand on whom we are so reliant.

Education is an important issue in the New Zealand service industry and arguably retail hasn't had the focus or credit it deserves in tertiary education to recognise its role as a viable and rewarding career for New Zealanders. In this regard, the Briscoe Group Scholarship enters its fourth year of operation this year. Formed in conjunction with the RA Duke Trust this scholarship fund was established to encourage tertiary level study for eligible staff and their children.

Eight scholarships have been awarded to date. In addition to these scholarships we have also assisted a number of our support team to complete their Graduate Certificate in Retail through the Auckland University of Technology.

It is our intention to continue to support our staff who are committed to enhancing their business skills. We have established relationships with Massey University and the Auckland University of Technology to provide a pathway for staff to study for a Bachelor of Retail and Business Management. We recognise the benefits derived from encouraging team members from all parts of the organisation to participate in these programmes and in conjunction with the RA Duke Trust we are looking to extend support to selected employees to develop or extend their tertiary education.

Directors, Management and Staff:

In addition to participating in formal monthly Board meetings throughout the year, the directors attended other meetings of directors and regular meetings of the Board's Audit and Human Resources Committees.

Before finishing I would like to spend a few moments talking in relation to Board composition.

We are a relatively small Board of Directors but we have, we believe, been successful in contributing to enhanced company and shareholder value while always ensuring the Company is managed in accordance with best practice. The consistency and composition of the current Board has certainly proved to be highly effective and efficient in developing a culture of respect and acknowledgement both amongst directors and most critically between the Directors and the management team.

With the recent announcement of Stuart's intention to retire as a director, we as a Board, have certainly considered these issues carefully. Stu has been a most valuable Board member since being appointed in 2001. His contribution to the Company's growth and development, including his role as Chairman of the Audit

Committee, has been very significant. His investment banking experience has brought an important skillset which has been beneficial to directors, management and shareholders. On behalf of all of those groups, Stuart, I would like to thank you immensely for your outstanding contribution to Briscoe Group over the past 15 years.

I'd like now to invite Stu to say a few words to the meeting….Stu

Thanks Stu, and again, thank you.

A key feature of good governance is for Boards to consistently challenge themselves and review their relevant skillsets and composition to ensure the highest level of service to the companies they serve.

In relation to filling the vacancy as a result of Stuart's retirement I would draw your attention to our announcement to the NZX earlier this week announcing our intention to appoint Tony Batterton as an Independent Non-Executive Director to the Board, effective from 1 June 2016. Tony, as Stu's successor has big shoes to fill, but we are confident and excited about his appointment.

Tony has a wealth of private equity and investment banking experience and is currently a Partner and Director with Direct Capital and is a non-executive director of PF Olsen. He has also been a Director of Transaction Services, NZ Pharmaceuticals, Scales Corporation, Go-Bus, Triton Hearing Clinics, Rodd & Gunn and Max Fashions.

We are thrilled Tony will be joining the Board and believe his experience and skills will not only enhance the dynamics of the Board but will also be very beneficial for the Group as a whole.

You will be aware from your Notice of Meeting that the resolutions include a request to increase directors' remuneration by $100,000 from $280,000 to $380,000. The proposed increase in the available pool of funds would provide the Company with the ability to attract and retain quality individuals with skills and experience that are appropriate for the future needs of the Company, and provide the Board with the flexibility to appoint an additional Non-Executive Independent Director (in addition to the replacement for Stuart Johnstone) and transition the composition of the Board in an orderly way.

The Board has determined this increase to be appropriate having regard to a number of matters including skills and expertise required of directors, the level of fees paid to directors of New Zealand based organisations of a similar scope and size to the Company and the potential for a change to the composition of the Board, including as I alluded to earlier, another Non-Executive Director.

It is in reference to this matter that I would like to invite our longstanding director and executive, Alaister Wall to say a few words to the meeting. As you know, Alaister is standing for re-election and so you'll hear from him as part of the formal process of re-electing directors but he has asked for this opportunity to talk to shareholders about his future plans.

Thank-you Al.
Al's words speak for themselves and his contribution to the Company. His modesty about his achievements and his strong personal commitment to his colleagues at all levels of the Company over so many years cannot be replicated.

Of course, the Board will keep you up to date as we progress with the appointment of a new Director. But it is appropriate to advise you now that the Board has made a decision that Alaister's replacement will be a non-executive director. We also note that if an appointment is to be made before Alaister's retirement as a director, then a special shareholders meeting will be required to increase the maximum number of directors allowed under the company's constitution which currently stands at 5.

On behalf of my fellow directors, I also wish to acknowledge the enormous contributions of ***all*** employees to the Group's performance during the year. Their contributions are sincerely appreciated.

Thank-you