

Noni·B

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Noni B Limited 2008 Annual General Meeting Address by the Chairman, Robert K. Critchley

Welcome to Noni B Limited's annual general meeting for the year to 29 June 2008.

The economic environment and our market have changed so much since then that last year's performance and decisions may seem to have little relevance to Noni B's current position and outlook. But this is not so, as decisions during the 2008 financial year have placed Noni B in a stronger position than otherwise would have been the case.

At last year's annual general meeting, I reported that first quarter sales had been flat and we were cautious about prospects for the first half of the financial year. In the event, first half after-tax profit fell by 7.2 cent.

During the second half, it became increasingly clear that consumer spending on women's fashion was continuing to slow. Sales of our winter ranges were disappointing, although customer feedback on product design and quality was positive, and Mother's Day did not provide the increased demand we normally see.

In response to these warning signs, the management team increased its marketing efforts to maintain the loyalty of existing Noni B customers and broaden the customer base. Further steps were taken to reduce costs, although the company has always been careful with money and potential savings were limited.

In May, we announced to the market that, in spite of these initiatives, after-tax profit for the year would be lower than 2007.

Regrettably, consumer demand continued to weaken and it became clear that further action was required. In mid-June, the board took the difficult decision to exit our La Voca store concept and announced a further reduction in earnings guidance.

The closure of La Voca resulted in a one-off restructuring charge of \$2.5 million after tax in the 2008 accounts. After this and La Voca's trading loss of \$2.0 million after tax, we reported an after-tax profit of \$2.5 million for the year, compared with \$8.3 million in 2007.

This was a great disappointment for all of us, but the further decline in consumer spending since June confirms that our decision to close La Voca was correct. We have managed to sell most La Voca stock and exit all lease commitments well within the \$2.5 million restructuring charge, and a significant part of this charge is expected to be written back in 2009. I suspect that, had we not acted when we did, we would have had far greater difficulty in extricating the company from its store leases.

The 2008 after-tax profit from the continuing Noni B business was \$7.0 million compared with \$8.6 million in 2007 and – following the closure of La Voca – this of course is the important figure.

Significantly, Noni B store sales increased by 3.2 per cent to \$123 million, and the reduction in profit resulted mainly from margin pressure.

Ordinary dividends for the year totalled 20 cents per share fully franked, up one cent on 2007. This brought dividends received by shareholders since the company's \$1.00 initial public offering in 2000 to \$1.29 per share fully franked.

Capitalising on Noni B's strong cash flow, a share buy-back of up to 10 per cent of the company's issued capital was initiated in July 2008. To date, 448,000 shares have been acquired and cancelled at an average price of \$1.71; but, in view of the uncertainty in credit markets, no shares have been bought since 12 September.

When we announced the restructuring in June, we expected 2009 after-tax profit to be between \$6.5 million and \$7.5 million, assuming no further significant reduction in consumer spending on women's fashion. Unfortunately, this has not been the case. As you may have anticipated, the company's sales and earnings have suffered from the further deterioration in consumer confidence, and last week we announced that we no longer expect the 2009 profit to be in this range. In view of the current economic uncertainty, the board has decided not to issue revised earnings guidance.

This may sound disheartening, but, with so much uncertainty, I believe it would be irresponsible to provide a forecast. At no time since the company's ASX listing eight years ago have we been so unsure of the outlook.

What I am certain about is that, as a result of exiting La Voca and the company's prudent financial management over many years, Noni B is in a far stronger position than it might be.

First, the company has strong cash flow and negligible debt.

Second, the Noni B brand is well recognised and respected in our target market. As evidence of this, our loyalty program has 850,000 members – a significant achievement.

Third, we have a national network of over 200 stores, with a team of more than 1,100 remarkable, committed people.

Fourth, we are now able to focus all our resources and energy on the company's core Noni B business, which has had a successful growth record over more than 30 years and has demonstrated considerable resilience across economic cycles.

At the end of March, Noni B's evolution reached another milestone following Alan Kindl's decision to retire as managing director and the appointment of James and David Kindl as joint managing directors.

Alan created the business we have today from two stores in Newcastle. His achievements have been remarkable, and I thank him for his unique leadership and for building the family culture which is one of Noni B's competitive strengths.

The appointments of James and David are the result of a succession strategy on which the board had been working for several years and which included significant external coaching. Both have degrees in economics and have been executive directors of the company since 1998. They are well qualified to continue the growth which Alan initiated and are demonstrating much enthusiasm for the task ahead.

James is responsible for the Noni B business operations, while David is responsible for growth strategy, group branding and property activities, and investor relations. They are ably supported by two general managers, Rhonda Kilpatrick responsible for Noni B and Liz Jordan buying and marketing, and Phil Fickers responsible for human resources and skills development. James and David will report shortly on the company's operations and on steps that are being taken to improve performance.

Simon Der Stepanian, director of finance and administration and company secretary, has decided to retire as a full-time employee from tomorrow and will become a consultant to the company. His management responsibilities have been assumed by David Kindl, who has also become company secretary. David, who is a member of CPA Australia, will be supported by a new financial controller who will join the company shortly.

I would like to thank Simon for his outstanding contribution to Noni B over some 15 years – not only on financial matters, but in a wide range of strategic, leadership and operational areas. He has been an extremely valuable and loyal cog in the wheel at Noni B and has been a huge support to me in enabling me to fulfill my role. We are delighted he will continue to assist the company in a consulting role going forward.

After nearly ten years as chairman, I have decided to step down following today's meeting and the board has chosen Lynn Wood to succeed me. Lynn has been an independent director of Noni B since January 2007 and has already made a valuable contribution to the board. She will talk briefly, later in the meeting, about her relevant experience which will help her to provide effective leadership during the next stage of the company's development.

I have agreed to stand for re-election today and to remain a non-executive director for a short period until one or more additional independent directors are appointed. It is particularly important for Noni B, with the Kindl family playing a key role in management and owning a controlling shareholding, that the board continues to act independently and conscientiously looks after the interests of minority shareholders. Lynn and I, therefore, have facilitated a review by a specialist corporate governance consultancy to ensure the company observes the highest corporate governance standards going forward and has appropriate boardroom skills and procedures. The board will review this report during the coming weeks, decide on action to be taken and implement it promptly.

Before stepping down as chairman, I would like to emphasise that, while Noni B is likely to face major challenges during the coming months, the company is sound – in terms of both its balance sheet and its market position. Today's business environment is changing fast, and to remain successful a business needs to review its strategy and operations constantly. It must also be prepared to re-invent itself so it remains competitive and relevant to its customers. I have already referred to Alan's substantial achievement in building a great business. James, David and their management team now have the opportunity to ensure Noni B remains a great company, building on the success of the past 31 years.

I will now ask James and then David to give more detailed reports on the company's operations.