

Nick Scali Limited  
ABN 82 000 403 896  
Head Office  
3-29 Birnie Avenue  
Lidcombe NSW 2141  
Australia



Phone: +61 2 9748 4000  
Facsimile: +61 2 9748 4022

---

NICK SCALI LIMITED – ANNUAL GENERAL MEETING  
27th OCTOBER 2010

CHAIRMAN AND MANAGING DIRECTOR'S ADDRESSES

Chairman's Address

*The following is a transcript of the address to shareholders by the Chairman of Nick Scali Limited, Mr John Ingram*

I am pleased to report that that the year ended 30 June 2010 was a record for Nick Scali in a year of general economic uncertainty. We increased revenue 24% to \$96.4m; profit 134% to \$11.3m; and grew like-for-like store sales by 18%.

This achievement was driven by strong top line sales growth, improved margins, continued focus on costs, and the contribution of new stores. We successfully navigated the fickle trading conditions and pricing pressures and achieved growth against the prevailing market trend.

The trading environment throughout the year was volatile and thus unpredictable. Despite a strong start, talk of interest rate rises and the fear of a further financial crisis dampened consumer enthusiasm for retail spending as the year progressed. Frequent and substantial product discounting became common place in the industry as increasingly price conscious consumers looked for a "deal". Consumers however did not diminish their expectation for high quality products, discerning style and reliable and responsive service.

Our business model has been particularly suited to these trading conditions. Our focus on quality and value, our economies of scale in buying, the internal capacity to accommodate increasing volumes, and our flexibility on pricing and product selection have allowed us to offer high quality products at very attractive price points without degrading our brand or margin, and to distribute them without significant increases in our cost base.

During the year the Company continued its strong focus on cost control and was able to successfully drive sales by directing it's spend towards advertising and promotion, as well as a sound incentive structure for our sales personnel.

The Company continues to invest in the future growth of the business through the careful expansion of the store network and this will again characterise the 2011 year. One of the challenges in expanding the store network is often the lack of suitable sites in the strategically important locations. As one response to this the Company is prepared to acquire sites where appropriate. Our first real-estate acquisition was completed in July 2010 for a well-located site at Alexandria, NSW. This showroom is expected to open during December 2010.

In conclusion, despite the challenging retail environment we believe that the Company is well positioned, has the flexibility to make the most of current market conditions and has sound strategies to accelerate growth through 2011/12 and beyond. The Company is fortunate to have management and employees who are talented and dedicated to the business. I wish to acknowledge their contribution and thank them for their efforts throughout the year.

I will now invite the Managing Director Mr Anthony Scali to address the meeting to give us an overview of the operations of the Company and the outlook for the current year.

## Managing Director's Address

*The following is a transcript of the address to shareholders by the Managing Director of Nick Scali Limited, Mr Anthony Scali*

Thank you, John and good morning Ladies and Gentlemen.

The FY10 result is one we are very proud of. This was driven not simply by market conditions but through the hard work and dedication of our teams and the execution of internal initiatives aimed at driving sales growth whilst at the same time maintaining margin integrity.

An 18% growth in like-for-like store sales for the year ended 30 June 2010 reflects the added investment in, and our evolving approach to, marketing, promotion and product selection. Including new and maturing stores, overall sales growth was 24% compared with the previous year. The Victorian stores of Richmond and Frankston and the South Australian store at Gepps Cross completed their first full year of trading during FY10, and we opened a new store at the South Wharf DFO in Victoria at the end of the first half of the year.

Our margin improved over last year through a combination of targeted pricing, buying economies of scale, and a positive currency position in respect to the US dollar. The previous financial year saw a rapid fall in the value of the Australian dollar against the US dollar and this had a significant and unfavourable impact on last year's margin.

In an environment where consumers expect discounts and specials, the Company recognised the need to allow the sales team flexibility to sell products without compromising margins. To facilitate this, we introduced enhanced systems at the start of the year to provide greater control over purchasing, pricing, incentive programmes and in-store discounting and these contributed materially in supporting the year's result.

Capital expenditure during FY10 was \$1.2m, the same level as the prior year. In addition to the spend on new store fitout, we also commenced a programme of store refurbishments, refreshing older stores and undertaking energy efficiency refits of others with the modification of air-conditioning plant and the replacement of lighting systems.

The Company generated positive operating cash flows in FY10 of \$15.5m and finished the year with no debt, solid cash reserves, and a very healthy balance sheet. As a result we are well positioned to fund future growth.

This financial year Nick Scali will open three new stores, the first which opened in July in Jindalee, Queensland. In December we will open our new showroom in Alexandria, and we will open a third store in the Wollongong region in June.

Whilst we strongly believe the Nick Scali brand has great potential for further growth we feel the time is right to introduce another furniture brand into the market. This brand will be positioned in a segment different from but complementary to the Nick Scali brand, and will help accelerate and underpin the future growth of the Company as a whole. The brand is currently in development and more specific detail will be made available at the appropriate time.

The introduction of this brand later this financial year is exciting for us. With the new brand we will remain focused on furniture, staying true to our expertise, knowledge and reputation in furniture product, quality control, and service. The brand will utilise the current back office and distribution infrastructure, thus leveraging existing capacity and capabilities within the organisation and providing further economies of scale to support the buying of products, marketing and services across both brands.

Trading in the first quarter of FY11 has been challenging given both the strong comparable period against which we are cycling and the current retail environment. We feel consumer spending on furniture remains susceptible to increases in interest rates and the level of housing sales. There is an expectation that interest rates will rise in the near future which in turn will dampen consumer sentiment.

For the quarter ending 30 September 2010, sales orders were in line with the previous corresponding period although sale revenue, measured as deliveries to customers, was up around 15% as a result of orders from the previous year being cleared. In this period of market uncertainty the September quarter's order intake at the same level as the previous corresponding period is probably more indicative of the full year sales revenue at this stage.

Based on this environment we maintain our previous guidance that future sales and profit growth in the 2011 financial year will largely be dependent upon the successful execution of the store roll-out programme and the utilisation of capacity available within the existing distribution infrastructure.

As I conclude I would like to take the opportunity on behalf of the senior management of the Company to thank our employees for their hard work and dedication. I would also like to thank my fellow Directors for their support and guidance throughout the year. I look forward to an exciting period ahead with the introduction of the new brand and the ongoing expansion of Nick Scali Furniture for the future benefit of our shareholders and employees.