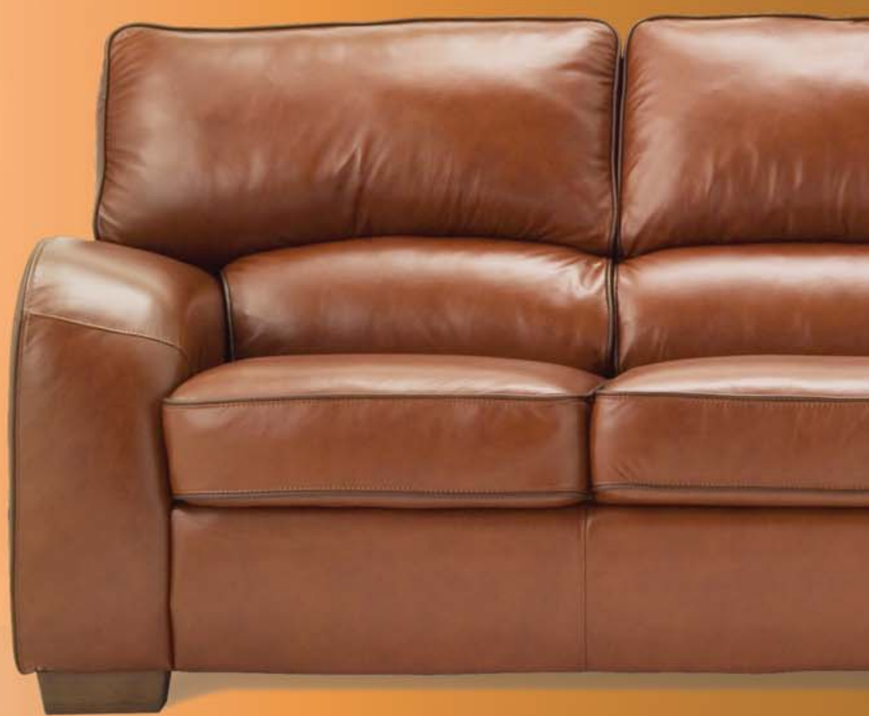
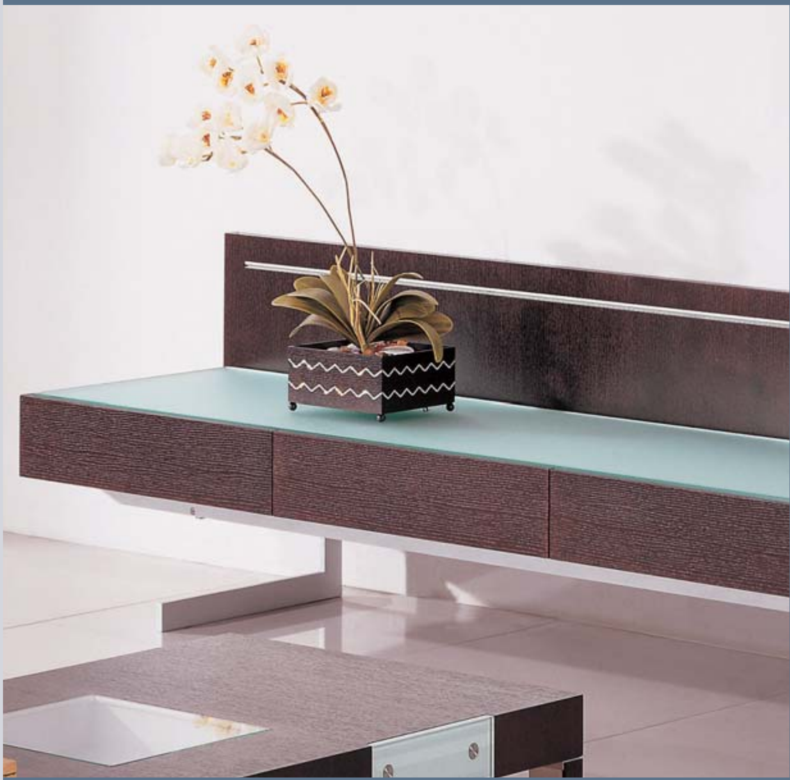
nickscali LIMITED

# Annual Report 2007





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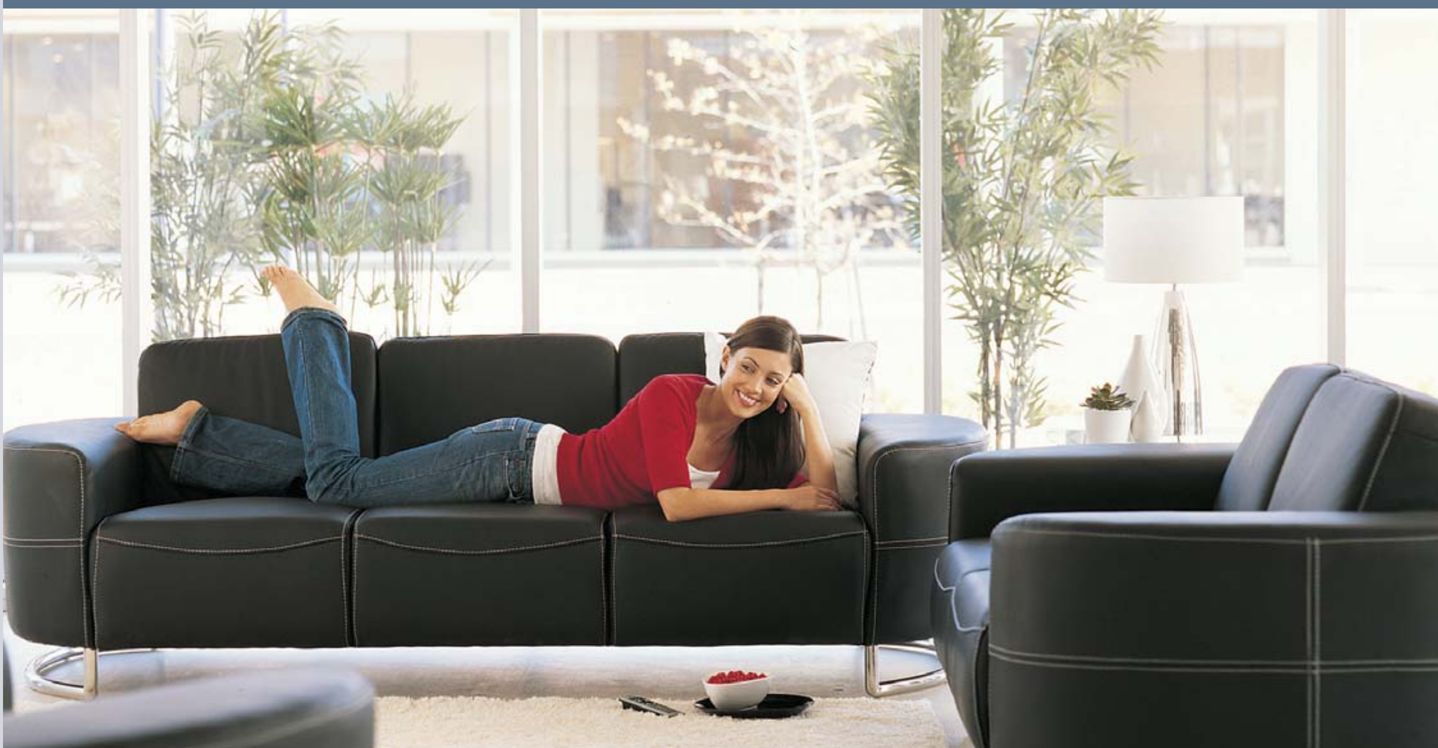

# Chairman & Managing Director's Review

Dear Shareholder

For the year ended 30 June 2007 Nick Scali Limited achieved Net Profit after Tax of $8.7million which was 6.9% above the previous year. This result was generated from total Sales Revenue of $77.2 million which itself was a pleasing 19.6% higher than the 2006 fiscal year.

The growth in Sales Revenue was primarily due to the full year impact of new stores opened in the second half of the previous financial year and those opened in the 2007 year. Market conditions in the Company's traditionally strong Sydney Metropolitan area continued to be particularly tough with a decline in same-store sales. This was more than offset by growth in the New South Wales Regional market and the impact of the new stores nationally. The patchiness of market conditions was evident throughout the year with double digit same-store-sales growth in Queensland and a small decline in South Australia in addition to the New South Wales' variability. In an overall national sense, same-store-sales were flat compared with the previous year.

The result for the 2007 fiscal year highlights the importance to the Company of the controlled roll-out of new stores into new geographic markets, given the variability that has occurred in the market in the various sectors over the last two years. Your Director's believe that this year's result clearly underlines the long term value to shareholders in Nick Scali's growth strategy.

Total Earnings before Interest and Tax were $12.0 million, a 7.7% increase over the previous year. A major factor in this increase was the impact of recently opened stores but the full benefits of the enlarged network will only be felt when new stores complete their initial growth phase and are in place for more than twelve months. It was pleasing however to see Earnings before Interest and Tax in the second half was up 32% on the corresponding period last year.

Store network expansion during the 2007 fiscal year included the opening of a new store in Nunawading, Melbourne in October 2006 and at Essendon, Melbourne in December 2006. In Sydney, a store was established at a new Homemaker Centre at Belrose in October 2006 to service the Upper North Shore and Northern Beaches markets. All these new stores are performing in line with initial expectations and are considered important components of the Company's new national network. Nick Scali now has three stores and a new distribution centre in Victoria. Further network expansion in that state will be necessary to achieve desired economies of scale.

A small profit contribution was achieved from the new Victorian business, which only commenced operations in the second half of the year. The stores are now profitable and a favourable full year impact is expected in the 2008 fiscal year. It is expected that a further two new Victorian stores will be opened in 2008 with planning already commenced.

Plans are also being developed for entry into the Perth market. A number of sites are currently under evaluation and the establishment of stores in Perth is likely to commence during the 2008 year. The on-going strong economic growth in the Western Australian market makes network growth into Perth an attractive opportunity that should be pursued. The company will also continue to look for network expansion opportunities in existing markets, particularly in Queensland.

**Financial**

The Directors have declared a fully franked final dividend of 4.5 cents per share, which results in total dividend for the year of 9.0 cents per share, fully franked, a 20% increase over the 7.5 cents paid last year. This represents a, payout ratio of 84% and reflects the Company's view that, where possible, franking credits should be passed on to shareholders. Basic and diluted earnings per share were 10.7 cents, an increase of 7% on the previous year.

Operating cashflow continues to be strong, with cash in hand at the end of the year well up on that at June 2006, even though investment in new stores continued. The Company has no debt as, to date, the appropriate rate of store expansion can be funded by internally generated cash flows. Should the right opportunity arise in the future to expand at a faster rate or to invest in property in order to secure the best available site in a key market area, the Company will fund growth using debt.

# Chairman & Managing Director's Review

### Corporate Governance

Corporate governance continues to be an area where your Board constantly seeks improvement.,The Board is structured with two independent directors out of four directors and appropriate Board Sub-Committees are in place and are working well. This year there was a focus in the second half on the implementation of a formal risk management process

This process will initially identify and profile the broad risk areas of the Company, determine steps to mitigate the major risks and allocate responsibilities. Establishment of the process is expected to be completed in the first half of the current financial year. Meanwhile risk management remains a component within all functional areas and specific risks have been addressed, including risk mitigation within the Company's information systems facilities.

### Outlook

The outlook for the current year is partly dependant on the extent of any recovery in the housing market in New South Wales and in particular the impact of interest rate rises on consumer demand. The full year impact of the stores opened during the 2007 year will be a positive and should offset any further decline in overall market demand unless interest rate rises are significant. Performance of the Company since balance date remains sound although the market is still patchy.

### People

We are highly dependent upon the quality and commitment of our staff. We acknowledge their contribution and dedication throughout the year, including the special effort that is required to efficiently bring-on the new stores. We look forward to their continued support during the next phase of growth.

**J.W. Ingram**
*Chairman*

**A.J. Scali**
*Managing Director*

# Corporate Governance Statement

The Board of Nick Scali Limited is responsible for the direction and supervision of the Company's business and for its overall corporate governance. The Board recognises the need to maintain the highest standards of behaviour, ethics and accountability.

The Board is committed to effective corporate governance in order to ensure accountability and transparency to shareholders and other stakeholders, including customers, employees, staff and regulatory bodies. This includes ensuring that internal controls and reporting procedures are adequate and effective. Responsibility for the management of the day-to-day operations and administration of the Company is delegated to the Managing Director.

Effective corporate governance is achieved through the structure and operation of the Board and its sub-committees. There are two sub-committees – the Audit Committee and the Remuneration and Nomination Committee. The members of these are the three non executive Directors.

The Board works with senior management to continually review and improve corporate governance standards. In particular, as the Company enters a growth phase, there has been increased focus on both the substance and documentation of standard operating procedures, and information technology system enhancements.

The Corporate Governance Council has established best practice recommendations and details on the application of these by the Company are set out below.

## Lay solid foundations for management and oversight

### Role of the Board

The primary functions of the Board include:

- formulating and approving the objectives, strategies and long-term plans for the Company's continued development and operation, in conjunction with management;
- monitoring the implementation of these objectives, strategies and long-term plans to ensure the Company, to the best of its ability, delivers value to Shareholders;
- monitoring the Company's overall performance and financial results, including adopting annual budgets and approving the Company's financial statements;
- ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;
- selecting and reviewing the performance of the Managing Director;
- ensuring significant business risks are identified and appropriately managed;
- ensuring that the Company meets the statutory, regulatory and reporting requirements of the Australian Stock Exchange Limited and the Corporations Act;
- ensuring that the Company, its Directors, officers, employees and Associates are aware of and comply with all relevant laws and regulations;
- reporting to Shareholders on performance; and
- deciding on the payment of dividends to Shareholders.

The Board has established an Audit Committee and a Remuneration and Nomination Committee. From time to time, the Board may determine to establish specific purpose sub-committees to deal with specific issues.

## Structure the Board to add value

The Board currently consists of the Chairman, the Managing Director and two Non-Executive Directors. The term of a Director's appointment is governed by the Company's Constitution. At least one-third of Directors, other than the Managing Director, must retire and seek re-election at each annual general meeting of the Company.

The background and skills of each of the Non-Executive Directors is complementary. This assists the Board in effectively reviewing and challenging the performance of management and the exercise of independent judgement.

Two of the Non-Executive Directors, Messrs John Ingram (who is Chairman) and Greg Laurie, are independent, in that they do not hold a material amount of shares in the Company, nor do they receive any financial benefit from the Company, apart from the Directors fees disclosed in the Annual Report. These Directors provide the Company with relevant information to enable the Company to continually assess this independence.

Each Director has the right of access to all relevant Company information and to the Company's executives, and, if required, may seek independent professional advice at the Company's expense.



**Promote ethical and responsible decision-making**

The Company has established its own Code of Ethics embracing high standards of personal and corporate conduct. This Code requires, among other things, that every Director, officer, employee, agent, sub-contractor and consultant of the Company must:

- act honestly and fairly in all dealings;
- understand the regulatory compliance requirements applicable to their duties and treat those requirements as essential to the performance of those duties;
- co-operate with relevant regulatory authorities;
- act professionally and with courtesy and integrity; and
- maintain the confidentiality of the Company's affairs other than as required by the Company or law.

**Safeguard integrity in financial reporting**

**Statement by Managing Director and Chief Financial Officer**
Prior to the Board's adoption of the annual financial statements of the Company, the Managing Director and Chief Financial Officer certify in writing that the Company's financial results present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with applicable accounting standards.

**Audit Committee**
The Audit Committee consists of three Non-Executive Directors. The Chairman of the Audit Committee must not be the Chairman of the Board. Audit Committee meetings are held regularly throughout the year. The responsibilities of the Audit Committee are to:

- assist the Board to discharge fiduciary responsibilities with regard to the Company's accounting, control and reporting practices by monitoring the internal control environment and management over corporate assets;
- review and recommend to the Board the adoption of the Company's annual and half-yearly financial statements,
- review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer;
- provide assurance regarding the quality and reliability of financial information used by the Board;
- review the Company's risk management policies and internal control processes;
- liaise with and review the performance of the external auditor, who is invited to attend Audit Committee meetings to report on audit findings and other financial and control matters; and
- ensure that information systems, processes and technology are reviewed periodically for future sustainability and the adequacy of controls.

As at the date of this report, the Audit Committee comprised of the non-executive Board members.

Three Audit Committee Meetings were held during the year ended 30 June 2007, attended by all Committee members.

**Make timely and balanced disclosure**

The Board is aware of its obligation under the Continuous Disclosure requirements of the Australian Stock Exchange. The Managing Director is responsible for monitoring compliance with Continuous Disclosure, assisted by the senior management team. All notices to the Australian Stock Exchange are approved by the Board, or in some circumstances by the Chairman, and other communication from the Company can only be made by the Managing Director or the Chief Financial Officer. Copies of presentation material prepared for analysts are released immediately to the Australian Stock Exchange.

**Respect the rights of shareholders**

The Company recognises and respects the rights of shareholders as follows:

- The Company uses the services of a reputable share registry to deal with shareholder matters, including dividend payments and general communication with shareholders.
- The Company's auditor is invited to attend the Annual General Meeting in order to be available to answer shareholder queries.
- As an accompaniment to the Annual Report and Half Year Financial Report, the Company prepares and releases, to the market, a Results Presentation which provides additional information for shareholders.
- The Annual Report and announcements to the Australian Stock Exchange are included on the Company's website.

# Corporate Governance Statement

**Recognise and manage risk**

The Company has initiated a risk assessment project, lead by consultants who are not employees, which will initially identify the broad risk areas for the Company. This process is expected to be completed in the first half of the current financial year.

Specific action plans will be developed and implemented from this process.

In the meantime, the Company has continued to address specific risk areas, in particular information technology.

**Encourage enhanced performance**

The Board undertakes an evaluation of its performance on an annual basis.

The Company Secretary is responsible for ensuring that Board policy and procedures are followed.

**Remunerate fairly and responsibly**

The Company discloses the nature and amount of the fee or salary of each Director and each executive officer, in accordance with the Corporations Act.

Executive remuneration packages are currently based on a combination of fixed and performance based remuneration. The performance measures are a combination of results achieved by the Company and achievement of individual targets for each executive.

The Company has recently adopted an Executive Performance Rights Plan. Subject to Board Approval, key executives and other employees may be granted rights under the plan, as recommended by the Managing Director. The rights can be exercised between the third and the fifth anniversary of the grant date, subject to the performance condition.

It is expected that the first rights will be granted during the 2007/08 financial year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently consists of the non-executive Board members and is responsible for:

- Reviewing remuneration arrangements of senior management.
- Recommending to the Board any increase in the remuneration of an existing senior employee of the Company for which Board approval is required.
- Recommending to the Board the remuneration of a new senior executive employee of the Company, for approval by the Board.
- The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
- Reviewing the performance of the Board and its sub-committees.

The Committee has met two times in the last twelve months. All members attended, together with the Managing Director and Company Secretary.

**Recognise the legitimate interests of stakeholders**

All employees of the Company are required to deal in an ethical and responsible manner toward all stakeholders of the Company. This includes shareholders and non shareholder groups, such as customers and suppliers.

A Code of Conduct, applicable to Directors and employees, has been adopted. This Code covers various issues, including compliance, confidential information and intellectual property, representation, company assets, employment issues and conflicts of interest. A Share Trading Policy for Directors and employees has also been adopted.

# Financial Statement 2007

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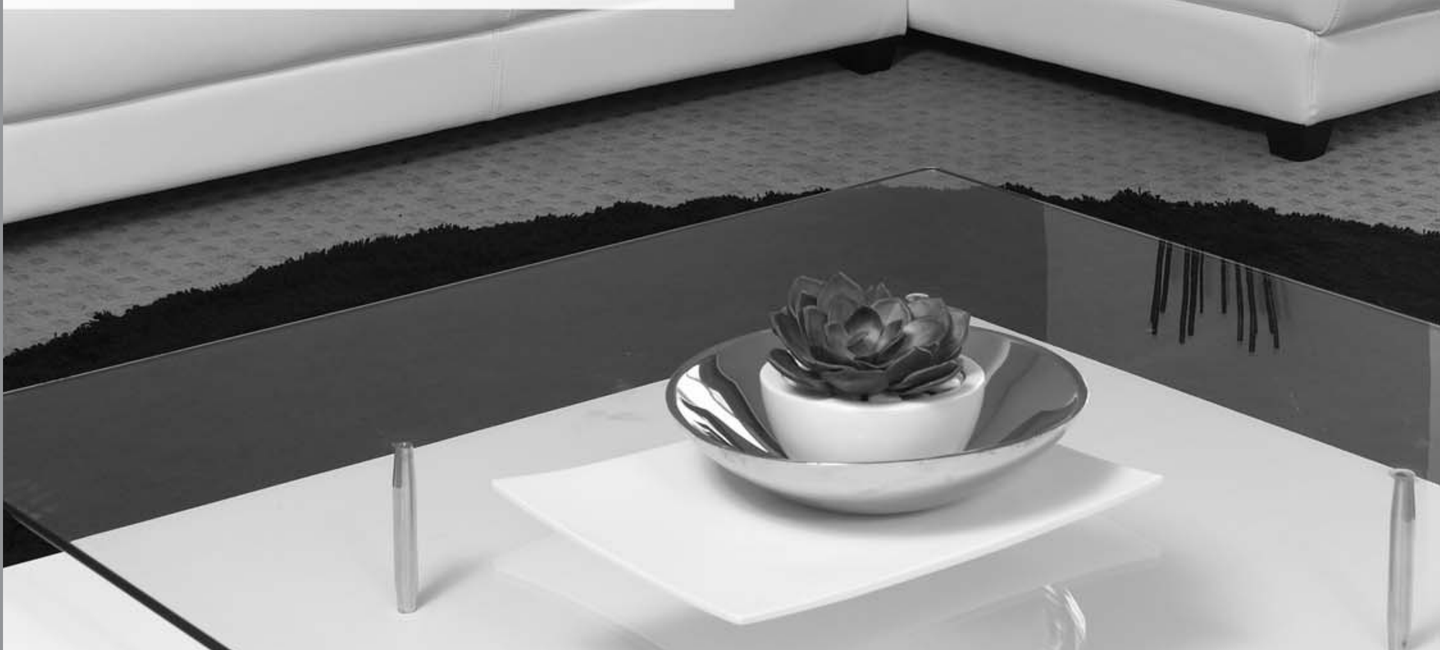

# Director's Report

The Directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30th June 2007 and the Auditors' Report thereon.

### Directors

The names and details of the Company's Directors in office at any time during the financial year or until the date of this report are as follows:

### Non-Executive Directors

**John W Ingram,** FCPA,
*Non-Executive Chairman*
John was appointed to the Board as non-executive Chairman on 7 April 2004. He is also the Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of Nick Scali Limited. John was formerly Managing Director of Crane Group Limited. He is currently the Chairman of Wattyl Limited, Deputy Chairman of Australian Super Pty Limited, and a non executive director of United Group Limited and NP King Hong Kong Limited.

**Nick D Scali,**
*Non-Executive Director*
Nick founded the business of Nick Scali over 40 years ago and continues to act as a consultant to the Company. He was solely responsible for managing the business until Anthony (his son) joined in 1982. Nick is considered a pioneer and innovator in the importing and retailing of furniture and kitchens into Australia. Over the years, he has served on a number of public company boards, founded other enterprises and has made major contributions towards the Italian community within Australia, including serving as the President of the Italian Chamber of Commerce for 8 years. Nick is a member of the Audit Committee and the Remuneration and Nomination Committee of Nick Scali Limited.

**Greg R Laurie,** BCom,
*Non-Executive Director*
Greg R Laurie, BCom, Non-Executive Director Greg was appointed to the Board on 7 April 2004. He is the Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of Nick Scali Limited. Greg was Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003. Greg is also a non-executive director of Bradken Limited and Big River Timbers Pty Limited.

### Executive Director

**Anthony J Scali**, BCom,
*Managing Director*
Anthony is Managing Director of Nick Scali Limited. He joined the Company full-time in 1982 after completing his Bachelor of Commerce degree from the University of New South Wales. Whilst he is responsible for the overall operation of the Company and identifying current and future trends in the furniture industry, a key function he leads is the direct sourcing of suitable product from manufacturers (principally overseas) for Nick Scali to retail.

### Alternate Directors

**Nicky D Scali,** BCom,
*Marketing & IT Manager and Alternate Director to Nick Scali*
Nicky is the Marketing & IT Manager for Nick Scali Limited. He joined the Company in 1991 after completing a Bachelor of Commerce degree from Bond University. Nicky is responsible for the direct buying of all advertising media and the development and execution of all creative strategies. He also oversees the operation of the Company's information technology systems and their related support contracts.

### Company Secretary

**Dominic Chiera,**
*Chief Financial Officer and Company Secretary*
Dominic joined Nick Scali Limited as Chief Financial Officer in March 2005. He has over 15 years experience in senior financial management roles, in the property, leisure, transport and financial services industries. Dominic is responsible for all financial and administration matters for the Company.

### Interests in the Shares of the company

The beneficial interest of each Director in the contributed equity of the Company are as follows:

| | No. of Ordinary Shares |
|---|---|
| **John W Ingram** | |
| – Non executive chairman | 250,000 |
| **Anthony J Scali** | |
| – Managing director | 40,500,000* |
| **Greg R Laurie** | |
| – Non executive director | 30,000 |
| **Nicky D Scali** | |
| – Alternate director | 40,500,000* |

* Shares are held by Scali Consolidated Pty Limited, a director-related entity of Messrs Anthony and Nicky Scali.

At the date of this report, there were no options over ordinary shares.

Directors have been in office since the start of the financial year to the date of this report unless otherwise stated.



**Operating and Financial Review**

Nick Scali Limited recorded a net profit after tax of $8.7m, 6.9% above the previous year. Sales for the year were 19.6% above the previous year due to the continued expansion of the store network. Same store sales were relatively flat at 0.5% growth attributable to the sluggish sales in the Sydney stores which currently represent the largest proportion of the store network .

During the year new stores were opened in Belrose in Sydney, Essendon and Nunawading in Melbourne. The Company now has three stores in Victoria with a new distribution centre and plans are to continue the expansion of the number of stores. Given the new stores in Victoria opened in the first half of the year, the profit contribution from the Victorian operations for this financial year is expected to be significantly more than the previous year.

**Principal Activities**

The principal activities of the Company during the period were the sourcing and retailing of household furniture and related accessories. No significant change in the nature of these activities occurred during the period.

**Results of Operations**

The net profit of the Company for the financial year after providing for income tax amounts to $8.7m (2006: $8.1m).

**Dividends**

Fully franked dividends totalling $6.07m (2006: $6.48m fully franked) were paid during the year. A final, fully franked dividend of 4.5 cents per ordinary share has been declared by the Directors since balance date. Based on the number of shares on issue at 30 June 2007, this would amount to $3.64m. In accordance with Accounting Standard AASB110 "Events After the Balance Date", this dividend has not been provided for in the financial statements. When added to the interim dividend of 4.5 cents, the total dividend in respect of the year ended 30 June 2007 was 9.0 cents per share, fully franked.

**Significant Changes in State of Affairs**

There were no significant changes in the state of affairs of the Company during the year.

**Significant Events After Balance Date**

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

**Likely Developments and Expected Results**

The Company intends to grow profitably through the development of the stores network.

**Environmental Regulation and Performance**

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Directors are not aware of any particular or significant environmental issues which have been raised in relation to the Company's operations during the financial period.

**Directors' Indemnification**

During the financial period, the Company has indemnified all the Directors and executive officers against certain liabilities incurred as such by a director or officer, while acting in that capacity. The premiums have not been determined on an individual director or officer basis. The directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the directors' and officers' liability insurance contract, as such disclosure is prohibited under the terms of the contract.

No other agreement to indemnify Directors or officers have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial period, by the Company.

**Directors' and Other Officers' Emoluments**

The Company discloses the nature and amount of the fee or salary of each Director and each executive officer, in accordance with the Corporations Act.

**Remuneration Report**

This report outlines the remuneration arrangements in place for directors and executives of the Company.

Remuneration Philosophy

The quality of Nick Scali Limited's directors and executives is a major factor in the overall performance of the Company. The Company believes it is essential to attract and retain key personnel. To this end, the company embraces the following principles in its remuneration framework.



*Executive Remuneration*

- The Company should provide appropriate rewards to attract and retain key personnel.
- Remuneration of employees should be based on a combination of individual performance, Company performance, and market factors.
- Base salaries should be determined in accordance with the nature of each role, the experience of the individual employee and the performance of the individual. Market information should be used to benchmark base salaries.
- For executives who are direct reports to the Managing Director, a portion of the remuneration is at risk by way of short term and long term incentives, which are linked to key performance indicators.
- Where appropriate, incentive based rewards are provided for operational staff, which are linked to key performance indicators.

*Non executive directors remuneration*

Non-executive directors are paid an annual fee, which is periodically reviewed. The review is the responsibility of the Remuneration and Nomination Committee. The Committee may seek advice from external parties in making a determination. Non-executive directors do not receive bonuses and they are not entitled to participate in the recently established Executive Performance Rights Plan.

**Remuneration and Nomination Committee**

The Remuneration and Nomination Committee currently consists of the non-executive Board members and is responsible for:

- Reviewing remuneration arrangements of senior management.
- Recommending to the Board any increase in the remuneration of an existing senior employee of the Company for which Board approval is required.
- Recommending to the Board the remuneration of a new senior executive employee of the Company, for approval by the Board.
- The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
- Reviewing the performance of the Board and its sub-committees, with the advice of external parties.

The Company has recently adopted an Executive Performance Rights Plan. Subject to Board Approval, key executives and other employees may be granted rights under the plan, as recommended by the Managing Director. The rights will vest and can be exercised between the third and the fifth anniversary of the grant date, subject to the achievement of certain performance hurdles.

It is expected that the first rights will be granted during the 2007/08 financial year.

The Committee has met twice in the last twelve months. In addition, matters for consideration by the Committee have been dealt with during various Board meetings, where Remuneration and Nomination Committee members were in attendance.

**Remuneration of directors and named executives (key management personnel)**

| | | Short Term Benefits | | | Post Employment | Long Term | |
|---|---|---|---|---|---|---|---|
| | | Salary and Fees | Cash Bonus | Non Monetary Benefits | Superannuation | Incentive Plans | Total $ |
| J.W. Ingram | 2007: | 37,500 | – | – | 37,500 | – | 75,000 |
| Non-Executive Chairman | 2006: | 75,000 | – | – | – | – | 75,000 |
| G.R. Laurie | 2007: | 4,205 | – | – | 50,795 | – | 55,000 |
| Non-Executive Director | 2006: | 50,459 | – | – | 4,541 | – | 55,000 |
| N.D. Scali | 2007: | 60,000 | – | – | – | – | 60,000 |
| Non-Executive Director | 2006: | 60,000 | – | – | – | – | 60,000 |
| A.J. Scali | 2007: | 336,056 | – | – | 11,128 | – | 347,184 |
| Managing Director | 2006: | 358,425 | – | – | 11,808 | – | 370,233 |
| Nicky D. Scali | 2007: | 188,176 | – | – | 11,128 | – | 199,304 |
| Marketing and IT Manager | 2006: | 196,123 | – | – | 14,747 | – | 210,870 |
| D. Chiera | 2007: | 208,361 | 50,000 | – | 12,140 | – | 270,501 |
| Chief Financial Officer & Company Secretary | 2006: | 194,598 | – | – | 15,451 | – | 210,049 |



**Remuneration of directors and named executives (key management personnel) continued.**

| | | Short Term Benefits | | | Post Employment | Long Term | |
|---|---|---|---|---|---|---|---|
| | | Salary and Fees | Cash Bonus | Non Monetary Benefits | Superannuation | Incentive Plans | Total $ |
| G. Jorey | 2007: | 10,500 | – | – | 945 | – | 11,445 |
| General Manager - Operations (appointed 12 June 2007) | 2006: | – | – | – | – | – | – |

There are no other directors or executive officers of the Company.

There were no share options granted by the Company during the year.

The terms ‘Director’ and ‘executive officer’ have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of cost to the Company.

Executive officers are those directly accountable and responsible for the operational management and strategic direction of the Company.

**Meetings**

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director (including when represented by an alternate) were as follows:

| | | Meetings of Committees | |
|---|---|---|---|
| | Directors’ Meetings | Audit | Remuneration & Nomination |
| Number of meetings held: | 10 | 3 | 2 |
| Number of meetings attended: | | | |
| J.W. Ingram | 10 | 3 | 2 |
| G.R.Laurie | 10 | 3 | 2 |
| N.D. Scali | 8 | 1 | 1 |
| A.J. Scali | 10 | 3 | 2 |

*Note – A.J. Scali is not a member of the sub-committees, however, he was invited to, and attended, all of these meetings.*

**Audit Committee**

The members of this Committee are as follows.

Greg Laurie (Chairman)
John Ingram
Nick Scali

**Remuneration and Nomination Committee**

The members of this Committee are as follows.

John Ingram (Chairman)
Greg Laurie
Nick Scali

**Rounding**

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class order applies.

**Auditor’s Independence Declaration**

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 38 of the Financial Statements.



**Non-Audit Services**

The following non-audit services were provided by the entity's auditor, Ernst & Young. The directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act. The nature and scope of each type of non-audit service provided means that auditor independence was not compromised.

Ernst & Young received or are due to receive the following amounts for the provision of non-audit services:

| | |
|---|---|
| Tax compliance services | 14,555 |
| Special turnover audits | 2,450 |

Signed in accordance with a resolution of the Board of Directors.

**J.W. Ingram**
*Chairman*

**A.J. Scali**
*Managing Director*

Sydney, 9 August 2007

# Income Statement For the year ended 30 June 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| Revenue from Sale of Goods | 2 | 77,202 | 64,532 |
| Cost of sales | 3(b) | (31,379) | (26,163) |
| **Gross Profit** | | **45,823** | **38,369** |
| Other income | 2 | 622 | 505 |
| Sales and marketing | | (6,073) | (5,268) |
| Employee costs and benefits | 3 | (12,077) | (9,763) |
| General and administration expenses | | (3,018) | (2,910) |
| Property expenses | | (12,955) | (9,391) |
| **Profit Before Income Tax** | | **12,322** | **11,542** |
| **Income Tax Expense** | 4 | (3,658) | (3,436) |
| **Profit After Tax** | | **8,664** | **8,106** |
| **Net PROFIT FOR THE PERIOD** | | **8,664** | **8,106** |
| Basic Earnings per Share (cents per share) | 7 | 10.7 cents | 10.0 cents |
| Diluted Earnings per Share (cents per share) | 7 | 10.7 cents | 10.0 cents |
| Net Tangible Asset Backing per Share (cents per share) | | 17.5 cents | 14.3 cents |

# Balance Sheet As at 30 June 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash assets | 21 | 7,846 | 6,291 |
| Receivables | 8 | 797 | 944 |
| Inventories | 9 | 13,192 | 10,985 |
| Other financial assets | 10 | 46 | 1 |
| Other assets | 11 | 1,019 | 378 |
| **Total Current Assets** | | **22,900** | **18,599** |
| **Non-Current Assets** | | | |
| Deferred tax assets | 4 | 375 | 319 |
| Property, plant and equipment | 12 | 3,965 | 3,136 |
| Intangible assets | 13 | 2,378 | 2,378 |
| **Total Non-Current Assets** | | **6,718** | **5,833** |
| **Total Assets** | | **29,618** | **24,432** |
| **Current Liabilities** | | | |
| Payables | 14 | 10,864 | 8,943 |
| Current tax liabilities | 4 | 1,337 | 849 |
| Provisions | 15 | 844 | 623 |
| **Total Current Liabilities** | | **13,045** | **10,415** |
| **Non-Current Liabilities** | | | |
| Provisions | 15 | 53 | 86 |
| **Total Non-Current Liabilities** | | **53** | **86** |
| **Total Liabilities** | | **13,098** | **10,501** |
| **Net Assets** | | **16,520** | **13,931** |
| **Equity** | | | |
| Contributed equity | 16 | 3,364 | 3,364 |
| Reserves | 17 | 78 | 78 |
| Retained profits | | 13,078 | 10,489 |
| **Net Equity** | | **16,520** | **13,931** |

# Statement of Changes in Equity For the year ended 30 June 2007

| | Notes | Issued Capital $'000 | Retained Profits $'000 | Reserves $'000 | Total $'000 |
|---|---|---|---|---|---|
| **Year Ended 30 June 2006** | | | | | |
| **As at 1 July 2005** | | 3,364 | 8,863 | 78 | 12,305 |
| Total income and expense for the period recognised directly in equity | | – | – | – | – |
| Profit for the year | | – | 8,106 | – | 8,106 |
| **Total income and expense for the period** | | – | 8,106 | – | 8,106 |
| Equity dividends | 5 | – | (6,480) | – | (6,480) |
| **As at 30 June 2006** | | 3,364 | 10,489 | 78 | 13,931 |
| **Year Ended 30 June 2007** | | | | | |
| **As at 1 July 2006** | | 3,364 | 10,489 | 78 | 13,931 |
| Total income and expense for the period recognised directly in equity | | – | – | – | – |
| Profit for the year | | – | 8,664 | – | 8,664 |
| **Total income and expense for the period** | | – | 8,664 | – | 8,664 |
| Equity dividends | 5 | – | (6,075) | – | (6,075) |
| **As at 30 June 2007** | | 3,364 | 13,078 | 78 | 16,520 |

# Statement of Cash Flows For the year ended 30 June 2007

| | Notes | 2007 $'000 | 2006 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers | | 85,701 | 70,696 |
| Payments to suppliers and employees | | (73,480) | (59,908) |
| Interest received | | 345 | 422 |
| Income tax paid | | (3,226) | (3,968) |
| **Net Cash Flows from Operating Activities** | 21(a) | **9,340** | **7,242** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant & equipment | | (1,739) | (1,164) |
| Proceeds from sale of property, plant & equipment | | 29 | 17 |
| **Net Cash Flows used in Investing Activities** | | **(1,710)** | **(1,147)** |
| **Cash Flows from Financing Activities** | | | |
| Payment of dividends on ordinary shares | | (6,075) | (6,480) |
| Repayment of hire-purchase liability principal | | – | (7) |
| **Net Cash used in Financing Activities** | | **(6,075)** | **(6,487)** |
| **Net Increase / (Decrease) in Cash Held** | | 1,555 | (392) |
| Add Opening Cash brought forward | | 6,291 | 6,683 |
| **Closing Cash carried forward** | 21(b) | **7,846** | **6,291** |



## Note 1: Statement of Significant Accounting Policies

### (a) Basis of accounting

The financial report is a general-purpose financial report, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated, under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

### (b) Statement of compliance

The financial report complies with Australian Accounting Standards, which include Australian equivalents to International Financial Reporting Standards ('AIFRS'). Compliance with AIFRS ensures that the financial report, comprising the financial statements and notes thereto, complies with International Financial Reporting Standards ('IFRS').

### (c) Property, plant and equipment

All classes of property, plant and equipment are measured at cost, less accumulated depreciation and any impairment in value.

Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation periods are:

| | 2007 | 2006 |
|---|---|---|
| Office equipment | 10%-33.3% | 10%-33.3% |
| Furniture and fittings | 20%-33% | 20%-33% |
| Leasehold improvements | Lease term | Lease term |
| Motor vehicles | 10%-22.5% | 10%-22.5% |

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each financial year end.

#### Impairment

The carrying values of plant & equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable.

For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs.

If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

The recoverable amount of plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

#### Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognised.

### (d) Leases

Leases are classified at their inception as either operating or finance leases based on the economic substance of the agreement so as to reflect the risks and benefits incidental to ownership.

#### Operating leases

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases.

Operating leases are recognised as an expense in the income statement on a straight-line basis over the lease term.

The Company has received financial incentive contributions from the lessors on certain stores. On receipt, these incentive contributions are recorded as a liability in the financial statements. The liability is reduced and amortised over the lease term.

### (e) Inventories

Inventories are valued at the lower of cost and net realisable value. Weighted average cost is used to value inventories.

Costs incurred in bringing each product to its present location and condition are accounted for as follows:



**Note 1: Statement of Significant Accounting Policies**

*Finished Goods* – Purchase price plus freight, cartage and import duties are included in the cost of finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

**(f) Employee entitlements**

**(i) Wages salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**(ii) Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

**(g) Foreign currency translation**

Both the functional and presentation currency of the Company is Australian dollars ($). Items included in the financial statements of each entity are measured using that functional currency.

Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date.

All exchange differences in the financial report are taken to profit or loss.

**(h) Derivative financial instruments**

The Company uses derivative financial instruments, being forward currency contracts, to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gains or losses arising from changes in the fair value of derivatives are taken directly to net profit or loss for the year.

The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. These forward currency contracts do not meet the criteria for hedge accounting.

**(i) Cash and cash equivalents**

Cash and short-term deposits in the balance sheet comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less.

For the purposes of the Cash Flow Statement, cash and equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

**(j) Revenue Recognition**

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

**Sale of goods**

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer.

**Interest income**

Revenue is recognised as interest accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

**(k) Trade and other receivables**

Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.



**Note 1: Statement of Significant Accounting Policies**

**(l) Trade and other payables**

Trade payables and other payables are carried at amortised costs and represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services.

**(m) Provisions**

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate, that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

**(n) Contributed equity**

Ordinary share capital is recognised at the fair value of the consideration received by the company. Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

**(o) Earnings per share**

Basic EPS is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends)
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

**(p) Intangibles**

**Goodwill**

Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

**(q) Income tax**

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the balance sheet date.



**Note 1: Statement of Significant Accounting Policies**

Deferred income tax is provided on all temporary differences at the balance sheet date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;
  or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each balance sheet date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each balance sheet date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax, assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the balance sheet date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

**(r) Other taxes**

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the balance sheet.

Cash flows are included in the Cash Flow Statement on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

**(s) Borrowing costs**

Borrowing costs are recognised as an expense when incurred.



**Note 1: Statement of Significant Accounting Policies**

**(t) Significant accounting judgements, estimates and assumptions**

**Significant accounting judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments – The Company has entered into commercial property leases for its stores. The Company has determined that it the lessors retain all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

**Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill – The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in the financial statements.

**(u) Impairment of financial assets**

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value. In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs. When the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

**(v) Derecognition of financial assets and financial liabilities**

**Financial assets**

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

**Financial liabilities**

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

**(w) New accounting standards and UIG interpretations**

Certain Australian Accounting Standards and UIG Interpretations have been recently issued or amended but are not yet effective. These standards have not been adopted by the company for the year ended 30 June 2007. The Directors are in the process of finalising their assessment of the impact of these standards and interpretations to the extent relevant to the company.



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 2: Revenue** | | |
| **Revenue** | | |
| Sales revenue | 77,202 | 64,532 |
| Interest income | 345 | 422 |
| Sundry income | 277 | 83 |
| | 622 | 505 |
| Total revenue | 77,824 | 65,037 |

**Note 3: Operating Expenses and Losses/(Gains)**

Profit before income tax has been determined after:

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **(a) Expenses** | | |
| Bad and doubtful debts | 3 | 14 |
| Operating lease rental - minimum lease payments | 11,615 | 8,356 |
| Depreciation/Amortisation of non-current assets | | |
| Office equipment | 383 | 327 |
| Furniture and fittings | 85 | 85 |
| Leasehold improvements | 369 | 413 |
| Motor vehicles | 73 | 61 |
| Total depreciation/amortisation of non-current assets | **910** | **886** |
| Employee costs and benefits | | |
| Sales and marketing | 6,057 | 4,857 |
| General and administration | 6,020 | 4,906 |
| | **12,077** | **9,763** |

Employee expenses have been split by function.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **(b) Losses/(gains)** | | |
| (Gain) / Loss on disposal of property, plant and equipment | (28) | 13 |
| Net foreign currency loss (gain) * | (44) | (289) |

* Exchange gain has been included in cost of sales



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 4: Income Tax** | | |
| The major components of income tax expense are: | | |
| **Income Statement** | | |
| *Current income tax* | | |
| Current income tax charge | 3,715 | 3,406 |
| Adjustments in respect of current income tax of previous years | (1) | 8 |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | (56) | 22 |
| Income tax expense reported in the income statement | **3,658** | **3,436** |

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate for the years ended 30 June 2007 and 30 June 2006 is as follows:

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Accounting profit before income tax | 12,321 | 11,542 |
| At the statutory income tax rate of 30% (2006: 30%) | 3,696 | 3,462 |
| Adjustments in respect of current income tax of previous years | (1) | 8 |
| Other items (net) | (37) | (34) |
| Income tax expense | **3,658** | **3,436** |
| Effective income tax rate | **29.7%** | **29.8%** |
| Income tax expense reported in income statement | 3,658 | 3,436 |

**Deferred income tax assets**

| | Balance sheet | | Income statement | |
|---|---|---|---|---|
| | **2007** | **2006** | **2007** | **2006** |
| Employee entitlements | 272 | 213 | (60) | (70) |
| Audit fee accrual | 34 | 31 | (3) | (4) |
| Superannuation accrual | 24 | 31 | 8 | (19) |
| Deferred rent | 45 | 44 | (1) | 115 |
| | 375 | 319 | | |
| Deferred tax income / (expense) | | | (56) | 22 |



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 5: Dividends** | | |
| Declared and paid during the year: | | |
| Dividends on ordinary shares: | | |
| Final franked dividend for 30 June 2006: 3.0 cents (2005: 3.5 cents) | 2,430 | 2,835 |
| Interim franked dividend for 30 June 2007: 4.5 cents (2006: 4.5 cents) | 3,645 | 3,645 |
| | 6,075 | 6,480 |
| Proposed – 4.5 cents (2006: 3.0 cents) (not recognised as a liability as at 30 June) | 3,645 | 2,430 |
| **Franking credit balance** | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| – franking account balance as at the end of the financial year at 30% (30 June 2006: 30%). | 3,126 | 2,518 |
| – franking credits that will arise from the payment of income tax payable as at the end of the financial year | 1,337 | 849 |
| | 4,463 | 3,367 |
| The amount of franking credits available for future reporting periods: | | |
| – impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period | (1,562) | (1,041) |
| | 2,901 | 2,326 |

The tax rate at which paid dividends have been franked is 30% (30 June 2006: 30%).
Dividends proposed will be franked at the rate of 30% (30 June 2006: 30%).

| | 2007 $ | 2006 $ |
|---|---|---|
| **Note 6: Auditors' Remuneration** | | |
| Amounts received or due and receivable by Ernst & Young for: | | |
| – audit or review of the financial report of the Company | 100,000 | 101,000 |
| – other services provided to the Company | | |
| – tax compliance | 14,555 | 19,475 |
| – turnover audit reports | 2,450 | 1,550 |
| | 117,005 | 122,025 |



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 7: Earnings Per Share** | | |
| (a) Net profit after tax used in calculating basic earnings and diluted earnings per share | 8,664 | 8,106 |
| | **No. of Shares 2007** | **No. of Shares 2006** |
| (b) Weighted number of shares outstanding used to calculate basic and diluted earnings per share | 81,000,000 | 81,000,000 |
| | **Cents per Share** | **Cents per Share** |
| Basic earnings per share | 10.7 | 10.0 |
| Diluted earnings per share | 10.7 | 10.0 |

There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for either of the periods presented.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 8: Receivables** | | |
| **Current** | | |
| Trade debtors (note i – see below) | 671 | 599 |
| Provision for doubtful debts (ii) | (4) | (14) |
| | 667 | 585 |
| Sundry debtors (iii) | 130 | 359 |
| | 797 | 944 |

(a) Terms and conditions relating to the above financial instruments:
- (i) Trade debtors are non-interest bearing and generally substantially less than 30 day terms.
- (i) An allowance for doubtful debts is made where there is objective evidence that a trade receivable is impaired. The amount of the impairment has been measured as the difference between the carrying amount of the trade receivables and the estimated future cash flows expected to be received from the relevant debtors.
- (iii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 9: Inventories** | | |
| Finished Goods | 11,864 | 9,315 |
| Stock in transit | 1,328 | 1,670 |
| | 13,192 | 10,985 |
| **Note 10: Other Financial Assets (Current)** | | |
| Deposits | 46 | 1 |
| **Note 11: Other Assets** | | |
| Prepaid expenses | 1,019 | 378 |



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 12: Property, Plant and Equipment** | | |
| Office equipment – at cost | 2,812 | 2,489 |
| Accumulated depreciation | (1,435) | (1,052) |
| | 1,377 | 1,437 |
| Furniture & fittings – at cost | 1,005 | 775 |
| Accumulated depreciation | (677) | (592) |
| | 328 | 183 |
| Leasehold improvements – at cost | 3,801 | 2,699 |
| Less: accumulated depreciation | (1,874) | (1,505) |
| | 1,927 | 1,194 |
| Motor vehicles – at cost | 560 | 555 |
| Accumulated depreciation | (227) | (233) |
| | 333 | 322 |
| **Total property, plant and equipment** | 3,965 | 3,136 |
| **Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the current financial year:** | | |
| Office Equipment | | |
| Carrying amount at beginning | 1,437 | 1,333 |
| Additions | 323 | 461 |
| Disposals | – | (30) |
| Depreciation charged | (383) | (327) |
| | 1,377 | 1,437 |
| Furniture & fittings | | |
| Carrying amount at beginning | 183 | 191 |
| Additions | 230 | 77 |
| Depreciation charged | (85) | (85) |
| | 328 | 183 |
| Leasehold improvements | | |
| Carrying amount at beginning | 1,194 | 1,213 |
| Additions | 1,102 | 394 |
| Depreciation charged | (369) | (413) |
| | 1,927 | 1,194 |
| Motor vehicles | | |
| Carrying amount at beginning | 322 | 151 |
| Additions | 84 | 232 |
| Disposal | – | – |
| Depreciation charged | (73) | (61) |
| | 333 | 322 |
| | 3,965 | 3,136 |



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 13: Intangible Assets** | | |
| **Goodwill on acquisition of stores in Adelaide** | 2,378 | 2,378 |

No impairment loss was recognised including acquisition costs in the 2007 financial year.

Goodwill acquired through business combinations has been allocated to one individual cash generating unit for impairment testing, being the Adelaide stores acquired in 2005. The recoverable amount of the Adelaide stores has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The pre-tax discount rate applied to cash flow projections is 12.2% (2006: 12.2%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 2.0% (2006: 2.0%).

The following describes each key assumption on which management has based its cash flow projection when determining the value in use of the Adelaide stores.

- A consistent gross margin of 58% (2006: 58%) has been assumed, based on the Company's profit history of consistent store by store margins.
- Capital expenditure has been allowed for. This has been determined based on past history of capital expenditures required on the Company's stores of a similar age and size

**Note 14: Payables**

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| Trade creditors (note i – see below) | 2,596 | 1,347 |
| Other creditors and accruals (ii) | 3,557 | 3,489 |
| Customer deposits (iii) | 4,711 | 4,107 |
| | 10,864 | 8,943 |

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms

(ii) Other creditors are non-interest bearing and have an average of 30 to 60 days.

(iii) Customer deposits are monies received as deposits on customer orders not yet fulfiled.

**Note 15: Provisions**

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Current** | | |
| Annual leave | 753 | 567 |
| Long service leave | 91 | 56 |
| | 844 | 623 |
| **Non-Current** | | |
| Long service leave | 53 | 86 |



| | 2007 | 2006 |
|---|---|---|
| **Note 15: Provisions (continued)** | | |
| **Number of employees** | | |
| Number of full time and part-time employees at balance date | 225 | 206 |

**Superannuation funds**

The Company contributes to a number of superannuation funds which exist to provide benefits for employees and their dependants on retirement, death or disability, subject to the rules of the funds. All of the funds are defined contribution funds and as such the Company has no commitment to fund retirement benefits, other than as specified in the rules of the respective funds and the requirements of the Superannuation Guarantee Charge Act.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 16: Contributed Equity** | | |
| 81,000,000 (2006: 81,000,000) fully paid ordinary shares | 3,364 | 3,364 |

| | 2007 Number of ordinary shares | 2007 $'000 | 2006 Number of ordinary shares | 2006 $'000 |
|---|---|---|---|---|
| **Movement in ordinary shares on issue** | | | | |
| Balance at the beginning of the financial year | 81,000,000 | 3,364 | 81,000,000 | 3,364 |
| Balance at the end of the financial year | 81,000,000 | 3,364 | 81,000,000 | 3,364 |

**(a) Terms and conditions of contributed equity**

Ordinary shares are entitled to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 17: Reserves** | | |
| Capital profits | 78 | 78 |
| | 78 | 78 |
| **Capital profits reserve** | | |
| Opening balance | 78 | 78 |
| Closing balance at the end of the financial year | 78 | 78 |

**(a) Capital profits reserve**

*(i) Nature and purpose of reserve*

Capital Profits Reserve is comprised wholly of the surplus on disposal of assets that were acquired prior to the introduction of Capital Gains Tax provisions.



| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 18: Expenditure Commitments** | | |
| Operating leasing expenditure commitments | | |
| Future minimum lease payments under non cancellable operating leases as at 30 June are as follows: | | |
| – not later than one year | 11,781 | 9,645 |
| – later than one year but not later than five years | 38,158 | 38,626 |
| – later than 5 years | 16,571 | 21,459 |
| Aggregate expenditure contracted for at balance date | 66,510 | 69,730 |

Operating leases are in respect of Nick Scali Furniture stores. Leases are entered into for varying terms. Rent reviews are typically CPI or fixed (up to 3.0 % per annum), or market review in some cases. A number of the store leases contain options to renew in favour of the Company.

**Note 19: Contingent Liabilities**

As at the date of this report, there are commercial disputes which have arisen out of the normal course of business. The directors consider that these disputes will be settled without significant cost to the Company.

**Note 20: Events Subsequent to Reporting Date**

No significant events subsequent to balance date have occurred that require separate disclosure.

| | 2007 $'000 | 2006 $'000 |
|---|---|---|
| **Note 21: Statement of Cash Flows** | | |
| **(a) Reconciliation of net profit after tax to net cash flows from operations** | | |
| Net Profit | 8,664 | 8,106 |
| Non-Cash Items | | |
| Depreciation of non-current assets | 910 | 886 |
| (Gain)/Loss on disposal of property, plant and equipment | (28) | 13 |
| Changes in assets & liabilities | | |
| (Increase) / decrease in value of trade & other receivables | 101 | (263) |
| (Increase) in value of inventories | (2,207) | (1,097) |
| Decrease / (increase) in value of prepayments | (641) | (87) |
| (Decrease) / increase in value of payables | 1,921 | (16) |
| Increase in value of provisions | 188 | 232 |
| (Decrease) / increase in current tax liabilities | 488 | (554) |
| Decrease / (increase) in deferred tax assets | (56) | 22 |
| Net cash flow from operating activities | 9,340 | 7,242 |
| **(b) Reconciliation of Cash** | | |
| Cash balances comprise: | | |
| – cash at bank | 7,846 | 6,291 |
| **(c) Financing Facilities Available** | | |
| *The following operating lines of credit were available at balance date:* | | |
| – credit facilities | 6,600 | 6,600 |
| – amount utilised | (627) | (3,011) |
| Unused credit facilities | 5,973 | 3,589 |

National Australia Bank holds a registered mortgage debenture over the Company's assets as security for the above financing facilities made available.



## Note 22: Related Party Disclosures

**Directors**

The names of the directors who have held office during the financial year, together with details of directors' remuneration, are set out in Note 24.

Apart from the details disclosed below, no Director has entered into a material contract with the Company since the end of the previous financial period.

**Related party arrangements**

*Chatswood and Auburn Leases*

The Company leases premises at Chatswood and Auburn, both in New South Wales, from entities controlled by Messrs Anthony Scali and Nicky Scali.

The following details the term and rent payable by the Company in respect of each of the above premises leased. Lease rentals are determined on an arms length basis.

All other material terms of these leases are of a nature that would be typically entered into between unrelated parties.

| **Location** | 242-248 Parramatta Road, Auburn, NSW | 575 Pacific Highway, Chatswood, NSW |
|---|---|---|
| **Term** | 10 years, commencing 1 March 2004 | 7 years, commencing 1 April 2004 |
| **Rent** | $682,068 (plus GST) per annum | $496,800 (plus GST) per annum |

*Employment/Consultancy Agreements*

| | **Anthony Scali** | **Nicky D Scali** | **Nick Scali** |
|---|---|---|---|
| **Agreement type:** | Employment agreement | Employment agreement | Consultancy agreement |
| **Title:** | Managing Director Technology Manager | Marketing and Information | Consultant |
| **Remuneration:** | $367,500, subject to annual review, commencing May 2004 | $210,000, subject to annual review, commencing May 2004 | $60,000, paid as directors fees, subject to annual review, commencing May 2004 |
| **Term:** | Evergreen | Evergreen | Consultancy ended May 2007 – converted to a non-executive directorship |
| **Non competition period:** | 12 months after termination, within Australia | 12 months after termination, within Australia | 12 months after termination, within Australia |

*Other related party transactions*

The following dealings between the Company and the directors and personally-related entities were made in the ordinary course of business on normal commercial terms and conditions

Year ended 30 June 2007:

- The Company paid property lease rentals and outgoings to personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,272,573 during the year.
- The Company incurs certain business expenses on a credit card held in the name of the Managing Director, who incurs personal expenses on the same card. The Company pays the total amount owing on the credit card and then receives reimbursement from the Managing Director for personal items. At year end, the Managing Director owed the Company $19,864in respect of such items.

Year ended 30 June 2006:

- The Company paid property lease rentals and outgoings to personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,267,257 during the year.
- The Company incurs certain business expenses on a credit card held in the name of the Managing Director, who incurs personal expenses on the same card. The Company pays the total amount owing on the credit card and then receives reimbursement from the Managing Director for personal items. At year end, the Managing Director owed the Company $15,894 in respect of such items.

**Note 23: Director and Executive Disclosures**

**(a) Remuneration of Specified Directors and Specified Executives**

*(i) Remuneration policy*

The Company discloses the nature and amount of the fee or salary of each Director and each executive officer, in accordance with the Corporations Act.

**Remuneration Philosophy**

The quality of Nick Scali Limited's directors and executives is a major factor in the overall performance of the Company. The Company believes it is essential to attract and retain key personnel. To this end, the company embraces the following principles in its remuneration framework.

*Executive Remuneration*

- The Company should provide appropriate rewards to attract and retain key personnel.
- Remuneration of employees should be based on a combination of individual performance, Company performance, and market factors.
- Base salaries should be determined in accordance with the nature of each role, the experience of the individual employee and the performance of the individual. Market information should be used to benchmark base salaries.
- For executives who are direct reports to the Managing Director, a portion of the remuneration is at risk by way of short term and long term incentives, which are linked to key performance indicators.
- Where appropriate, incentive based rewards are provided for operational staff, which are linked to key performance indicators.

*Non executive directors remuneration*

Non-executive directors are paid an annual fee, which is periodically reviewed. The review is the responsibility of the Remuneration and Nomination Committee. The Committee may seek advice from external parties in making a determination. Non-executive directors do not receive bonuses and they are not entitled to participate in the recently established Executive Performance Rights Plan.

**Remuneration and Nomination Committee**

The Remuneration and Nomination Committee currently consists of the non-executive Board members and is responsible for:

- Reviewing remuneration arrangements of senior management.
- Recommending to the Board any increase in the remuneration of an existing senior employee of the Company for which Board approval is required.
- Recommending to the Board the remuneration of a new senior executive employee of the Company, for approval by the Board.
- The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
- Reviewing the performance of the Board and its sub-committees, with the advice of external parties.

The Company has recently adopted an Executive Performance Rights Plan. Subject to Board Approval, key executives and other employees may be granted rights under the plan, as recommended by the Managing Director. The rights will vest and can be exercised between the third and the fifth anniversary of the grant date, subject to the achievement of certain performance hurdles.

It is expected that the first rights will be granted during the 2007/08 financial year.

The Committee has met twice in the last twelve months. In addition, matters for consideration by the Committee have been dealt with during various Board meetings, where Remuneration and Nomination Committee members were in attendance.



**Note 23: Director and Executive Disclosures continued**

**Remuneration of directors and named executives (key management personnel)**

| | | Short Term Benefits | | | Post Employment | Long Term | |
|---|---|---|---|---|---|---|---|
| | | Salary and Fees | Cash Bonus | Non Monetary Benefits | Superannuation | Incentive Plans | Total $ |
| J.W. Ingram<br>Non-Executive Chairman | 2007:<br>2006: | 37,500<br>75,000 | –<br>– | –<br>– | 37,500<br>– | –<br>– | 75,000<br>75,000 |
| G.R. Laurie<br>Non-Executive Director | 2007:<br>2006: | 4,205<br>50,459 | –<br>– | –<br>– | 50,795<br>4,541 | –<br>– | 55,000<br>55,000 |
| N.D. Scali<br>Non-Executive Director | 2007:<br>2006: | 60,000<br>60,000 | –<br>– | –<br>– | –<br>– | –<br>– | 60,000<br>60,000 |
| A.J. Scali<br>Managing Director | 2007:<br>2006: | 336,056<br>358,425 | –<br>– | –<br>– | 11,128<br>11,808 | –<br>– | 347,184<br>370,233 |
| Nicky D. Scali<br>Marketing and IT Manager | 2007:<br>2006: | 188,176<br>196,123 | –<br>– | –<br>– | 11,128<br>14,747 | –<br>– | 199,304<br>210,870 |
| D. Chiera<br>Chief Financial Officer<br>& Company Secretary | 2007:<br>2006: | 208,361<br>194,598 | 50,000<br>– | –<br>– | 12,140<br>15,451 | –<br>– | 270,501<br>210,049 |
| G. Jorey<br>General Manager - Operations<br>(appointed 12 June 2007) | 2007:<br>2006: | 10,500<br>– | –<br>– | –<br>– | 945<br>– | –<br>– | 11,445<br>– |

There are no other directors or executive officers of the Company.

There were no share based payments granted by the Company during the year. There were no termination benefits paid during the year.

The terms 'Director' and 'executive officer' have been treated as mutually exclusive for the purposes of this disclosure.

The elements of emoluments have been determined on the basis of cost to the Company.

Executive officers are those directly accountable and responsible for the operational management and strategic direction of the Company.

**(b) Shareholdings of Specified Directors and Specified Executives**

| **Shares held in Nick Scali Limited (number)** | | **Balance 1 Jul 2006 $** | **Net Change $** | **Balance 30 June 2007 $** |
|---|---|---|---|---|
| **Specified Directors** | | | | |
| J.W. Ingram | | 250,000 | – | 250,000 |
| A.J. Scali & Nicky D. Scali | Note (i) | 40,500,000 | – | 40,500,000 |
| G.R. Laurie | | 30,000 | – | 30,000 |
| **Specified Executives** | | | | |
| D. Chiera | | – | – | – |
| G Jorey | | – | – | – |
| **TOTAL** | | **40,780,000** | **–** | **40,780,000** |

Note (i):Shares are held by a personally-related entity of Messrs Anthony and Nicky Scal



**Note 24: Financial Risk Management Objectives and Policies**

The Company's principal financial instruments are derivatives and cash.

The main purpose of these financial instruments is to raise finance for the Company's operations. The Company has various other financial assets and liabilities such as trade receivables and trade payables which arise directly from its operations. The Company also enters into derivative transactions including principally forward currency contracts. The purpose is to manage the currency risks arising from the Company's operations and its sources of finance. It is and has been throughout the period under review the Company's policy that no trading in financial instruments shall be undertaken. The main risks arising from the Company's financial instruments are cash flow interest rate risk, liquidity risk, foreign currency risk and credit risk.

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

**(a) Cash Flow Interest Rate Risk**

The Company's exposure to cash flow interest rate risk is minimal. The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

| | **<1 Year $'000** | **Total** | **Weighted Average Effective Interest rate** |
|---|---|---|---|
| **Year ended 30 June 2007** | | | |
| *Floating rate* | | | |
| Cash assets | 7,846 | 7,846 | 6.0% |
| **Year ended 30 June 2006** | | | |
| *Floating rate* | | | |
| Cash assets | 6,291 | 6,291 | 5.4% |

**(b) Foreign Currency Risk**

All of the Company's sales are denominated in the functional currency, whilst the majority of stock purchases costs are denominated in currencies other than the Company's functional currency. The Company uses forward currency contracts to manage the currency exposures.

**(c) Commodity Price Risk**

The Company's exposure to commodity price risk is minimal.

**(d) Credit Risk**

In most cases, the Company requires full and final payment either prior to, or upon delivery of the goods to the customer. In limited cases where credit is provided, the Company trades with recognised, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures.

In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from the other financial assets of the Company, which comprise cash and cash equivalents, and certain derivative instruments, the Company's exposure to credit risk arises from default of the counter party, with a maximum exposure equal to the carrying amount of these instruments.

**(e) Liquidity Risk**

The Company's objective is to maintain a balance between continuity of funding and flexibility through the use cash and cash equivalents, trade receivables and trade payables.



**Note 25: Financial Instruments**

**Fair Values**

The fair values of financial instruments is equal to the carrying amounts recognised in the financial statements.

The fair value of derivatives have been calculated by discounting the expected future cash flows at prevailing interest rates.

As at 30 June 2007, the company held forward exchange contracts to cover purchase prices on firm commitments from overseas suppliers. The terms of these contracts are as follows:

| 30 June 2007: | Buy US$ | Maturity | Exchange Rate |
|---|---|---|---|
| | 443,803 | 6-Jul-07 | 0.7962 |
| | 364,574 | 6-Jul-07 | 0.7654 |
| | 156,503 | 13-Jul-07 | 0.8081 |
| | 310,428 | 13-Jul-07 | 0.8069 |
| | 221,119 | 13-Jul-07 | 0.8076 |
| | 634,421 | 20-Jul-07 | 0.7843 |
| | 30,724 | 20-Jul-07 | 0.7800 |
| | 500,000 | 31-Jul-07 | 0.8067 |
| | 1,119,398 | 14-Aug-07 | 0.7744 |
| | 1,500,000 | 17-Aug-07 | 0.7583 |

| 30 June 2006: | Buy US$ | Maturity | Exchange Rate |
|---|---|---|---|
| | 3,295 | 7-Jul-06 | 0.7600 |
| | 353,756 | 28-Jul-06 | 0.7700 |
| | 500,000 | 7-Jul-06 | 0.7710 |
| | 249,626 | 7-Jul-06 | 0.7600 |

**Note 26: Segment Information**

The company operates in one industry segment being retail furniture and in one geographical location, being Australia.

# Directors' Declaration

In accordance with a resolution of the directors of Nick Scali Limited, we state that:

1) In the opinion of the directors :

   (a) the financial statements and notes of the company are in accordance with the Corporations Act 2001, including:

      (l) giving a true and fair view of the company's financial position as at 30 June 2007 and of the performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001; and

   (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2007.

On behalf of the Board

| | |
|---|---|
| **J.W. Ingram** | **A.J. Scali** |
| *Chairman* | *Managing Director* |

Sydney, 9 August 2007



Ernst & Young Centre
680 George Street
Sydney NSW 2000
Australia

GPO Box 2646
Sydney NSW 2001

Tel 61 2 9248 5555
Fax 61 2 9248 5959

## Independent auditor's report to the members of Nick Scali Limited

We have audited the accompanying financial report of Nick Scali Limited (the company), which comprises the balance sheet as at 30 June 2007, and the income statement, statement of changes in equity and cash flow statement for the year ended on that date, a summary of significant accounting policies, other explanatory notes and the directors' declaration.

*Directors' Responsibility for the Financial Report*

The directors of the company are responsible for the preparation and fair presentation of the financial report in accordance with the Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Act 2001*. This responsibility includes establishing and maintaining internal controls relevant to the preparation and fair presentation of the financial report that is free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

*Auditor's Responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, we consider internal controls relevant to the entity's preparation and fair presentation of the financial report in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Independence*

In conducting our audit we have met the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration. In addition to our audit of the financial report, we were engaged to undertake the services disclosed in the notes to the financial statements. The provision of these services has not impaired our independence.



ERNST & YOUNG

*Auditor's Opinion*

In our opinion:

1. the financial report of Nick Scali Limited is in accordance with:

(a) the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the financial position of Nick Scali Limited at 30 June 2007 and of its performance for the year ended on that date; and

  (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations); and

(b) other mandatory financial reporting requirements in Australia.

2. the financial report also complies with International Financial Reporting Standards as disclosed in Note 1.

Ernst & Young

Daniel Cunningham
Partner
Sydney
9 August 2007



ERNST & YOUNG

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## Auditor's Independence Declaration to the Directors of Nick Scali Limited

In relation to our audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2007, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Daniel Cunningham
Partner
9 August 2007

# ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 30 June 2006.

**(a) Distribution of shareholders, by size of holding, are:**

| Shareholders Category | No. of Ordinary Shareholders |
|---|---|
| 1 - 1,000 | 85 |
| 1,001 - 5,000 | 241 |
| 5,001 - 10,000 | 107 |
| 10,000 - 100,000 | 78 |
| 100,001 and over | 19 |
| | 530 |

**(b) Twenty largest shareholders as at 30 June 2007**

| Name | No. of Ordinary Shares Held | Percentage of Capital Held |
|---|---|---|
| Scali Consolidated Pty Limited | 40,500,000 | 50.00% |
| J P Morgan Nominees Aust Ltd | 7,526,187 | 9.29% |
| Citicorp Nominees Pty Ltd | 4,906,422 | 6.06% |
| RBC Dexia Investor Services Aust P/L | 3,621,065 | 4.47% |
| National Nominees Limited | 3,517,072 | 4.34% |
| AUST Executor Trustees NSW Ltd | 3,217,015 | 3.97% |
| Citicorp Nominees Pty Ltd | 2,794,475 | 3.45% |
| RBC Dexia Investor Services Aust P/L | 2,631,776 | 3.25% |
| HSBC Custody Nominees | 1,945,815 | 2.40% |
| Cogent Nominees Pty Ltd | 1,509,299 | 1.86% |
| ANZ Nominees Ltd | 1,384,425 | 1.71% |
| Molvest P/L | 1,350,000 | 1.67% |
| Citicorp Nominees Pty Ltd | 750,000 | 0.93% |
| Cogent Nominees Pty Ltd | 309,296 | 0.38% |
| Mr John Weir Ingram | 250,000 | 0.31% |
| Mr Bernard Choon Yin Hui | 200,000 | 0.25% |
| RBC Dexia Investor Services - Australia Nominees P/L | 193,216 | 0.24% |
| Citicorp Nominees Pty Ltd | 156,863 | 0.19% |
| Mrs Catherine Alexis Grant | 120,000 | 0.15% |
| Lawncat Pty Limited | 100,000 | 0.12% |
| | 76,982,926 | 95.04% |

**(c) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 671B of the Corporations Act 2001 are:

| Shareholder | Ordinary Shares |
|---|---|
| Scali Consolidated Pty Limited | 40,500,000 |
| Commonwealth Bank Group | 7,504,999 |
| Perpetual Trustees Australia Limited | 6,676,166 |
| | 54,681,165 |

**(d) Voting rights**

All ordinary shares carry one vote per share without restriction.

# Corporate Information

**Nick Scali Limited**
ABN 82 000 403 896

**Store Locations**

| New South Wales | Australian Capital Territory | Queensland | South Australia | Victoria |
|---|---|---|---|---|
| Auburn | Fyshwick | Aspley | City Living | Chirnside |
| Belrose | | Bundall | Leather World | Essendon |
| Campbelltown | | Fortitude Valley | Mile End | Mildura |
| Caringbah | | Gold Coast | Payneham | Nunawading |
| Chatswood | | Macgregor | | |
| Kotara | | Townsville | | |
| Moore Park | | | | |
| Moore Park - Scali Living | | | | |
| Norwest | | | | |
| Tuggerah | | | | |

**Registered Office**
B1- B2, 3-9 Birnie Avenue
Lidcombe, NSW 2141
Telephone: 02 9748 4000
Facsimile: 02 9748 4022
website:www.nickscali.com.au

**Company Secretary**
Dominic Chiera

**Auditors**
Ernst & Young
Ernst & Young Building
680 George Street
Sydney NSW 2000

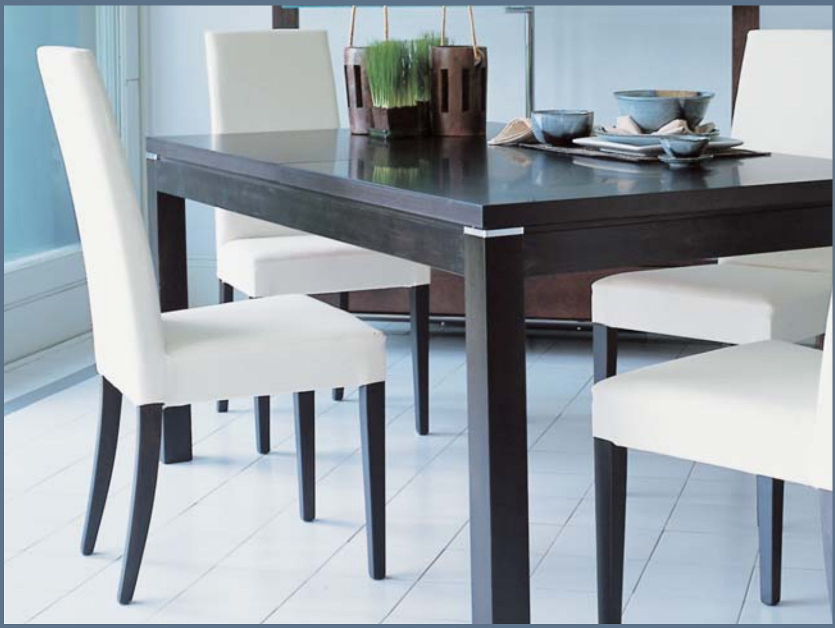
**Solicitors**
Bruce Stewart Dimarco
Level 2, 299 Elizabeth Street
(Cnr Elizabeth & Liverpool Streets)
Sydney NSW 2000

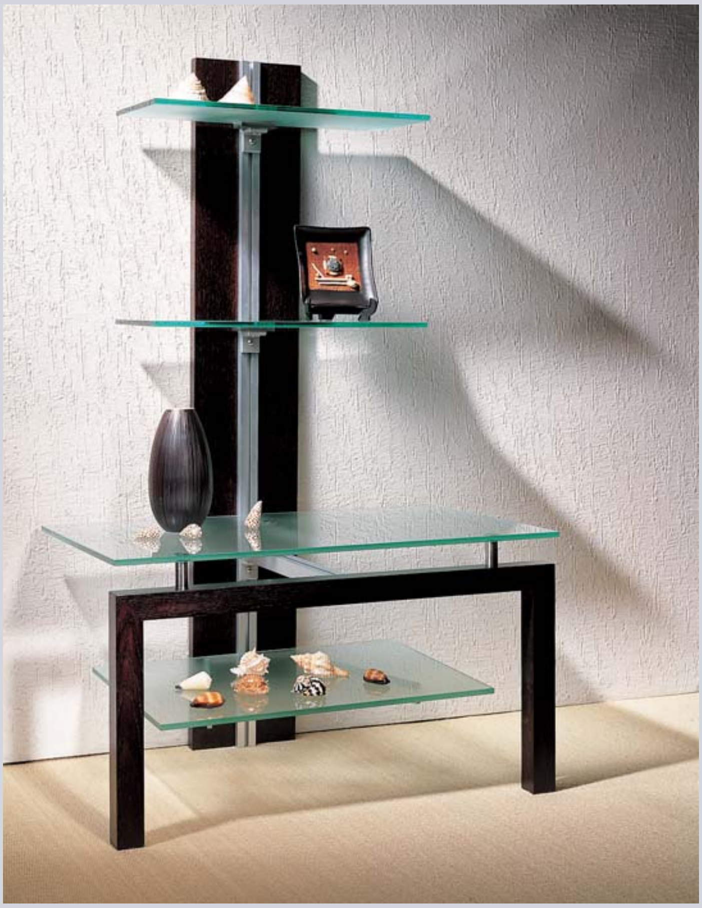
**Bankers**
National Australia Bank Limited

**Share Registry**
Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000
Locked Bag A14 Sydney South NSW 1235
Telephone: 02 8280 7111
Facsimile: 02 9287 0303
Email: registrars@linkmarketservices.com.au
website: www.linkmarketservices.com.au

**Stock Exchange**
The Company is listed on the Australian Stock Exchange.
The home exchange in Sydney
ASX code: NCK

**Annual General Meeting**
The annual General Meeting will be held at 11.30 am
on Monday, 22 October 2007
at Nick Scali Limited Head Office





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