nick scali LIMITED

annual report 2008

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Chairman & Managing Director's Review

Dear Shareholder

Your Board is pleased to report a successful outcome with a net profit after tax of A$6.6 million for this financial year. The result is 10% above the market guidance provided by the Company in April, in a year where consumer confidence was hit hard by record high fuel prices and higher interest rates.

The Company generated total sales revenue of $78.8 million, which was 2.1% higher than the 2007 fiscal year. This growth in sales revenue was due to the inclusion of the full year sales of stores which opened part-way through the 2007 financial year and sales from the two new stores which opened part way through the 2008 financial year - one in Bundall on the Gold Coast, Queensland and one at Marion in Adelaide, South Australia.

After tax profit was, however, down 23.9% on the previous year. This reflected the further downturn for "larger-ticket-price" consumer goods for the housing market during the year and the impact of our continued infrastructure build. This infrastructure build is aimed at delivering improved returns to shareholders over the longer term and is a core part of the Company's strategy and future direction.

The achievement of an increase in sales revenue further demonstrates the effectiveness of the Company's growth strategy and our continued focus on establishing prime locations in high growth areas. These prime locations will provide us with maximum trading efficiencies. Although this approach is conservative and controlled, we believe this will assist the Company to not only achieve exceptional growth during the good times but to weather the more challenging times that may lay ahead.

It is for this reason that the Board has made the tough decision to postpone growth into Western Australia due to the difficulty in securing the flagship site which is required to underpin the critical mass which is crucial to a successful operation. It is the Board's experience that strong and sustainable results are bred out of a disciplined growth strategy and as such, the Company will concentrate on capitalising on existing infrastructure and growing in familiar markets until the right opportunities present themselves in new markets

The first half of the financial year will see Nick Scali Limited open up two new stores in Frankston and Richmond in Victoria and in the second half of the year, a store in Adelaide. As most shareholders would be aware, this follows the successful bedding down of the three new stores opened in the 2007 financial year - Nunawading and Essendon in Melbourne and Belrose in Sydney, as well as the two stores opened in the 2008 financial year - Bundall and Marion.

Chairman & Managing Director's Review

Financial

The Directors have declared a fully franked final dividend of 2.5 cents per share, which results in a total dividend for the year of 7.0 cents per share, payable on 31 October 2008. While this year's total dividend is down 2.0 cents per share from last year's 9.0 cents per share, it represents a payout ratio of 86% of after tax profit for the year, up from last year's payout ratio of 84%.

Nick Scali Limited has again maintained a strong balance sheet and healthy cashflow throughout the year. This position enables the Company to execute a more aggressive approach to our strategy of securing the best possible sites in key market areas. It also allows the Company to take advantage of further growth opportunities as they present themselves and to expand at a faster rate to deliver long term sustained value for our shareholders.

Corporate Governance

The Company has continued to make improvements in this important area. During the year, the Company commissioned an external risk management review. A number of improvements in controls have resulted from that process, and your Board will continue to monitor this aspect of its responsibilities closely.

Details of our corporate governance policies and activities are contained in the Corporate Governance section of this Report, commencing on page 3.

People

During a year which was more challenging than normal, our staff yet again proved to be supportive and is the Company's most valuable and important asset. The staff remained focused on the job at hand, and were instrumental in achieving an outstanding result considering the downtown in the market. The Board expresses its heartfelt appreciation to the staff of Nick Scali Limited.

Outlook

The outlook for the current year is partly dependent on the extent of the recovery in consumer confidence, impacted in turn by the future direction of interest rates and employment levels. The Board is pleased to report that there has been tentative evidence of an improvement in confidence over recent months, with orders for June, July and August that is better than in the previous three months. However, conditions within the industry do remain particularly subdued and fragile and the Board feels that it is not possible to accurately forecast results for the 2009 financial year at this present time. The Company is however very well placed to benefit from any improvement in market conditions.

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 committees are the three non executive Directors.

The Board works with senior management to continually review and refine corporate governance standards. In particular during the financial year there has been increased focus on both the substance and documentation of standard operating procedures, and information technology system enhancements.

The Australian Securities Exchange Corporate Governance Council has established the Principles of Good Corporate Governance and Best Practice Recommendations. The Company has applied and followed the ASX Recommendations except to the extent 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 Securities 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, both of which operate under a formal charter. 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.

Corporate Governance Statement (continued)

The Board acknowledges that the current structure does not strictly comply with Recommendation 2.1 (that "A majority of the board should be independent directors."). However, the current Board has extensive depth and breadth of knowledge of and expertise in the retail sector and other relevant functional areas. In addition, the Company's Chairman is a non-executive independent director. The directors believe that for a Company of Nick Scali Limited's size, the current composition of the Board is appropriate and effective.

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

i. 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. The Managing Director and Chief Financial Officer further certify in writing that with regard to the financial records and systems of risk management and internal compliance and control of the Company: The financial records of the Company have been properly maintained in accordance with Section 286 of the Corporations Act 2001;

ii. The statements made above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors;

iii. The risk management and internal compliance and control systems of the company and consolidated entity relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects, and

iv. Subsequent to balance date, no changes or other matters have arisen that would have a material effect on the operation of risk management and internal compliance and control systems of the company and consolidated entity.

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 Audit Committee operates under a Charter approved by the Board. The Audit Committee's responsibilities under the Charter 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

Corporate Governance Statement (continued)

- 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 2008, Messrs Greg Laurie and John Ingram attended all three meetings, whilst Mr Nick Scali attended two. In addition to these meetings the Chairman of the Audit Committee met periodically with management and the external auditors.

Make timely and balanced disclosure

The Board is aware of its obligation under the Continuous Disclosure requirements of the Australian Securities Exchange. The Managing Director is responsible for monitoring compliance with Continuous Disclosure, assisted by the senior management team. All notices to the Australian Securities 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 Securities 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 Securities Exchange are included on the Company's website.

Recognise and manage risk

Risk Management Control

The Audit Committee recommends to the Board the policy and overall direction of risk management for the Company. Responsibility for day to day management of risk rests with Management. The Audit Committee reports to the Board in relation to matters relevant to its responsibilities.

In summary, the Company's risk management policy is to identify events or circumstances relevant to the Company's objectives (risks and opportunities), assess them in terms of likelihood and magnitude of impact, determine a response strategy, and monitor progress. Management is encouraged to view the management and reporting of risk as a core component of the planning and management practices of the Company.

A risk assessment project was completed during the financial year which included a review of the Company's existing risk oversight and management policies. This process identified risks associated with the business and graded their relevance. This process is continuing and various mitigation strategies are being implemented.

Review of risk and existing policies

Risk areas which have been reviewed or are currently under review are as follows.

Information technology risk – a number of information technology based improvements have been made to key processes, in order to reduce operational risk.
Foreign currency risk – The Board reviewed and modified the Company's foreign exchange policy to better reflect the Company's view on risk management in this area.
Compliance – During the year, a compliance committee was established. This Committee reports to the Board and is currently in the process of reviewing a number of aspects of compliance.
Occupational health and safety – A review of occupational health and safety policies and procedures, using an external consulting firm, has been commissioned.

Corporate Governance Statement (continued)

Management control

The Chief Executive Officer and the Chief Financial Officer have certified to the Board that for the year ending 30 June 2008 that:

- The statements made with respect to the integrity of the Company's financial reports are founded on a system of risk management and internal compliance and control which implements the policies adopted by the Board; and
- The Company's risk management and internal compliance and control system is operating efficiently and effectively in all material respects.

The Board considers its approach to risk oversight and management is appropriate for the Company, given its size and business complexity, but is seeking to continually improve the Company's management of risk. The Company intends making certain of its risk management policies available to shareholders via its website in due course.

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.

The Company's executive remuneration packages are currently based on a combination of fixed and performance based remuneration. The performance measures are a combination of financial results achieved by the Company and the 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.

No rights were 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 existing senior employees of the Company for which Board approval is required.
- Recommending to the Board the remuneration of new senior executives appointed by 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 formally met twice in the last twelve months. All members attended, together with the Managing Director. Discussion on matters relating to remuneration and human resources in general also regularly takes place at meetings of the Board.

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 Report *For the year ended 30 June 2008*

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Directors' Report

The Directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30 June 2008 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, AM, 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, Chairman of Savcor Group Ltd , 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 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 the Company 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, CPA, BEcon,
Chief Financial Officer and Company Secretary
Dominic joined Nick Scali Limited as Chief Financial Officer in March 2005. He has over 16 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.

Directors' Report (continued)

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	310,000
Anthony J Scali	
– Managing director	41,500,000*
Greg R Laurie	
– Non executive director	30,000
Nick D Scali	
– Non executive director	1,000,000
Nicky D Scali	
– Alternate director	41,500,000*

* Shares are held by director-related entities 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 $6,596k, 24% below the previous year. The result reflects the difficult economic conditions experienced in the second half of the financial year, which impacted the Company's market segment in particular.

Sales for the year were 2.1% above the previous year. The increase is due mainly to the contribution of stores not open for a full twelve months in the previous year. Same store sales, after being marginally up on last year at the end of the first half of the financial year, finished 8.1% down on last year for the full financial year.

Two new stores were opened during the year - Bundall in Queensland and Marion in South Australia. Both these stores have performed well given the underlying economic conditions. The Company remains committed to its expansion strategy.

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 $6,596k (2007: $8,664k).

Dividends

Fully franked dividends totalling $7,290k (2007: $6,075k fully franked) were paid during the year. A final, fully franked dividend of 2.5 cents per ordinary share has been declared by the Directors since balance date. Based on the number of shares on issue at 30 June 2008, this would amount to $2,025k. 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 2008 amounted to 7.0 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 the forseeable future.

Likely Developments and Expected Results

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

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.

Directors' Report (continued)

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.

Remuneration Report – Audited

This remuneration report outlines the director and executive remuneration arrangements of the Company in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of this report, key management personnel of the Company are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the Company, directly or indirectly, including any director. For the purposes of this report, the term 'executive' encompasses the Managing Director and senior 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 high quality 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 report directly 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 which makes a recommendation to the Board. The Committee seeks advice from external parties in making a recommendation Non-executive directors do not receive bonuses and they are not entitled to participate in the recently established Executive Performance Rights Plan.

Employment/Consultancy Agreements

	Anthony Scali	Nicky D Scali	Nick Scali
Agreement type:	Employment agreement	Employment agreement	Consultancy agreement
Title:	Managing Director	Marketing and Information Technology Manager	Consultant
Remuneration:	$347,000, subject to annual review, commencing May 2004	$198,585, subject to annual review, commencing May 2004	$60,000, paid as directors fees, subject to annual review, commencing May 2004
Term:	Evergreen	Evergreen	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

Directors' Report (continued)

Remuneration Report – Audited (Continued)

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 executive 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.
- 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 2008/09 financial year.

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

Remuneration of directors and named key management personnel

		Short Term Benefits			Post Employment	Long Term Incentive Plans	Total $	Percentage Performance Related
		Salary & Fees	*Cash Bonus*	*Non Monetary Benefits*	*Superannuation*			
J.W. Ingram	2008:	75,000	–	–	–	–	75,000	0%
Non-Executive Chairman	2007:	37,500	–	–	37,500	–	75,000	0%
G.R. Laurie	2008:	37,810	–	–	17,190	–	55,000	0%
Non-Executive Director	2007:	4,205	–	–	50,795	–	55,000	0%
N.D. Scali	2008:	60,000	–	–	–	–	60,000	0%
Non-executive director	2007:	60,000	–	–	–	–	60,000	0%
A.J. Scali	2008:	334,860	–	–	12,140	–	347,000	0%
Managing Director	2007:	336,056	–	–	11,128	–	347,184	0%
Nicky D. Scali	2008:	186,445	–	–	12,140	–	198,585	0%
Marketing and IT Manager	2007:	188,176	–	–	11,128	–	199,304	0%
D. Chiera	2008:	208,361	20,000	–	12,140	–	240,501	8%
Chief Financial Officer & Company Secretary	2007:	208,361	50,000	–	12,140	–	270,501	18%
G. Jorey	2008:	240,423	–	–	20,096	–	260,519	0%
General Manager – Operations *(appointed 12 June 2007, resigned 30 June 2008)*	2007:	10,500	–	–	945	–	11,445	0%

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

Directors' Report (continued)

Meetings

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

	Board Meetings	Meetings of Sub Committees	
		Audit	Remuneration & Nomination
Number of meetings held:	11	3	2
Number of meetings attended:			
J.W. Ingram	11	3	2
G.R.Laurie	11	3	2
N.D. Scali	10	2	2
A.J. Scali	11	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 this Class Order applies.

Auditor's Independence Declaration

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 41 of the Financial Report.

Non-Audit Services

The following non-audit services were provided by the Company'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	12,817
Other advisory services	20,000

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

J.W. Ingram
Chairman

A.J. Scali
Managing Director

Sydney, 14 August 2008

Income Statement *For the year ended 30 June 2008*

	Notes	2008 $'000	2007 $'000
Revenue from sale of goods	2	78,840	77,202
Cost of sales		(31,363)	(31,379)
Gross Profit		**47,477**	**45,823**
Other income	2	619	622
Distribution expenses		(5,292)	(4,896)
Marketing expenses	3 (a)	(14,084)	(13,436)
Administrative expenses		(3,648)	(3,248)
Rental expenses	3 (a)	(14,622)	(11,615)
Other expenses	3 (a)	(1,080)	(928)
Profit Before Income Tax		**9,370**	**12,322**
Income Tax Expense	4	(2,774)	(3,658)
Profit After Tax		**6,596**	**8,664**
Net Profit for the Year		**6,596**	**8,664**
Basic Earnings Per Share (cents per share)	7	8.1 cents	10.7 cents
Diluted Earnings Per Share (cents per share)	7	8.1 cents	10.7 cents
Net Tangible Asset Backing Per Share (cents per share)		16.6 cents	17.5 cents

Balance Sheet *as at 30 June 2008*

	Notes	2008 $'000	2007 $'000
Current Assets			
Cash and cash equivalents	22	7,451	7,846
Receivables	8	623	797
Inventories	9	12,741	13,192
Other financial assets	10	24	46
Other assets	11	611	1,019
Total Current Assets		**21,450**	**22,900**
Non-Current Assets			
Deferred tax assets	4	507	375
Property, plant and equipment	12	3,991	3,965
Intangible assets	13	2,378	2,378
Total Non-Current Assets		**6,876**	**6,718**
Total Assets		**28,326**	**29,618**
Current Liabilities			
Payables	14	10,348	11,617
Interest bearing liabilities	15	1,291	–
Current tax liabilities	4	645	1,337
Provisions	16	77	91
Total Current Liabilities		**12,361**	**13,045**
Non-Current Liabilities			
Provisions	16	139	53
Total Non-Current Liabilities		**139**	**53**
Total Liabilities		**12,500**	**13,098**
Net Assets		**15,826**	**16,520**
Equity			
Contributed equity	17	3,364	3,364
Reserves	18	78	78
Retained profits		12,384	13,078
Net Equity		**15,826**	**16,520**

Statement of Changes in Equity *For the year ended 30 June 2008*

	Notes	Contributed Equity $'000	Retained Profits $'000	Reserves $'000	Total $'000
Year Ended 30 June 2007					
As at 1 July 2006		**3,364**	**10,489**	**78**	**13,931**
Total income and expense for the year recognised directly in equity		–	–	–	–
Profit for the year		–	8,664	–	8,664
Total income and expense for the year		**–**	**8,664**	**–**	**8,664**
Equity dividends	5	–	(6,075)	–	(6,075)
As at 30 June 2007		**3,364**	**13,078**	**78**	**16,520**
Year Ended 30 June 2008					
As at 1 July 2007		**3,364**	**13,078**	**78**	**16,520**
Total income and expense for the year recognised directly in equity		–	–	–	–
Profit for the year		–	6,596	–	6,596
Total income and expense for the year		**–**	**6,596**	**–**	**6,596**
Equity dividends	5	–	(7,290)	–	(7,290)
As at 30 June 2008		**3,364**	**12,384**	**78**	**15,826**

Statement of Cash Flows *For the year ended 30 June 2008*

	Notes	2008 $'000	2007 $'000
Cash Flows from Operating Activities			
Receipts from customers		86,920	85,701
Payments to suppliers and employees		(77,075)	(73,480)
Interest received		411	345
Interest paid		(1)	–
Income tax paid		(3,596)	(3,226)
Net Cash Flows from Operating Activities	22 (a)	**6,659**	**9,340**
Cash Flows from Investing Activities			
Purchase of property, plant & equipment		(1,055)	(1,739)
Proceeds from sale of property, plant & equipment		–	29
Net Cash Flows used in Investing Activities		**(1,055)**	**(1,710)**
Cash Flows from Financing Activities			
Payment of dividends on ordinary shares		(7,290)	(6,075)
Proceeds from interest bearing loans		1,291	–
Net Cash used in Financing Activities		**(5,999)**	**(6,075)**
Net Increase / (Decrease) in Cash and Cash Equivalents Held		(395)	1,555
Add opening cash and cash equivalents brought forward		7,846	6,291
Closing cash and cash equivalents carried forward	22 (b)	**7,451**	**7,846**

Notes to the Financial Statements *For the year ended 30 June 2008*

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 was approved on 14 August 2008.

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

This financial report complies with Australian Accounting Standards as issued by the Autsralian Accounting Standards Board and International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

Adoption of new standard
The Company has adopted AASB 7 Financial Instruments: Disclosures and all consequential amendments which became applicable on 1 January 2007. The adoption of this standard has only affected the disclosure in these financial statements. There had been no effect on profit and loss or the financial position of the Company.

(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:

	2008	2007
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%
Leasehold improvements - make good	Lease term	Lease term

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 and 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.

Notes to the Financial Statements *For the year ended 30 June*

Note 1: Statement of Significant Accounting Policies

(d) Leases (continued)

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:

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 of annual leave are recognised in other payables 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. 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 the Company 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 are recognised in the income statement.

(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.

Notes to the Financial Statements *For the year ended 30 June 2008*

Note 1: Statement of Significant Accounting Policies

(j) Revenue Recognition (continued)

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. Revenue recognised equals the fair value of the consideration received or receivable less any discounts.

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.

(l) Trade and other payables

Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They 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. The amounts are unsecured and are usually paid within 30 days of recognition.

(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.

Make good provision
A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with restoring the premises to it's condition at the time the Company initially leased the premises, subject to fair wear and tear.

The calculation of this provision requires assumptions such as cost estimates and an assessment of the likelihood the Company will continue to lease the premises at the end of the current lease. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting the expense or asset (if applicable) and provision.

(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 earnings per share (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)

Notes to the Financial Statements *For the year ended 30 June 2008*

Note 1: Statement of Significant Accounting Policies

(o) Earnings per share (continued)

- 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.

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.

Notes to the Financial Statements *For the year ended 30 June 2008*

Note 1: Statement of Significant Accounting Policies

(q) Income tax (continued)

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) Interest-bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for a least 12 months after the balance sheet date.

Borrowing costs are recognised as an expense when incurred.

(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 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.

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

Make good provision - A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with restoring the premises to it's condition at the time the Company initially leased the premises, subject to fair wear and tear.

(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, 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 2008. 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.

Notes to the Financial Statements *For the year ended 30 June 2008*

	2008 $'000	2007 $'000
Note 2: Revenue		
Revenue		
Sales revenue	78,840	77,202
Interest income	411	345
Sundry income	208	277
	619	622
Total revenue	79,459	77,824

	2008 $'000	2007 $'000
Note 3: Operating Expenses and Losses (Gains)		
Profit before income tax has been determined after:		
(a) Expenses		
Bad and doubtful debts	12	3
Marketing expenses		
Advertising and marketing	6,122	6,073
Store expenses	7,962	7,363
	14,084	13,436
Rental expenses		
Operating lease rental - minimum lease payments	14,622	11,615
Other expenses		
Depreciation/Amortisation of non-current assets		
Office equipment	351	383
Furniture and fittings	95	85
Leasehold improvements	499	369
Motor vehicles	75	73
Amortisation of make good	9	–
	1,029	910
General expenses	51	18
	1,080	928
Employee benefits expenses (i)		
Salaries and wages	10,809	10,083
Superannuation expense	836	733
Other	1,455	1,261
	13,100	12,077

(i) Employee benefit expenses are included in distribution expenses, marketing expenses and administrative expenses

	2008 $'000	2007 $'000
(b) Losses/(gains)		
(Gain) / Loss on disposal of property, plant and equipment	–	(28)
Net foreign currency (gain) *	(46)	(44)

** Exchange gain has been included in cost of sales*

Notes to the Financial Statements *For the year ended 30 June 2008*

	2008 $'000	2007 $'000
Note 4: Income Tax		
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	2,912	3,715
Adjustments in respect of current income tax of previous years	(3)	(1)
Deferred income tax		
Relating to origination and reversal of temporary differences	(135)	(56)
Income tax expense reported in the income statement	**2,774**	**3,658**

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 2008 and 30 June 2007 is as follows:

	2008 $'000	2007 $'000
Accounting profit before income tax	9,370	12,322
At the statutory income tax rate of 30% (2007: 30%)	2,811	3,697
Adjustments in respect of current income tax of previous years	(3)	(2)
Other items (net)	(34)	(37)
Income tax expense	**2,774**	**3,658**
Effective income tax rate	**29.6%**	**29.7%**
Income tax expense reported in income statement	2,774	3,658

Current tax liabilities

	2008 $'000	2007 $'000
Opening balance	1,337	849
Charged to income	2,904	3,714
Other payments	(3,596)	(3,226)
Closing balance	**645**	**1,337**

Deferred income tax assets

	Balance sheet		Income statement	
	2008 $'000	2007 $'000	2008 $'000	2007 $'000
Employee entitlements	388	272	(102)	(60)
Audit fee accrual	26	34	(9)	(3)
Superannuation accrual	20	24	4	8
Deferred rent	73	45	(28)	(1)
	507	375		
Deferred tax (benefit) / expense			(135)	(56)

Notes to the Financial Statements *For the year ended 30 June 2008*

	2008 $	2007 $
Note 5: Dividends		
Declared and paid during the year:		
Dividends on ordinary shares:		
Final franked dividend for 30 June 2007: 4.5 cents per share (2006: 3.0 cents per share)	3,645	2,430
Interim franked dividend for 30 June 2008: 4.5 cents per share (2007: 4.5 cents per share)	3,645	3,645
	7,290	6,075
Proposed - 2.5 cents per share (2007: 4.5 cents per share) (not recognised as a liability as at 30 June)	2,025	3,645
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 2007: 30%).	3,758	3,126
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	649	1,337
	4,407	4,463
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	(868)	(1,562)
	3,539	2,901

The tax rate at which paid dividends have been franked is 30% (30 June 2007: 30%).
Dividends proposed will be franked at the rate of 30% (30 June 2007: 30%).

	2008 $	2007 $
Note 6: Auditors' Remuneration		
Amounts received or due and receivable by Ernst & Young for:		
– audit or review of the financial report of the Company	116,000	102,450
– other services provided to the Company		
– tax compliance	12,817	14,555
– other advisory services	20,000	–
	148,817	117,005

Notes to the Financial Statements *For the year ended 30 June 2008*

	2008 $'000	2007 $'000
Note 7: Earnings Per Share		
(a) Net profit after tax used in calculating basic earnings and diluted earnings per share	6,596	8,664
	No. of Shares 2008	**No. of Shares 2007**
(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	8.1	10.7
Diluted earnings per share	8.1	10.7

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.

	2008 $'000	2007 $'000
Note 8: Receivables		
Current		
Trade debtors (i)	525	671
Provision for doubtful debts (ii)	(14)	(4)
	511	667
Sundry debtors (iii)	112	130
	623	797

(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.
As at 30 June, the analysis of Trade Receivables that were past due but not impaired is as follows:

			Past due but not impaired			Past due and impaired
	Total $'000	**Current $'000**	**0-30 Days $'000**	**31-60 days $'000**	**>60 days $'000**	**$'000**
2008	525	431	80	–	–	14
2007	671	586	–	63	18	4

	2008 $'000	2007 $'000
Note 8: Receivables (continued)		
(ii) 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.		
There is no collateral held by the Company over the receivables. The receivables are individually impaired. Factors affecting impairment include the age of the debt and likelihood of recovery.		
Reconciliation of movement in doubtful debt provision:		
Opening balance	4	14
Additional provisions	9	–
Amounts (written off) / recovered	1	(10)
Closing balance	14	4
(iii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.		
Note 9: Inventories		
Finished Goods	11,876	11,864
Stock in transit	865	1,328
	12,741	13,192
Note 10: Other Financial Assets (Current)		
Deposits	24	46
Note 11: Other Assets		
Prepaid expenses	611	1,019
Note 12: Property, Plant and Equipment		
Office equipment - at cost	3,071	2,812
Accumulated depreciation	(1,797)	(1,435)
	1,274	1,377
Furniture & fittings - at cost	1,114	1,005
Accumulated depreciation	(762)	(677)
	352	328
Leasehold improvements - at cost	4,488	3,801
Less: accumulated depreciation	(2,410)	(1,874)
	2,078	1,927

	2008 $'000	2007 $'000
Note 12: Property, Plant and Equipment (Continued)		
Motor vehicles - at cost	562	560
Accumulated depreciation	(302)	(227)
	260	333
Leasehold improvements - make good - at cost	36	–
Less: accumulated depreciation	(9)	–
	27	–
Total - at cost	9,271	8,178
Less: accumulated depreciation	(5,280)	(4,213)
Total property, plant and equipment	3,991	3,965
Reconciliation of the carrying amounts of property, plant and equipment at the beginning and end of the current financial year:		
Office Equipment		
Carrying amount at beginning	1,377	1,437
Additions	248	323
Depreciation charged	(351)	(383)
	1,274	1,377
Furniture & fittings		
Carrying amount at beginning	328	183
Additions	119	230
Depreciation charged	(95)	(85)
	352	328
Leasehold improvements		
Carrying amount at beginning	1,927	1,194
Additions	650	1,102
Depreciation charged	(499)	(369)
	2,078	1,927
Motor vehicles		
Carrying amount at beginning	333	322
Additions	2	84
Depreciation charged	(75)	(73)
	260	333
Leasehold improvements - make good		
Additions	36	–
Depreciation charged	(9)	–
	27	–
Total		
Carrying amount at beginning	3,965	3,136
Additions	1,055	1,739
Depreciation charged	(1,029)	(910)
	3,991	3,965

	2008 $'000	2007 $'000
Note 13: Intangible Assets		
Goodwill on acquisition of stores in Adelaide	2,378	2,378

No impairment loss was recognised.

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 12.7% (2007: 12.2%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 2.0% (2007: 2.0%) for the five years.

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% (2007: 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.
- The Company expects to continue to occupy its leased premises for the next five years.

	2008 $'000	2007 $'000
Note 14: Payables		
Trade creditors (i)	2,982	2,596
Other creditors and accruals (ii)	1,577	3,557
Customer deposits (iii)	4,691	4,711
Annual leave	1,098	753
	10,348	11,617

(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 fulfilled.

Notes to the Financial Statements *For the year ended 30 June 2008*

	2008 $'000	2007 $'000
Note 15: Interest-bearing liabilities		
Interest-bearing loans and borrowing (i)	1,291	–

(i) Interest-bearing loans and borrowing:

The Company has a Letter of credit rollover facility, whereby payments to overseas suppliers made on the basis of a Letter of Credit are re-financed as short term debt by the Company's bank, for a period of up to 90 days.

The facility is denominated in USD, and interest is payable at the bank's cost of funds (in USD) plus a margin. Amounts below are in AUD and translated at the year end spot rate. The carrying value approximates the fair value at balance date.

As at balance date, the amounts borrowed under this facility are

	Total $'000	Less than 3 months $'000
2008	1,291	1,291
2007	–	–

	2008 $'000	2007 $'000
Note 16: Provisions		
Current		
Long service leave	77	91
Non-Current		
Long service leave	100	53
Make good	39	–
	139	53

Movement in provisions	Long service leave $'000	Make good $'000
2007		
Balance as at 1 July 2006	142	–
Amounts provided	13	–
Amounts taken	(11)	
Balance as at 30 June 2007	144	–
2008		
Balance as at 1 July 2007	144	–
Amounts provided	33	39
Balance as at 30 June 2008	177	39

	2008	2007
Number of employees		
Number of full time and part-time employees at balance date	210	225

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.

	2008 $'000	2007 $'000
Note 17: Contributed Equity		
81,000,000 (2006: 81,000,000) fully paid ordinary shares	3,364	3,364

	2008 Number of ordinary shares	2008 $'000	2007 Number of ordinary shares	2007 $'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 of 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.

	2008 $'000	2007 $'000
Note 18: 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.

Note 19: Expenditure Commitments

Operating leasing expenditure commitments

	2008 $'000	2007 $'000
Future minimum lease payments under non cancellable operating leases as at 30 June are as follows:		
– not later than one year	13,185	11,781
– later than one year but not later than five years	35,943	38,158
– later than 5 years	6,642	16,571
Aggregate expenditure contracted for at balance date	55,770	66,510

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 3.5 % per annum), or market review in some cases. A number of the store leases contain options to renew in favour of the Company.

Notes to the Financial Statements *For the year ended 30 June 2008*

Note 20: 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 the possibility of significant outflow is remote.

Note 21: Events Subsequent to Reporting Date
No significant events subsequent to the balance date have occurred that require separate disclosure.

	2008 $'000	**2007 $'000**
Note 22: Statement of Cash Flows		
(a) Reconciliation of net profit after tax to net cash flows from operating activities		
Net Profit	6,596	8,664
Non-cash items		
Depreciation of non-current assets	1,029	910
(Gain)/Loss on disposal of property, plant and equipment	–	(28)
Changes in assets & liabilities		
Decrease in value of trade & other receivables	174	101
(Increase) in value of inventories	(12)	(2,207)
Decrease / (increase) in value of prepayments	408	(641)
(Decrease) / increase in value of payables	(1,052)	1,921
Increase in value of provisions	340	188
(Decrease) / increase in current tax liabilities	(692)	488
(Decrease) / increase in deferred tax assets	(132)	(56)
Net cash flow from operating activities	6,659	9,340
(b) Reconciliation of cash and cash equivalents		
Cash balances comprise:		
– cash at bank	7,451	7,846
(c) Financing Facilities Available		
The following operating lines of credit were available at balance date:		
– credit facilities	7,600	6,600
– amount utilised	(3,102)	(627)
Unused credit facilities	4,498	5,973

The facilities provided are from National Australia Bank Limited. The amount utilised includes documentary letters of credits (in relation to payment of overseas suppliers), bank guarantees (property leases) and letter of credit re-finance facility.

During the year, National Australia Bank extinguished the registered mortgage debenture over the Company's assets. The Company's assets are therefore now unencumbered. The Company has entered into a negative pledge arrangement with National Australia Bank, whereby the Company will seek the consent of the bank prior to incurring a charge over its assets form a third party.

Note 23: 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 the Director's Report.

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

Auburn and Chatswood Leases

The Company leases premises at Auburn and Chatswood, 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

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 2008:

- The Company paid property lease rentals and outgoings to personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,294,651 (2007: $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 $36,307 (2007: $19,864) in respect of such items.

Note 24: Director and Executive Disclosure

Shareholdings of Specified Directors and Specified Executives

Shares held in Nick Scali Limited (number)		**Balance 1 Jul 2007 $**	**Net Change $**	**Balance 30 June 2008 $**
Specified Directors				
J.W. Ingram		250,000	60,000	310,000
A.J. Scali & N. D. Scali (jnr)	Note (i)	40,500,000	1,000,000	41,500,000
G.R. Laurie		30,000	–	30,000
N.D. Scali		–	1,000,000	1,000,000
Specified Executives				
D. Chiera		–	–	–
G. Jorey		–	–	–
TOTAL		**40,780,000**	**1,060,000**	**42,840,000**

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

Notes to the Financial Statements *For the year ended 30 June 2008*

Note 25: Financial Risk Management Objectives and Policies and Processes

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which revenue 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 report The carrying amount of all financial instruments at reporting date approximate fair values.

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect the Company's revenue or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Company has exposure to the following risks from its use of financial instruments:
– Credit risk
– Liquidity risk
– Interest rate risk
– Foreign exchange risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing each risk, and the Company's capital management policy. Further financial quantitative disclosures are included throughout these financial statements.

The Company's financial risk management policies are established to identity and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities.

The Audit Committee oversees how management monitors compliance with the risk management policies and procedures and reviews the adequacy of the risk management framework in relation to the risks.

The Company's principal financial instruments comprise bank loans, and cash and short-term deposits. The main purpose of these financial instruments is to raise finance for and fund the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the year, the Company's policy that no trading in financial Instruments shall be undertaken.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework, The Board has established an Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The committee provides regular reports to the Board of Directors on its activities.

Interest rate risk

The Company has a letter of credit rollover facility at a fixed interest rate as discussed in note 15. There are no other financial instruments other than cash subject to interest and therefore the interest rate risk impact is minimal. Management continually monitors the exposure to interest rate risk. The following table sets out the carrying amount, by maturity, of the financial instruments exposed to interest rate risk.

		<1 Year $'000	**Total $'000**	**Weighted Average Effective Interest rate**
Year ended 30 June 2008				
Floating rate	Cash assets	7,451	7,451	6.7%
Year ended 30 June 2007				
Floating rate	Cash assets	7,846	7,846	6.0%

Note 25: Financial Risk Management Objectives and Policies and Processes (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate used to calculate interest charges for the Letter of Credit Rollover facility (which is the bank's cost of funds in USD plus a margin) and cash accounts.

	Increase / decrease in interest rate	Effect on profit before tax $	Effect on equity $
2008	+ 2%	10	7
	- 2%	(10)	(7)
2007	+ 2%	12	8
	- 2%	(12)	(8)

Foreign Currency Risk

All of the Company's sales are denominated in the functional currency (AUD), whilst the majority of stock purchases costs are denominated in currencies other than the Company's functional currency.

Where appropriate, the Company has used forward currency contracts to manage its foreign currency exposures. These contracts do not qualify for hedge accounting and are economic hedges only.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate (with all other variables held constant) of the Company's profit before tax (due to the changes on the fair value of monetary assets and liabilities) and of the Company's equity.

	Increase / decrease in interest rate	Effect on profit before tax $'000	Effect on equity $'000
2008	+ 5%	1,408	986
	- 5%	(1,408)	(986)
2007	+ 5%	1,412	988
	- 5%	(1,412)	(988)

The Company has trade payables of $1,884,679 at 30 June 2008 denominated in USD (June 2007: $1,276,115).

Note 25: Financial Risk Management Objectives and Policies and Processes (continued)

Credit Risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. 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 on credit terms 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.

All amounts past due in excess of 30 days are individually assessed and provided for as doubtful if reasonable doubt as to collectibility exists.

With respect to credit risk arising from financial assets of the Company, which comprise of cash and cash equivalents and receivables, the Company's maximum exposure to credit risk, excluding the value of any collateral or other security, at balance date to recognised financial assets is the carrying amount, net of any provisions for doubtful debts, as disclosed in the balance sheet and notes to the financial statements.

Refer to note 8 for receivables past due and not impaired.

Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's policy for managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company's overall objective is to maintain a balance between continuity of funding and flexibility through the use of bank facilities.

The Company also manages liquidity risk by maintaining adequate reserves and banking facilities and by continuously monitoring forecast and actual cash flows and matching the maturity profiles of financial assets and liabilities.

The table below summarises the maturity profile of the Company's financial liabilities based on contractual undiscounted payments.

Year ended 30 June 2008	Less than 3 months $'000	3 to 12 months $'000	more than 12 months $'000	Total $'000
Trade creditors	2,765	217	–	2,982
Other creditors	1,577	–	–	1,577
Customer deposits (i)	4,577	108	6	4,691
Annual leave	1,098	–	–	1,098
Interest-bearing loans & borrowing	1,291	–	–	1,291
	11,308	325	6	11,639

Note 25: Financial Risk Management Objectives and Policies and Processes (continued)

Year ended 30 June 2007	Less than 3 months $'000	3 to 12 months $'000	more than 12 months $'000	Total $'000
Trade creditors	700	1,896	–	2,596
Other creditors	1,500	2,057	–	3,557
Customer deposits (i)	2,711	2,000	–	4,711
Annual leave	753	–	–	753
Interest-bearing loans & borrowing	–	–	–	–
	5,664	5,953	–	11,617

The Company also has a number of premises under operating lease commitments. The future contracted commitment at year end is disclosed at note 19.

(i) Customer deposits are refundable if the Company does not complete the sale. In practise the liability will not crystallise.

Note 26: Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Company's approach to capital management during the year.

The company uses a Letter of Credit Rollover facility to source capital. The balance of this facility was $1.3m at year end (2007: nil). The company uses external equity only when required for specific projects. No shares have been issued in the last few years for this purpose

The company pays dividends at the discretion of the Board. The dividend amount is based on market conditions and the profitability of the Company.

Note 27: Segment Information

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

Note 28: Corporate Information

Nick Scali Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange (code: NCK). The nature of the operations and principal activities of the Company are described in the Directors' Report.

Registered Office

3-9 Birnie Avenue
Lidcombe NSW 2141

Directors' Declaration

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 2008 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 2008.

On behalf of the Board

J.W. Ingram
Chairman

A.J. Scali
Managing Director

Sydney, 14 August 2008

ERNST & YOUNG

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Sydney NSW 2000 Australia
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Independent auditor's report to the members of Nick Scali Limited

Report on the Financial Report

We have audited the accompanying financial report of Nick Scali Limited, which comprises the balance sheet as at 30 June 2008, 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. In Note 1, the directors also state that the financial report, comprising the financial statements and notes, complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

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 the *Corporations Act 2001*, including:
   - (i) giving a true and fair view of the financial position of Nick Scali Limited at 30 June 2008 and of its performance for the year ended on that date; and
   - (ii) complying with Australian Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*.
2. the financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Report on the Remuneration Report

We have audited the Remuneration Report included in pages 5 to 6 of the directors' report for the year ended 30 June 2008. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Auditor's Opinion

In our opinion the Remuneration Report of Nick Scali Limited for the year ended 30 June 2008, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Daniel Cunningham
Partner
Sydney
14 August 2008

Auditors Independence Declaration

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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 2008, 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

Ernst & Young

Daniel Cunningham
Partner
14 August 2008

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 2008.

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

Shareholders Category	No. of Ordinary Shareholders
1-1,000	75
1,001 - 5,000	217
5,001 - 10,000	83
10,001 – 100,000	76
100,001 and over	21
	472

(b) Twenty largest shareholders as at 30 June 2008

Name	No. of Ordinary Shares Held	Percentage of Capital Held
Scali Consolidated Pty. Ltd.	40,500,000	50.00%
J P Morgan Nominees Australia Limited	7,124,589	8.80%
Citicorp Nominees Pty. Ltd.	4,906,422	6.06%
National Nominees Limited	4,543,892	5.61%
AUST Executor Trustees NSW Ltd.	3,343,065	4.13%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	3,305,831	4.08%
Citicorp Nominees Pty. Limited	2,368,813	2.92%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	2,292,729	2.83%
HSBC Custody Nominees (Australia) Limited	1,864,580	2.30%
Molvest Pty. Ltd.	1,350,000	1.67%
Cogent Nominees Pty. Limited	1,339,274	1.65%
Citicorp Nominees Pty. Ltd.	1,104,000	1.36%
Melusa Pty. Ltd.	1,000,000	1.23%
ANZ Nominees Limited	688,026	0.85%
Bond Street Custodians Limited	310,000	0.38%
AMP Life Limited	288,830	0.36%
Mr. Bernard Choon Yin Hui	200,000	0.25%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	161,782	0.20%
Morgan Stanley Australia Securities (Nominees) Pty. Ltd.	156,200	0.19%
Citicorp Nominees Pty. Limited	148,701	0.18%
	76,996,734	95.06%

(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	8,505,436
Perpetual Trustees Australia Limited	5,749,075
	54,754,511

(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	Marion	Mildura
Caringbah		Gold Coast	Mile End	Nunawading
Chatswood		Macgregor	Payneham	
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, 23 October 2008
at Nick Scali Limited Head Office