nickscali LIMITED

annual report 2009

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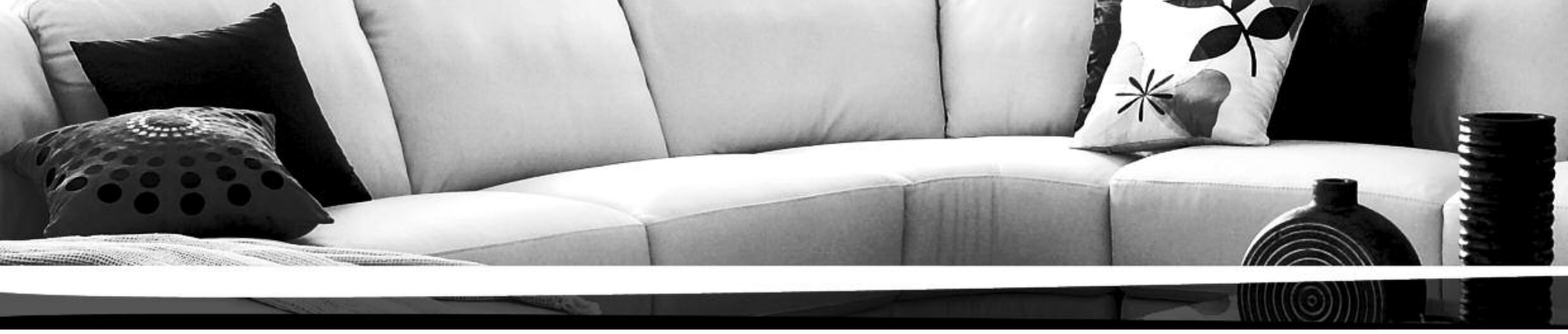


Chairman and Managing Director's Review

Dear Shareholder

Result

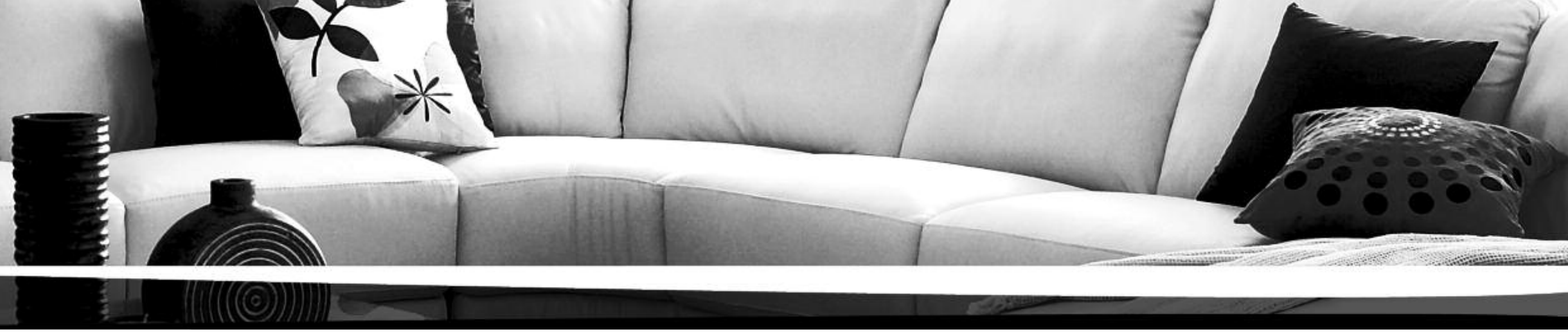
The financial year ended 30 June 2009 was one of unusually difficult trading conditions and significantly contrasting halves. Despite the conditions, your Board is satisfied with the Company's performance during challenging times and is pleased to be able to report a net profit after tax of $4.8 million for the year.

The period September 2008 to February 2009 saw consumer confidence fall to very low levels as a consequence of great economic uncertainty and wealth erosion which led to depressed sales. This was accompanied by a very rapid fall in the Australian Dollar against the US dollar in the first half, putting pressure on managing margins within an already tough market. From March 2009 sales levels began to recover, largely due to some improvement in general trading conditions and benefits flowing from the Company's focus on product offering, pricing and marketing initiatives.

Total sales revenue for the year was $77.5 million, a 1.7% decline on the 2008 fiscal year. The stronger order intake from March 2009 helped lift second half sales 6.2% above the same period in fiscal 2008, and boosted full year sales orders to $79.6 million; a 1.2% increase on the previous year. Second half sales also benefited from the inclusion of two new stores that opened in late December 2008, at Richmond and Frankston, both in Victoria, and a third store that opened in June 2009 at Gepps Cross in South Australia. The store openings went ahead despite the conditions that prevailed during the year and continues your Board's strategic focus on carefully expanding the store footprint at a judicious pace for longer-term increases in shareholder value.

After tax profit for the year was 27% below last year. First half profit declined 45% compared to the corresponding period in fiscal 2008 whereas the second half saw profit growth of 15% as against the second half of fiscal 2008. In the second half the Company had responded to the adjustment in the dollar exchange rate and returned margins to near their previous levels. Through the year the Company also benefited from its ongoing focus on cost control and inventory management, which helped mitigate the adverse profit impact of the subdued market.

The Company generated operating cashflows of $8.6m through the year, reflecting the strong cash generation capability of existing stores which in turn helped to finance the three new stores. The Company finished the year with solid cash reserves, no debt, reduced inventory, and overall a very strong balance sheet. As such your Board believes the Company is well positioned to take advantage of opportunities that might become available, and is continuing its commitment to open additional stores in strategically sound locations during the coming year.



Chairman & Managing Director's Review (continued)

Dividend

The Board has declared a final, fully franked dividend of 6 cents per share for the full year, payable on 30 October 2009.

Corporate Governance

The Company has continued to focus on the important areas of risk management and corporate governance, monitored by the Board and its Committees. This process has been assisted by the external risk management review undertaken in the previous year, the recommendations of which have been or are in the process of being implemented. In particular much effort has gone into updating occupational health and safety policies and practices, and ongoing improvements to internal financial and management controls with the aid of enhanced information technology based systems.

Further details of our corporate governance policies and activities are contained in the Corporate Governance section of this report.

People

The economic conditions have been particularly difficult for our staff throughout the organisation. They have proved to be both resilient and flexible. The Board is proud of their efforts and appreciative of their support and commitment. This result is a testament to their loyalty, dedication and tenacity in the face of great challenges.

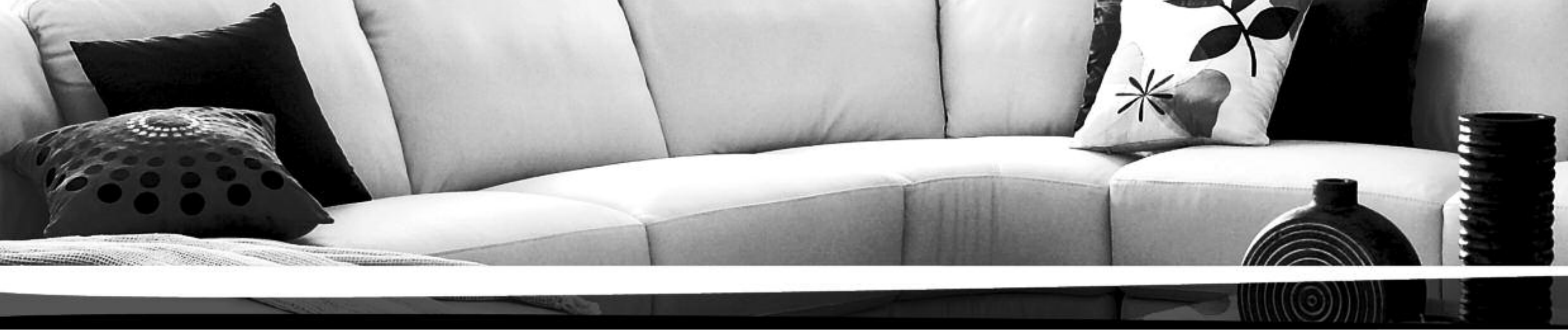
Outlook

In the final quarter of the year the Company achieved a level of sales orders higher than that experienced in recent years. This higher level of demand continued into the early months of the new financial year and the Company's customer forward order book rose to historic high levels.

The Board considers that the Company is well positioned to benefit from the improving market conditions should they continue. Whilst the Board accepts that there is some risk of a slowing in retail demand, particularly in the first half, it believes the Company should achieve a materially increased profit for the year ending 30 June 2010.

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 was increased focus on both the substance and documentation of standard operating procedures, information technology system enhancements, and Occupational Health and Safety enhancements.

The ASX Limited Corporate Governance Council has established the Corporate Governance Principles and Recommendations (2nd Edition). 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 ASX 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.

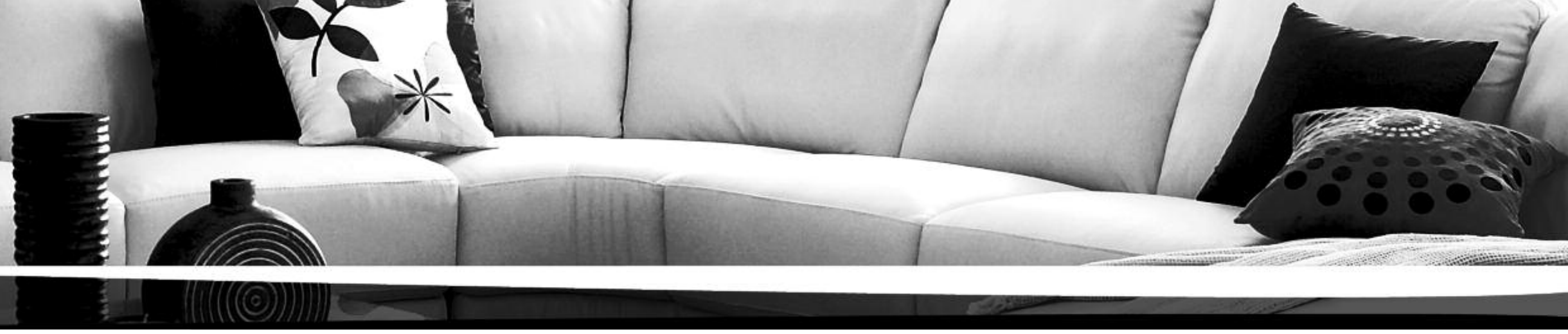
Each incoming director will receive a letter of appointment setting out the key terms and conditions of his or her appointment and the Company's expectations of them in that role.

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.

At least once a year the Remuneration and Nomination Committee and the Managing Director review the performance of each member of the Company's executive team against agreed performance measures, and with consideration to the Managing Director's recommendation, they determine changes in remuneration in respect of each executive. This process was followed during the reporting period. See below for further discussion regarding executive remuneration (Remunerate fairly and responsibly).

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.



Corporate Governance Statement (continued)

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. The skills, qualifications, experience and relevant expertise of each director, and his term of appointment, are summarised in the Directors section of the Directors' Report contained within this Annual Report.

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.

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.

During the reporting period a formal performance evaluation of the Board was undertaken which included a review of Board activities generally, including its effectiveness, composition and processes. The review seeks written input and comment from each director and the Chairman oversees the compilation and evaluation of the review results, ensures discussion with all directors and directs any outcomes from the review.

The directors believe that for a Company of Nick Scali Limited's size, the current composition of the Board is appropriate and effective with an appropriate balance of skills, experience and expertise. The Board does not have a nomination committee for the selection, appointment or re-appointment of directors to the Board. Rather, the Board as a whole undertakes this function. Any proposal for the selection or appointment of directors is considered by the Board having regard to the existing experience of directors and the value that any new appointee may bring to the Company. As such the Board does not consider that a separate nomination committee is necessary or appropriate. The Board acknowledges that as a result the Company has not strictly complied with Recommendation 2.4 (that "The Board should establish a nomination committee").

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

Promote ethical and responsible decision-making

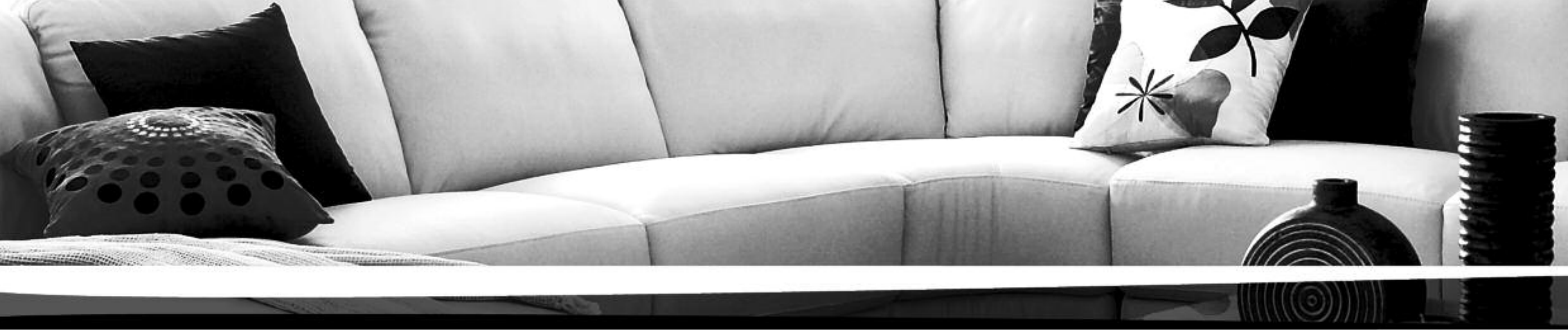
The Company has established its own Code of Ethics embracing high standards of personal and corporate conduct and the Company is committed to ensuring that it conducts its business in accordance with high standards of ethical behaviour. The Code of Ethics, applicable to directors and employees, covers various issues including compliance, confidential information, intellectual property, representation, Company assets, employment issues and conflicts of interest.

The Code of Ethics 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.

The Company also has a Share Trading Policy for directors and employees. Subject at all times to not being in possession of inside information, directors, officers (and their related entities) may deal in Nick Scali Limited securities during the eight (8) week period commencing on the second business day following:

– an announcement of Nick Scali Limited's full year financial results, and
– an announcement of Nick Scali Limited's half year financial results, and
– the Annual General Meeting of Nick Scali Limited, and



Corporate Governance Statement (continued)

– any announcement by the Company indicating expected results,

provided that such a trading window does not extend beyond the end of a Nick Scali Limited financial reporting period (half year or full year); in which case the window will instead close at the end of that reporting period.

Approval to trade outside these windows will only be granted in exceptional personal circumstances, upon prior notice to and approval from:

– in the case of directors, the Chairman;
– in the case of the Chairman, the Chairman of the Audit Committee;
– in the case of officers, the Managing Director.

Directors and employees are encouraged to give prior notification to the Company Secretary of any proposed dealing in the Company's securities and in any event must advise the Company Secretary as soon as possible after a trade has occurred.

The Board recognises that it is the individual responsibility of each director and employee to ensure he or she complies with the spirit and the letter of insider trading laws and that notification to the Company Secretary in no way implies approval of any transaction.

Safeguard integrity in financial reporting

Statement by Managing Director and Chief Financial Officer
Prior to the Board's adoption of the annual financial statements of the Company, the Managing Director and Chief Financial Officer certify in writing that:

i. 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.

ii. 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;

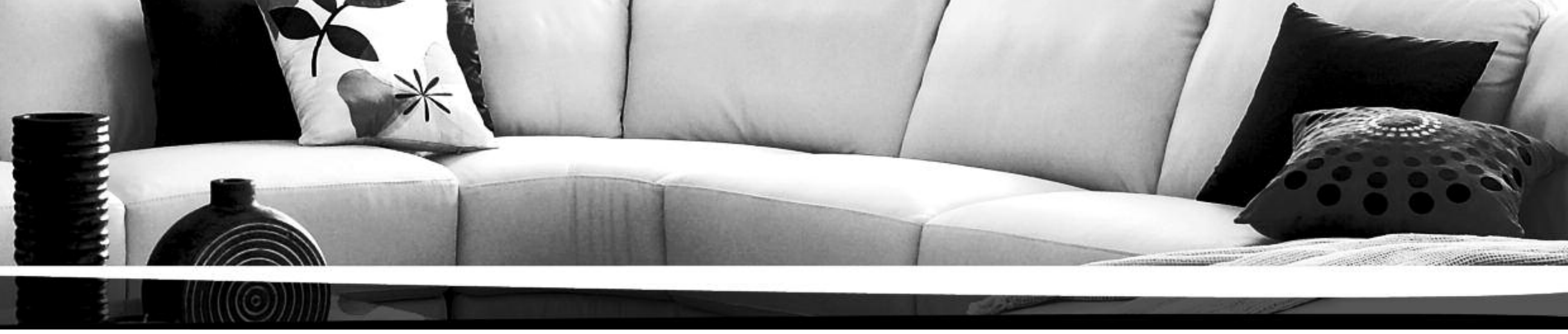
iii. The statements made above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors;

iv. 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

v. 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
As at the date of this report, the Audit Committee consists of three non-executive directors, being Mr John Ingram, Mr Nick Scali and Mr Greg Laurie. 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
– ensure that information systems, processes and technology are reviewed periodically for future sustainability and the adequacy of controls.



Corporate Governance Statement (continued)

Three Audit Committee Meetings were held during the year with all members attending, together with the Managing Director. 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 ASX Limited and the Company maintains a written policy designed to ensure compliance with its disclosure obligations. The Managing Director is responsible for monitoring compliance with Continuous Disclosure, assisted by the senior management team. All notices to the ASX Limited 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 ASX Limited.

Respect the rights of shareholders

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.

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 ASX Limited are included on the Company's website.

Recognise and manage risk

Risk Management

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. During the reporting period, the Audit Committee, and through it the Board, received a number of reports on the operation and effectiveness of the policies, processes and controls described in this section.

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.

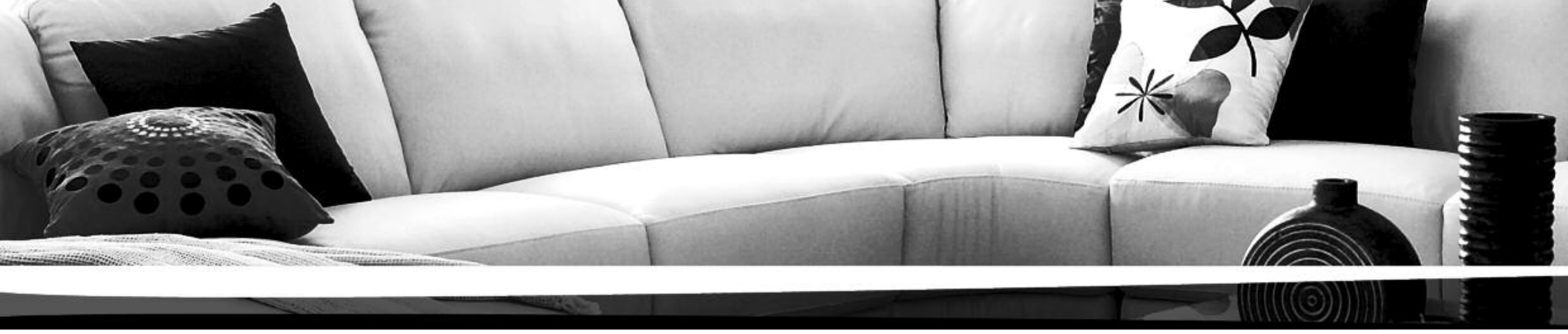
A risk assessment project was completed during the previous financial year which included a review of the Company's existing risk oversight and management policies. This process identified risks associated with the business and graded their relevance. This process is continuing and various mitigation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

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

Information technology risk – the Company continues to invest in information technology based improvements in order to reduce operational risk.

Foreign currency risk – The Board regularly reviews the Company's approach to foreign exchange management to ensure it properly reflects the Board's view on risk management in this area.

Compliance – During the previous year, a Compliance Committee was established that reports to the Board and reviews specific aspects of compliance as requested by the Board and Management.



Corporate Governance Statement (continued)

Occupational health and safety – A revision of OH+S policies and procedures was undertaken during the year with the assistance of an external consulting firm. Improvements are in the process of implementation throughout the Company.

Management control

The Managing Director and the Chief Financial Officer have certified to the Board that for the year ending 30 June 2009 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.

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. For further details see the section of the Directors' Report entitled Remuneration of Directors and Named Key Management Personnel, included within this Annual Report.

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 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 financial year.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently consists of the non-executive Board members (being Mr John Ingram, Mr Nick Scali and Mr Greg Laurie) and is responsible for:

- Reviewing remuneration arrangements of senior management.
- Reviewing and approving discretionary components of short and long term incentives for the Managing Director and senior executives.
- 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. Discussion on matters relating to remuneration and human resources in general also regularly takes place at meetings of the Board. All members attended both meetings of the Committee, together with the Managing Director.

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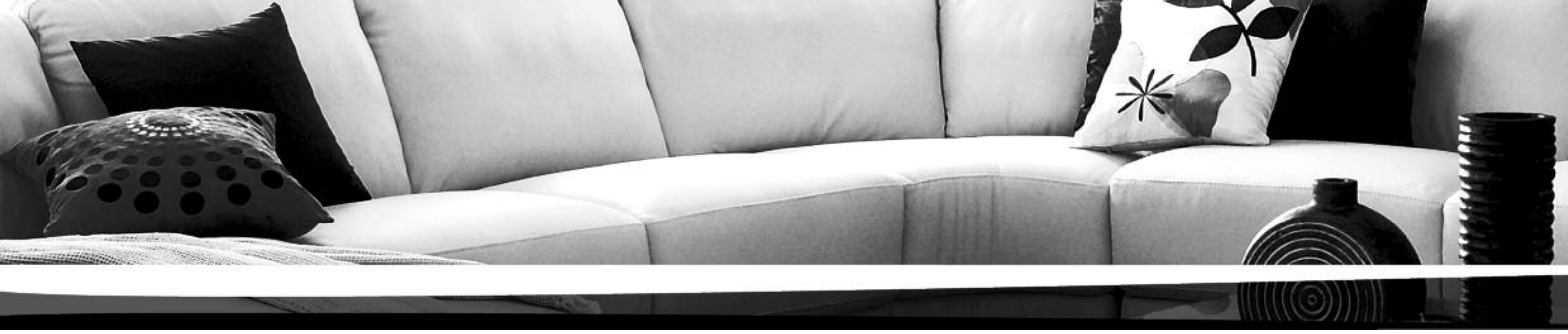


Director's Report

The Directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30th June 2009 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
Independent Non-Executive Chairman
Experience and expertise
John was appointed to the Board as non-executive Chairman on 7 April 2004. John was formerly Managing Director of Crane Group Limited.
Other Current Directorships
Chairman of Wattyl Limited and a Non Executive Director of United Group Limited.
Former Directorships in the last three years
Chairman of Savcor Group Limited, November 2007 to June 2009.
Director of Rinker Group Limited, October 2004 to June 2007.
Special Responsibilities
Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of Nick Scali Limited.

Nick D Scali
Non-Executive Director
Experience and expertise
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 3 years.
Other Current Directorships
None
Former Directorships in the last three years
None
Special Responsibilities
Member of the Audit Committee and the Remuneration and Nomination Committee of Nick Scali Limited.

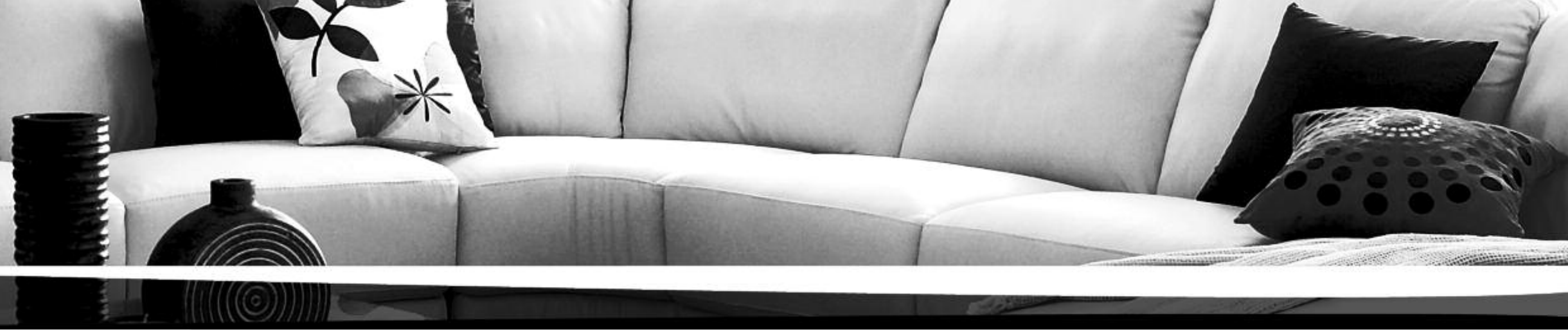
Greg R Laurie BCom
Independent Non-Executive Director
Experience and expertise
Greg was appointed to the Board on 7 April 2004. Extensive experience in manufacturing and distribution industries. Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003.
Other Current Directorships
Independent Non-Executive Director of Bradken Limited and Big River Group Pty Limited.
Former Directorships in the last three years
Non-Executive Director/Chairman of Repco Corporation Limited, February 2005 to May 2007.
Special Responsibilities
Chairman of the Audit Committee and a member of the Remuneration and Nomination Committee of Nick Scali Limited.

Executive Director

Anthony J Scali BCom
Managing Director
Experience and expertise
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.
Other Current Directorships
None
Former Directorships in the last three years
None
Special Responsibilities
He is responsible for the overall operation of the Company and identifying current and future trends in the furniture industry, with a key function his leadership in the direct sourcing of suitable product from manufacturers (principally overseas) for the Company to retail.

Alternate Director

Nicky D Scali BCom
Marketing & IT Manager and Alternate Director to Nick Scali
Experience and expertise
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.
Other Current Directorships
None
Former Directorships in the last three years
None



Director's Report (continued)

Special Responsibilities

Nicky is responsible for the buying of all advertising media and the development and execution of all creative strategies. He oversees the operation of the Company's information technology systems and their related support contracts, and is responsible for the national retail sales teams.

Company Secretary

David A Clarke CA(Aus), CA(NZ), BCom, Dipgrad
Chief Financial Officer and Company Secretary;
appointed on 28 November 2008

David joined Nick Scali Limited as Chief Financial Officer in November 2008. He has over 12 years experience in senior financial management and company secretarial roles in retail, sales and distribution, and manufacturing industries in Australia and overseas. David is responsible for all financial and administrative matters for the company.

Dominic Chiera, resigned 28 November 2008.

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	40,500,000*
Greg R Laurie – Non Executive Director	30,000
Nick D Scali – Non Executive Director	1,000,000
Nicky D Scali – Alternate Director	40,500,000*

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

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

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

Operating and Financial Review

Nick Scali Limited recorded a net profit after tax of $4.8m for the year ended 30 June 2009. This represents a decrease of 27% on the previous year and reflects the difficult economic conditions experienced during the year and the rapid decline in the US dollar exchange rate in the second quarter, both of which adversely impacted sales and margin.

Sales were 1.7% below the previous year and 4.6% lower on a same store basis.

The second half saw a recovery in both sales and margins, with second half net profit after tax 15% higher than that of the corresponding period in the previous financial year. On a same store basis sales were 3.5% higher in the second half compared with the previous corresponding period, with overall sales in the second half 6.2% above the second half of the previous year.

Three new stores were opened during the year; Richmond and Frankston in Victoria at the end of December 2008; and Gepps Cross in South Australia in mid June 2009. The Company continues to pursue its strategy of organic expansion, leveraging off existing distribution infrastructure, with further store openings planned in the first half of the coming financial year.

Principal Activities

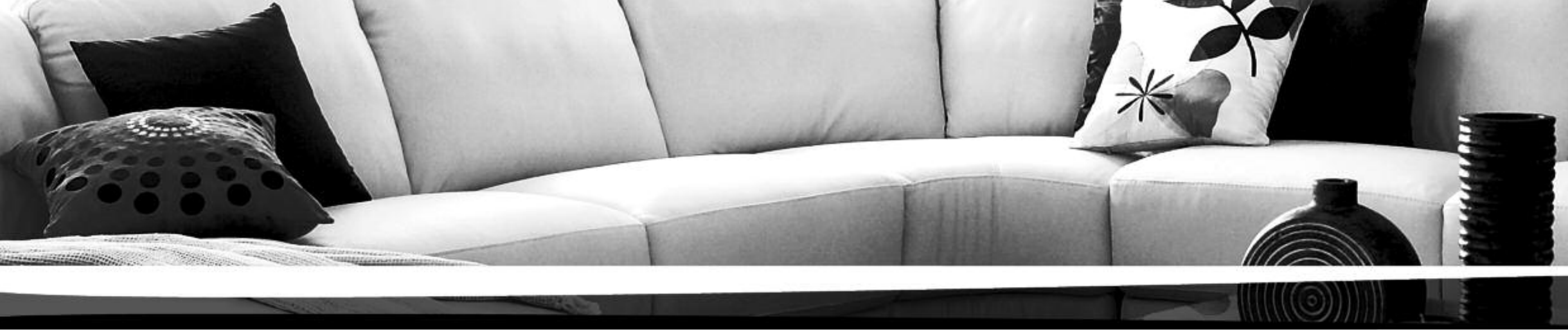
The principal activities of the Company during the period were the sourcing and retailing of household furniture and related accessories. No significant change in the nature of these activities occurred during the period.

Results of Operations

The net profit of the Company for the financial year after providing for income tax amounts to $4.8m (2008: $6.6m).

Dividends

Fully franked dividends totalling $2.0m (2008: $7.3m fully franked) were paid during the year. A final, fully franked dividend of 6.0 cents per ordinary share has been declared by the Directors since balance date. Based on the number of shares on issue at 30 June 2009, this would amount to $4.9m. In accordance with Accounting Standard AASB110 "Events After the Balance Date", this dividend has not been provided for in the financial statements. As no interim dividend was paid, the total dividend in respect of the year ended 30 June 2009 was 6.0 cents per share, fully franked.



Director's Report (continued)

Significant Changes in State of Affairs

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

Significant Events After Balance Date

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

Likely Developments and Expected Results

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

Environmental Regulation and Performance

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

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

Directors' Indemnification

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

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

Directors' and Other Officers' Emoluments

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

Remuneration Report – Audited

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

Remuneration Philosophy

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

Executive Remuneration

The Company should provide appropriate rewards to attract and retain key personnel.

Base salaries and short term incentives should be determined at the discretion of the Remuneration and Nomination Committee having regard to 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 should be at risk by way of short term incentives.

The Company has adopted an Executive Performance Rights Plan. Key executives and other employees may be granted rights under the Plan, as recommended by the Managing Director and approved by the Board.

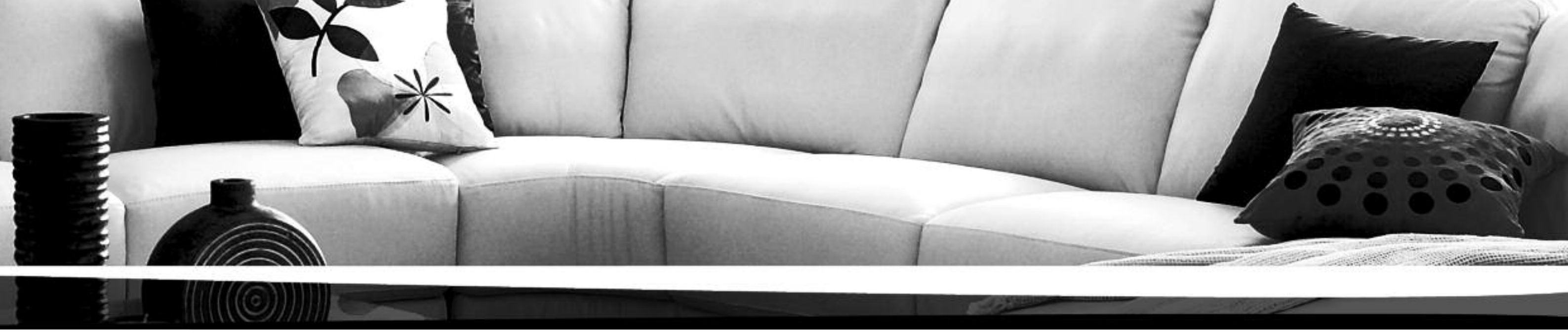
Non executive directors remuneration

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

Remuneration and Nomination Committee

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

- Reviewing remuneration arrangements of senior management.
- Reviewing and approving discretionary components of short and long term incentives for the Managing Director and senior executives.



Director's Report (continued)

Remuneration Report – Audited (Continued)

- 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 if appropriate.

No Executive Performance rights were granted during the 2008/09 financial year; it is expected that the first rights will be granted during 2009/10.

The Managing Director, Marketing and IT Manager, and Chief Financial Officer are employed by the Company under contracts with no specific duration, with a minimum termination notice period of 6 months, and are eligible for their statutory employee entitlements upon termination.

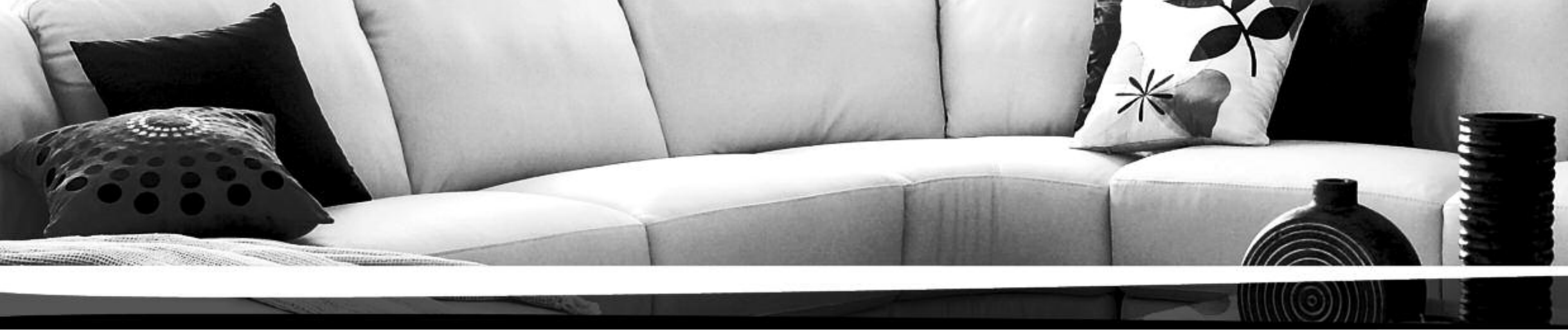
No such employment contracts exist for the Non-Executive Directors.

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

Remuneration of Directors and named Executives

		Short Term Benefits			Post Employment	Long Term Incentive Plans	Total $	Percentage Performance Related
		Salary & Fees	*Cash Bonus*	*Non Monetary Benefits*	*Superannuation*			
J.W. Ingram	2009:	85,000	–	–	–	–	85,000	0%
Non-Executive Chairman	2008:	75,000	–	–	–	–	75,000	0%
G.R. Laurie	2009:	68,807	–	–	6,193	–	75,000	0%
Non-Executive Director	2008:	37,810	–	–	17,190	–	55,000	0%
N.D. Scali	2009:	75,000	–	–	–	–	75,000	0%
Non-Executive Director	2008:	60,000	–	–	–	–	60,000	0%
A.J. Scali	2009:	389,865	50,000	–	13,745	–	453,610	11%
Managing Director	2008:	334,860	–	–	12,140	–	347,000	0%
Nicky D. Scali	2009:	225,940	40,000	–	13,745	–	279,685	14%
Marketing and IT Manager	2008:	186,445	–	–	12,140	–	198,585	0%
D. Chiera	2009:	111,562	–	–	6,181	–	117,743	0%
Chief Financial Officer & Company Secretary (resigned Dec 2008)	2008:	208,361	20,000	–	12,140	–	240,501	8%
D. A. Clarke	2009:	114,734	42,000	–	8,042	–	164,776	25%
Chief Financial Officer & Company Secretary (appointed Nov 2008)	2008:	–	–	–	–	–	–	0%

There are no other Directors or Executive Officers of the Company.
There were no share options granted by the Company during the year, or share based payments paid or payable.
There are no other Short Term, Post Employment, or Long Term Benefits.
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.



Director's Report (continued)

Meetings

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

	Directors' Meetings	Meetings of Sub Committees	
		Audit	Remuneration & Nomination
Number of meetings held:	10	3	2
Number of meetings attended:			
J.W. Ingram	10	3	2
G.R. Laurie	10	3	2
N.D. Scali	10	3	2
A.J. Scali	10	3	2

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

Audit Committee

The members of this Committee are as follows.

Greg Laurie (Chairman)
John Ingram
Nick Scali

Remuneration and Nomination Committee

The members of this Committee are as follows.

John Ingram (Chairman)
Greg Laurie
Nick Scali

Rounding

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

Auditor's Independence Declaration

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 43 of the Financial Statements.

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:

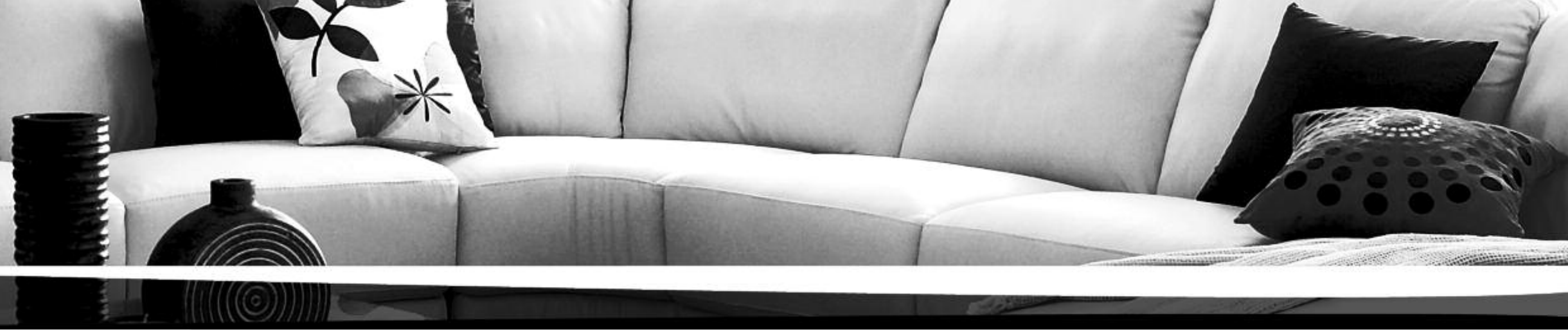
Tax compliance services	$11,500

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

J.W. Ingram
Chairman

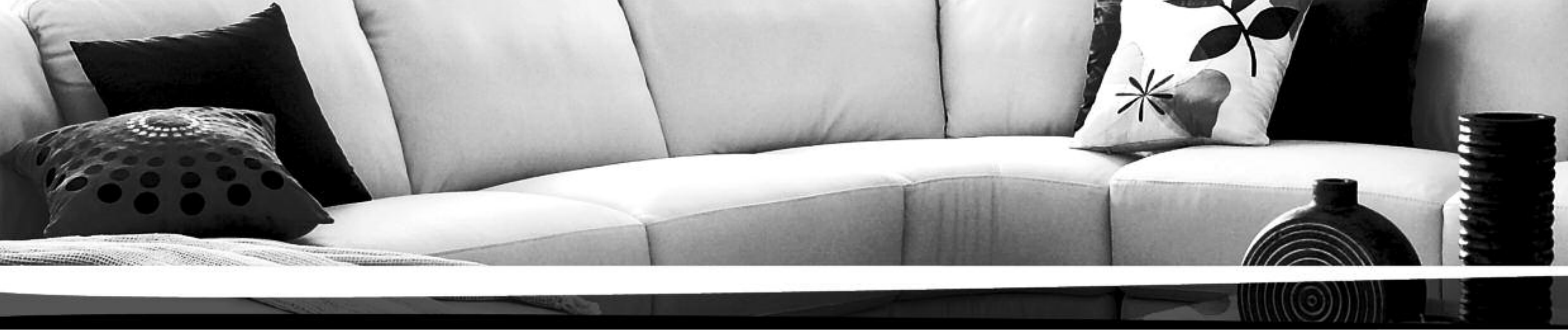
A.J. Scali
Managing Director

Sydney, 20 August 2009



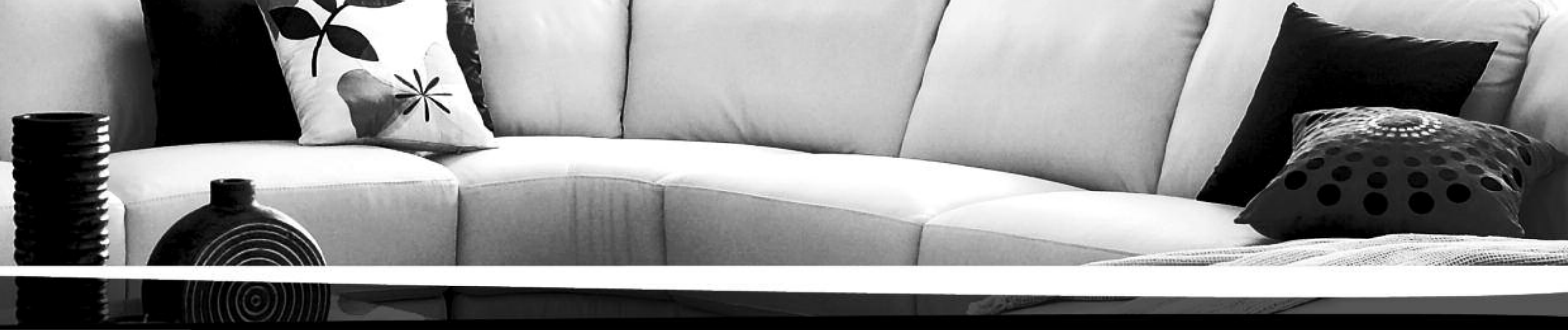
Income Statement for the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Revenue from sale of goods	2	77,507	78,840
Cost of sales		(32,493)	(31,363)
Gross Profit		**45,014**	**47,477**
Other income	2	584	619
Distribution expenses		(4,779)	(5,292)
Sales and Marketing expenses		(13,736)	(14,084)
Administrative expenses		(3,820)	(3,648)
Occupancy expenses		(15,511)	(14,622)
Finance Costs		(25)	(3)
Other expenses		(845)	(1,077)
Profit Before Income Tax		**6,882**	**9,370**
Income Tax Expense	4	(2,065)	(2,774)
Profit After Tax		**4,817**	**6,596**
Net Profit for the Year		**4,817**	**6,596**
Basic Earnings Per Share (cents per share)	7	5.9 cents	8.1 cents
Diluted Earnings Per Share (cents per share)	7	5.9 cents	8.1 cents
Net Tangible Asset Backing Per Share (cents per share)		19.8 cents	16.6 cents



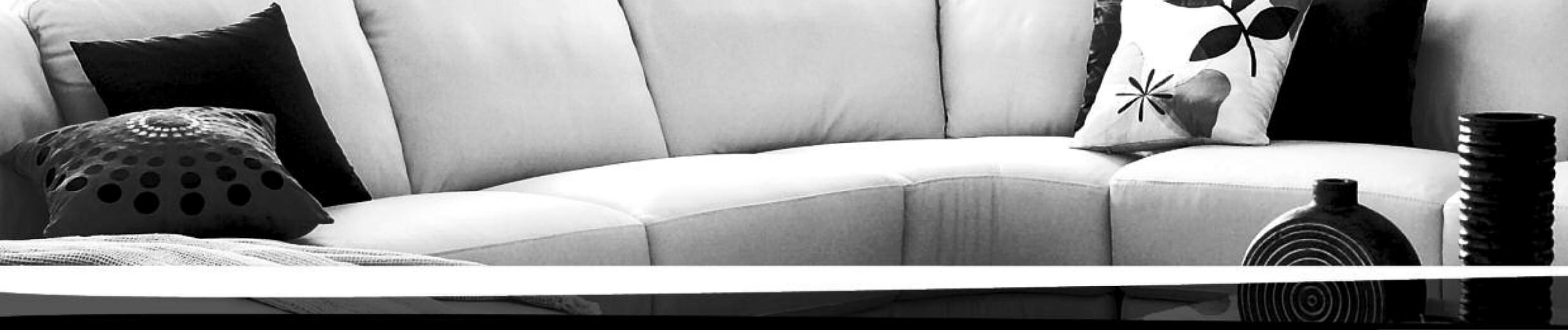
Balance Sheet as at 30 June 2009

	Notes	2009 $'000	2008 $'000
Current Assets			
Cash assets	22	11,498	7,451
Receivables	8	639	623
Inventories	9	11,609	12,741
Other financial assets	10	–	24
Other assets	11	877	611
Total Current Assets		**24,623**	**21,450**
Non-Current Assets			
Deferred tax assets	4	782	507
Property, plant and equipment	12	4,388	3,991
Intangible assets	13	2,378	2,378
Total Non-Current Assets		**7,548**	**6,876**
Total Assets		**32,171**	**28,326**
Current Liabilities			
Payables	14	12,368	10,348
Interest bearing liabilities	15	–	1,291
Current tax liabilities	4	1,005	645
Provisions	16	163	77
Total Current Liabilities		**13,536**	**12,361**
Non-Current Liabilities			
Provisions	16	211	139
Total Non-Current Liabilities		**211**	**139**
Total Liabilities		**13,747**	**12,500**
Net Assets		**18,424**	**15,826**
Equity			
Contributed equity	17	3,364	3,364
Reserves	18	(116)	78
Retained profits		15,176	12,384
Net Equity		**18,424**	**15,826**



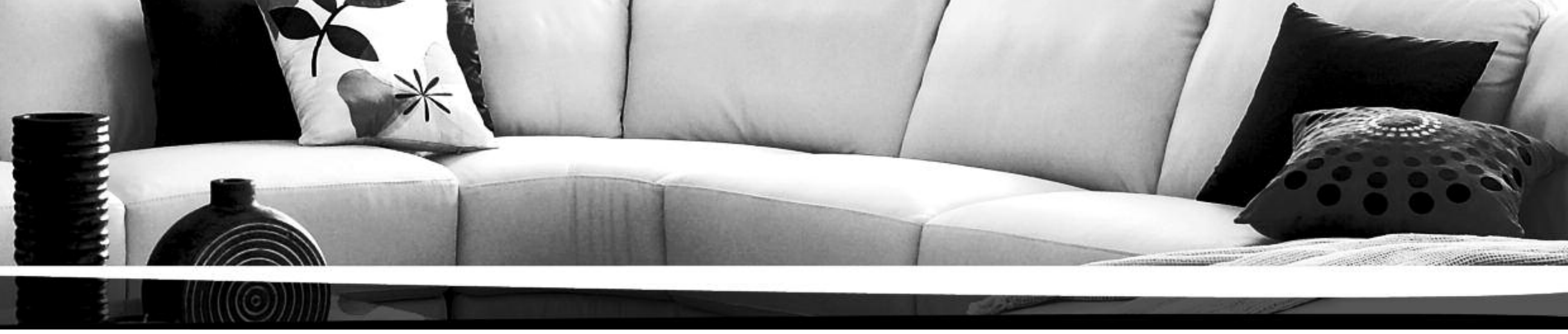
Statement of Changes in Equity for the year ended 30 June 2009

	Notes	Issued Capital $'000	Retained Profits $'000	Reserves $'000	Total $'000
Year Ended 30 June 2008					
As at 1 July 2007		**3,364**	**13,078**	**78**	**16,520**
Profit for the year		–	6,596	–	6,596
Total income and expense for the period		**–**	**6,596**	**–**	**6,596**
Equity dividends	5	–	(7,290)	–	(7,290)
Cash flow hedges gain / (loss)	18	–	–	–	–
As at 30 June 2008		**3,364**	**12,384**	**78**	**15,826**
Year Ended 30 June 2009					
As at 1 July 2008		**3,364**	**12,384**	**78**	**15,826**
Profit for the year		–	4,817	–	4,817
Total income and expense for the period		**–**	**4,817**	**–**	**4,817**
Equity dividends	5	–	(2,025)	–	(2,025)
Cash flow hedges gain / (loss)	18	–	–	(194)	(194)
As at 30 June 2009		**3,364**	**15,176**	**(116)**	**18,424**



Statement of Cash Flows for the year ended 30 June 2009

	Notes	2009 $'000	2008 $'000
Cash Flows from Operating Activities			
Receipts from customers		85,973	86,920
Payments to suppliers and employees		(75,865)	(77,075)
Interest received		413	411
Interest paid		(25)	(1)
Income tax paid		(1,896)	(3,596)
Net Cash Flows from Operating Activities	22 (a)	**8,600**	**6,659**
Cash Flows from Investing Activities			
Purchase of property, plant & equipment		(1,237)	(1,055)
Net Cash Flows used in Investing Activities		**(1,237)**	**(1,055)**
Cash Flows from Financing Activities			
Payment of dividends on ordinary shares		(2,025)	(7,290)
Increase / (decrease) in interest bearing loans		(1,291)	1,291
Net Cash used in Financing Activities		**(3,316)**	**(5,999)**
Net Increase / (Decrease) in Cash Held		4,047	(395)
Add opening cash brought forward		7,451	7,846
Closing cash carried forward	22 (b)	**11,498**	**7,451**



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 authorised for issue in accordance with a resolution of the Directors on 20 August 2009.

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

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

(b) Statement of compliance

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

(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:

	2009	2008
Office equipment	3-12 yrs	3-10 yrs
Furniture and fittings	3-15 yrs	3-5 yrs
Leasehold improvements*	5-15 yrs	Lease term
Motor vehicles	6 yrs	5-10 yrs

*Leasehold improvements are depreciated at the shorter of the depreciation period or the term of the lease.

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

Impairment

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

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

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

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

Derecognition and disposal

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

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.

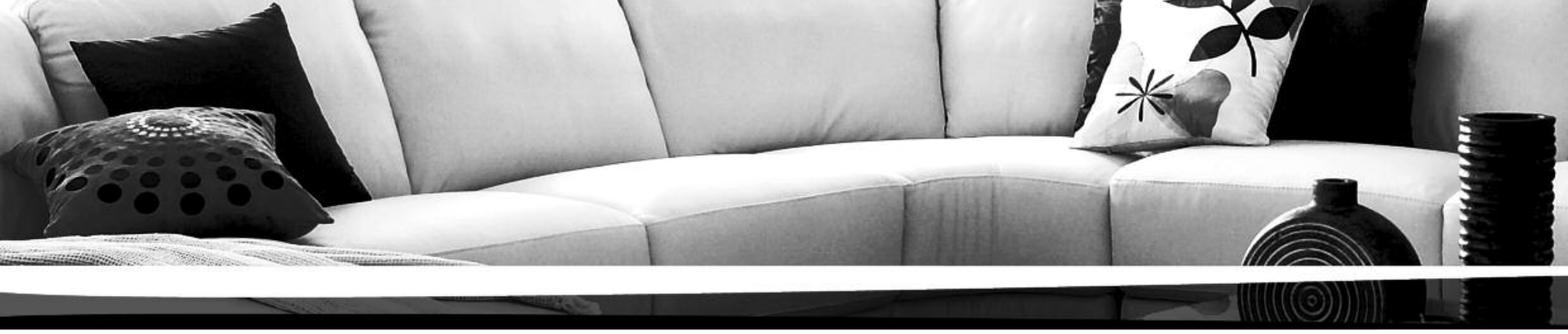
(d) Leases

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.



Note 1: Statement of Significant Accounting Policies (continued)

(d) Leases (continued)

The Company has received financial incentive contributions from the lessor's 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 or at the hedged rate if qualifying financial instruments have been used to reduce exposure. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the balance sheet date or hedged rates.

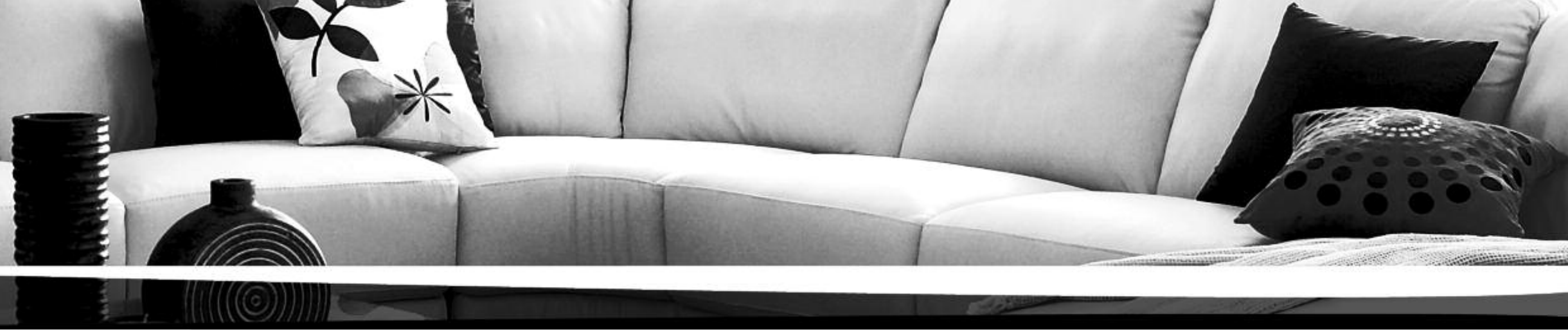
All exchange differences are recognised in the income statement, except when deferred in equity as qualifying cash flow hedges.

(h) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk including forward foreign exchange contracts and options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each balance date. Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. As appropriate, the Company designates derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

(i) Cash flow hedge
The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the Income Statement. Amounts accumulated in equity are recycled in the Income Statement in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.



Note 1: Statement of Significant Accounting Policies (continued)

(h) Derivative financial instruments (continued)

The Company tests each of the designated cashflow hedges for effectiveness at each reporting date, prospectively and retrospectively. Prospectively hedge effectiveness is assessed using a Matched Terms approach. Where there is a change in the terms of the forecast transaction or forward foreign exchange contract, prospective effectiveness cannot be assessed using the Matched Terms approach. As such, the hedge is demonstrated to be effective using the Hypothetical Derivative method where effectiveness is measured by comparing the changes in the present value of the cash flow arising from the hedged forecast transaction at the forward rate, with the changes in the fair value of the forward contract or hypothetical hedging instrument. Retrospective effectiveness is tested using the Hypothetical Derivative method. Effectiveness is measured on a cumulative dollar offset basis whereby the changes in the present value of the cash outflows arising from the forecast transaction at the forward rate are compared with changes in the fair value of the forward foreign exchange contract.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the hedge accounting criteria, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the Income Statement when the forecast transaction is ultimately recognised in the Income Statement. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is immediately transferred to the Income Statement.

(i) Cash and cash equivalents

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

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

(j) Revenue Recognition

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

Sale of goods

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

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

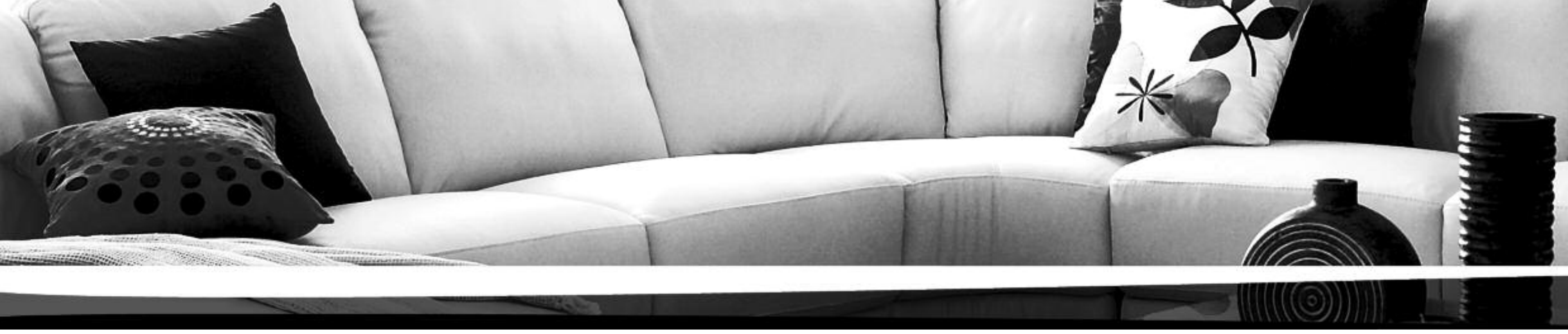
Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

(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.



Notes to the Financial Statements for the year ended 30 June 2009

Note 1: Statement of Significant Accounting Policies (continued)

(m) Provisions (continued)

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)
– 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

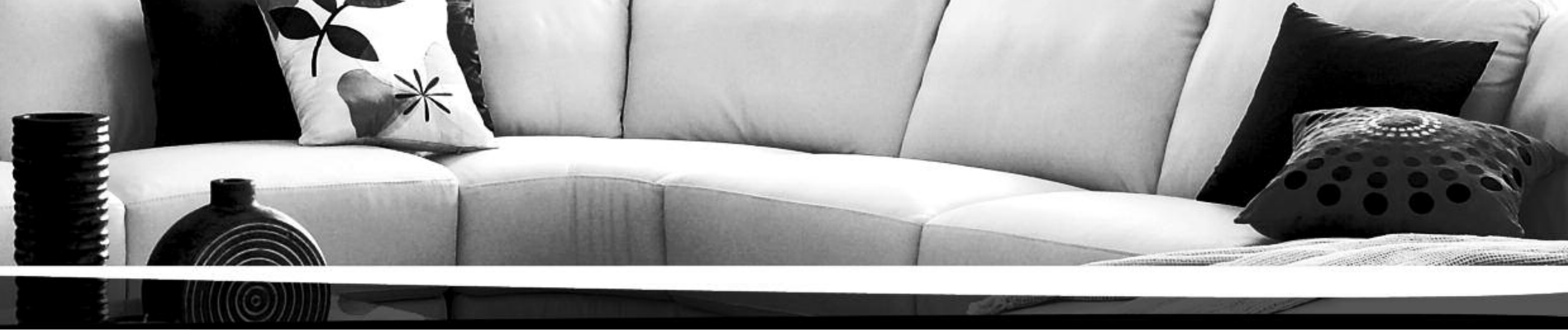
Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities.

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

Goodwill is reviewed for impairment at each reporting date, 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.



Note 1: Statement of Significant Accounting Policies (continued)

(p) Intangibles (continued)

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.

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.

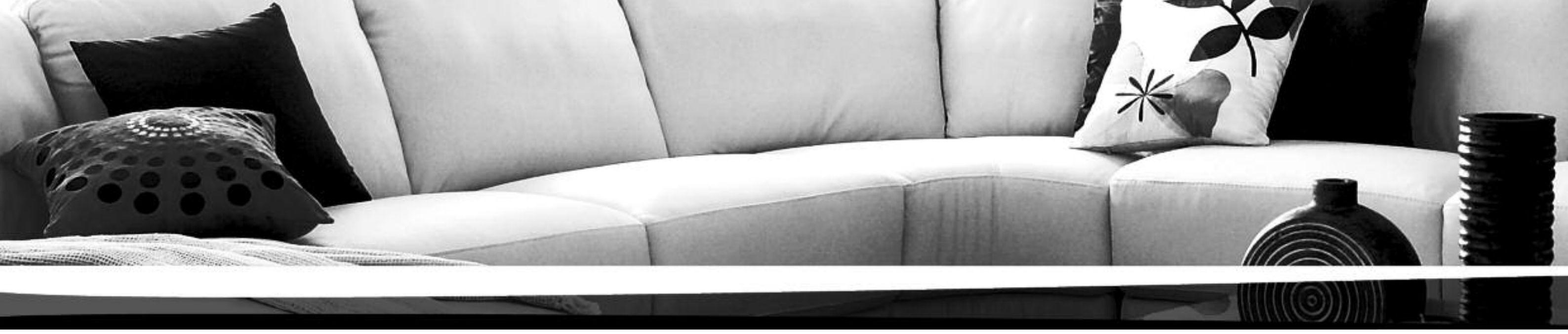
Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss.

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.



Note 1: Statement of Significant Accounting Policies (continued)

(r) Other taxes (continued)

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.

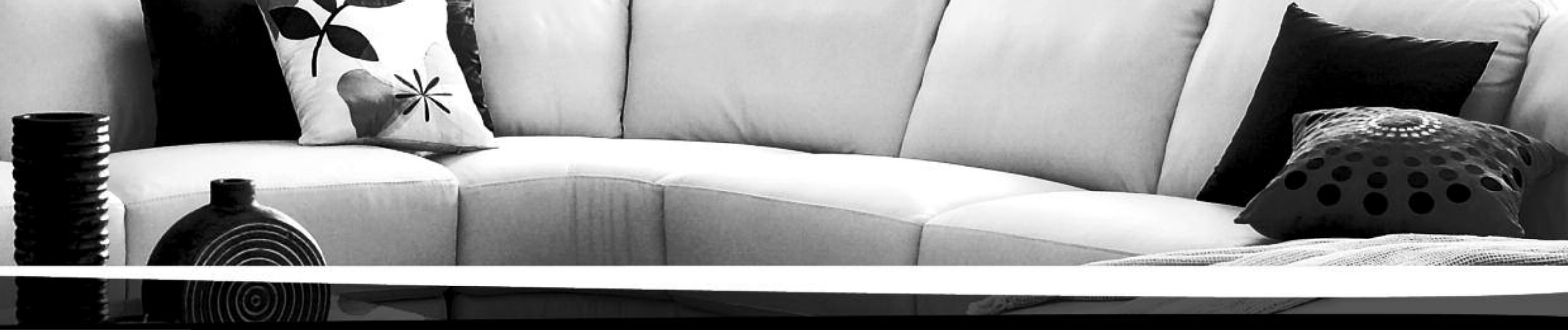
Significant accounting estimates and assumptions
The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of 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.

Estimation of useful lives of assets
The estimation of the useful lives of assets has been based on historical experience as well as consideration of lease terms (for assets used in or affixed to leased premises) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

(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.



Note 1: Statement of Significant Accounting Policies (continued)

(u) Impairment of financial assets (continued)

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

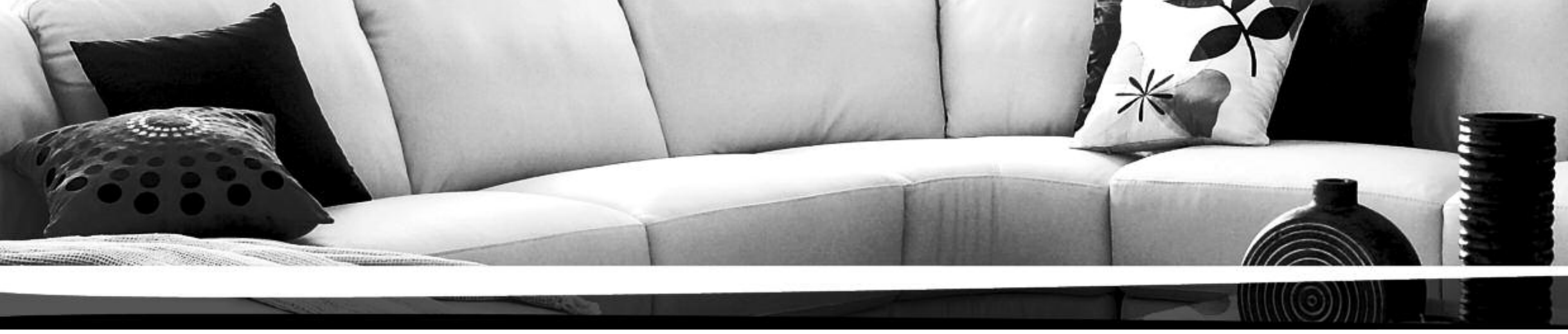
In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant for its operations and effective for the current annual reporting period. The adoption of these new and revised Standards and Interpretations did not have any material impact on the amounts recognised in the financial statements of the Company, however they may have impacted the disclosures presented in the financial statements.

At the date of authorisation of the report, the following relevant Standards and Interpretations were issued but not yet effective:

AASB 8 'operating Segments'
– effective for annual reporting periods beginning on or after 1 January 2009

AASB 101 'presentation of Financial Statements'[revised standard]
– effective for annual reporting periods beginning on or after 1 January 2009

The application of AASB 8 and AASB 101 (revised) will not affect any of the amounts recognised in the financial statements, but may change the disclosures presently made and the presentation of the financial statements themselves. These Standards will be first applied in the financial report of the Company that relates to the annual reporting period beginning after the effective date of each Standard, which will be the annual reporting period beginning on 1 July 2009.



	2009 $'000	2008 $'000
Note 2: Revenue		
Revenue		
Sales revenue	77,507	78,840
Interest income	413	411
Sundry income	171	208
Total other income	584	619
Total revenue	78,091	79,459

Note 3: Operating Expenses and Losses (Gains)

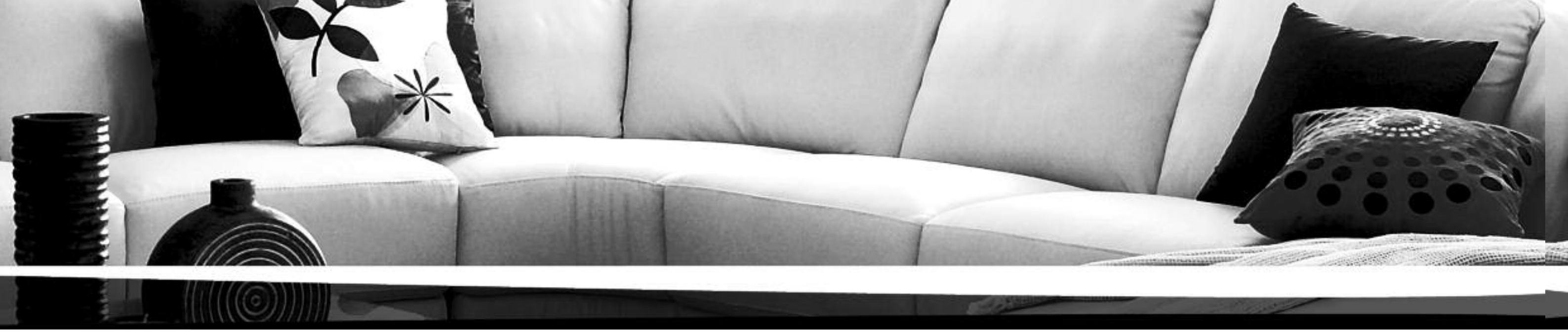
Profit before income tax has been determined after:

	2009 $'000	2008 $'000
(a) Expenses		
Bad and doubtful debts	–	12
Occupancy expenses		
Operating lease rental - minimum lease payments	15,511	14,622
Other expenses includes:		
Depreciation/Amortisation of non-current assets		
Office equipment	304	351
Furniture and fittings	147	95
Leasehold improvements	341	499
Motor vehicles	47	75
Amortisation of make good	9	9
	848	1,029
Employee benefits expenses (i)		
Salaries and wages	10,059	10,809
Superannuation expense	865	836
Other	1,924	1,455
	12,848	13,100

(i) Employee benefit expenses are included within the distribution expenses, marketing expenses and administrative expenses categories

	2009 $'000	2008 $'000
(b) Losses/(gains)		
(Gain) / Loss on disposal of property, plant and equipment	(3)	–
Unrealised foreign currency loss / (gain) *	–	(46)

* Realised exchange gains and losses have been included in cost of sales



	2009 $'000	2008 $'000
Note 4: Income Tax		
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	2,257	2,912
Adjustments in respect of current income tax of previous years	–	(3)
Deferred income tax		
Relating to origination and reversal of temporary differences	(192)	(135)
Income tax expense reported in the income statement	**2,065**	**2,774**

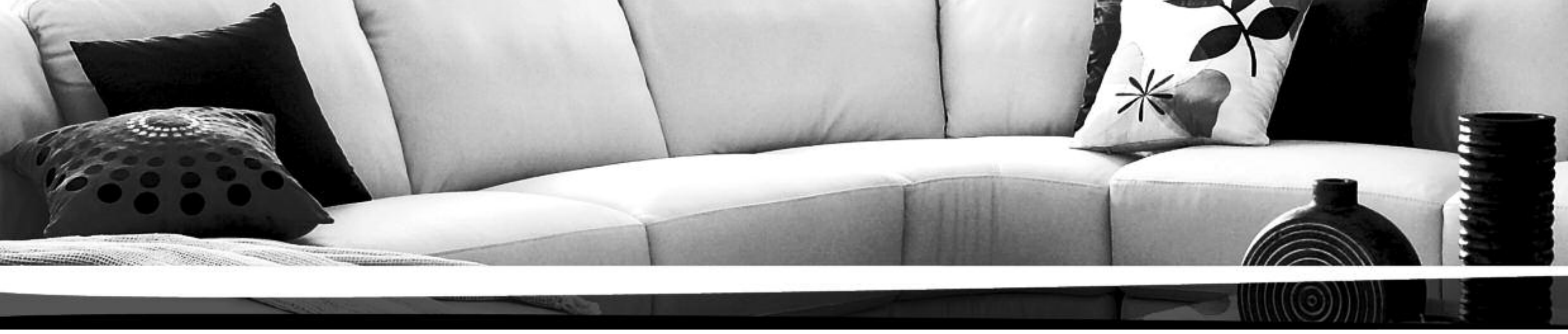
A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate is as follows:

	2009 $'000	2008 $'000
Accounting profit before income tax	6,882	9,370
At the statutory income tax rate of 30% (2008: 30%)	2,065	2,811
Adjustments in respect of current income tax of previous years	–	(3)
Other items (net)	–	(34)
Income tax expense	**2,065**	**2,774**
Effective income tax rate	**30.0%**	**29.6%**
Income tax expense reported in income statement	2,065	2,774
Current tax liabilities		
Opening balance	645	1,337
Charged to income	2,257	2,904
Other payments	(1,897)	(3,596)
Closing balance	**1,005**	**645**

Deferred income tax assets

	Balance sheet		Income statement	
	2009	**2008**	**2009**	**2008**
Employee entitlements	437	364	(73)	(116)
Audit fee accrual	26	26	–	9
Superannuation accrual	23	20	(3)	4
Deferred rent	201	73	(128)	(28)
Legal fees	8	20	12	–
Cashflow Hedge (i)	83	–	–	–
Make good	4	4	–	(4)
	782	507		
Deferred tax income / (expense)			(192)	(135)

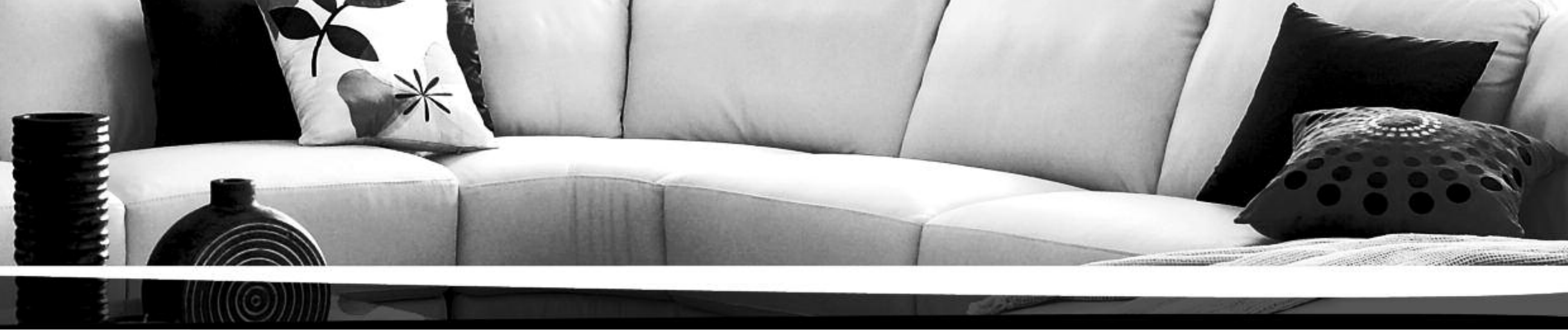
(i) Deferred tax income asset impacting directly on equity



	2009 $'000	2008 $'000
Note 5: Dividends		
Declared and paid during the year:		
Dividends on ordinary shares:		
Final franked dividend for 30 June 2008: 2.5 cents (2007: 4.5 cents)	2,025	3,645
Interim franked dividend for 30 June 2009: 0.0 cents (2008: 4.5 cents)	–	3,645
	2,025	7,290
Proposed - 6.0 cents (2008: 2.5 cents) (not recognised as a liability as at 30 June)	4,860	2,025
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 2008: 30%).	3,994	3,758
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,005	649
	4,999	4,407
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	(2,083)	(868)
	2,916	3,539

The tax rate at which paid dividends have been franked is 30% (30 June 2008: 30%).
Dividends proposed will be franked at the rate of 30% (30 June 2008: 30%).

	2009 $	2008 $
Note 6: Auditors' Remuneration		
Amounts received or due and receivable by Ernst & Young for:		
– audit or review of the financial report of the Company	110,000	116,000
– other services provided to the Company		
– tax compliance	11,500	12,817
– other advisory services	–	20,000
	121,500	148,817



	2009 $'000	2008 $'000
Note 7: Earnings Per Share		
(a) Net profit after tax used in calculating basic earnings and diluted earnings per share	4,817	6,596
	No. of Shares 2009	**No. of Shares 2008**
(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	5.9	8.1
Diluted earnings per share	5.9	8.1

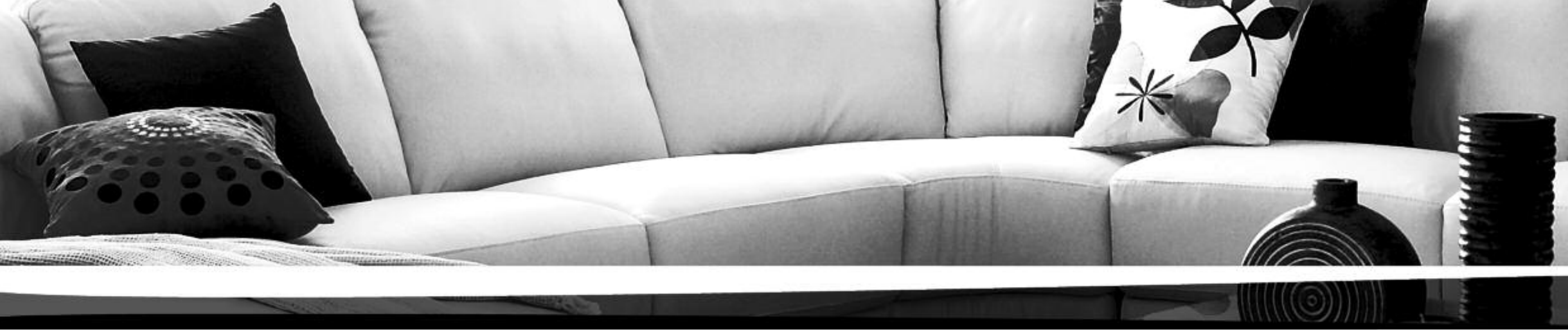
There are no instruments excluded from the calculation of diluted earnings per share that could potentially dilute basic earnings per share in the future because they are antidilutive for both of the periods presented.

	2009 $'000	2008 $'000
Note 8: Receivables		
Current		
Trade debtors (i)	472	525
Provision for doubtful debts (ii)	(1)	(14)
	471	511
Sundry debtors (iii)	168	112
	639	623

Terms and conditions relating to the above financial instruments:

(i) Trade debtors are non-interest bearing and generally substantially less than 30 day terms. Factors considered in determining impairment are primarily in relation to the likelihood of collection. As at 30 June, the analysis of Trade Receivables that were past due but not impaired is as follows:

		Not past due and not impaired	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**
2009	472	374	75	8	14	1
2008	525	431	80	–	–	14



	2009 $'000	2008 $'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.

Reconciliation of movement in bad debt provision:	2009 $'000	2008 $'000
Opening balance	14	4
Additional provisions	–	9
Amounts (written off) / recovered	(13)	1
Closing balance	1	14

(iii)Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.

Note 9: Inventories

	2009 $'000	2008 $'000
Finished Goods	10,169	11,876
Stock in transit	1,440	865
	11,609	12,741

Note 10: Other Financial Assets (Current)

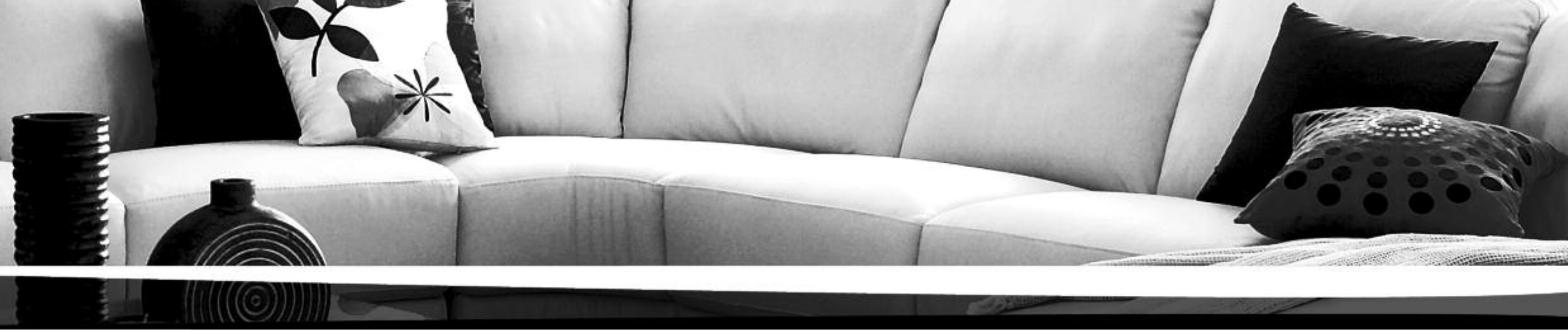
	2009 $'000	2008 $'000
Deposits	–	24

Note 11: Other Assets

	2009 $'000	2008 $'000
Prepaid expenses	877	611

Note 12: Property, Plant and Equipment

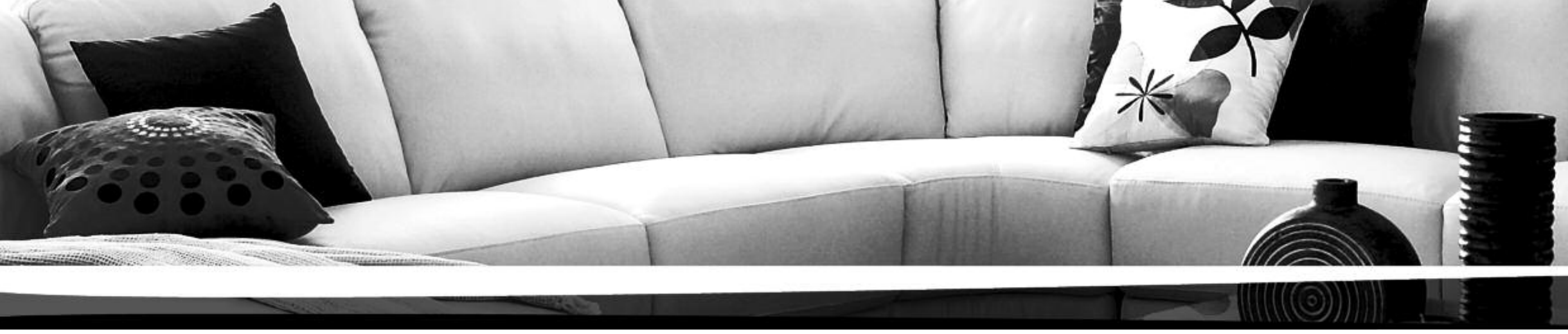
	2009 $'000	2008 $'000
Office equipment - at cost	3,571	3,071
Accumulated depreciation	(2,094)	(1,797)
	1,477	1,274
Furniture & fittings - at cost	1,774	1,114
Accumulated depreciation	(909)	(762)
	865	352
Leasehold improvements - at cost	4,538	4,488
Accumulated depreciation	(2,741)	(2,410)
	1,797	2,078
Motor vehicles - at cost	580	562
Accumulated depreciation	(349)	(302)
	231	260



	2009 $'000	2008 $'000
Note 12: Property, Plant and Equipment (Continued)		
Leasehold improvements - make good - at cost	36	36
Accumulated depreciation	(18)	(9)
	18	27
Total - at cost	10,499	9,271
Accumulated depreciation	(6,111)	(5,280)
Total property, plant and equipment	4,388	3,991

Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the current financial year:

	2009 $'000	2008 $'000
Office Equipment		
Carrying amount at beginning	1,274	1,377
Additions	507	248
Depreciation charged	(304)	(351)
	1,477	1,274
Furniture & fittings		
Carrying amount at beginning	352	328
Additions	660	119
Depreciation charged	(147)	(95)
	865	352
Leasehold improvements		
Carrying amount at beginning	2,078	1,927
Additions	60	650
Depreciation charged	(341)	(499)
	1,797	2,078
Motor vehicles		
Carrying amount at beginning	260	333
Additions	18	2
Depreciation charged	(47)	(75)
	231	260
Leasehold improvements - make good		
Carrying amount at beginning	27	–
Additions	–	36
Depreciation charged	(9)	(9)
	18	27
Total		
Carrying amount at beginning	3,991	3,965
Additions	1,245	1,055
Depreciation charged	(848)	(1,029)
	4,388	3,991



	2009 $'000	2008 $'000
Note 13: Intangible Assets		
Goodwill on acquisition of stores in Adelaide	2,378	2,378

No impairment loss was recognised in the current financial year.

Goodwill acquired through business combinations has been allocated to one individual cash generating unit for impairment testing, being the Adelaide stores and related distribution centre. 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 12.1% (2008: 12.7%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 2.0% (2008: 2.0%) for the five years, which is considered to be a conservative representation of the long term average growth rate of the cash generating unit.

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% (2008: 58%) has been assumed, based on the Company's profit history of consistent store by store margins.
- Capital expenditure has been included, based on past experience of Company stores of a similar age and size.
- The continuity of leases on premises for the next five years has been assumed where appropriate.

The value in use calculation is most sensitive to assumptions relating to sales growth, cost of capital and terminal values. However, it would require a significant adverse change in these assumptions to impact the existing non-impairment assessment.

	2009 $'000	2008 $'000
Note 14: Payables		
Trade creditors (i)	2,887	2,982
Other creditors and accruals (ii)	3,001	1,577
Customer deposits (iii)	5,356	4,691
Annual leave	1,124	1,098
	12,368	10,348

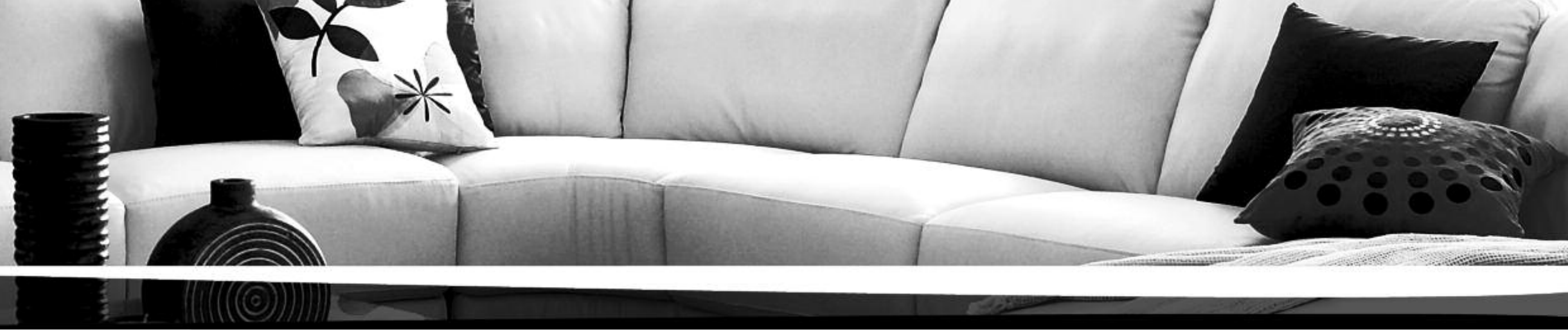
(a) Terms and conditions

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 orders not yet fulfilled. In practise this liability rarely crystallises.



	2009 $'000	2008 $'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 may be 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
2009	–	–
2008	1,291	1,291

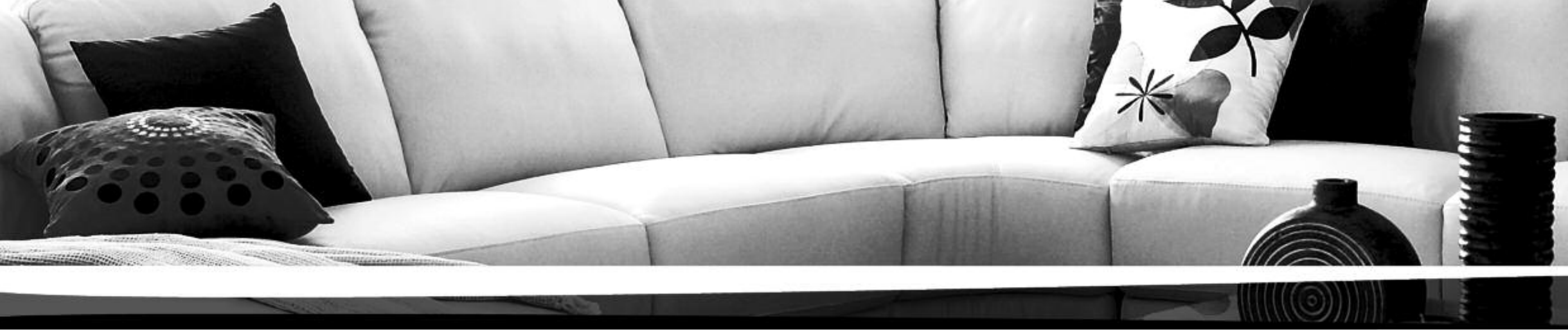
	2009 $'000	2008 $'000
Note 16: Provisions		
Current		
Long service leave	163	77
Non-Current		
Long service leave	168	100
Make good	43	39
	211	139

Movement in provisions	Long service leave $'000	Make good $'000
2008		
Balance as at 1 July 2007	144	–
Amounts provided	33	39
Amounts taken	–	–
Balance as at 30 June 2008	177	39
2009		
Balance as at 1 July 2008	177	39
Amounts provided	154	4
Balance as at 30 June 2009	331	43

	2009	2008
Number of employees		
Number of full-time and part-time employees at balance date	201	210

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.



	2009 $'000	2008 $'000
Note 17: Contributed Equity		
81,000,000 (2008: 81,000,000) fully paid ordinary shares	3,364	3,364

	2009 Number of ordinary shares	2009 $'000	2008 Number of ordinary shares	2008 $'000
Movement in ordinary shares on issue				
Balance at the beginning of the financial year	81,000,000	3,364	81,000,000	3,364
Balance at the end of the financial year	81,000,000	3,364	81,000,000	3,364

(a) Terms and conditions of contributed equity

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

	2009 $'000	2008 $'000
Note 18: Reserves		
Capital profits	78	78
Cash flow hedge reserve	(194)	–
	(116)	78
Capital profits reserve		
Opening balance	78	78
Closing balance	78	78
Cash flow hedge reserve		
Opening balance	–	–
Amounts recognised for cash flow hedges	(1,081)	–
Amounts transferred to non-financial assets or income statement	887	–
Closing balance	(194)	–

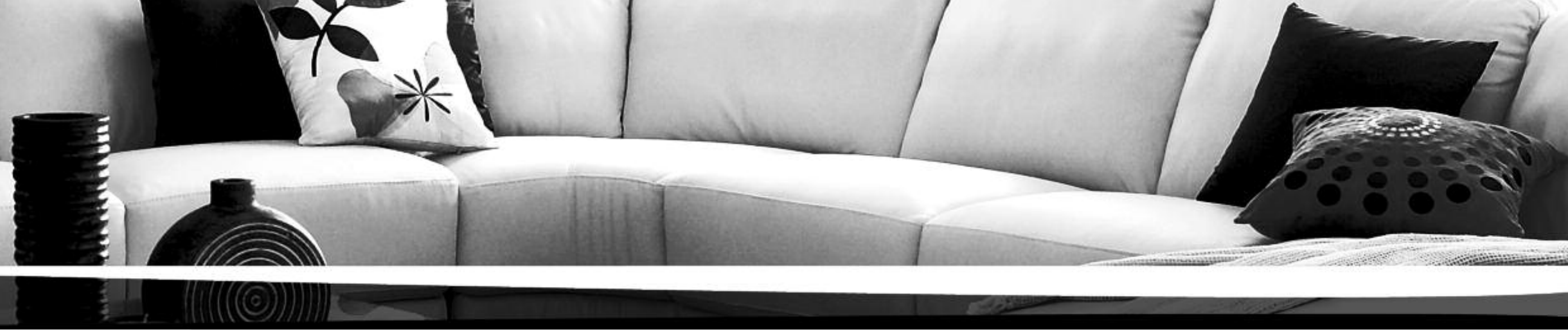
Nature and purpose of reserve

Capital profits reserve

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

Cash flow hedge reserve

This reserve records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.



	2009 $'000	2008 $'000
Note 19: Expenditure Commitments		
Operating leasing expenditure commitments		
Future minimum lease payments under non cancellable operating leases as at 30 June are as follows:		
– not later than one year	14,383	13,185
– later than one year but not later than five years	42,406	35,943
– later than 5 years	17,485	6,642
Aggregate expenditure contracted for at balance date	74,274	55,770

Operating leases are in respect of Nick Scali leased premises. Leases are entered into for varying terms. Rent reviews are mostly CPI or fixed. In some cases there are market reviews, particularly when exercising renewal options. A number of the leases contain options to renew in favour of the Company.

Note 20: Contingent Liabilities

As at the date of this report the Directors consider that any disputes which have arisen in the ordinary course of business will be settled without significant cost to the Company.

Note 21: Events Subsequent to Reporting Date

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

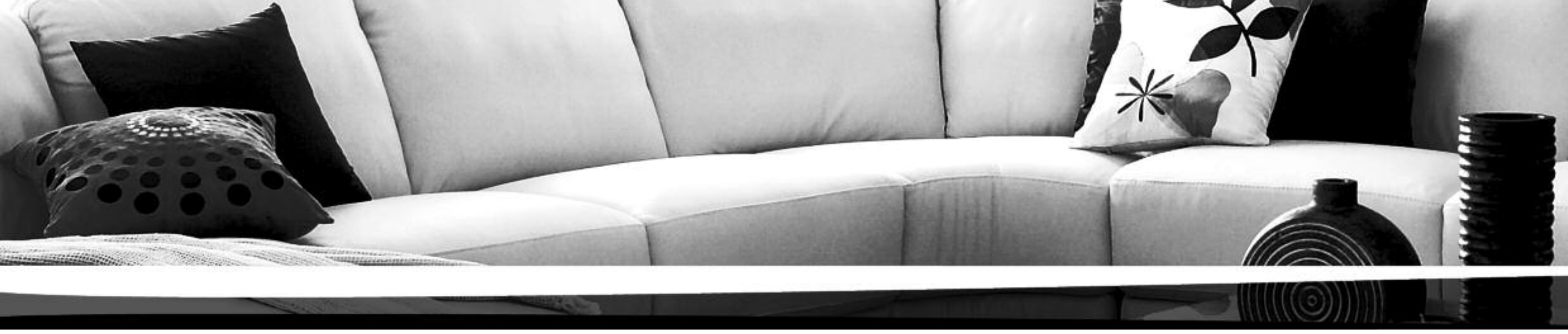
Note 22: Statement of Cash Flows

(a) Reconciliation of net profit after tax to net cash flows from operations

	2009 $'000	2008 $'000
Net Profit	4,817	6,596
Non-cash items		
Depreciation of non-current assets	848	1,029
(Gain)/Loss on disposal of property, plant and equipment	(3)	–
Net fair value change on derivatives	(194)	–
Changes in assets & liabilities		
(Increase) / decrease in value of trade & other receivables	(16)	174
Decrease / (increase) in value of inventories	1,132	(12)
(Increase) /decrease in value of prepayments	(266)	408
Increase / (decrease) in value of payables	2,039	(1,052)
Increase in value of provisions	158	340
Increase / (decrease) in current tax liabilities	360	(692)
(Decrease) in deferred tax assets	(275)	(132)
Net cash flow from operating activities	8,600	6,659

(b) Reconciliation of Cash

	2009 $'000	2008 $'000
Cash balances comprise:		
– cash at bank	11,498	7,451



	2009 $'000	2008 $'000
Note 22: Statement of Cash Flows (continued)		
(c) Financing Facilities Available		
The following operating lines of credit were available at balance date:		
– credit facilities	15,600	7,600
– amount utilised	(1,829)	(3,102)
Unused credit facilities	13,771	4,498

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

The National Australia Bank has a negative pledge arrangement in place with the Company. The Company's assets are unencumbered. The Company is compliant with all banking covenants.

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

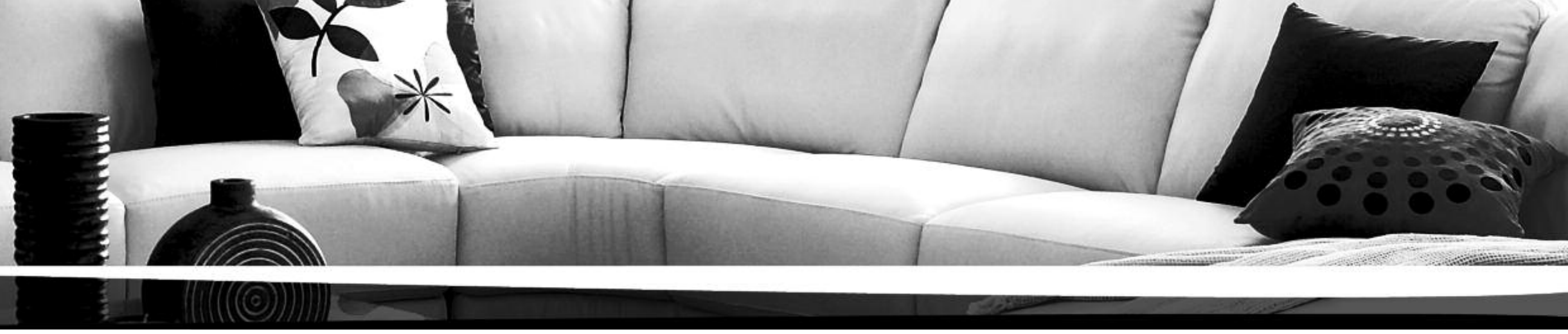
Year ended 30 June 2009:

– The Company paid property lease rentals and outgoings to personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,270,946 (2008: $1,294,651) during the year.

– The Company pays for and incurs business expenses on a credit card held in the name of the Managing Director. Personal expenses incurred on the same card are reimbursed to the Company by the Managing Director. At year end $72,400 of non-business expenses was outstanding for reimbursement (2008: $36,307).

– From time to time Messrs Anthony Scali and Nicky Scali may be provided product for the purposes of evaluation in the ordinary course of business. Upon completion of the evaluation period the product is returned to the Company.

– At balance date the Company had an amount receivable from the Managing Director of $12,578 in respect to products purchased for his own use.



Note 24: Director and Executive Disclosure

Shareholdings of Specified Directors and Specified Executives

Shares held in Nick Scali Limited (number)		Balance 30 June 2008	Net Change	Balance 30 June 2009
Specified Directors				
J.W. Ingram		310,000	–	310,000
A.J. Scali & N. D. Scali (jnr)	(i)	40,500,000	–	40,500,000
N.D. Scali		1,000,000	–	1,000,000
G.R. Laurie		30,000	–	30,000
Specified Executives				
D. Chiera		–	–	–
D.A. Clarke		–	–	–

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

Note 25: Financial Risk Management Objectives and Policies

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

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect the Company's income 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.

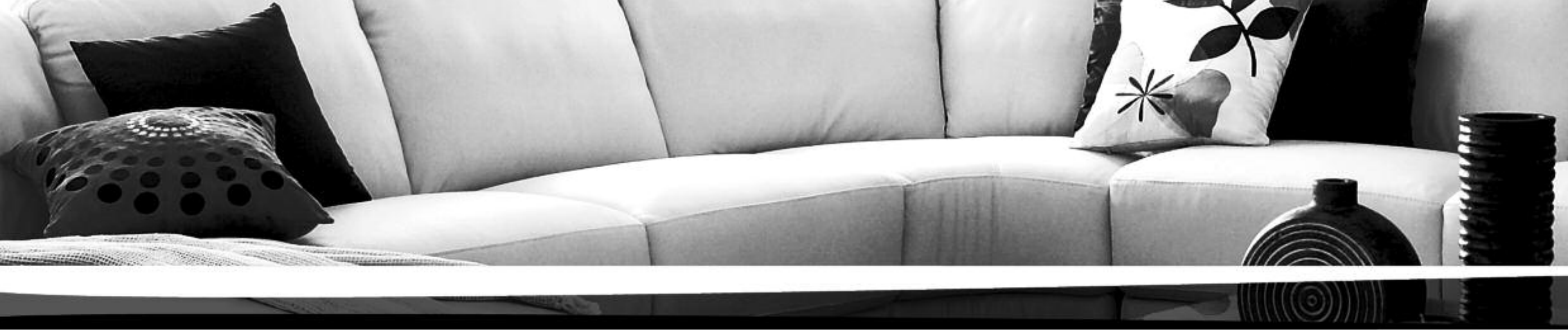
The Company has exposure to the following risks from its use of financial instruments:
– Credit risk
– Liquidity risk
– Interest rate risk
– Foreign exchange risk

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 risk, and the Company's management of capital. 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.



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

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 the Board of Directors on its activities.

Interest rate risk

The Company has a letter of credit rollover facility as discussed in note 15. There are no other financial instruments utilised, other than cash, subject to interest and therefore the interest rate risk impact is minimal. Management continually monitor 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 at balance date.

		<1 Year $'000	Total $'000	Weighted Average Effective Interest rate
Year ended 30 June 2009				
Floating rate	Cash assets	11,498	11,498	5.2%
Year ended 30 June 2008				
Floating rate	Cash assets	7,451	7,451	6.7%

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate.

	Increase / decrease in interest rate	Effect on profit before tax $	Effect on equity $
2009	+ 2%	8	–
	- 2%	(8)	–
2008	+ 2%	10	–
	- 2%	(10)	–

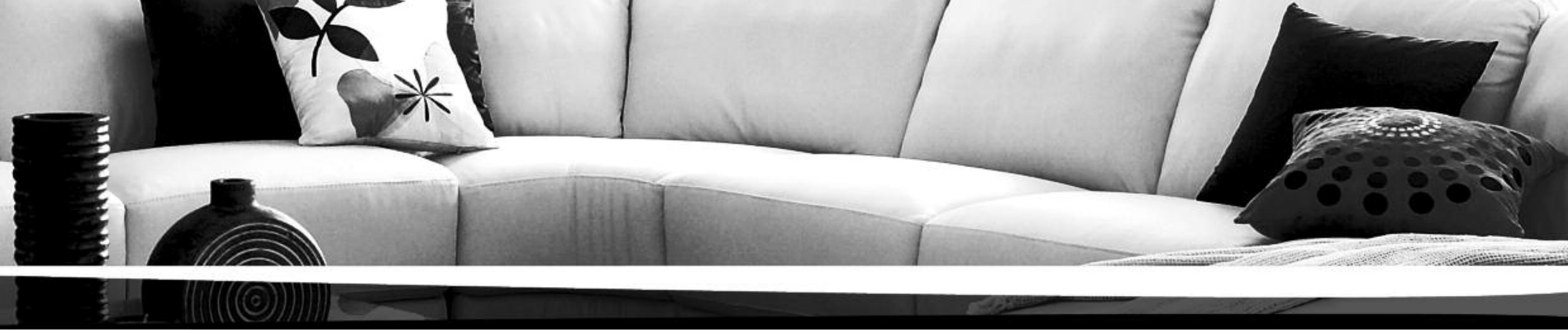
Foreign Currency Risk

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

Where appropriate the Company has used forward currency contracts and options to manage its currency exposures; and where the qualifying criteria has been met, they have been designated as hedging instruments for the purposes of hedge accounting.

The following table demonstrates the sensitivity to a reasonably possible change in the US dollar exchange rate (with all other variables held constant and giving consideration to existing hedged positions) 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
2009	+ 5%	–	–
	- 5%	–	–
2008	+ 5%	94	–
	- 5%	(94)	–



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

Foreign Currency Risk (continued)

The Company has trade payables of $227,549 at 30 June 2009 denominated in USD, all of which are covered by designated cashflow hedges (June 2008: $1,884,679 - all unhedged).

In relation to cashflow hedge positions held at year end, the related cashflows are expected to occur in July and August 2009, and the profit and loss is expected to be affected through cost of sales as the hedged items (inventory) are sold to customers. All forecast transactions subject to hedge accounting have or are highly likely to occur.

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 collectability 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 in 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

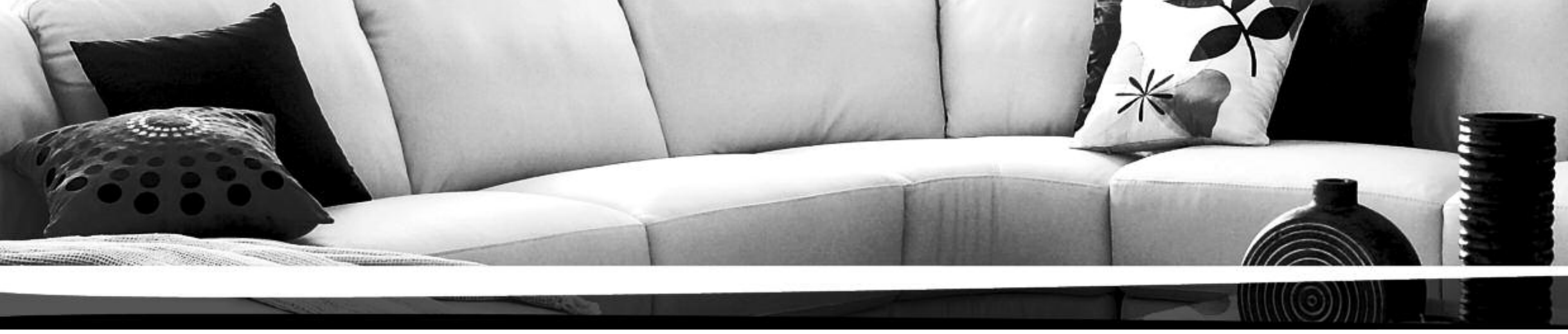
Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed 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, 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 2009	Less than 3 months $'000	3 to 12 months $'000	more than 12 months $'000	Total $'000
Trade creditors	2,716	171	–	2,887
Other creditors	3,001	–	–	3,001
Customer deposits (i)	5,254	88	14	5,356
Annual leave	1,124	–	–	1,124
Interest-bearing loans & borrowing	–	–	–	–
	12,095	259	14	12,368



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

Liquidity Risk (continued)

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

(i) Customer deposits are refundable if the Company does not complete the sale. In practise this liability rarely crystallises.

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

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 period.

The company has available a Letter of Credit Rollover facility to source capital. The balance utilised of this facility was nil at year end (2008: $1.3m). The company uses external equity only when required for specific projects. No shares have been issued in recent 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

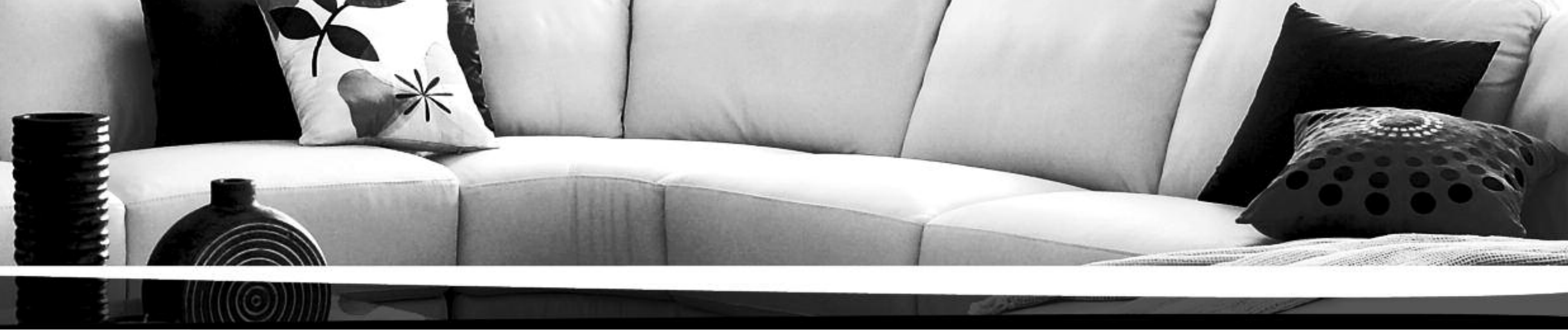
The Company operates in one industry segment being retail furniture and in one geographical location, being Australia.

Note 28: Corporate Information

Nick Scali Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. 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
Australia



Directors' Declaration

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

1) In the opinion of the Directors:

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

      (l) giving a true and fair view of the Company's financial position as at 30 June 2009 and of the performance for the year ended on that date; and

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

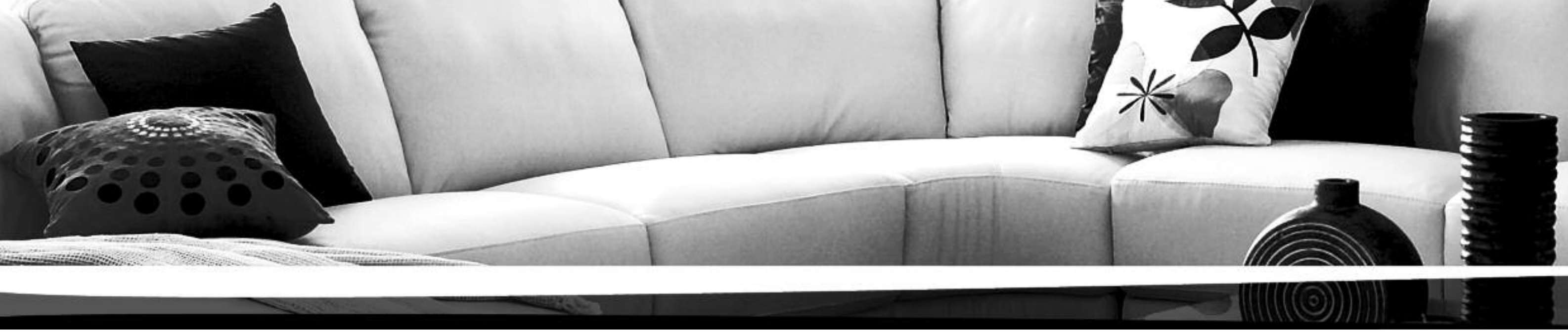
   (b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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 2009.

On behalf of the Board

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

Sydney, 20 August 2009



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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 2009, 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

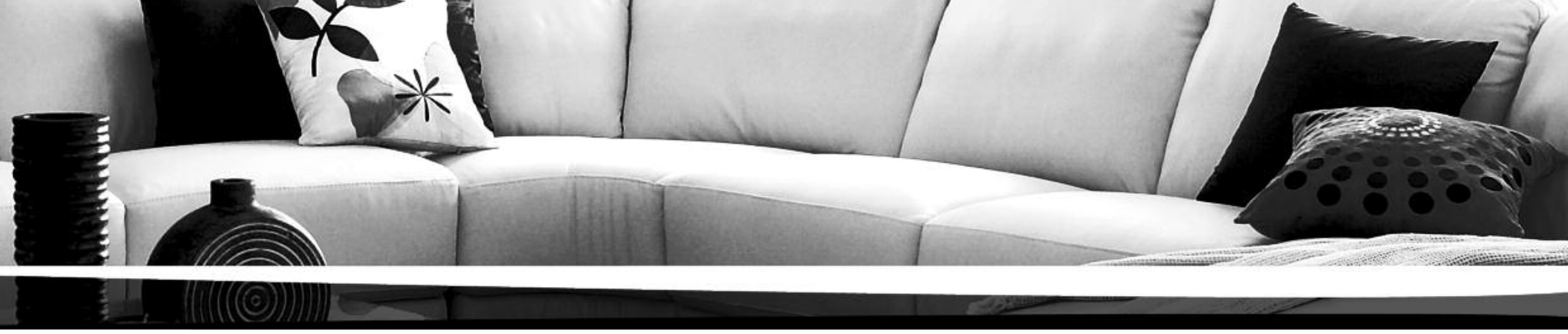
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit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



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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 2009 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

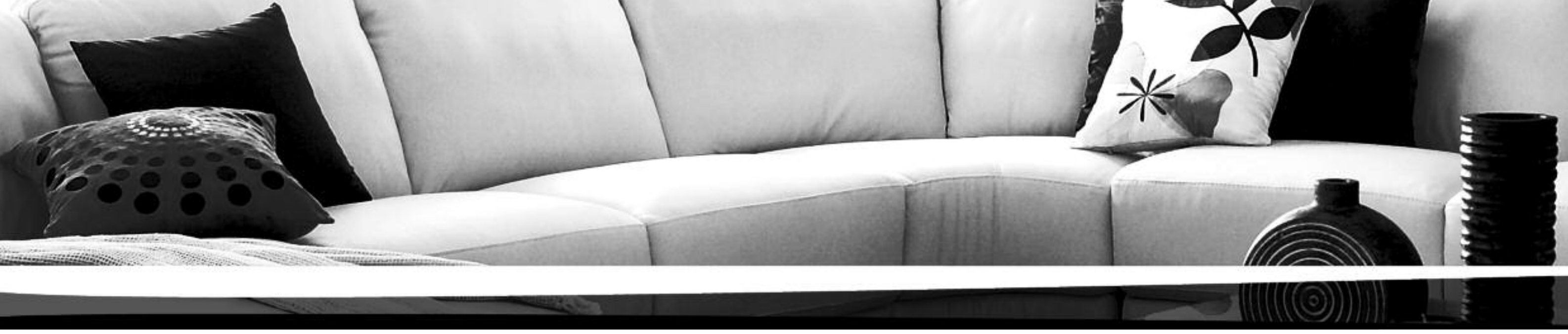
We have audited the Remuneration Report included in pages 11 to 12 of the directors' report for the year ended 30 June 2009. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our 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 2009, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Daniel Cunningham
Partner
Sydney
20 August 2009



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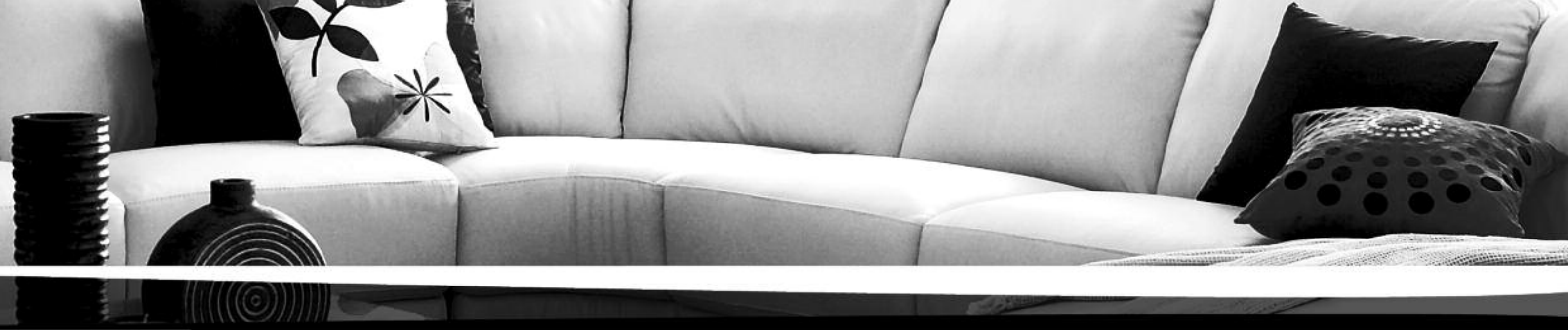
Auditor's Independence Declaration to the Directors of Nick Scali Limited

In relation to our audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2009, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Daniel Cunningham
Partner
20 August 2009



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 2009.

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

Shareholders Category	No. of Ordinary Shareholders
1 – 1,000	46
1,001 – 5,000	154
5,001 – 10,000	69
10,001 – 100,000	87
100,001 and over	17
	373

(b) Twenty largest shareholders as at 30 June 2009

Name	No. of Ordinary Shares Held	Percentage of Capital Held
Scali Consolidated Pty. Ltd.	40,500,000	50.00%
Excel Creator Investment Limited	10,524,681	12.99%
National Nominees Limited	8,301,288	10.25%
Molvest Pty. Ltd.	4,000,000	4.94%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	3,324,228	4.10%
AUST Executor Trustees NSW Ltd.	2,739,845	3.38%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	2,397,700	2.96%
Citicorp Nominees Pty. Limited	1,894,778	2.34%
Melusa Pty. Ltd.	1,000,000	1.23%
J P Morgan Nominees Aust. Ltd.	940,969	1.16%
ANZ Nominees Limited	346,613	0.43%
Bond Street Custodians Limited	310,000	0.38%
RBC Dexia Investor Services Australia Nominees Pty. Ltd.	161,782	0.20%
Mr. Bernard Choon Yin Hui	150,000	0.19%
Cogent Nominees Pty. Limited	140,429	0.17%
Mrs. Catherine Alexis Grant	120,000	0.15%
Ms. Leah Lavigne	113,000	0.14%
Lawncat Pty. Ltd.	100,000	0.12%
Mrs. Michelle Louise Sharp	100,000	0.12%
Mr. Vincenzo Covino & Mrs. Catherine Covino	100,000	0.12%
Citicorp Nominees Pty. Ltd.	96,171	0.12%
LSQ International Pty. Ltd.	94,121	0.12%
	77,455,605	95.61%

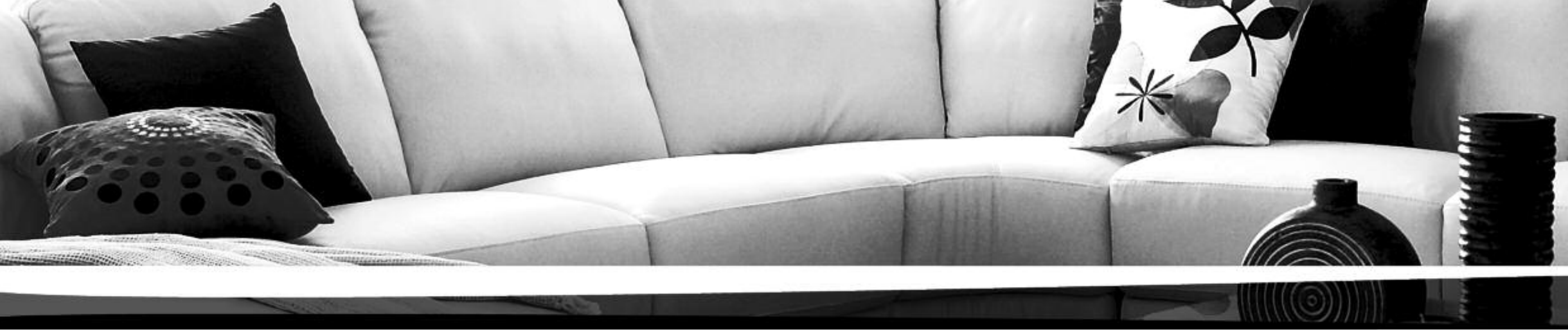
(c) Substantial shareholders

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
Excel Creator Investment Limited	10,524,681
Paradice Investment Management Pty. Limited	6,225,518
Perpetual Trustees Australia Limited	5,749,075
	62,999,274

(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	Gepps Cross	Essendon
Campbelltown		Fortitude Valley	Leather World	Frankston
Caringbah		Macgregor	Marion	Mildura
Chatswood		Townsville	Mile End	Nunawading
Kotara			Payneham	Richmond
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
David A Clarke

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

Solicitors
Bruce Stewart Dimarco
Level 17, 14 Martin Place
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 Friday, 23 October 2009
at Nick Scali Limited Head Office