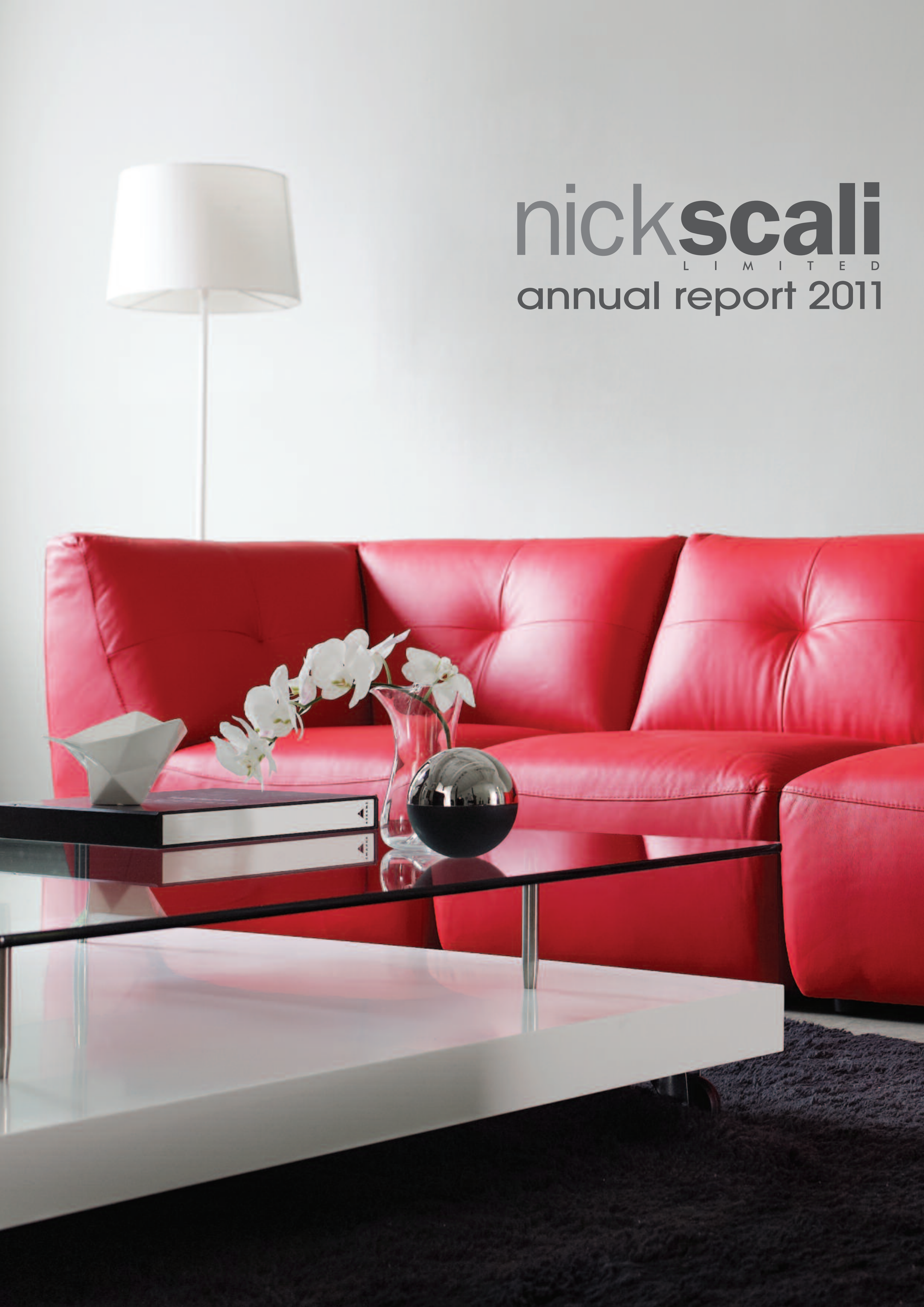
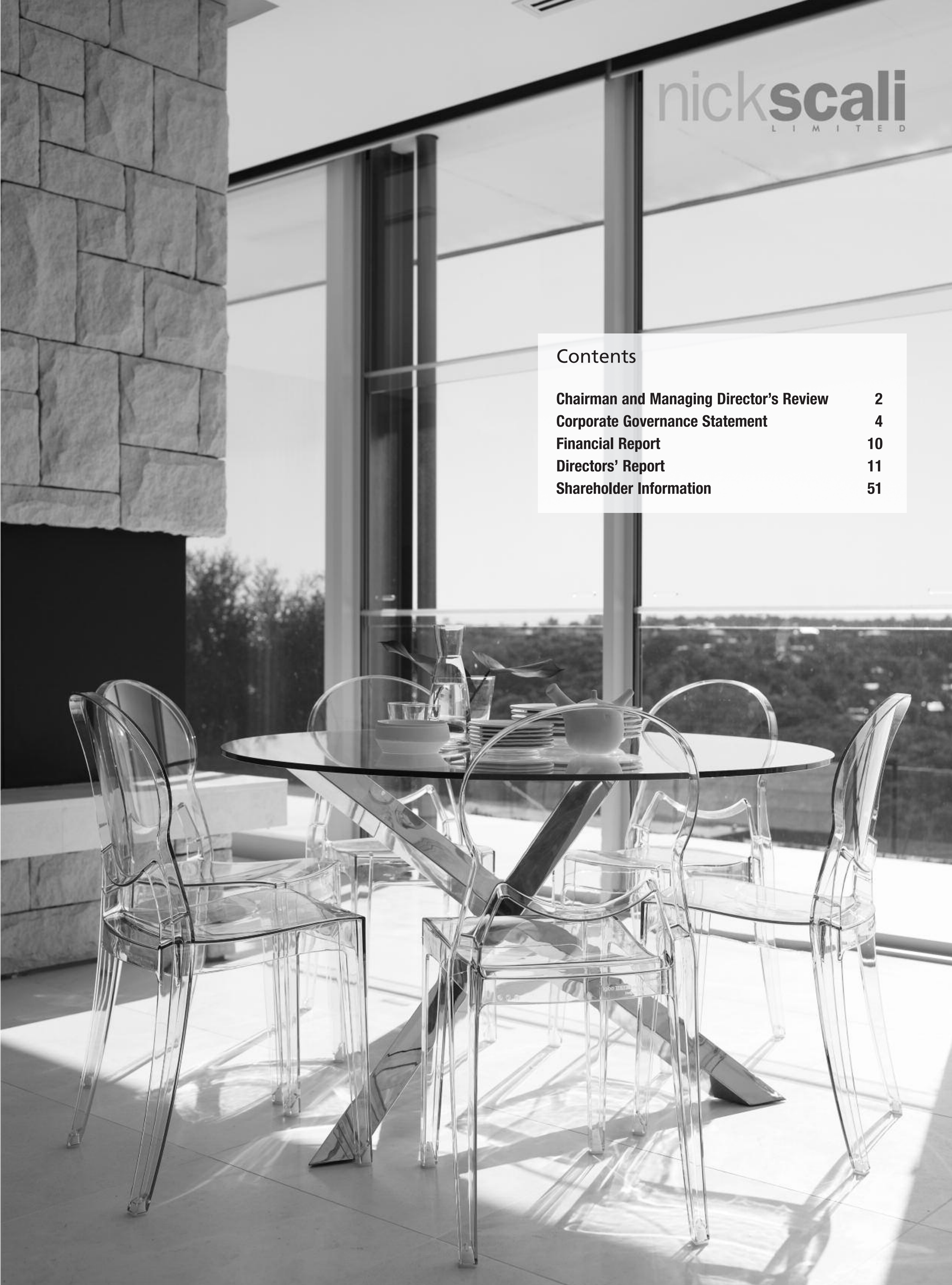
nickscali
LIMITED
annual report 2011



nickscali
FURNITURE

sofas2go

Chateau d'Ax®
ITALIA



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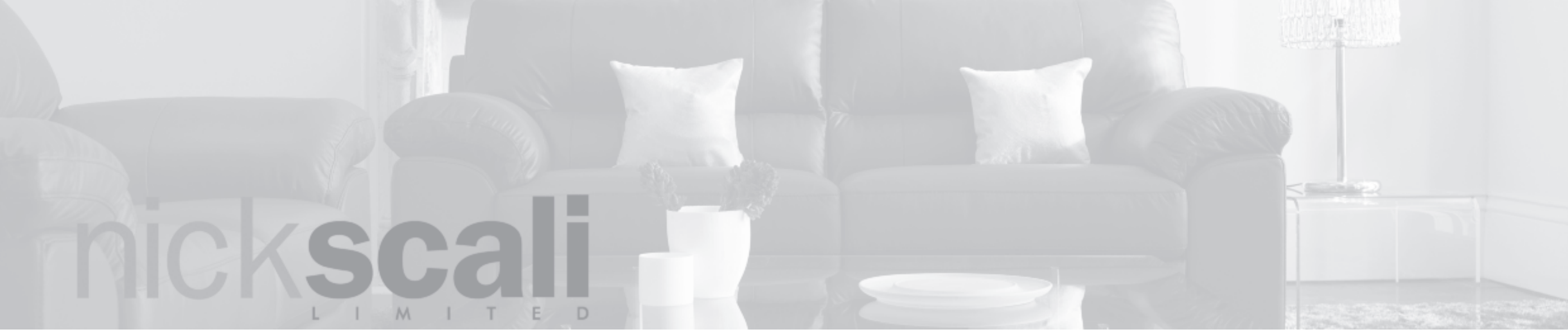


Chairman and Managing Director's Review

Dear Shareholder

Result

Managing through volatility and structuring for growth were the key themes for Nick Scali Limited during the 2010-11 financial year, a year in which the Company produced a record net profit after tax of $11.6 million; an increase of 3.1% on the previous year.

Throughout the year the Company was challenged by unpredictable market conditions, declining consumer confidence and subdued discretionary spending. In response we focused on improving the business's ability to manage the conditions and optimise results. Despite the difficulties the Company pressed forward with growth plans including the introduction of two new retail brands.

Sales revenue for the year exceeded $100 million for the first time. This was a 3.8% increase over the previous year and was supported by growth from new stores. Comparative store sales declined 1.6% over the year, although we achieved a better second half performance than in the first half.

Despite the prevailing market conditions gross margins were maintained at the same level as last year, in contrast to the general retail trend toward discounting and margin erosion. This was achieved through careful price management, continued emphasises on product and brand differentiation in the market, and the opportunities presented by the strong Australian/US dollar exchange rate.

Nick Scali continues a strong internal focus on the management of costs. Increases in operating costs during the year included those incurred to establish and support two new retail brands, additional marketing support, costs relating to new premises, and legal action to protect our brand.

During the year the Company opened a further two Nick Scali branded stores, in Jindalee Queensland, and in the new premises purchased by the Company at Alexandria, NSW. This is a continuation of the growth strategy to expand the Nick Scali brand by opening additional stores in strategically important locations.

At the half year the Company indicated its intention to develop a new furniture retail brand called Sofas2Go, targeted at entry level consumers and first home buyers. The first two Sofas2Go stores opened in March and June 2011 in NSW and have received a positive response from customers to the store experience, product offering and price points. The Company is confident that this brand has the ability to deliver valuable growth and provide benefits from leveraging the existing purchasing, distribution and support infrastructure of the business.

We have also secured the Australasian rights for the premium Italian retail brand Chateau d'Ax. Aimed at the top end of the market and with over 300 stores in 30 countries worldwide, Chateau d'Ax has a strong

international reputation for exceptionally high quality, contemporary styled furniture. Nick Scali opened the first Australian Chateau d'Ax store at Moore Park NSW in June 2011.

Nick Scali Limited currently employs over 240 people throughout its store network, distribution and support functions. Their commitment and dedication forms the foundation upon which our result rests and the Board expresses its gratitude to all our employees for their efforts throughout the year.

Dividend

The Directors declared a final fully franked dividend of 4.5 cents per share. When added to the interim dividend of 4.5 cents per share, the total dividend for the 2010-11 financial year was 9.0 cents per share fully franked. This is the same as in the previous year. The final dividend will be paid on the 31 October 2011.

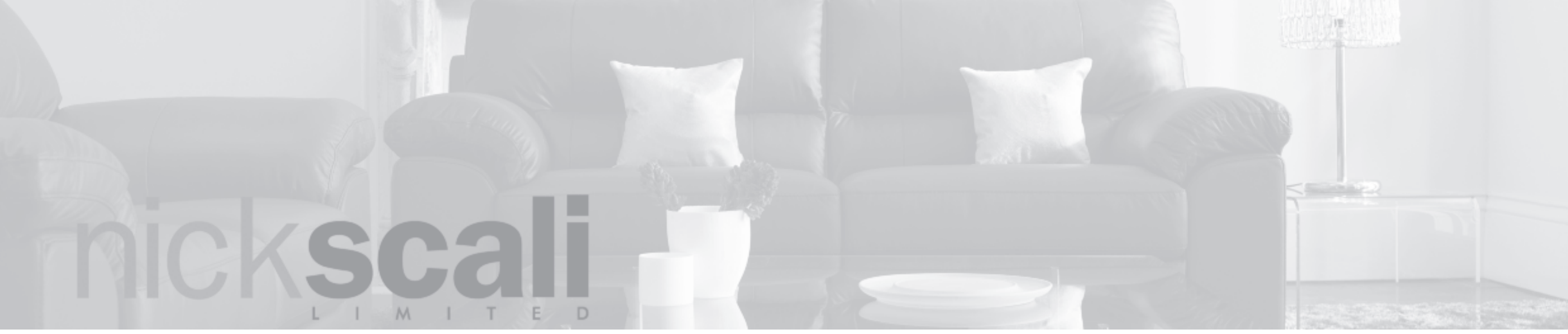
Outlook

In the first half of the current 2011-12 financial year the Company is committed to open two Nick Scali and three Sofas2Go stores. It is expected that further stores for both the Nick Scali and Sofas2Go brands will open in the second half.

Trading in the early stages of the new financial year has produced positive growth in written orders, following a poor fourth quarter for 2010-11. The directors believe, however, that trading conditions are likely to remain difficult with consumer spending susceptible to negative sentiment, including concerns about interest rate increases, the potential impact of rising costs on household budgets, and global economic instability.

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 Committee. The members of these committees are the three non executive directors. The Board and its sub-committees work with senior management to monitor, review and refine corporate governance standards.

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:

i. formulating and approving the objectives, strategies and long-term plans for the Company's continued development and operation, in conjunction with management;

ii. 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;

iii monitoring the Company's overall performance and financial results, including adopting annual budgets and approving the Company's financial reports;

iv. ensuring that adequate systems of internal control exist and are appropriately monitored for compliance;

v. selecting and reviewing the performance of the Managing Director;

vi. ensuring significant business risks are identified and appropriately managed;

vii. ensuring that the Company meets the statutory, regulatory and reporting requirements of the ASX Limited and the Corporations Act;

viii. ensuring that the Company, its directors, officers, employees and Associates are aware of and comply with all relevant laws and regulations;

ix. reporting to Shareholders on performance; and

x. deciding on the payment of dividends to Shareholders.

Each incoming director receives 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 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 Committee and the Managing Director review the performance of each member of the Company's senior executive team against agreed performance measures, and with consideration to the Managing Director's recommendation, they determine changes in remuneration in respect of each senior 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, 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. They do not hold a material amount of shares in the Company; they do not receive any financial benefit from the Company, apart from the directors fees disclosed in the Annual Report; and they have not previously been directly employed by, professionally engaged with, nor had a material contractual relationship with the Company. 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. The directors believe that for a Company of Nick Scali Limited's size the composition of the Board during the reporting period was appropriate and effective with a suitable balance of skills, experience and expertise.

The Board has not established a nomination committee; instead the responsibility for these practices rests with the full Board. 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. When considering the size and composition of the Board, the intention of the Directors is to achieve a balance between the need for a mix of skills and diversity of background, whilst ensuring that the size of the board is appropriate and effective given the size of the organisation.

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.

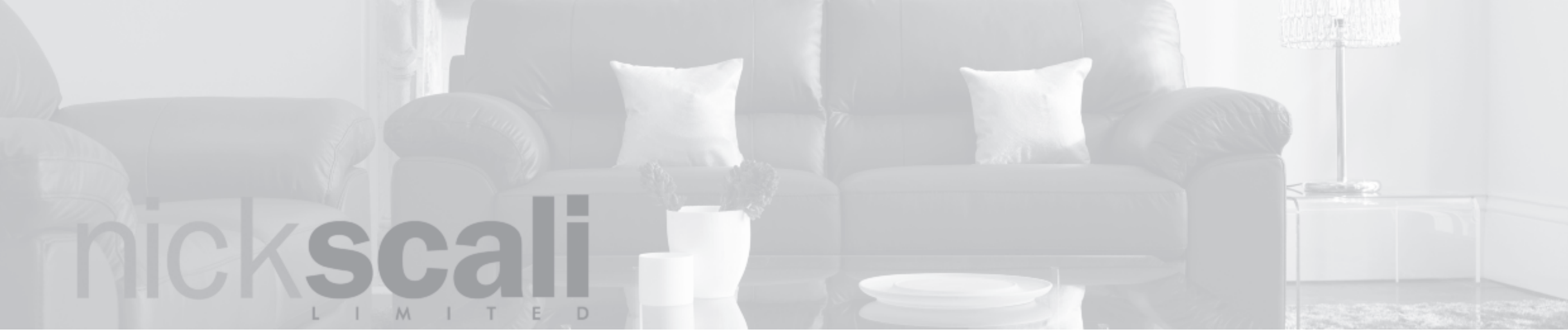
The Code of Ethics requires, among other things, that every director, officer, employee, agent, sub-contractor and consultant of the Company must:

- 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
- 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.



Corporate Governance Statement (continued)

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 designated 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 (Chairman). 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:

i. 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;

ii. review and recommend to the Board the adoption of the Company's annual and half-yearly financial reports;

iii. review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer;

iv. provide assurance regarding the quality and reliability of financial information used by the Board;

v. review the Company's risk management policies and internal control processes;

vi. 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

vii. 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 and Chief Financial Officer. 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 indicated by the following:

- 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

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 within the Company.

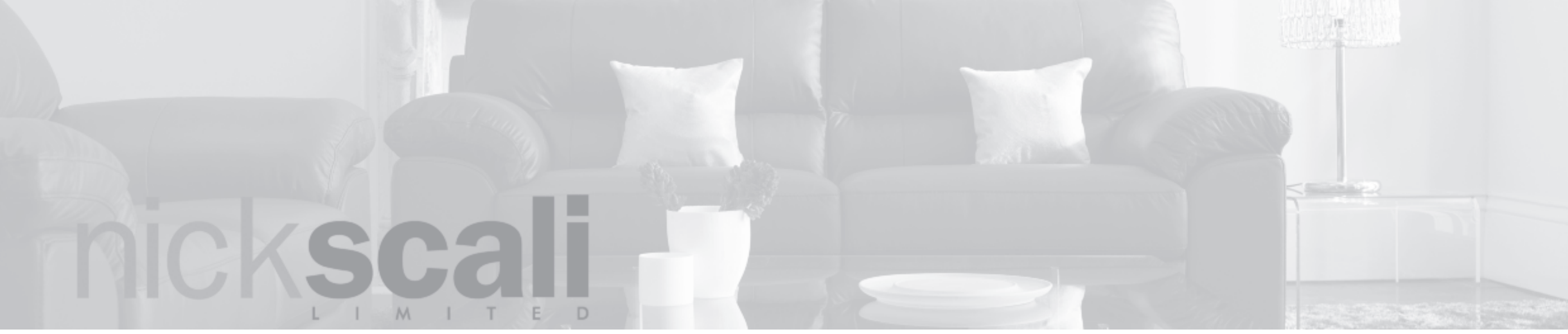
The Company's risk management approach is to identify events or circumstances relevant to the Company's objectives (risks and opportunities), assess them in terms of likelihood and magnitude of impact, determine a response strategy, and monitor progress. Management is encouraged to view the management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

The Board considers its approach to risk oversight and management is appropriate for the Company, given its size and business complexity, and seeks 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.



Corporate Governance Statement (continued)

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 exercise of rights for conversion into Ordinary Shares is subject to a performance hurdle. Subject to achieving that performance hurdle, the relevant number of rights can be exercised between the third and the fifth anniversary of their grant date.

Remuneration Committee

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

i. Reviewing remuneration arrangements of senior management, including the Managing Director;

ii. Reviewing and approving any discretionary component of short and long term incentives for the Managing Director and senior executives;

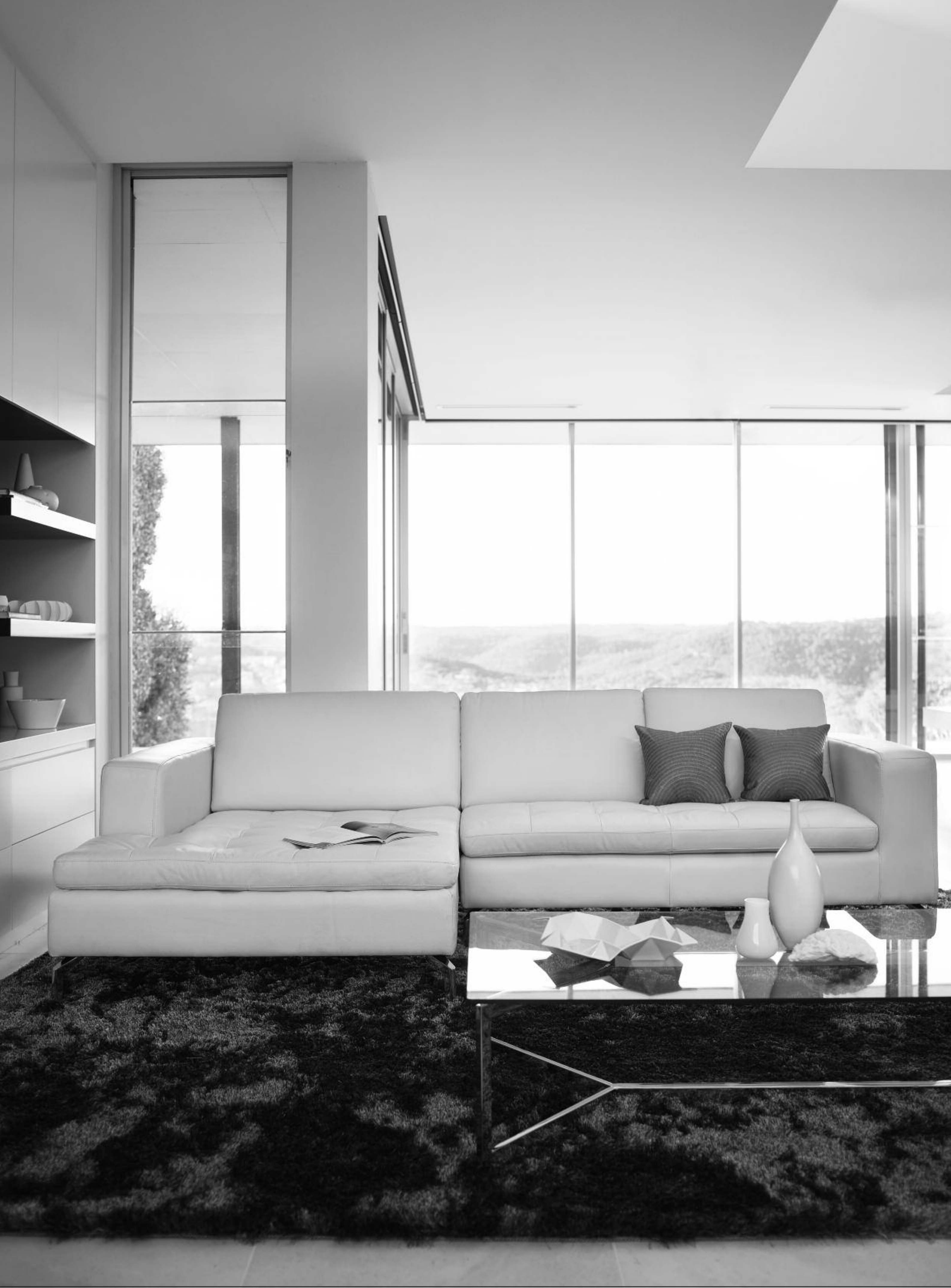
iii. Recommending to the Board any increase in the remuneration of existing senior employees of the Company for which Board approval is required;

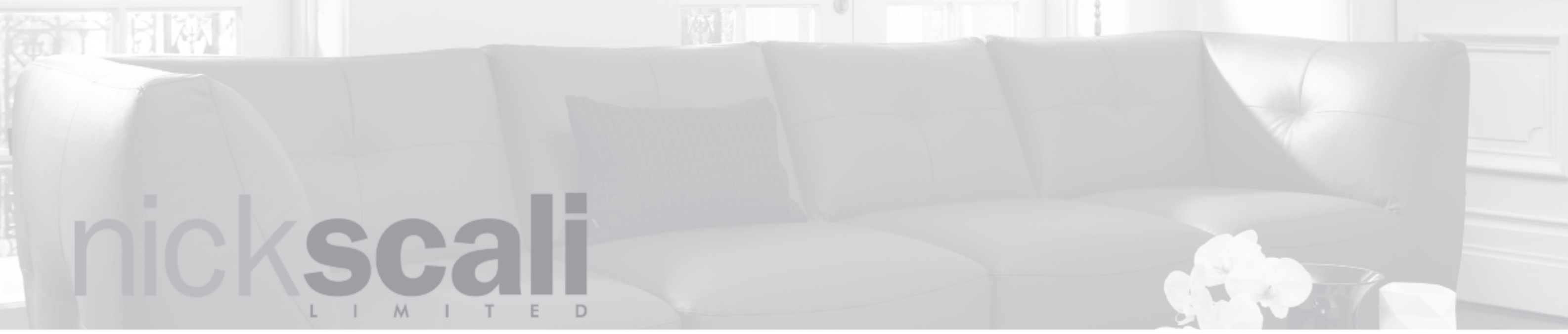
iv Recommending to the Board the remuneration of new senior executives appointed by the Company, for approval by the Board;

v. The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies;

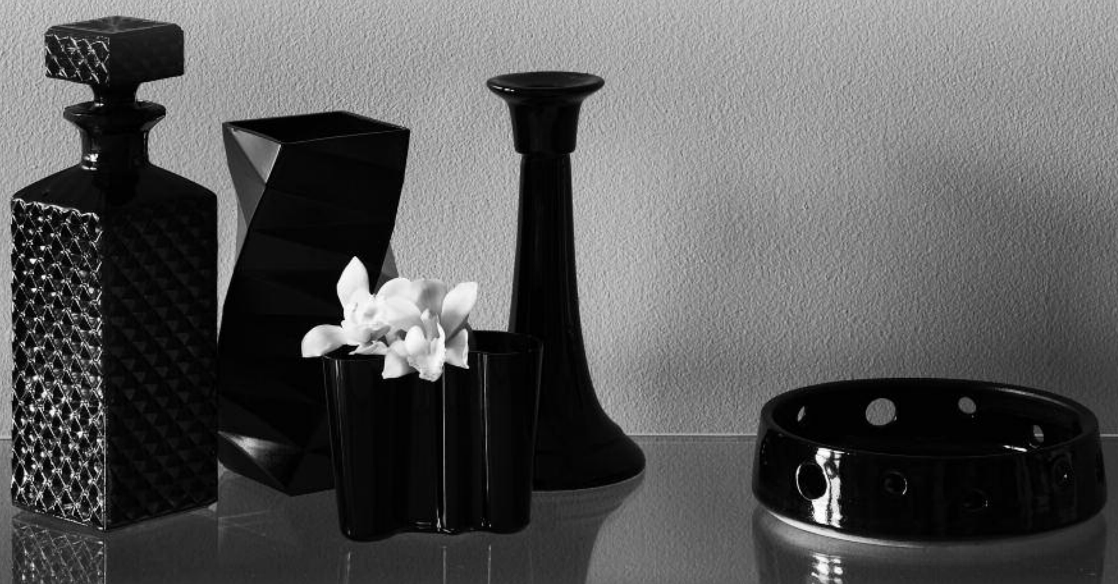
vi. Reviewing the performance of the Board and its sub-committees.

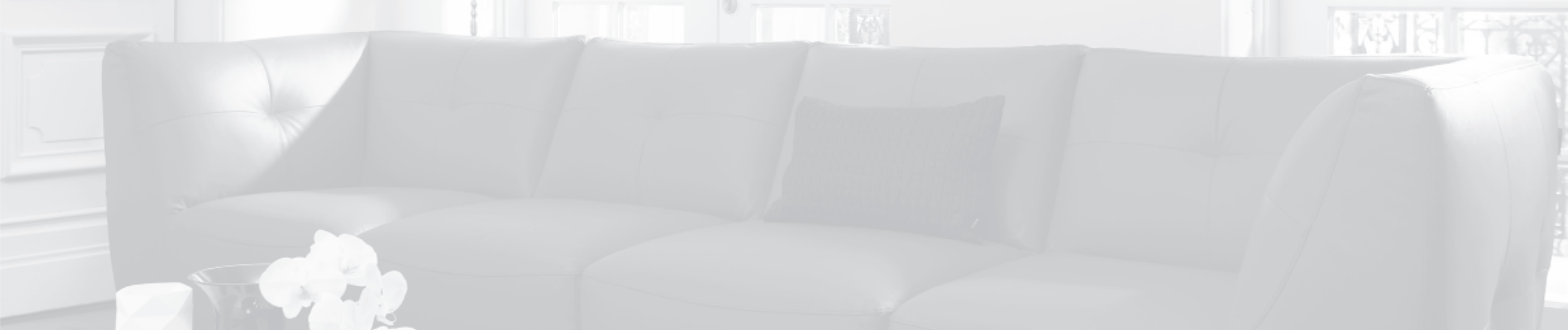
The Committee has formally met three times in the last twelve months. Discussion on matters relating to remuneration and human resources in general also regularly take place at meetings of the Board.





Financial Report
For the year ended 30 June 2011





Directors' Report

The Directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30 June 2011 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
Non Executive Director of United Group Limited.
Former Directorships in the last three years
Chairman of Wattyl Limited, November 2001 to September 2010.
Chairman of Savcor Group Limited, November 2007 to June 2009.
Special Responsibilities
Chairman of the Remuneration Committee and a member of the Audit Committee.

Nick D Scali
Non-Executive Director
Experience and expertise
Nick founded the business of Nick Scali over 56 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 into Australia. Over the years, he has served on a number of public company boards, founded other enterprises, introduced modular kitchens into the Australian market and by doing so founded a new industry, and has made major contributions towards the Australian Italian community, including serving as the President of the Italian Chamber of Commerce for 4 years.
Other Current Directorships
None
Former Directorships in the last three years
None
Special Responsibilities
Member of the Audit Committee and the Remuneration Committee.

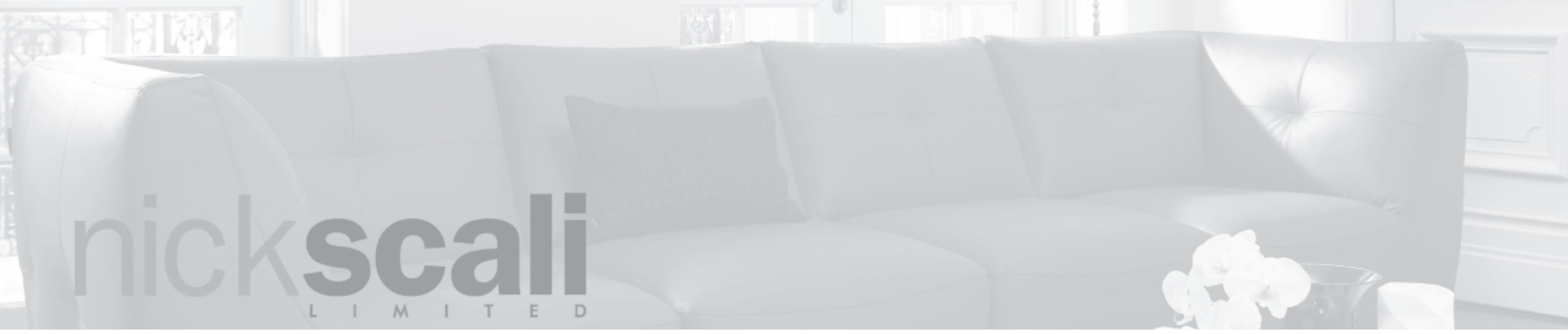
Greg R Laurie BCom
Independent Non-Executive Director
Experience and expertise
Greg was appointed to the Board on 7 April 2004. Extensive experience in manufacturing and distribution industries. Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003.
Other Current Directorships
Independent Non-Executive Director of Bradken Limited and Big River Group Pty Limited.
Former Directorships in the last three years
None
Special Responsibilities
Chairman of the Audit Committee and a member of the Remuneration Committee.

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. Anthony has over 30 years experience in retail, and the selection and direct sourcing of product from manufacturers both in Australia and overseas.
Other Current Directorships
None
Former Directorships in the last three years
None
Special Responsibilities
As Managing Director Anthony is responsible for the development and implementation of the Company's strategy for growth, as well as the overall operation of the business.

Alternate Director

Nicky D Scali BCom
Marketing & Retail Operations Manager and Alternate Director to Nick Scali
Experience and expertise
Nicky joined the Company in 1991 after completing a Bachelor of Commerce degree from Bond University. He has gained considerable experience and expertise throughout the business over the years, in particular in relation to marketing, retail operations and IT.
Other Current Directorships
None



Directors (Continued)

Former Directorships in the last three years
None
Special Responsibilities
Nicky is responsible for the buying of all advertising media and the development and execution of all creative strategies. He also 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
David joined Nick Scali Limited as Chief Financial Officer and Company Secretary in November 2008. He has over 14 years experience in senior financial management and company secretarial roles in retail, sales and distribution, and manufacturing industries in Australia and overseas. David's responsibilities include financial, administrative and operational matters for the Company.

Interests in the Shares of the Company

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

	No. of Ordinary Shares
John W Ingram	
– Non Executive Chairman	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, no Directors held 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.

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.

Review of Operations

Nick Scali Limited recorded a net profit after tax of $11.6 million, 3.1% above the previous financial year. This result was achieved within an environment of negative consumer sentiment causing consumer activity generally to be subdued.

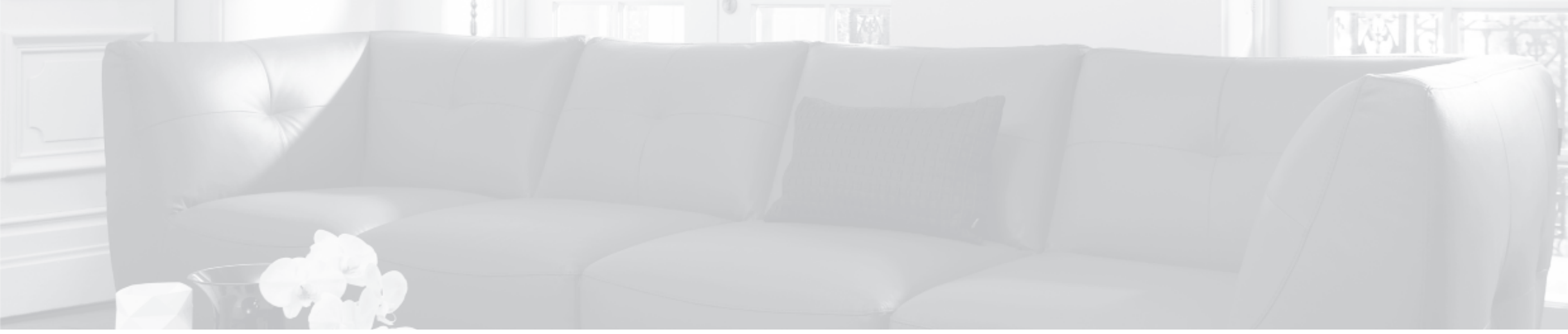
Sales for the year were 3.8% above the previous financial year and the company turnover reached $100 million. Sales growth was driven by the contribution of new stores opened during the year and those not open or contributing for a full twelve months in the previous year. Same store sales finished down 1.6% on the prior financial year.

Two new Nick Scali stores opened during the year; at Jindalee in Queensland, and Alexandria in New South Wales. The Alexandria property was purchased during the year for $7 million. This represents the first property acquisition for Nick Scali and reflects the preparedness of the Company to acquire sites at strategically important locations when suitable leased sites are unavailable. The purchase was part funded by way of a $3.5 million borrowing facility.

During the year the Company introduced two new retail brands into the market for the purpose of expanding market segments in which the company operates, in order to accelerate the growth of the Company. Both brands utilise existing company skills and infrastructure. The Nick Scali store network will continue to be expanded alongside of the new brands.

Sofas2Go is a retail store concept focusing on lounges and targeted at the entry level consumer or those seeking lower priced options. Two Sofas2Go stores were opened toward the end of the financial year, both in New South Wales, and further stores planned for early in the 2012 financial year will be used to refine the concept.

Chateau d'Ax is a premium international retail brand from Italy, featuring high end Italian designed furniture. Nick Scali has secured the Australasian rights for Chateau d'Ax and opened the first store in June 2011 in New South Wales.



Directors' Report (continued)

Dividends

	2011 $'000	2010 $'000
Dividends paid to members during the year were as follows:		
Dividends on ordinary shares:		
Final franked dividend for 30 June 2010:		
4.5 cents (2009: 6.0 cents)	3,645	4,860
Interim franked dividend for 30 June 2011:		
4.5 cents (2010: 4.5 cents)	3,645	3,645
	7,290	8,505

In addition to the above dividends, since the end of the financial year the directors have declared a fully franked final dividend of $3,645,000 (4.5 cents per fully paid ordinary share) to be paid on 31 October 2011 out of retained profits at 30 June 2011.

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 Reporting 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 profitability through the development of the stores network for Nick Scali Furniture, and the expansion of the two new retail brands Sofas2Go and Chateau d'Ax.

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

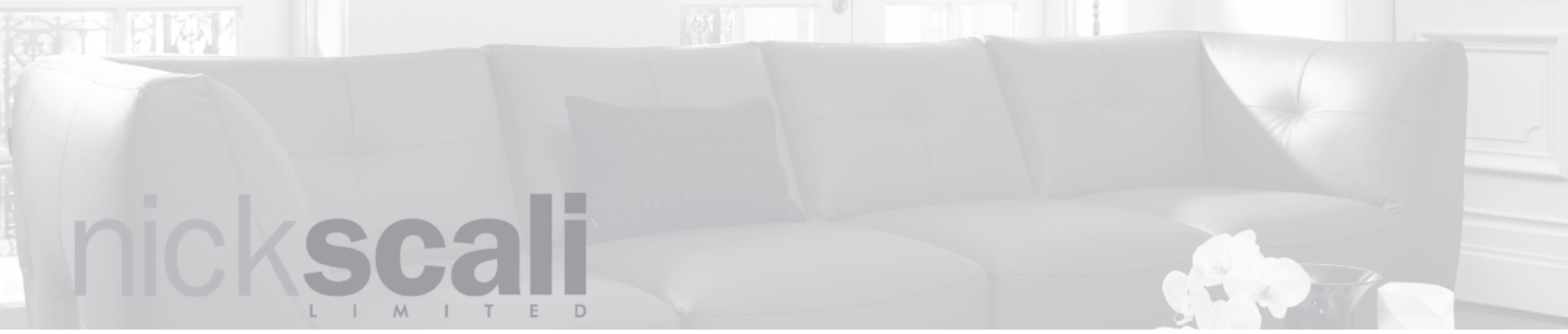
The quality of Nick Scali Limited's Directors and Executives is a major factor in the overall performance of the Company. The Company believes it is essential to attract and retain high quality and committed employees. To this end, the Company embraces the following principles in its remuneration framework.

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 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.



Remuneration Report – Audited (Continued)

Non executive directors remuneration

Non-Executive Directors are paid an annual fee, which is periodically reviewed. The review is the responsibility of the Remuneration 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 Committee

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

i. Reviewing remuneration arrangements of senior management, including the Managing Director.
ii. Reviewing and approving any discretionary component of short and long term incentives for the Managing Director and senior executives.
iii. Recommending to the Board any increase in the remuneration of existing senior employees of the Company for which Board approval is required.
iv. Recommending to the Board the remuneration of new senior executives appointed by the Company.
v. The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
vi. Reviewing the performance of the Board and its sub-committees, with the advice of external parties if appropriate.

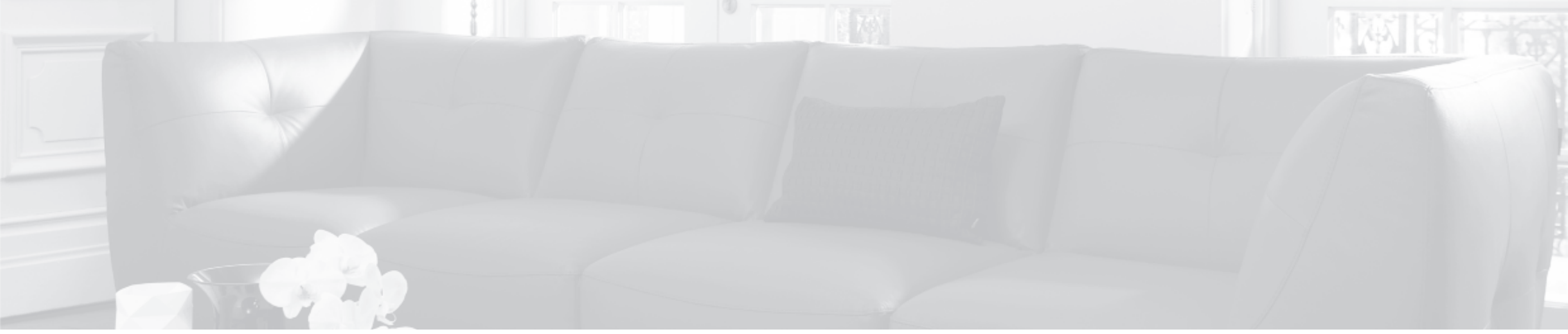
The Committee has met three times in the last twelve months. In addition, matters for consideration by the Committee have been dealt with during various Board meetings, where Remuneration Committee members were in attendance.

The Managing Director, Marketing and Retail Operations Manager, and Chief Financial Officer are employed by the Company under contracts with no specific duration, with a minimum termination notice period of six months, and are eligible for their statutory employee entitlements upon termination. No such employment contracts exist for the Non-Executive Directors.

Remuneration of Directors and named Executives

		Short Term Benefits			Long Term Incentives	Post Employment	Total
		Salary & Fees	*Cash Incentive*	*Non Monetary Benefits*	*Share based payments*	*Superannuation*	$
J.W. Ingram	2011:	85,000	–	–	–	–	85,000
Non-Executive Chairman	2010:	85,000	–	–	–	–	85,000
G.R. Laurie	2011:	68,807	–	–	–	6,193	75,000
Non-Executive Director	2010:	68,807	–	–	–	6,193	75,000
N.D. Scali	2011:	75,000	–	–	–	–	75,000
Non-Executive Director	2010:	75,000	–	–	–	–	75,000
A.J. Scali	2011:	509,800	–	–	–	15,200	525,000
Managing Director	2010:	435,539	–	–	–	14,461	450,000
Nicky D. Scali	2011:	304,800	–	–	–	15,200	320,000
Marketing and Retail Operations Manager	2010:	255,539	–	–	–	14,461	270,000
D. A. Clarke	2011:	234,800	10,000	–	8,450	15,200	268,450
Chief Financial Officer & Company Secretary	2010:	210,539	45,000	–	–	14,461	270,000

- There are no other Directors or Executive Officers of the Company.
- There are no other Short Term, Post Employment, or Long Term Benefits, including non-monetary benefits.
- The elements of emoluments have been determined on the basis of cost to the Company.
- The terms 'Director' and 'Executive Officer' have been treated as mutually exclusive for the purposes of this disclosure.
- Executive Officers are those directly accountable and responsible for operational management & strategic direction.
- The percentage of remuneration which is performance related is the cash bonuses, which are discretionary, and the Executive Performance Rights share-based payments.
- Mr D.A. Clarke received performance related remuneration amounting to 7% of total remuneration for the year (2010: 17%).
- No other Directors or Executives Officers received performance related remuneration during the year (2010: none)
- Mr A.J. Scali and Mr Nicky D. Scali are entitled to statutory long service leave. Amounts accrued during the year were $26,864 and $17,209 respectively (2010: $10,845 and $6,616).



Directors' Report (continued)

Remuneration Report – Audited (Continued)

Share-Based Payments – Long Term Incentives (LTI)

Long term incentives, in the form of the Executive Performance Rights Plan, are provided to employees in order to align remuneration with the creation of shareholder value over the long term. To achieve this purpose the Board has determined earnings per share growth over a period of time to be the most appropriate measure of performance. The plan operates to grant to employees Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not subject to retesting during the period. Earnings per share is based on the Company's total profit after tax and before non-recurring items and amortisation of goodwill, all as determined by the Board. There is no exercise price for the shares and the employees are able to exercise the Right up to two years following vesting, after which time the Right will lapse. The 2010-11 financial year was the first year Rights were awarded under the Plan.

The following table summarises the number and value of Rights granted, exercised or lapsed to Directors and named Executives during the year.

	Value of Rights granted (i) $	Value of Rights exercised $	Value of Rights lapsed $	Remuneration consisting of Rights %
D.A. Clarke	25,350	–	–	3

(i) The value of the Rights granted during the period is recognised in remuneration expense over the vesting period of the Right.

The number of Rights on issue to Directors and named Executives as at the reporting date were as follows:

	Balance at 1 July 2010 No.	Rights granted No.	Rights exercised No.	Balance at 30 June 2011 No.	Balance vested 30 June 2011 No.	Vested during the year No.
D.A. Clarke	–	36,232	–	36,232	–	–

Details of Rights granted during the year:

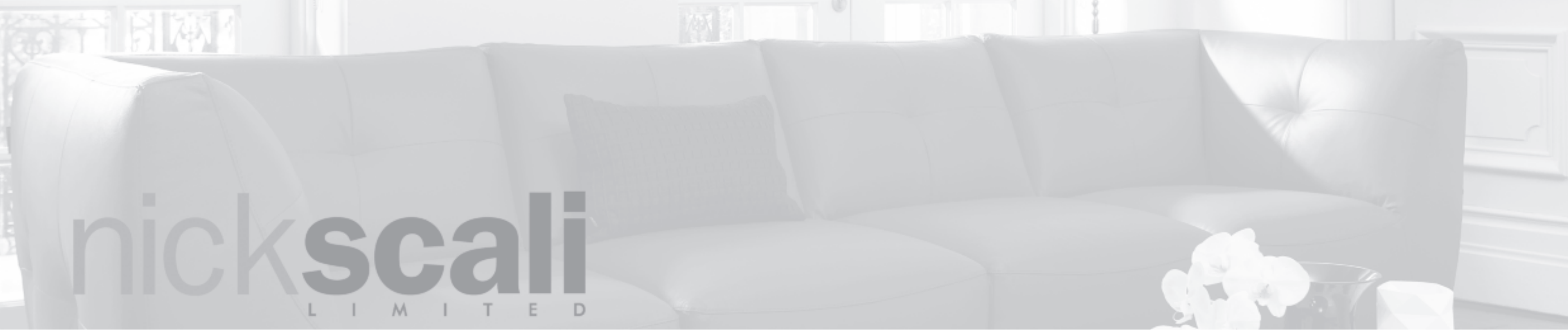
	Rights Granted No.	Grant Date	Fair value of Right at Grant date $	Performance measurement date	Expiry date
D.A. Clarke	36,232	1-Jul-10	25,350	30-Jun-13	30-Jun-15

Performance conditions in relation to Rights granted during the year:

Company's average percentage compound EPS growth per annum	Percentage of Rights Exercisable
Below 5% pa compound	Nil
5% pa compound	50% of Rights exercisable
10% pa compound and above	100% of Rights exercisable
Greater than 5% pa compound and less than 10% pa compound	Calculated on a pro rata basis between 50% and 100% depending on Company's EPS performance

Company's ESP growth over the previous five financial years:

	2007	2008	2009	2010	2011
Earnings per share growth	7%	-24%	-27%	134%	3%



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 Committees	
		Audit	Remuneration
Number of meetings held:	10	3	3
Number of meetings attended:			
J.W. Ingram	10	3	3
G.R. Laurie	10	3	3
N.D. Scali	9	3	2
A.J. Scali	10	3	3

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 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 50 of the Financial Report.

Non-Audit Services

The following non-audit services were provided by the Company's auditor, Ernst & Young. The Directors are satisfied that the provision of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporation 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:

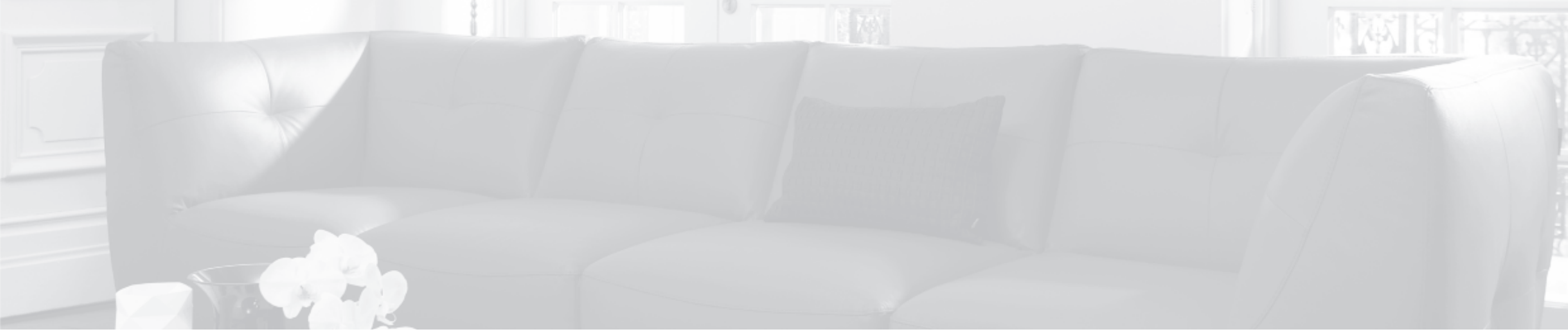
Tax compliance services	11,000

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

J.W. Ingram
Chairman

A.J. Scali
Managing Director

Sydney, 10 August 2011



Statement of Income
for the year ended 30 June 2011

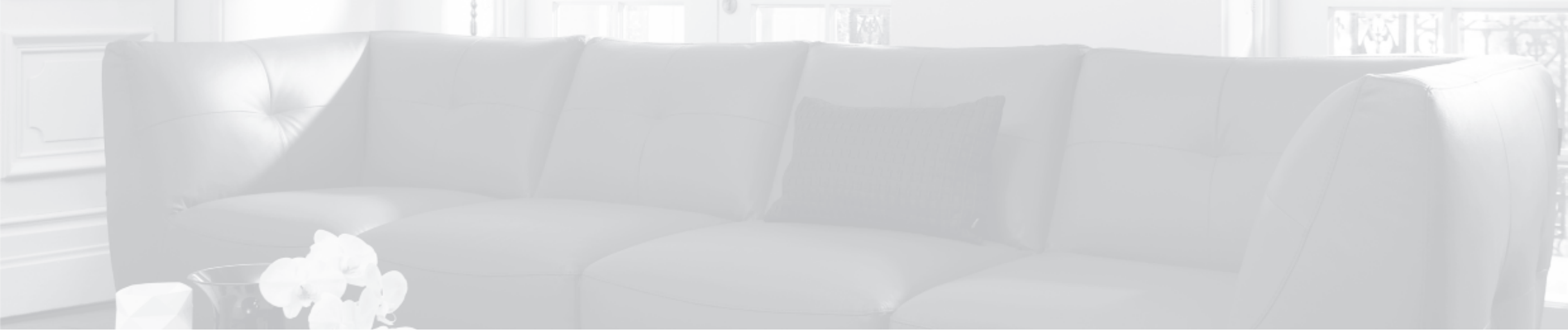
	Notes	2011 $'000	2010 $'000
Revenue from sale of goods	2	100,015	96,365
Cost of goods sold		(37,322)	(35,919)
Gross Profit		**62,693**	**60,446**
Other income	2	1,054	754
Distribution expenses		(4,438)	(4,184)
Sales and Marketing expenses		(18,969)	(19,613)
Administrative expenses		(5,059)	(3,959)
Occupancy expenses		(17,292)	(16,441)
Finance Costs		(116)	–
Other expenses		(1,064)	(924)
Profit Before Income Tax		**16,809**	**16,079**
Income Tax Expense	4	(5,201)	(4,824)
Net Profit After Tax for the Year		**11,608**	**11,255**
Basic Earnings Per Share (cents per share)	7	14.3 cents	13.9 cents
Diluted Earnings Per Share (cents per share)	7	14.3 cents	13.9 cents

The above statement of income should be read in conjunction with the accompanying notes.

Statement of Comprehensive Income
for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Net profit after tax for the year		11,608	11,255
Other comprehensive income			
Cash flow hedges gain/(loss) taken to equity		(121)	256
Other comprehensive income for the year		**(121)**	**256**
Total Comprehensive Income for the Year		**11,487**	**11,511**

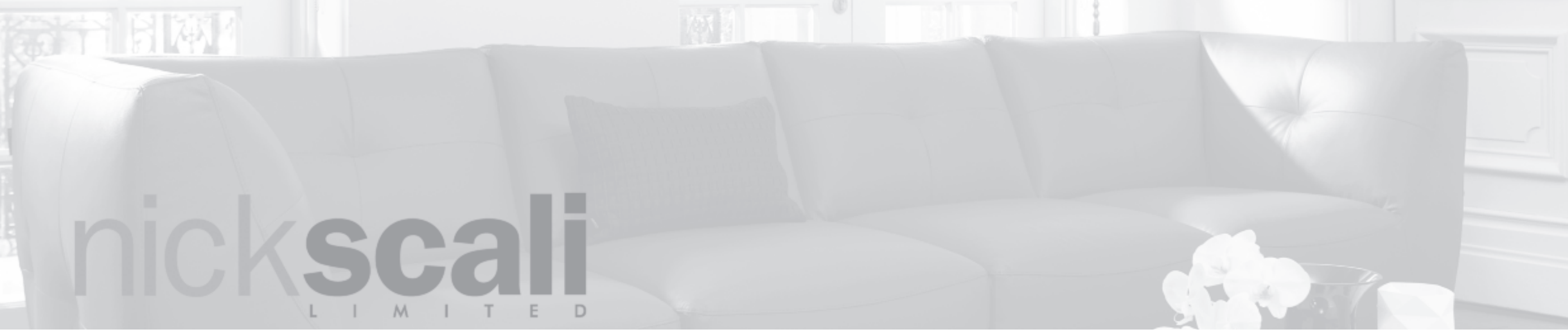
The above statement of comprehensive income should be read in conjunction with the accompanying notes.



Statement of Financial Position
as at 30 June 2011

	Notes	2011 $'000	2010 $'000
Current Assets			
Cash assets	22	17,552	17,312
Receivables	8	757	610
Inventories	9	12,247	13,871
Other financial assets	10	6	696
Other assets	11	303	430
Total Current Assets		**30,865**	**32,919**
Non-Current Assets			
Deferred tax assets	4	1,405	1,116
Property, plant and equipment	12	13,707	4,662
Intangible assets	13	2,378	2,378
Total Non-Current Assets		**17,490**	**8,156**
Total Assets		**48,355**	**41,075**
Current Liabilities			
Payables	14	16,939	17,630
Current tax liabilities	4	1,640	1,522
Provisions	15	408	207
Total Current Liabilities		**18,987**	**19,359**
Non-Current Liabilities			
Provisions	15	233	259
Deferred tax liability	4	–	27
Borrowings	22 (c)	3,500	–
Total Non-Current Liabilities		**3,733**	**286**
Total Liabilities		**22,720**	**19,645**
Net Assets		**25,635**	**21,430**
Equity			
Contributed equity	16	3,364	3,364
Reserves	17	27	140
Retained profits		22,244	17,926
Total Equity		**25,635**	**21,430**

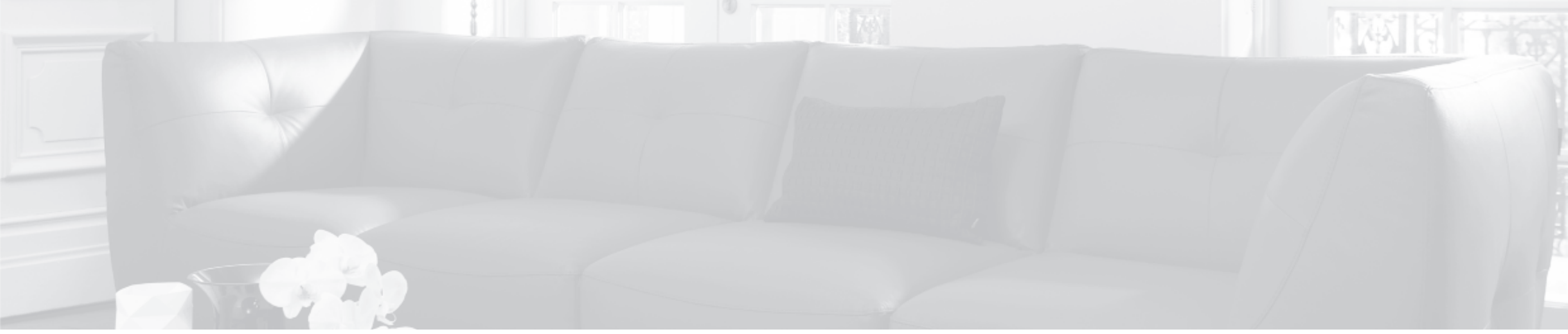
The above statement of financial position should be read in conjunction with the accompanying notes.



Statement of Changes in Equity
for the year ended 30 June 2011

	Notes	Contributed equity $'000	Equity benefits reserve $'000	Assets revaluation reserve $'000	Cash flow hedge reserve $'000	Retained profits $'000	Total $'000
Year Ended 30 June 2011							
As at 1 July 2010		**3,364**	**–**	**78**	**62**	**17,926**	**21,430**
Profit for the period		–	–	–	–	11,608	11,608
Other comprehensive income		–	–	–	(121)	–	(121)
Total comprehensive income		**–**	**–**	**–**	**(121)**	**11,608**	**11,487**
Share-based payment		–	8	–	–	–	8
Equity dividends	5	–	–	–	–	(7,290)	(7,290)
As at 30 June 2011	16/17	**3,364**	**8**	**78**	**(59)**	**22,244**	**25,635**
Year Ended 30 June 2010							
As at 1 July 2009		**3,364**	**–**	**78**	**(194)**	**15,176**	**18,424**
Profit for the period		–	–	–	–	11,255	11,255
Other comprehensive income		–	–	–	256	–	256
Total comprehensive income		**–**	**–**	**–**	**256**	**11,255**	**11,511**
Share-based payment		–	–	–	–	–	–
Equity dividends	5	–	–	–	–	(8,505)	(8,505)
As at 30 June 2010	16/17	**3,364**	**–**	**78**	**62**	**17,926**	**21,430**

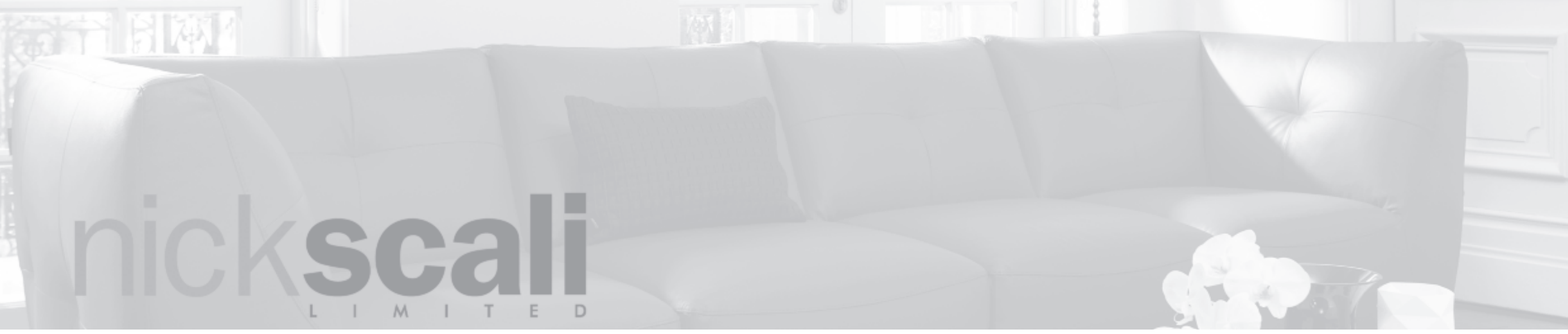
The above statement of changes in equity should be read in conjunction with the accompanying notes.



Statement of Cash Flows
for the year ended 30 June 2011

	Notes	2011 $'000	2010 $'000
Cash Flows from Operating Activities			
Receipts from customers		109,699	107,581
Payments to suppliers and employees		(90,875)	(88,004)
Interest received		778	667
Income tax paid		(5,347)	(4,724)
Net Cash Flows from Operating Activities	22 (a)	**14,255**	**15,520**
Cash Flows from Investing Activities			
Purchase of property, plant & equipment		(10,109)	(1,201)
Net Cash Flows (used) in Investing Activities		**(10,109)**	**(1,201)**
Cash Flows from Financing Activities			
Payment of dividends on ordinary shares	5	(7,290)	(8,505)
Proceeds from borrowings		3,500	–
Interest paid		(116)	–
Net Cash (used) in Financing Activities		**(3,906)**	**(8,505)**
Net Increase / (Decrease) in Cash Held		240	5,814
Add opening cash brought forward		17,312	11,498
Closing cash carried forward	22 (b)	**17,552**	**17,312**

The above statement of cash flows should be read in conjunction with the accompanying notes.



Notes to the Financial Statements
for the year ended 30 June 2011

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 10 August 2011.

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:

	2011	2010
Buildings	20-40 years	not applicable
Office equipment	3-12 yrs	3-12 yrs
Furniture and fittings	3-15 yrs	3-15 yrs
Leasehold & building improvements	5-15 yrs	5-15 yrs
Motor vehicles	6 yrs	6 yrs

Leasehold improvements are depreciated at the shorter of the depreciation period or the term of the lease. Land is not depreciated.

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

Impairment
The carrying values of property, 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 property, 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.

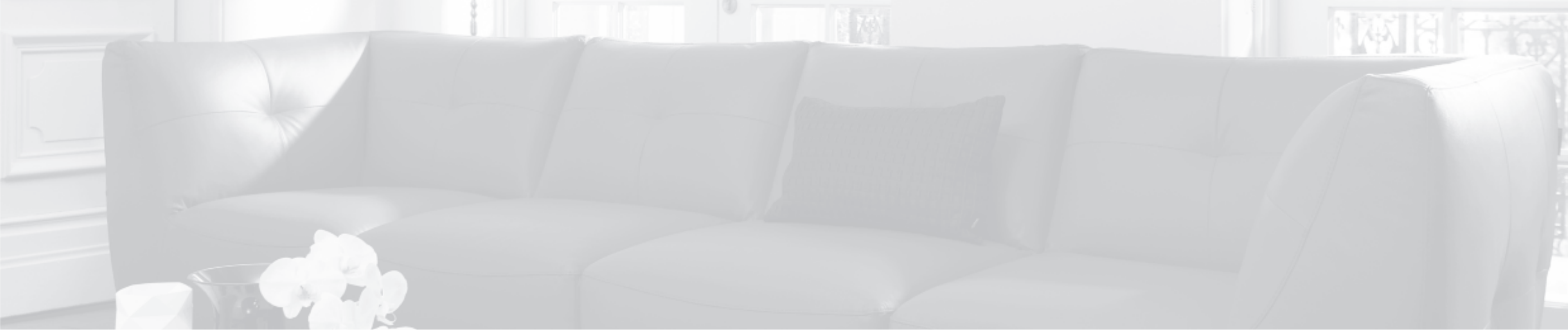
Derecognition and disposal
An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income 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 statement of income on a straight-line basis over the lease term.

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.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 1: Statement of Significant Accounting Policies (continued)

(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

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.

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.

Share-based payments
The Company provides benefits to employees in the form of share-based payments through its Executive Performance Rights Plan. These equity settled share-based payments are measured at the fair value of the Rights at grant date. Fair value is determined by independent valuation. The fair value is expensed on a straight line basis over the vesting period, with a corresponding increase in equity, based on the Company's estimate of the number of shares that will eventually vest giving consideration to the likelihood of employee turnover and likelihood of non-market performance conditions being met.

At each reporting date the Company revises its estimate of the number of Rights expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, along with the reversal of any previous charges relating to Rights which may have lapsed.

(g) Cash and cash equivalents

Cash and short-term deposits in the statement of financial position 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 statement of cash flows, cash and equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

(h) Foreign currency translation

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

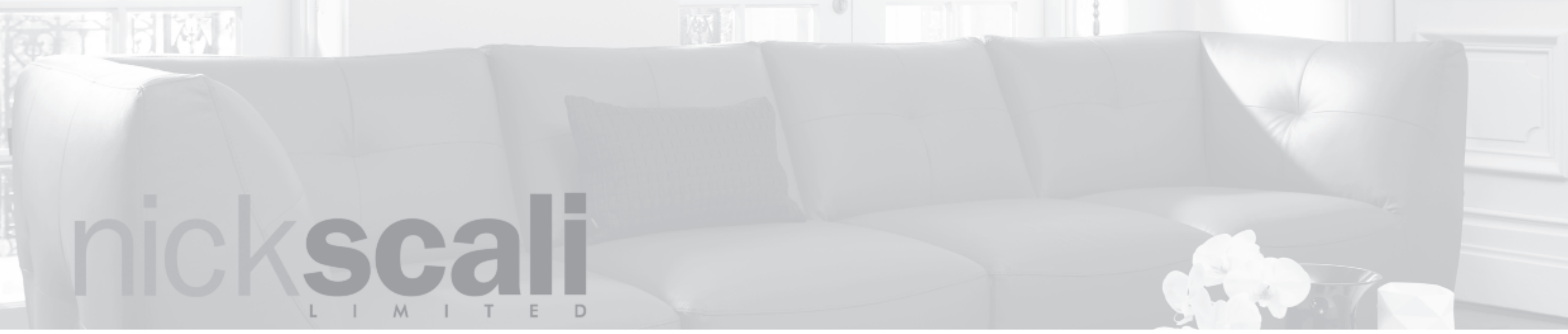
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction or at the hedged rate if qualifying financial instruments have been used to reduce exposure. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date or hedged rates.

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

(i) 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 reporting 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).



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 1: Statement of Significant Accounting Policies (continued)

(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.

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.

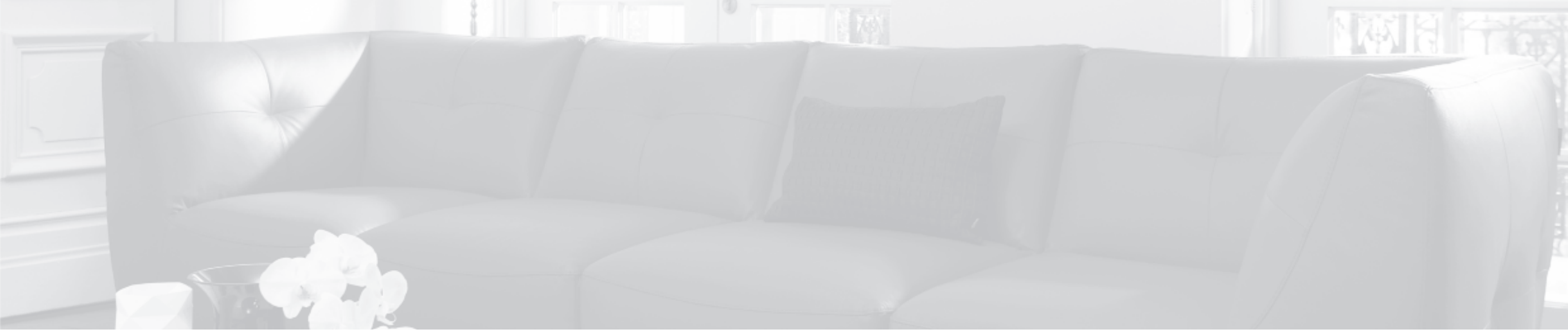
If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate, that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

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 statement of financial position 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.



Notes to the Financial Statements (continued)

for the year ended 30 June 2011

Note 1: Statement of Significant Accounting Policies (continued)

(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.

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 reporting date.

Deferred income tax is provided on all temporary differences at the reporting 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

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 1: Statement of Significant Accounting Policies (continued)

(q) Income tax (continued)

– 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 reporting 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 reporting 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 reporting date.

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

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

(r) Other taxes

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

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

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

Cash flows are included in the statement of cash flows 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.

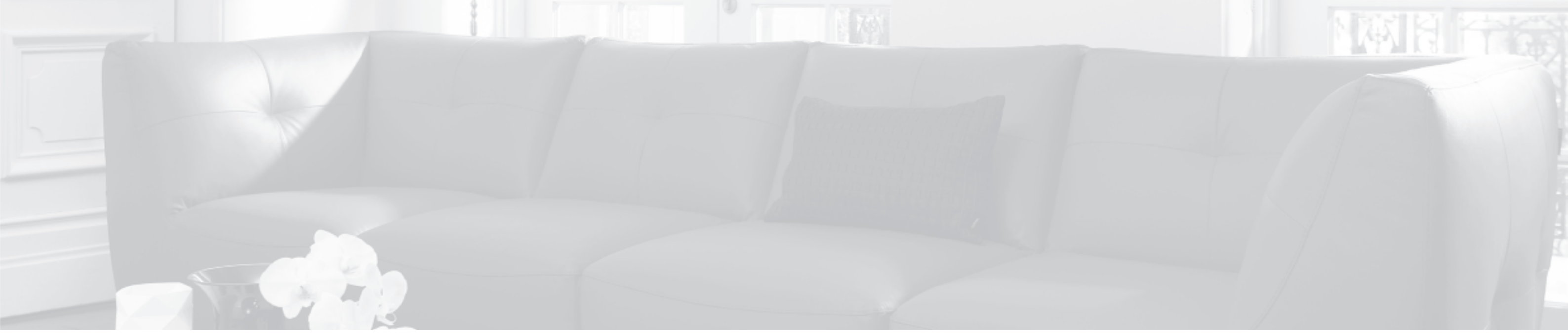
After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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 reporting date.

Borrowing costs are recognised as an expense when incurred, unless they are directly attributable to the acquisition, construction or production of a qualifying asset whereby they are capitalised.

(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:



Note 1: Statement of Significant Accounting Policies (continued)

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

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 report.

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.

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.

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 1: Statement of Significant Accounting Policies (continued)

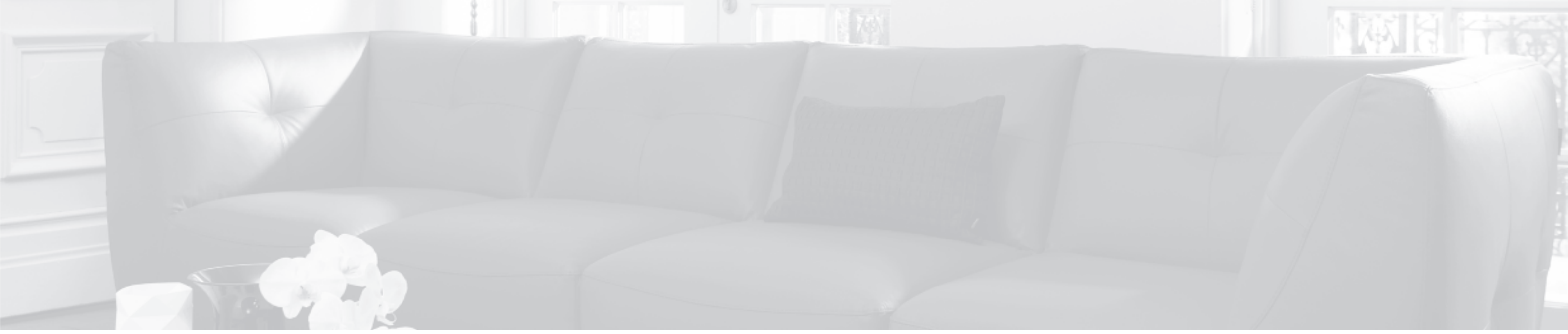
(v) Derecognition of financial assets and financial liabilities (continued)

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 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.

Certain new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB) are not yet effective for the current financial year. These standards have not been adopted by the Company for the year ended 30 June 2011. The Directors are in the process of finalising their assessment of the impact of these Standards and Interpretations to the extent relevant to the Company.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 2: Revenue		
Sales revenue	100,015	96,365
Interest income	778	667
Sundry income	276	87
Total other income	1,054	754
Total revenue	101,069	97,119

Note 3: Operating Expenses and Losses (Gains)

Profit before income tax has been determined after:

	2011 $'000	2010 $'000
(a) Expenses		
Occupancy expenses		
Operating lease rental - minimum lease payments	17,292	16,441
Other expenses includes:		
Depreciation/Amortisation of non-current assets		
Land & Buildings	81	–
Building improvements	11	–
Office equipment	318	352
Furniture and fittings	239	167
Leasehold improvements	363	345
Motor vehicles	61	54
Make good (reversal) / amortisation	(9)	9
	1,064	927
Employee benefits expenses (i)		
Salaries and wages	12,604	11,411
Superannuation expense	1,199	1,042
Share-based payments	8	–
Other	2,052	3,900
	15,863	16,353

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

	2011 $'000	2010 $'000
(b) Losses/(gains)		
(Gain) / Loss on disposal of property, plant and equipment	–	(3)
Unrealised foreign currency loss / (gain) (i)	39	37

(i) Realised exchange gains and losses have been included in cost of sales.

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

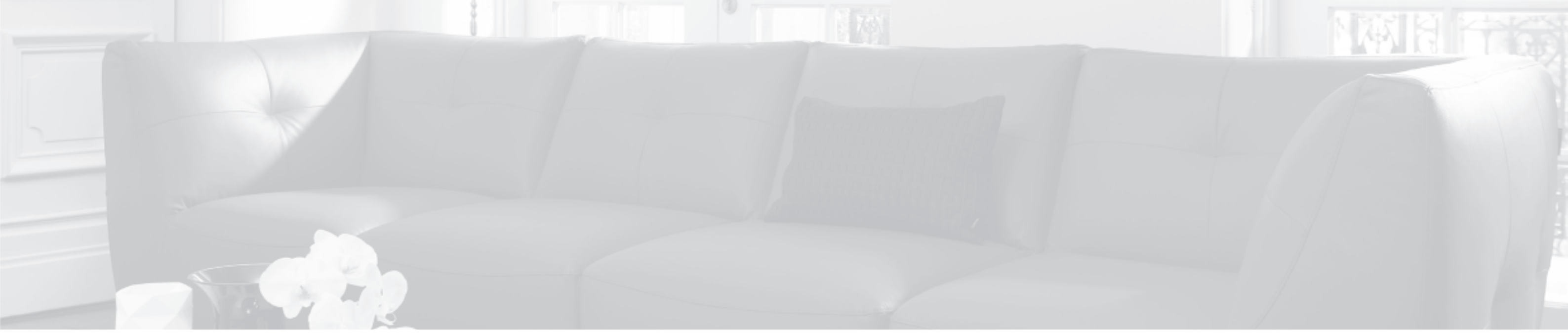
	2011 $'000	2010 $'000
Note 4: Income Tax		
The major components of income tax expense are:		
Income Statement		
Current income tax		
Current income tax charge	5,465	5,241
Deferred income tax		
Relating to origination and reversal of temporary differences	(264)	(417)
Income tax expense reported in the income statement	**5,201**	**4,824**

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:

	2011 $'000	2010 $'000
Accounting profit before income tax	16,809	16,079
At the statutory income tax rate of 30% (2010: 30%)	5,043	4,824
Adjustments in respect of current income tax of previous years	149	–
Other items (net)	9	–
Income tax expense reported in income statement	**5,201**	**4,824**
Effective income tax rate	**30.9%**	**30.0%**
Current tax liabilities		
Opening balance	1,522	1,005
Charged to income	5,465	5,241
Payments	(5,347)	(4,724)
Closing balance	**1,640**	**1,522**

	Statement of Financial Position		Statement of Income	
	2011 $'000	2010 $'000	2011 $'000	2010 $'000
Deferred income tax				
Deferred income tax assets				
Employee entitlements	594	507	(87)	(70)
Audit fee accrual	23	28	5	(2)
Superannuation accrual	40	30	(10)	(7)
Deferred rent	687	532	(155)	(334)
Legal fees	23	6	(17)	(3)
Cashflow Hedge (i)	25	–	–	–
Make good	13	13	–	(1)
	1,405	1,116	(264)	(417)
Deferred income tax liabilities				
Cashflow Hedge (i)	–	27	–	–
Deferred tax income / (expense)			(264)	(417)

(i) Deferred income tax impacting directly on equity

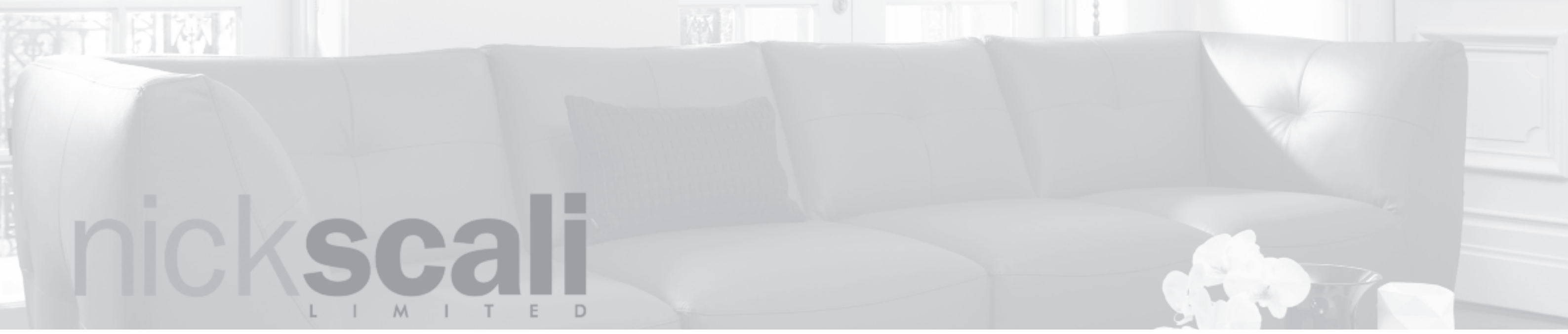


Notes to the Financial Statements (continued)

for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 5: Dividends		
Declared and paid during the year		
Dividends on ordinary shares:		
Final franked dividend for 30 June 2010: 4.5 cents (2009: 6.0 cents)	3,645	4,860
Interim franked dividend for 30 June 2011: 4.5 cents (2010: 4.5 cents)	3,645	3,645
	7,290	8,505
Declared and unpaid		
Final franked dividend for 30 June 2011: 4.5 cents (2010: 4.5 cents) (not recognised as a liability as at 30 June)	3,645	3,645
Franking credit balance		
The amount of franking credits available for the subsequent financial year are:		
– franking account balance as at the end of the financial year at 30% (30 June 2010: 30%)	3,421	3,920
– franking credits that will arise from the payment of income tax payable as at the end of the financial year	1,640	1,522
	5,061	5,442
The amount of franking credits available for future reporting periods:		
– impact on the franking account of dividends proposed or declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period	(1,562)	(1,562)
	3,499	3,880

The tax rate at which paid dividends have been franked is 30% (30 June 2010: 30%).
Dividends proposed will be franked at the rate of 30% (30 June 2010: 30%).



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

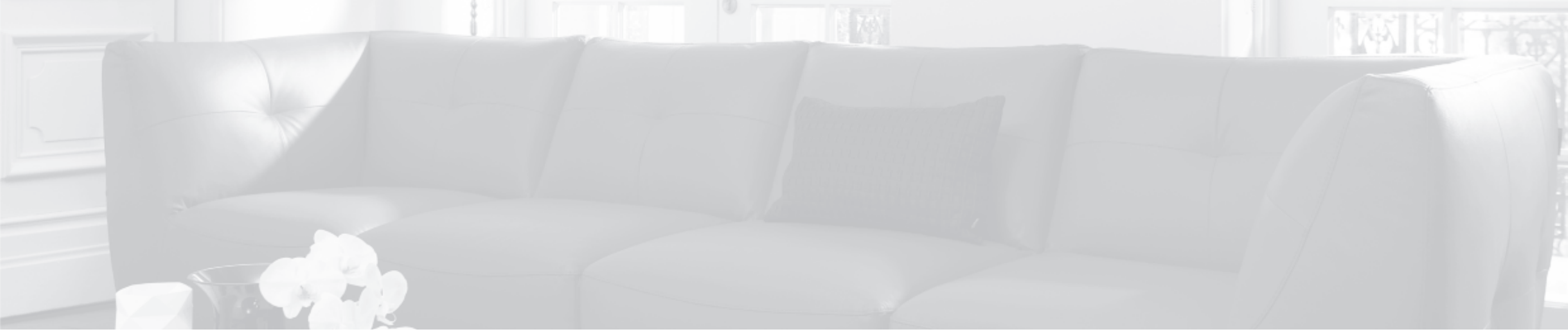
	2011 $	2010 $
Note 6: Auditors' Remuneration		
Amounts received or due and receivable by Ernst & Young for:		
– audit or review of the financial report of the Company	119,301	116,390
– tax compliance	11,000	16,000
	130,301	132,390

	2011 $'000	2010 $'000
Note 7: Earnings Per Share		
(a) Net profit after tax used in calculating basic earnings and diluted earnings per share	11,608	11,255

	No. of Shares	No. of Shares
(b) Weighted number of shares outstanding used to calculate basic and diluted earning per share	81,000,000	81,000,000

	Cents per Share	Cents per Share
Basic earnings per share	14.3	13.9
Diluted earnings per share	14.3	13.9

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, other than the outstanding Performance Rights.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 8: Receivables		
Current		
Trade debtors (i)	570	298
Sundry debtors (iii)	187	312
	757	610

Terms and conditions relating to the above financial instruments:

(i) Trade debtors are non-interest bearing and generally less than 30 day terms. Factors considered in determining impairment are in relation to the likelihood of collection.

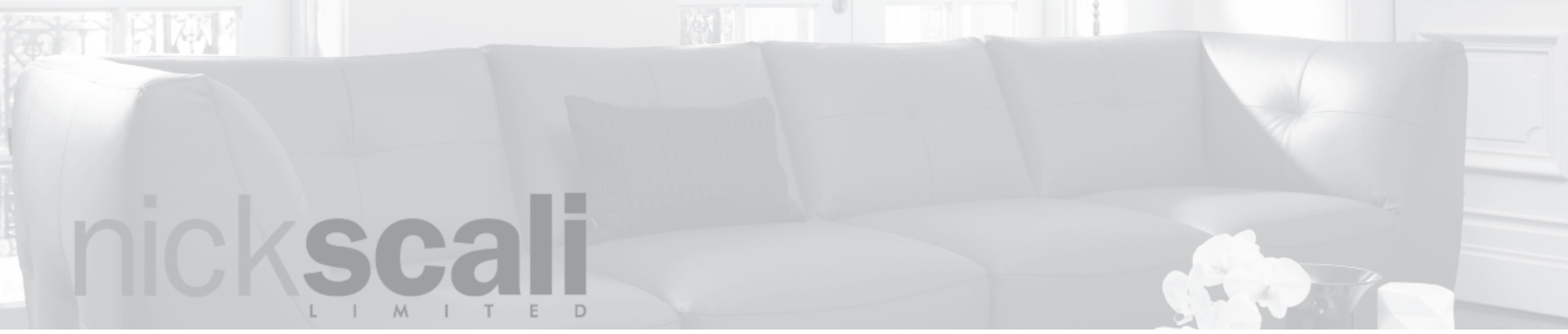
As at 30 June, trade debtors that were past due but not impaired is as follows:

		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**	**>60 days $'000**
2011	570	384	176	4	6	–
2010	298	263	24	4	7	–

(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.

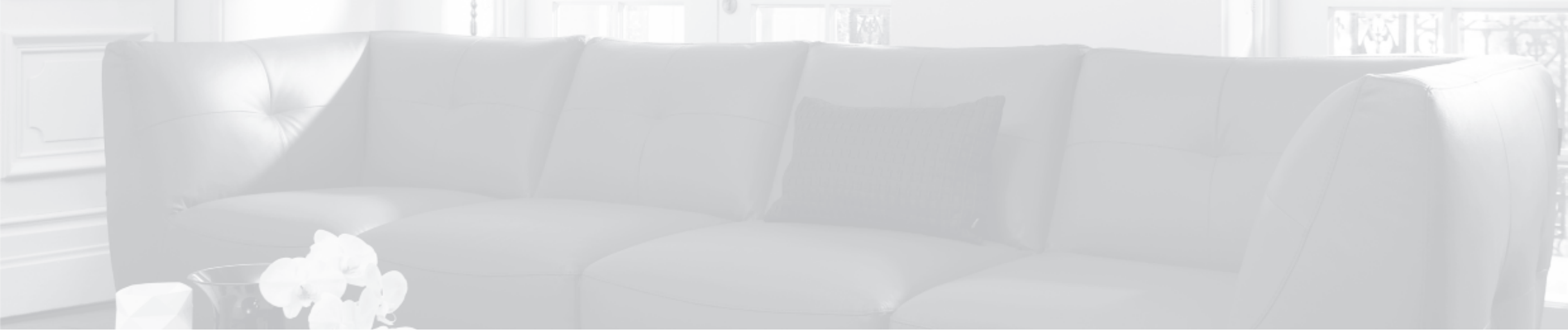
(iii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.

	2011 $'000	2010 $'000
Note 9: Inventories		
Finished Goods	10,889	12,426
Stock in transit	1,358	1,445
	12,247	13,871
Note 10: Other Financial Assets (Current)		
Deposits for capital purchase	6	696
Note 11: Other Assets		
Prepaid expenses	303	430



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

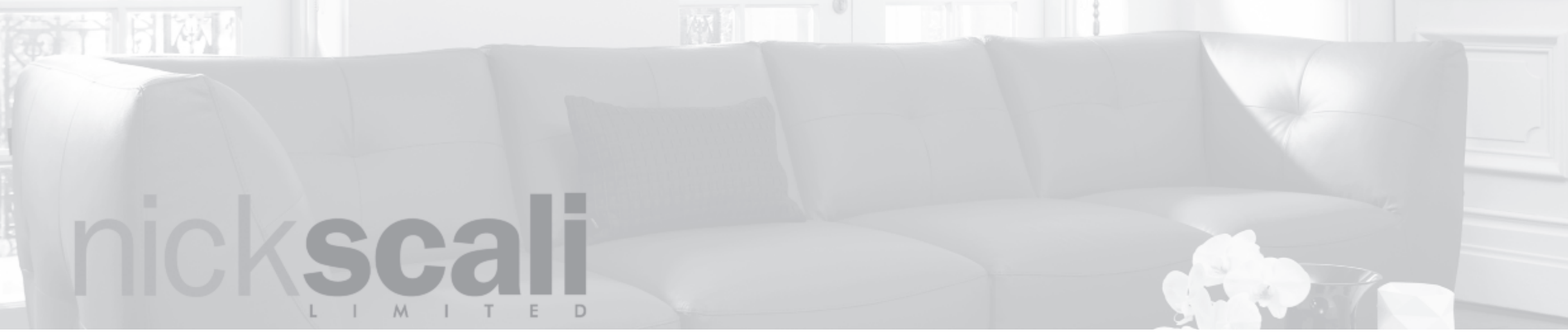
	2011 $'000	2010 $'000
Note 12: Property, Plant and Equipment		
Land & Buildings - at cost	8,264	–
Accumulated depreciation	(81)	–
	8,183	–
Building improvements - at cost	223	–
Accumulated depreciation	(11)	–
	212	–
Office equipment - at cost	3,939	3,853
Accumulated depreciation	(2,500)	(2,433)
	1,439	1,420
Furniture & fittings - at cost	2,847	2,395
Accumulated depreciation	(1,275)	(1,085)
	1,572	1,310
Leasehold improvements - at cost	4,903	4,735
Accumulated depreciation	(2,829)	(3,086)
	2,074	1,649
Motor vehicles - at cost	622	676
Accumulated depreciation	(409)	(402)
	213	274
Leasehold improvements - make good - at cost	31	36
Accumulated amortisation	(17)	(27)
	14	9
Total - at cost	20,829	11,695
Accumulated depreciation and amortisation	(7,122)	(7,033)
Total property, plant and equipment	**13,707**	**4,662**



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 12: Property, Plant and Equipment (continued)		
Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the current financial year:		
Land & Buildings		
Additions	8,264	–
Depreciation charged	(81)	–
	8,183	–
Building improvements		
Additions	223	–
Depreciation charged	(11)	–
	212	–
Office Equipment		
Carrying amount at beginning	1,420	1,477
Additions	337	295
Depreciation charged	(318)	(352)
	1,439	1,420
Furniture & fittings		
Carrying amount at beginning	1,310	865
Additions	501	612
Depreciation charged	(239)	(167)
	1,572	1,310
Leasehold improvements		
Carrying amount at beginning	1,649	1,797
Additions	788	197
Depreciation charged	(363)	(345)
	2,074	1,649
Motor vehicles		
Carrying amount at beginning	274	231
Additions	–	97
Depreciation charged	(61)	(54)
	213	274
Leasehold improvements - make good		
Carrying amount at beginning	9	18
Disposals	(4)	–
Reversal / (amortisation)	9	(9)
	14	9
Total		
Carrying amount at beginning	4,662	4,388
Additions	10,113	1,201
Disposals	(4)	–
Depreciation and amortisation charged	(1,064)	(927)
	13,707	4,662

Land & Buildings are subject to a registered first mortgage to secure bank loans relating to their purchase.



	2011 $'000	2010 $'000
Note 13: Intangible Assets		
Goodwill on acquisition of stores in Adelaide	2,378	2,378

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 12.2% (2010: 12.4%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 1.4% (2010: 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.

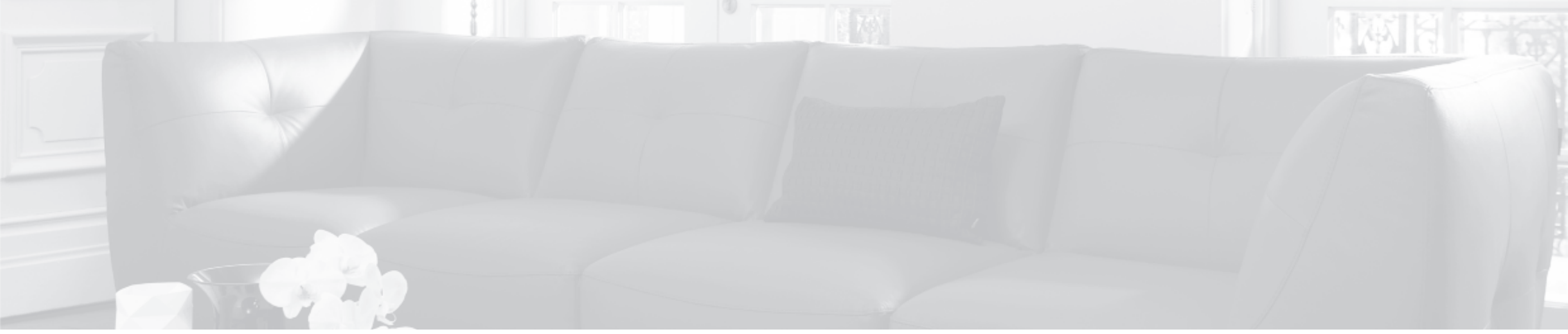
- A consistent gross margin of 60% (2010: 60%) has been assumed, based on the Company's profit history of consistent store by store margins.
- Capital expenditure has been included, based on past experience of Company stores of a similar age and size.
- The continuity of leases on premises for the next 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.

	2011 $'000	2010 $'000
Note 14: Payables		
Trade creditors (i)	4,712	4,873
Other creditors and accruals (ii)	4,312	4,813
Customer deposits (iii)	6,535	6,676
Annual leave	1,380	1,268
	16,939	17,630

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 refundable if the Company does not fulfil the sale.
In practise this liability rarely crystallises.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 15: Provisions		
Current		
Long service leave	408	207
Non-Current		
Long service leave	191	214
Make good	42	45
	233	259

Movement in provisions	Long service leave $'000	Make good $'000
2011		
Balance as at 1 July 2010	421	45
Utilised	(12)	(8)
Amounts provided	190	5
Balance as at 30 June 2011	599	42

	2011	2010
Number of employees		
Number of full-time and part-time employees at balance date	249	225

Superannuation funds

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

	2011 $'000	2010 $'000
Note 16: Contributed Equity		
81,000,000 (2010: 81,000,000) fully paid ordinary shares	3,364	3,364

	2011 Number of ordinary shares	2011 $'000	2010 Number of ordinary shares	2010 $'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

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.

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 17: Reserves		
Capital profits reserve	78	78
Cash flow hedge reserve	(59)	62
Equity benefits reserve	8	–
	27	140
Capital profits reserve		
Opening balance	78	78
Closing balance	78	78
Cash flow hedge reserve		
Opening balance	62	(194)
Amounts recognised for cash flow hedges	1,367	965
Income tax on items taken directly to or transferred from equity	(27)	(27)
Amounts transferred to non-financial assets	(1,461)	(682)
Closing balance	(59)	62
Equity benefits reserve		
Opening balance	–	–
Share-based payment	8	–
Closing balance	8	–

Nature and purpose of reserve

Capital profits reserve

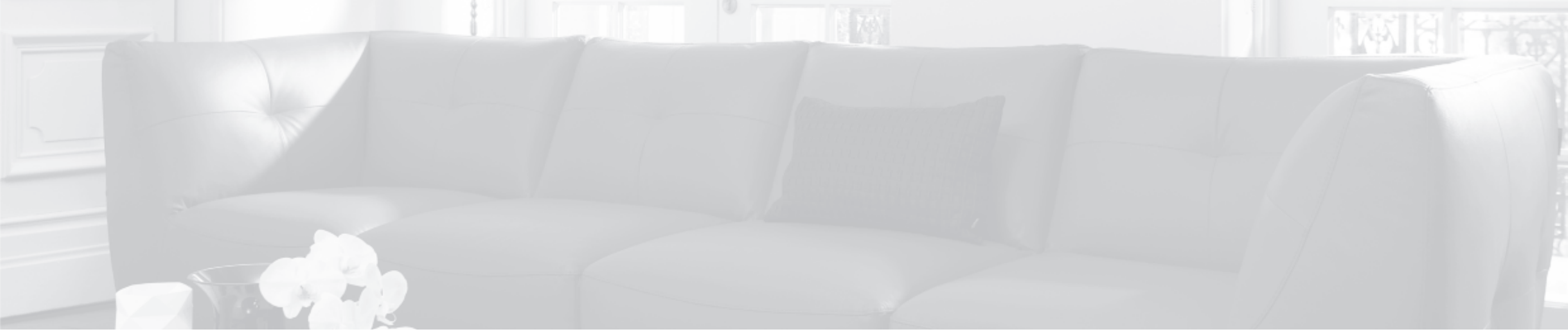
This reserve is comprised wholly of the surplus on disposal of assets that were acquired prior to the introduction of Capital Gains Tax provisions.

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.

Equity benefits reserve

This reserve is used to record the value of share-based payments provided to employees as part of their remuneration. Refer to note 25 for further details of these plans.



Notes to the Financial Statements (continued)

for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 18: Expenditure Commitments		
Operating leasing expenditure commitments		
Future minimum lease payments under non cancellable operating leases as at 30 June are as follows:		
– not later than one year	16,361	14,112
– later than one year but not later than five years	48,308	42,612
– later than 5 years	7,582	11,288
Aggregate expenditure contracted for at balance date	72,251	68,012

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 19: Capital Commitments

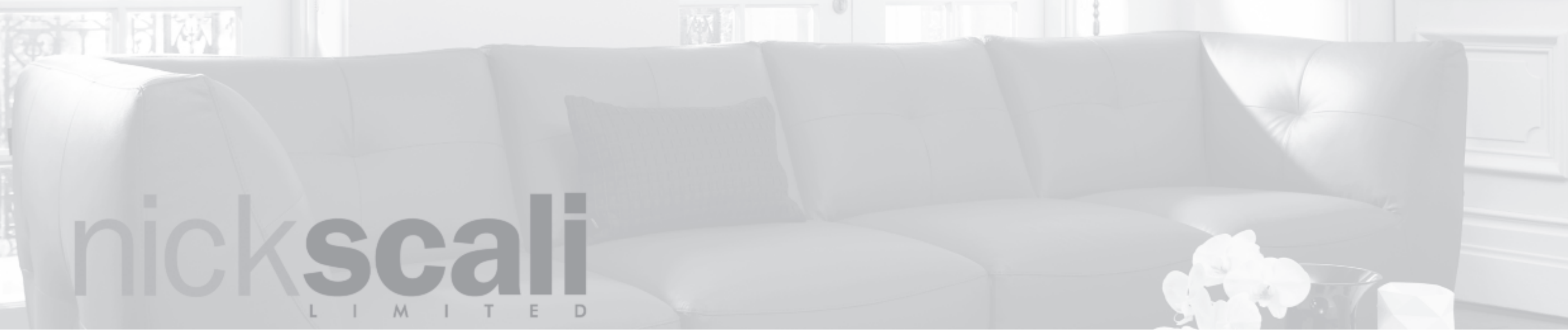
As at the date of this report there are no capital commitments of a significant nature.

Note 20: Contingent Liabilities

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

Note 21: Events Subsequent to Reporting Date

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



Notes to the Financial Statements (continued)

for the year ended 30 June 2011

	2011 $'000	2010 $'000
Note 22: Statement of Cash Flows		
(a) Reconciliation of net profit after tax to net cash flows from operations		
Net Profit	11,608	11,255
Adjustments for		
Depreciation of non-current assets	1,064	927
(Gain)/Loss on disposal of property, plant and equipment	–	(3)
Interest expense classified as investing cash flows	116	–
Share-based payments expense	8	–
Net fair value change on derivatives	(121)	256
Changes in assets & liabilities		
(Increase) /decrease in value of trade & other receivables	(147)	29
Decrease / (increase) in value of inventories	1,624	(2,262)
Decrease in value of prepayments	127	447
Decrease / (increase) in value of deposit	690	(695)
(Decrease) / increase in value of payables	(691)	5,264
Increase in value of provisions	175	92
Increase in current tax liabilities	118	517
(Decrease) in deferred tax assets	(289)	(334)
(Decrease) / increase in deferred tax liability	(27)	27
Net cash flow from operating activities	14,255	15,520

(b) Reconciliation of Cash

Cash balances comprise:		
– cash at bank	17,552	17,312

(c) Financing Facilities Available

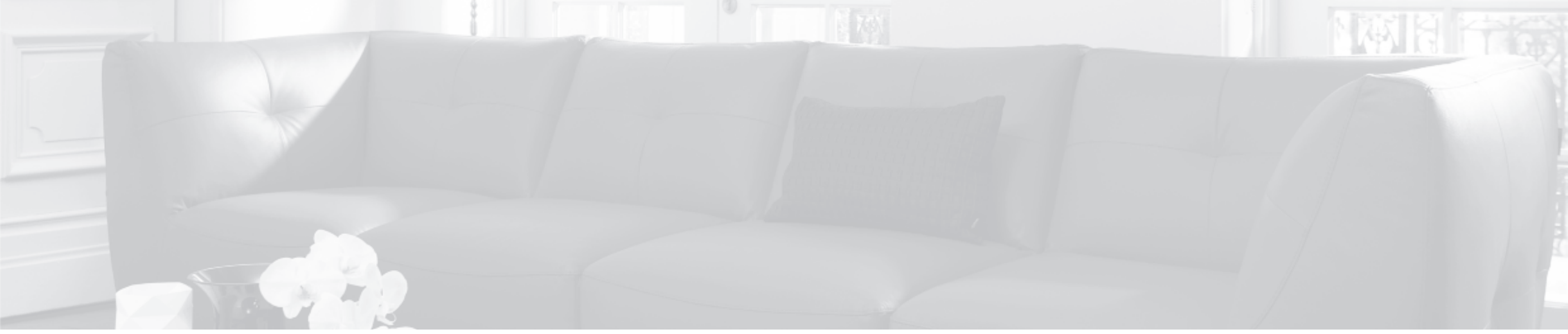
The following operating lines of credit were available at balance date:

– credit facilities	11,100	11,100
– amount utilised	(4,407)	(1,065)
Unused credit facilities	6,693	10,035

The facilities provided are from the National Australia Bank Limited and St. George Bank, a division of the Westpac Banking Corporation.

The National Australia Bank has a negative pledge arrangement in place with the Company and the amount utilised includes documentary letters of credits (in relation to payment of overseas suppliers) and bank guarantees (property leases). During the year the Company utilised a $3.5 million commercial bill facility with the St George Bank to partially fund the purchase of a property. The facility is for a 5 year term and is secured by a first mortgage over the property assets to which the borrowing relates. Otherwise the Company's assets are unencumbered.

The Company is compliant with all banking covenants.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 23: Related Party Disclosures

Related party arrangements: 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.

No Director has entered into a new material contract with the Company since the end of the previous financial period. Details of existing contracts are disclosed as follows:

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	three years, commencing 1 April 2011 and two further three year options
Rent	$739,815 (plus GST) per annum	$576,100 (plus GST) per annum

During the Year Ended 30 June 2011 the Company paid property lease rentals and outgoings to the personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,414,584 (2010: $1,320,602) in relation to these premises.

Other related party transactions

Dealings between the Company and the Directors and personally-related entities were made during the year in the ordinary course of business on normal commercial terms and conditions. The nature of these dealings were primarily the reimbursement of personal expenses incurred on Company paid credit cards and the purchase of products for their own use.

	2011 $'000	**2010 $'000**
Related party arrangements: Key Management Personnel		
Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including all directors (executive and otherwise). The remuneration of key management personnel is as follows:		
Short-term employee benefits	1,288	1,175
Share-based payments (i)	8	–
Post-employment benefits	52	50
	1,348	1,225

(i) For details of share-based payments to Key Management Personnel see the remuneration report (audited) within the directors' report included on pages 13-15 of this financial report.

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 24: Director and Executive Disclosures

Shareholdings of Specified Directors and Specified Executives

Shares held in Nick Scali Limited (number)		Balance 30 June 2010	Net Change	Balance 30 June 2011
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.A. Clarke		–	–	–

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

Note 25: Share-based Payment Plans

The Company has an Executive Performance Rights Plan which is provided for executives and other employees. In accordance with the provisions of the plan, executives and employees are awarded Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not retested during the period. There is no exercise price for the shares and the employees are able to exercise the Right for up to two years following vesting, after which time the Right will lapse.

The 2010-11 financial year is the first period in which Rights have been issued and they include performance hurdles requiring compound annual EPS growth of between 5% and 10%. Under the grant 50% of the Rights are exercisable on the achievement of 5% EPS growth, 100% on the achievement of 10% EPS growth, and for the achievement of between 5% and 10% EPS growth the number of Rights exercisable is calculated on a pro-rata basis.

The following table reconciles the outstanding Rights granted under the Executive Performance Rights Plan at the beginning and end of the financial year:

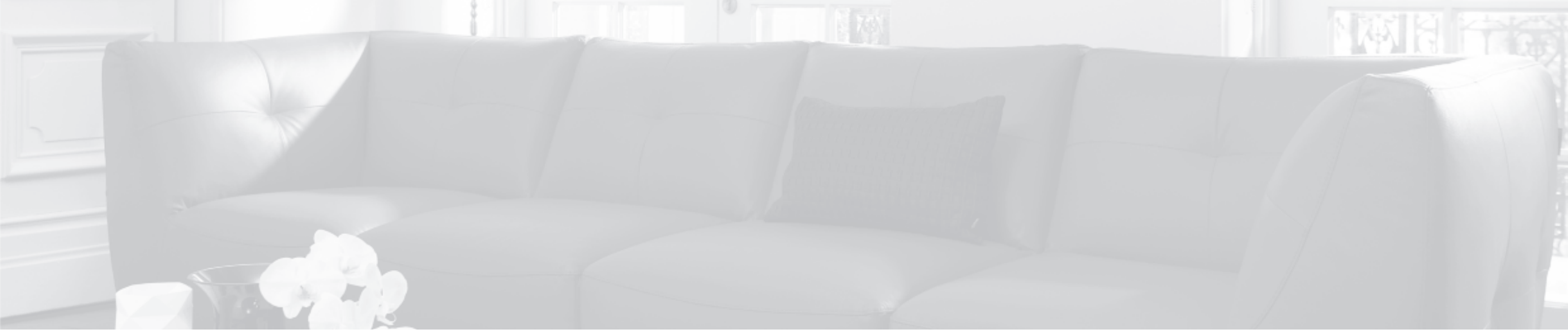
	Balance at start of year No.	Granted during the year No.	Exercised during the year No.	Balance at end of year No.	Vested at end of year
D.A. Clarke	–	36,232	–	36,232	–

Fair Value of Rights Granted

The fair value of Rights at grant date is independently valued under risk neutral conditions. Under these conditions the value of the Right is equivalent to the share price reduced by the present value of dividends payable on the shares until vesting. The present value of the dividends is deducted from the share price because the Right holder is not entitled to dividend until the Rights are exercised. The valuation assumes that the Rights are exercised as they vest.

The key assumptions used for determining fair value at grant date are as follows:

	2011
Share price at Grant Date	$1.35
Dividend Yield	6.00%
Franking rate	100%
Imputations credits valuation factor	65%
Implied pre-tax effective dividend yield	7.70%



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 26: 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.

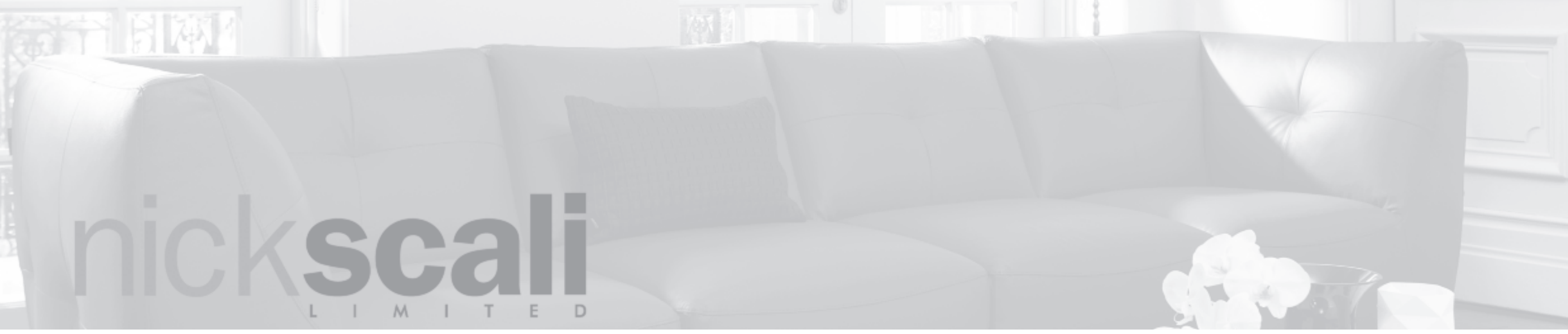
The Company's financial risk management policies are established to identity and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market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

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
Financial instruments utilised subject to interest and therefore interest rate risk are cash and commercial bills. 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 reporting date.



Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 26: Financial Risk Management Objectives and Policies (continued)

		<1 Year $'000	Total $'000	Weighted Average Effective Interest rate
Year ended 30 June 2011				
Floating rate	Cash assets	17,552	17,552	5.3%
Year ended 30 June 2010				
Floating rate	Cash assets	17,312	17,312	4.4%
Year ended 30 June 2011				
Floating rate	Commercial Bills – Liabilities	3,500	3,500	6.5%
Year ended 30 June 2010				
Floating rate	Commercial Bills – Liabilities	–	–	0%

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 $'000	Effect on equity $'000
2011	+ 100 basis points	141	–
	– 100 basis points	(141)	–
2010	+ 100 basis points	173	–
	– 100 basis points	(173)	–

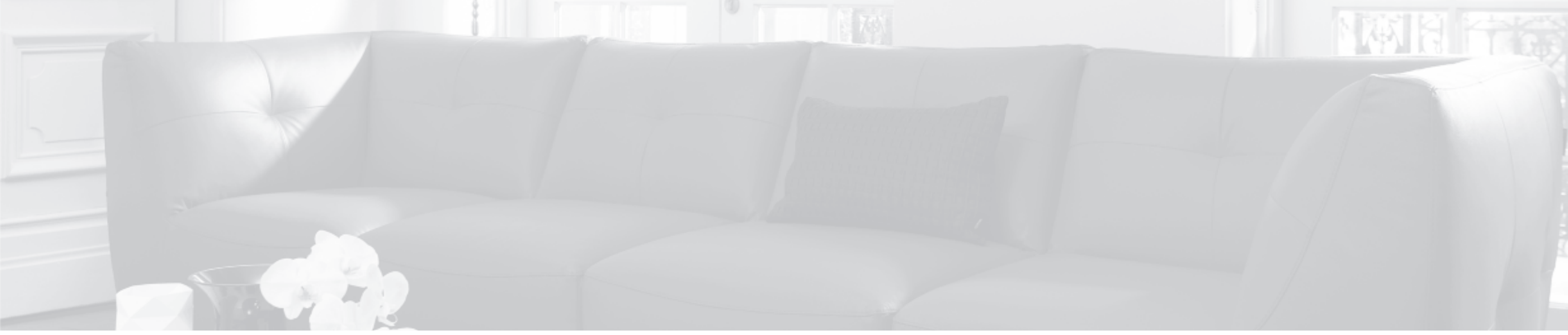
Foreign Currency Risk

All of the Company's sales are denominated in the functional currency (Australian dollars), whilst the majority of stock purchases are denominated in currencies other than the Company's functional currency, 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 Company has trade payables of $1,873,328 at 30 June 2011 denominated in USD, all of which are covered by designated cashflow hedges (June 2010: $1,496,021 - all hedged). As a result, the sensitivity to a reasonably possible change in the US dollar exchange rate is minimal. The cash flows relating to cash flow hedge positions held at year end are expected to occur in July through to September 2011, 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 occurred 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.



Note 26: Financial Risk Management Objectives and Policies (continued)

Credit Risk (continued)

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 reporting date to recognised financial assets is in the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements. Cash and cash equivalents are only invested with corporations which are approved by the Board.

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.

	Less than 3 months $'000	3 to 12 months $'000	More than 12 months $'000	Total $'000
Year ended 30 June 2011				
Trade creditors	4,712	–	–	4,712
Other creditors	4,312	–	–	4,312
Customer deposits (i)	6,535	–	–	6,535
Borrowings	58	–	3,500	3,558
	15,617	–	3,500	19,117
Year ended 30 June 2010				
Trade creditors	4,873	–	–	4,873
Other creditors	4,813	–	–	4,813
Customer deposits (i)	6,676	–	–	6,676
Borrowings	–	–	–	–
	16,362	–	–	16,362

(i) Customer deposits are refundable if the Company does not fulfil 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 18.

Notes to the Financial Statements (continued)
for the year ended 30 June 2011

Note 27: 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. This facility was not used during the year. The Company has established a specific borrowing facility in relation to property purchased during the year, which is secured over that property. 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 28: Segment Information

The Company has identified its operating segments based on the information regularly reviewed by the Managing Director and the Board of Directors (the chief operating decision makers) in assessing performance and determining the allocation of resources within the Company. Consideration is given to the manner in which the products are sold, the nature of the products supplied, the organisational structure and the country in which the activity is undertaken.

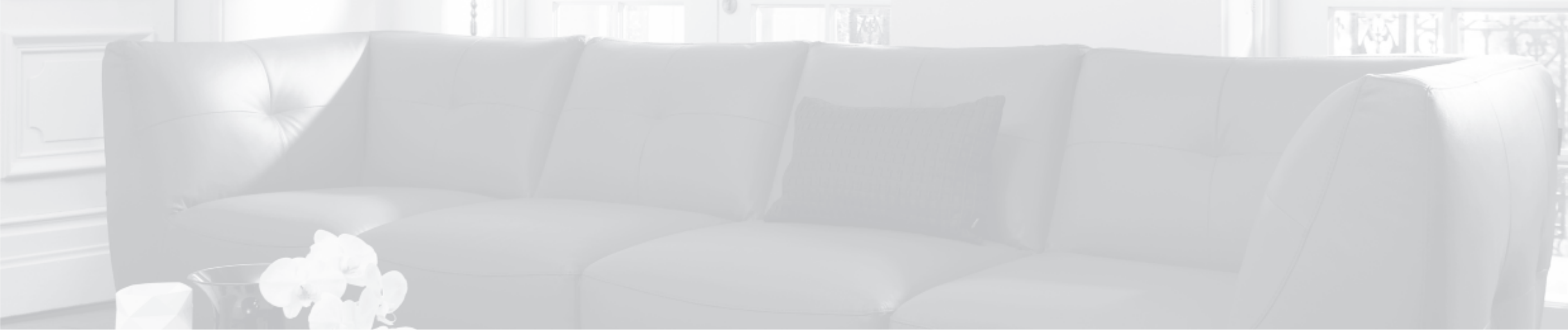
Reportable segments are based on aggregated operating segments determined by the similarity of products sold, the type of customer and methods of distribution to them. The Company's one reportable segment is the retailing of furniture in Australia, the revenue of which is derived from that activity.

The total of the reportable segments' revenue and profit is the same as that of Company as whole and as disclosed in the statement of income.

Note 29: 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
3-29 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:

      (i) giving a true and fair view of the Company’s financial position as at 30 June 2011 and of the performance for the year ended on that date; and

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

      (iii) complying with International Financial Reporting Standards as issued by the International Accounting Standards Board;

   (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 2011.

On behalf of the Board

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

Sydney, 10 August 2011

Independent Auditor's Report

ERNST & YOUNG

Ernst & Young Centre
680 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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Fax: +61 2 9248 5959
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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 statement of financial position as at 30 June 2011, and the statement of income, statement of comprehensive income, statement of changes in equity and statement of cash flows 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 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

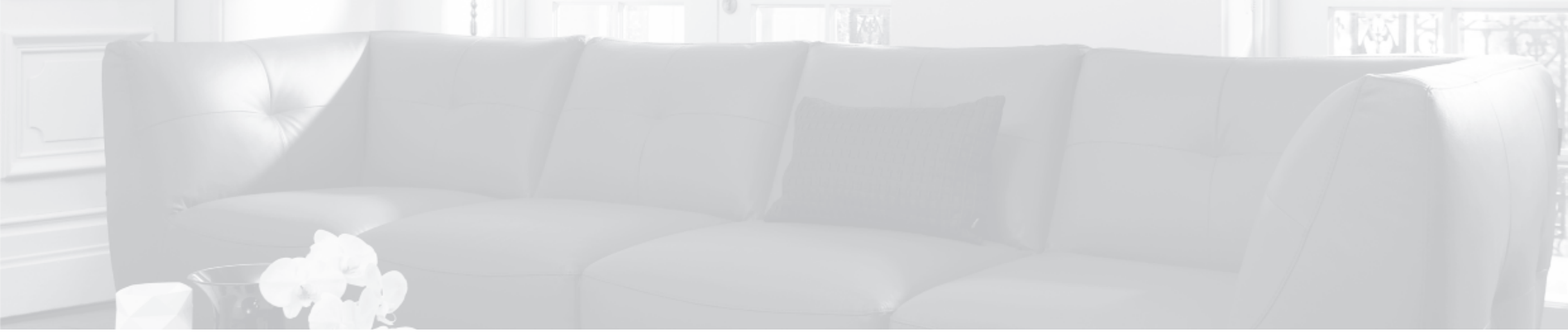
Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit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



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 2011 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 13 to 15 of the directors' report for the year ended 30 June 2011. 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.

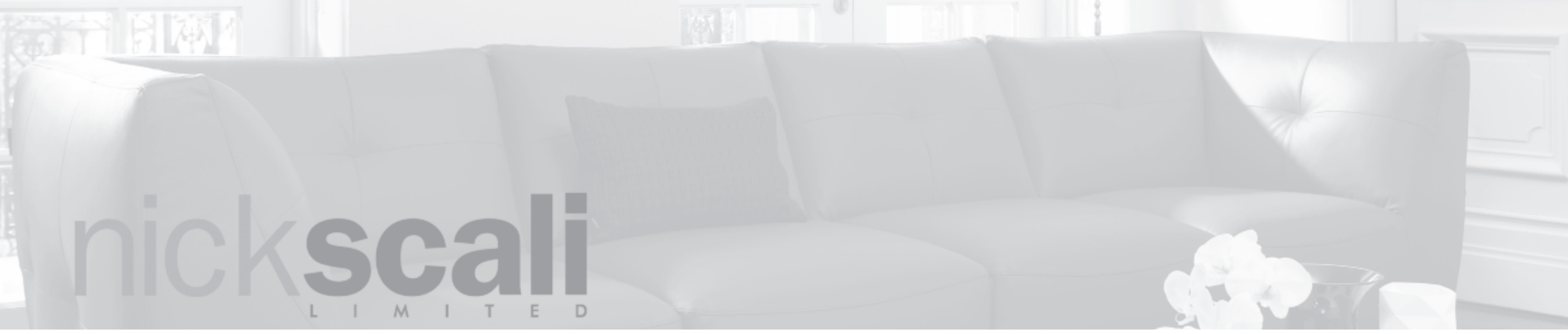
Auditor's Opinion

In our opinion the Remuneration Report of Nick Scali Limited for the year ended 30 June 2011, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Daniel Cunningham
Partner
Sydney
10 August 2011

Liability limited by a scheme approved under Professional Standards Legislation



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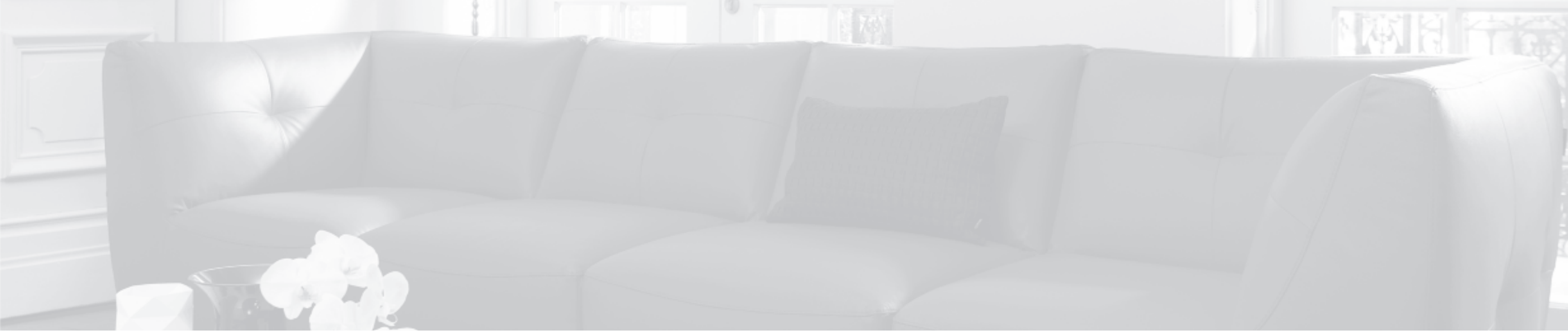
Auditor's Independence Declaration to the Directors of Nick Scali Limited

In relation to our audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2011, 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
10 August 2011



Shareholder 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 2011.

(a) Distribution of shareholders, by size of holding

Shareholders Category	No. of Ordinary Shareholders
1-1,000	69
1,001 - 5,000	192
5,001 - 10,000	86
10,001 – 100,000	82
100,001 and over	17
	446

(b) Twenty largest shareholders

Name	No. of Ordinary Shares held	Percentage of Capital Held
Scali Consolidated Pty. Limited	40,500,000	50.00%
RBC DEXIA Investor Services Aust Pty. Limited	9,785,371	12.08%
Citicorp Nominees Pty. Limited	6,183,267	7.63%
Molvest Pty. Limited	4,000,000	4.94%
Cogent Nominees Pty. Limited	3,155,872	3.90%
JP Morgan Nominees Australia Limited	2,978,183	3.68%
HSBC Custody Nominees (Australia) Limited	2,956,843	3.65%
National Nominees Limited	2,697,153	3.33%
Australian Executor Trustees NSW Limited	2,530,660	3.12%
Melusa Pty. Limited	1,000,000	1.23%
RBC Dexia Investor Services Australia Nominees Pty. Limited	433,697	0.54%
Bond Street Custodians Limited	310,000	0.38%
Mr. Bernard Hui	150,000	0.19%
Grahger Capital Securities Pty. Limited	140,570	0.17%
Mrs. Catherine Grant	120,000	0.15%
Ms. Leah Lavigne	113,000	0.14%
Cogent Nominees (NZ) Limited	103,220	0.13%
Mrs. Michelle Sharp	100,000	0.12%
Mr. Vincenzo Covino & Mrs. Catherine Covino	100,000	0.12%
Lawncat Pty. Limited	100,000	0.12%
	77,457,836	95.62%

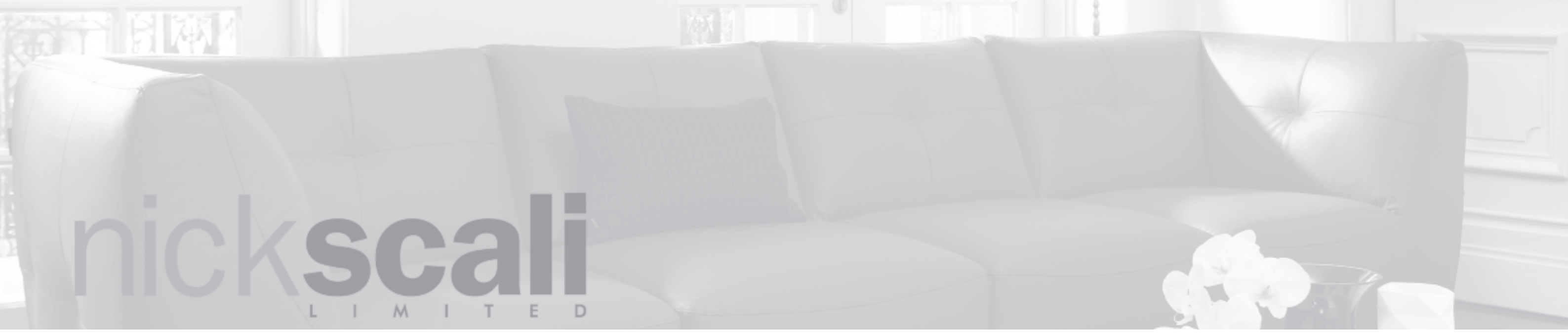
(c) Substantial shareholders

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

Shareholder	Ordinary Shares
Scali Consolidated Pty. Limited	40,500,000
Perpetual Trustees Australia Limited	10,933,391
Commonwealth Bank of Australia	5,846,222
Paradice Investment Management Pty. Limited	5,227,455
	62,507,068

(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

nickscali FURNITURE

New South Wales
Alexandria
Auburn
Belrose
Campbelltown
Caringbah
Chatswood
Kotara
Moore Park
Norwest
Tuggerah
Warrawong

Australian Capital Territory
Fyshwick

Queensland
Aspley
Bundall
Fortitude Valley
Jindalee
Macgregor
Townsville

South Australia
Gepps Cross
Marion
Mile End
Glynde

Victoria
Chirnside
Essendon
Frankston
Mildura
Nunawading
Richmond
South Wharf

sofas2go

New South Wales
Norwest
Moore Park

Chateau d'Ax ITALIA

New South Wales
Moore Park

Registered Office
B1- B2, 3-29 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

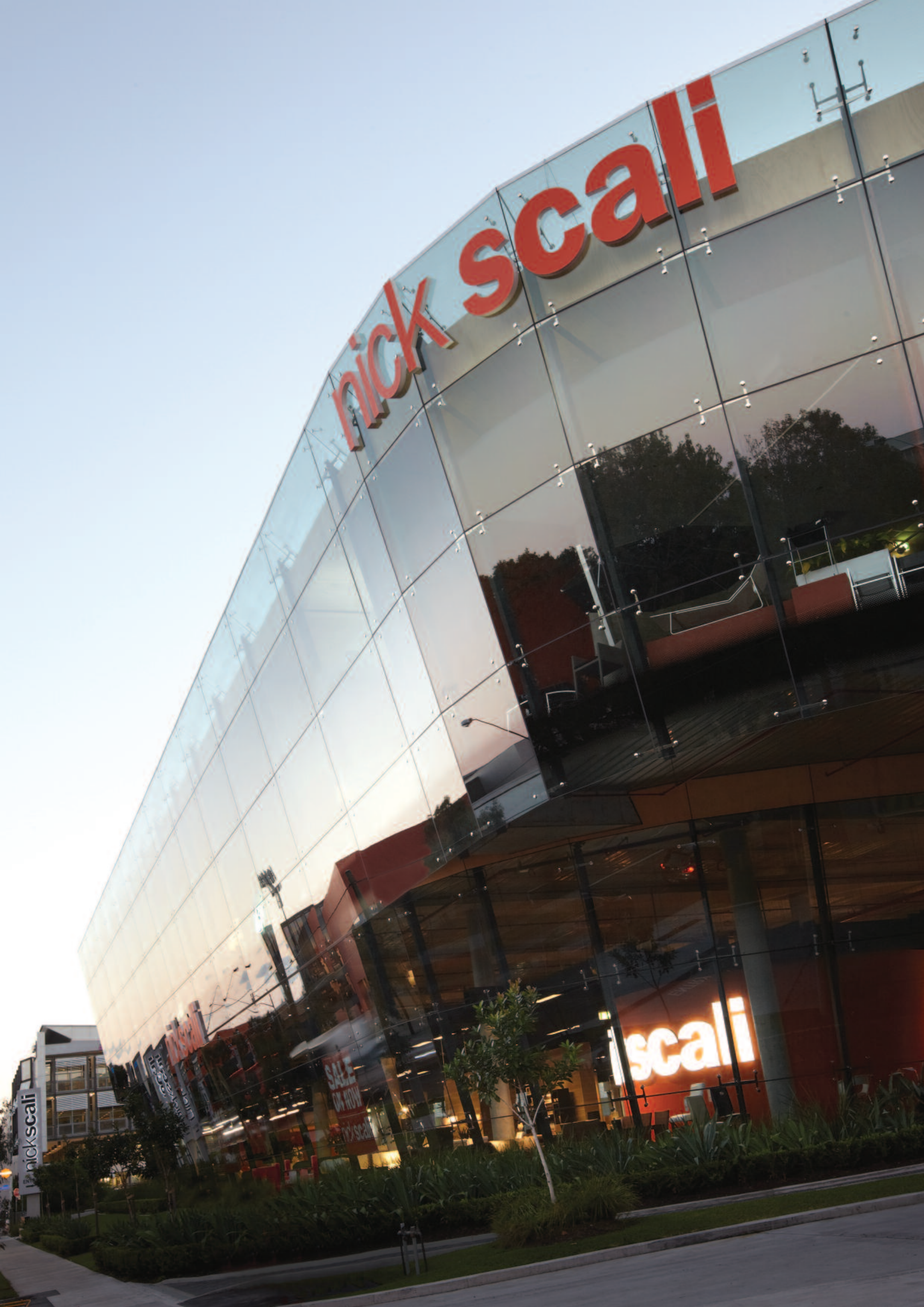
Solicitors
Bruce Stewart Dimarco
Level 17, 14 Martin Place
Sydney NSW 2000

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 Thursday, 20th October 2011
at Nick Scali Limited Head Office


nick scali
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