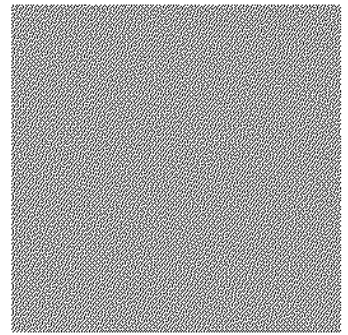
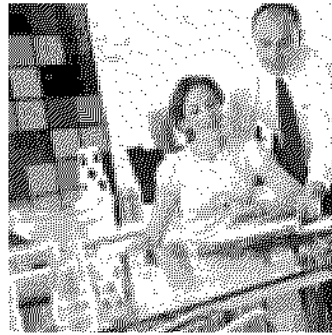
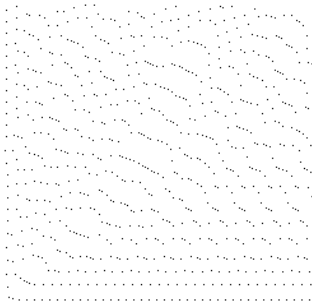
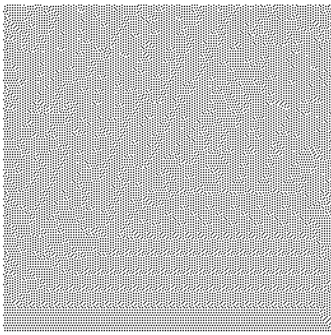
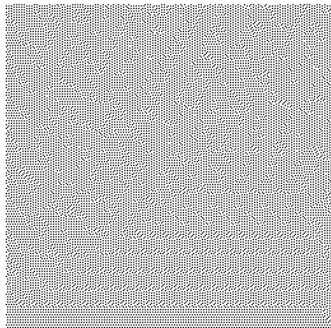
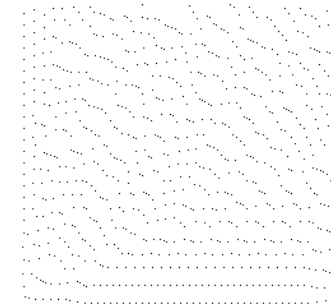
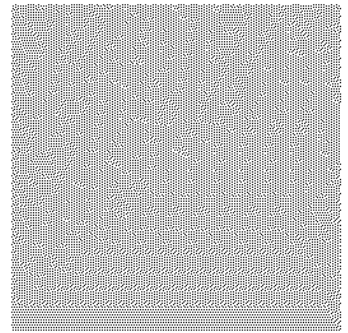
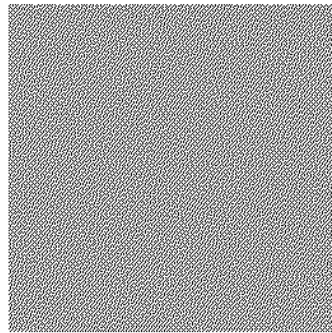
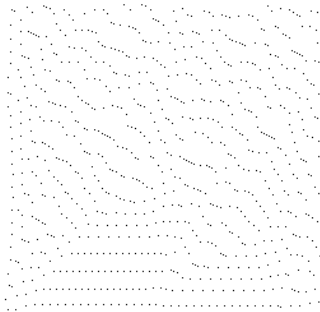
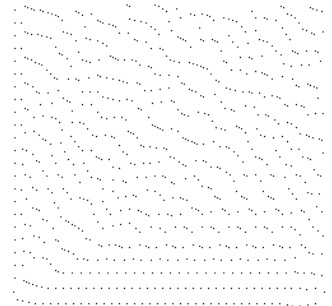
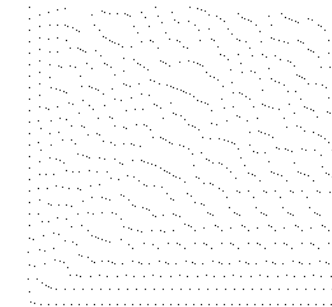
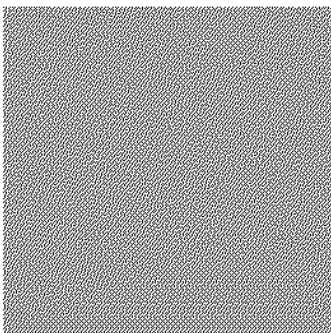




Our brand of growth



ANNUAL REPORT 2004

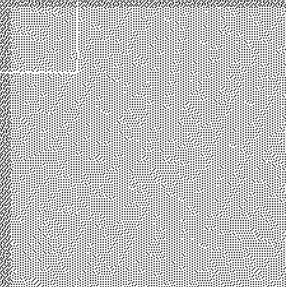


Contents

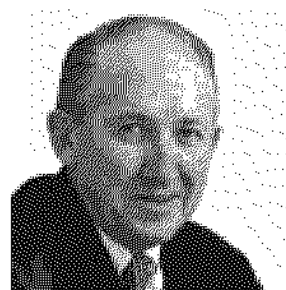
Chairman's Letter	01
Managing Director's Review	03
Assets Overview	05
Board of Directors	15
Corporate Governance Statement	16
Financial Statements	21
Australia Stock Exchange Information	46
Notice in AFS	47
Proxy Form	48

Notice of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Nick Scali Limited will be held at 12.00pm on 27 September 2020 at Merivale Hotel, 46 Connaught Street, Sydney. The full text of the Notice of Annual General Meeting is attached to this report.



Welcome



Dear Shareholder,

It gives me great pleasure to welcome you for the first time as shareholders in the now publicly listed Nick Scali Limited.

As you will have noted from our financial results announced back on August 30, 2004, we have begun well and the operational details are covered extensively in the Managing Director's report that follows. Your Board is certainly pleased with the early progress made as we transition from a family company to a public company. I can assure you that you can have confidence in the management's ability to continue to develop the business. From a Board perspective, the management are proving to be reliable and extremely competent in meeting their forecasts and objectives.

I believe that we have established the correct structure and ground rules for sound Corporate Governance. All the relevant committees have been formed and begun meeting regularly to ensure that the Company complies with all its obligations, laws and regulations. We believe that we have a good balance on our Board of executive and non-executive directors, and of industry experience and corporate regulatory experience.

The Company is working to the plans and strategies outlined in some detail in our May, 2004 Prospectus and your Board is confident that the Company will deliver the forecast growth in revenues and new stores that are our stated objectives.

Once again, thank you for your confidence in becoming a shareholder.

Yours sincerely

A handwritten signature in dark ink, which appears to read 'John Ingram'. The signature is fluid and cursive, with a long horizontal stroke at the end.

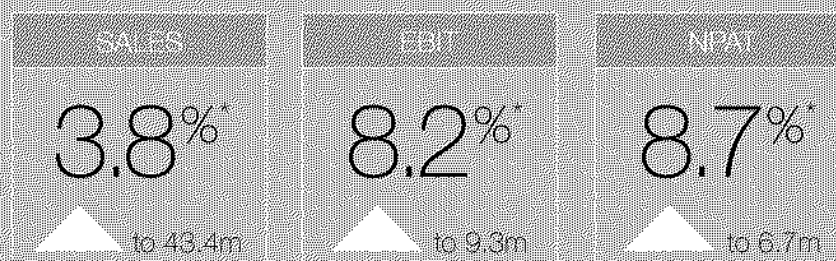
John Ingram

Chairman

Financial Comparison

	Full year 30 June 2004 Forecast	Full year 30 June 2004 Actual
	(\$ Million)	(\$ Million)
Sales	41.8	43.4
Gross profit	23.9	25.4
Operating expenses	(14.8)	(15.6)
EBITDA	9.1	9.9
Depreciation	(0.5)	(0.7)
EBIT	8.6	9.3
Net interest	0.3	0.3
Profit before tax	8.9	9.6
Income tax expense	(2.7)	(2.8)
Net profit after tax	6.2	6.7

Amounts may not calculate due to rounding



*on Prospective forecast 2004, included in Prospectus dated 8 April 2004

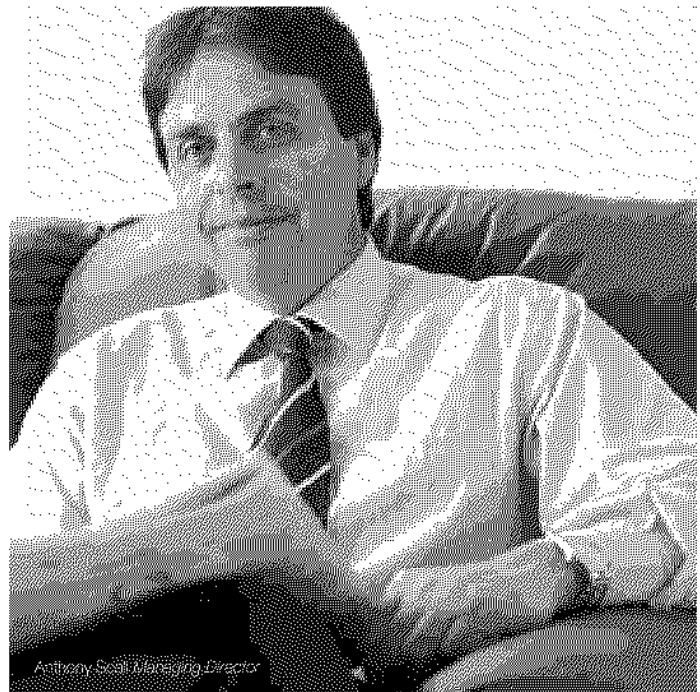
Growing with a disciplined approach

It has been a very exciting year for Nick Scali as the Company has moved from being a 40-year-old family owned business to a publicly listed company.

We are pleased with the way our public life has begun. The Company delivered a financial result for the year ended 30 June 2004 that was ahead of our Prospectus forecasts and achieved substantial growth over the corresponding period in 2003.

Sales for 2004 increased by 20% on 2003 to \$43.4 million with same store growth of 14%. This was a good result, particularly from a same store perspective, which had been forecast at only 10%. Sales are expected to increase significantly again for the 2005 year, due to new store openings and continued comparable store growth.

Earnings Before Interest & Tax of \$9.3 million and Net Profit After Tax of \$6.7 million amounted to a 40% and 50% increase respectively on the 2003 year (after excluding the profit after income tax of \$2.5 million, arising from the sale of the Auburn, NSW property), and exceeding the Prospectus forecast by 8.2% and 8.7% respectively.



Our new store in Fyshwick, ACT, which opened on 1 April 2004, performed well ahead of expectations in terms of sales orders. A new store will generally only become profitable in the fourth month of operation, due to the lag time between sales orders transforming into sales (when the goods are delivered to the customer). Hence the Company is expected to receive a full year's profit contribution in 2005 from the ACT store.

"The opportunity now exists to begin a new phase of growth, we intend to grow the business with a disciplined approach."

In addition to planning and opening new stores, the Company is continuously refurbishing and updating existing ones with our improved presentation designs. Our logistics and warehouse team is endlessly improving storage and stock movement systems to increase efficiency. We believe we have some quite unique storage systems that provide substantial operational cost savings.

Marketing our product and brand is an important part of driving sales and considerable effort is made to provide interesting events and innovative offers to potential and existing customers. As our store network grows in each market, we expect to achieve further economies of scale in our advertising, allowing for a larger mix of media to be used.

The Company's information systems have been its strength during the growth of the business. More sophisticated programmes are regularly added to provide vital efficiencies and information for sales, purchasing and distribution.

I am looking forward with confidence to the ongoing development of the business and more specific information regarding our strategies is outlined in the following pages of this Annual Report.

I would like to take this opportunity in our first Annual Report as a public company to thank my fellow directors for their support and guidance. Also, Wilson HTM, Ernst & Young and Coudert Brothers for their assistance through this transitional period.

I would also like to thank all our staff for their dedication and hard work which has enabled both a seamless transition to the rigours of life as a public company and has also helped deliver an outstanding inaugural financial result.



Anthony Scali

Managing Director

Our brand
of growth...

a growing
market

the right
products

the right
value
model

the right
locations

growth
funded by
profits

We are in a growing market

that is driven by strong consumer confidence
and a resilient economy.

The market in which Nick Scali operates has continued to demonstrate strong consumer confidence and our business has benefited from a resilient and robust Australian economy.

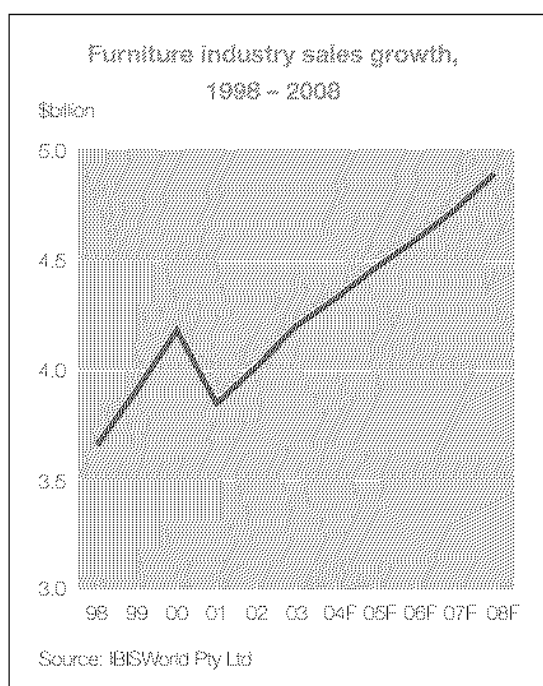
According to IBIS World estimates, the furniture retailing industry generated revenues of \$4.2 billion during financial year 2003 (the most recent figures available).

Approximately 91% of this spending related to the 'furniture and mattresses' segment, according to the 1998/1999 Australian Bureau of Statistics (ABS).

This is the area of business in which Nick Scali operates.

The growth in the Nick Scali business has been consistent, despite reports of a slowdown in new housing starts. From a furnishing perspective, the renovation market is as important as the second home buyer. This is one of the key reasons for the Company's strong growth performance.

Nick Scali has deliberately focused on the 35-55 age demographic. People in this widespread group are looking to replace items of furniture after renovating, or



According to IBIS World estimates and ABS Statistics, approximately \$3.8 billion is spent on the "furniture and mattresses" segment... this is the area of business in which Nick Scali operates.



following the purchase of their second home. These buyers are less price driven and are generally concentrated in the middle to upper income bracket.

Statistics show that households in this income bracket account for 78% of all furniture purchases in Australia.

The Australian population is becoming wealthier and older. The increasing affluence combined with an ageing population will continue to provide opportunities for our business to extend both market presence and market penetration.

The purchase of furniture is considered to be a discretionary 'big ticket' purchase for the majority of consumers. The most recent data from IBIS World suggests that demand is largely driven by the level of household disposable income. This influences the timing, quality and quantity of items purchased. Recent media commentary has focused on the close link between the increased wealth of Australians and the value of their primary home. Most people are enjoying their homes by furnishing them to the extent to which they can afford. They are looking for optimal enjoyment of their asset.

This is the market Nick Scali Furniture seeks to satisfy.

Nick Scali has focused on the 35-55 age demographic. Statistics show that these households account for 78% of all furniture purchases in Australia.

We have the right products

Nick Scali has taken the view that success is based on offering a product that is always 'up to the minute' in terms of style and global trends. And making sure that product is great value.

The Company invests time and money travelling to key centres around the world and attending relevant trade fairs. The business actively monitors fashions and innovations in contemporary furniture.

The Scali business model enables the Company to be flexible and respond quickly to style trends. The mechanisms are in place to continually source quality merchandise and present it to consumers while the style is still fresh.

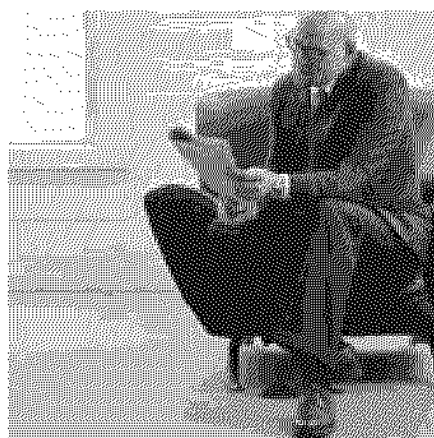
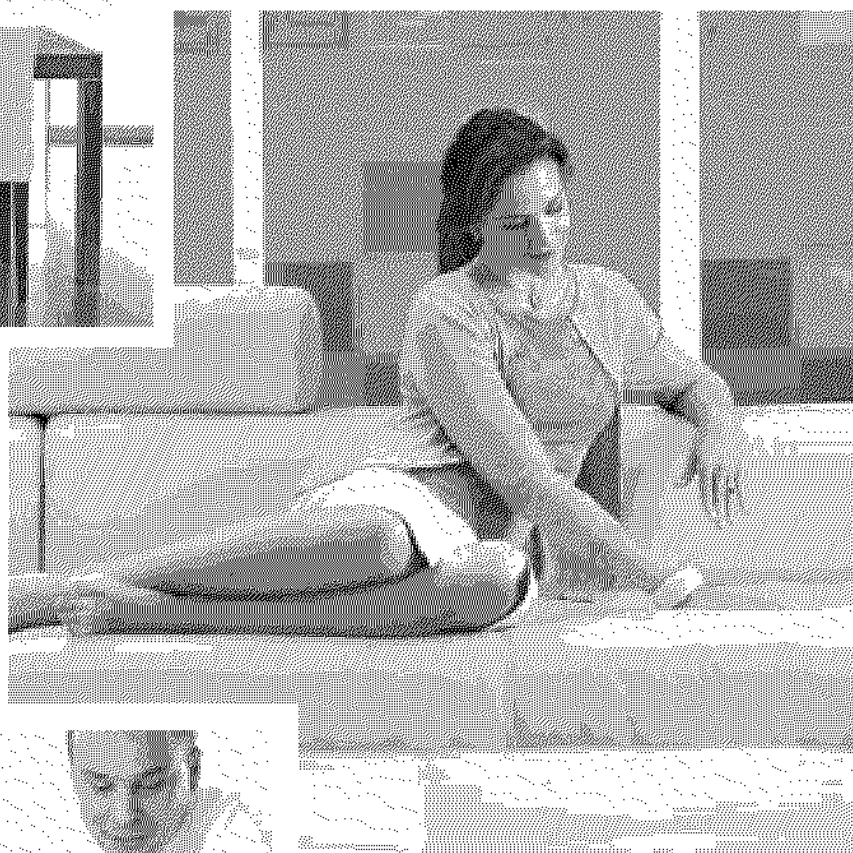
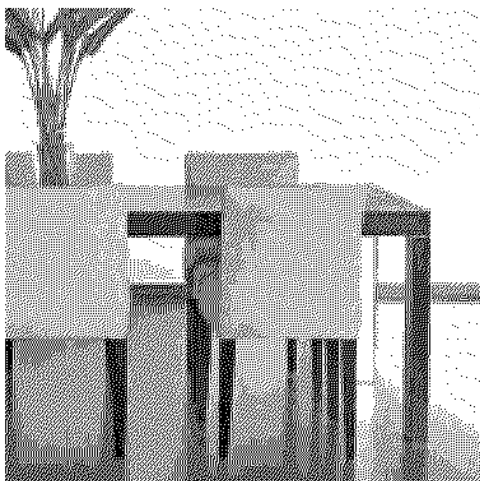
As vital as having the right product for the target market, is the presentation of that

product to customers. With a current average store size of 2100sq. metres and a planned 'new store' size of between 2000-3000sq. metres, Nick Scali ensures a consistent, clean and contemporary image is maintained in each store.

A visit to a Nick Scali store promises to be a rewarding experience. Products are attractively arranged in model lounge, dining room and bedroom settings enabling customers to easily visualise these settings in their own home.

It is fundamental to the Nick Scali business that a visit to one of our stores ensures exposure to a flawlessly presented showroom.

Nick Scali actively monitors fashions and innovations in contemporary furniture to ensure an "up to the minute" product offering.



We have the right value

The growing affluence of Australian consumers has made them more demanding. This means getting the value 'equation' right has become even more important to the Company.

The Nick Scali business model is geared to delivering quality furniture at great value to its selected demographic in the 35-55 age group. Typically, these customers are looking to both update and upgrade their furniture.

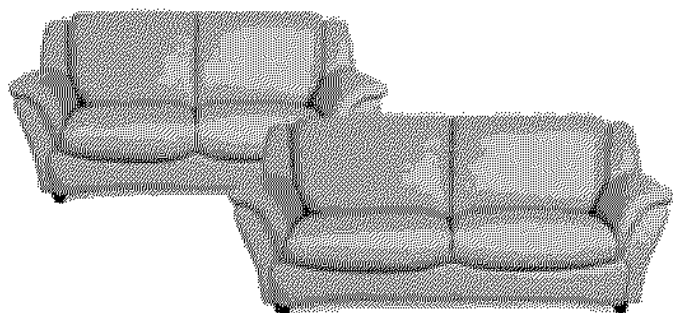
Nick Scali products are sold at a 'value for money' price. This is made possible by choosing the right product from the appropriate manufacturer using our volume buying power, sourcing directly from our

manufacturers and shipping direct to customers' homes via Nick Scali distribution centres.

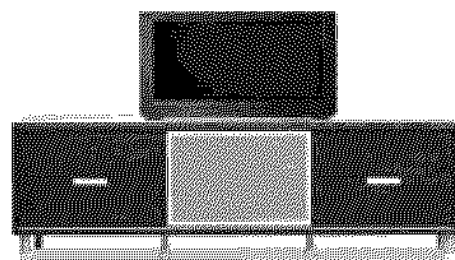
The Company takes an aggressive approach to marketing its products, proactively driving sales growth by using television, radio and print advertising to demonstrate value to consumers.

On the facing page is a typical press advertisement showing a range of Nick Scali products. This typifies the 'quality and value' marketing undertaken by the Company.

Nick Scali proactively drives sales growth by using television, radio and print advertising to demonstrate VALUE to consumers.



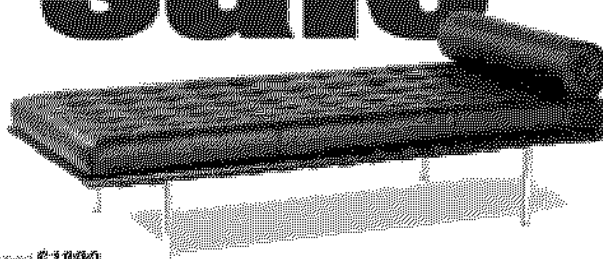
Modern L-section sofa 2 seater 100% leather package of lamp or beige **\$1790**



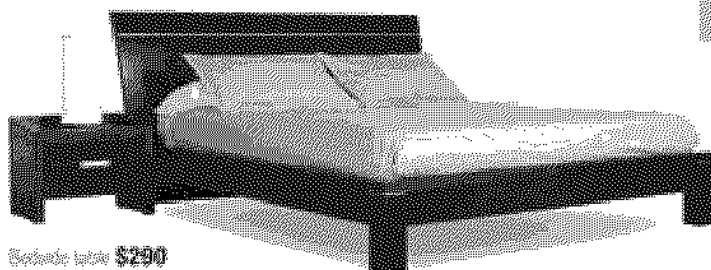
Delta 75 cm in range **\$890**

half **yearly**
sale

Our half yearly sale is in it's last days so don't miss out on this great opportunity to save off our already low prices on selected floorstock, discontinued and regular lines.



Correct leather leather design **\$1890**



Bedside table **\$290**

nickscali
F U R N I T U R E

Playa queen size bed **\$990**

Adelaide 242 Port Adelaide Rd Tel (853) 8745 4251 **Cheltenham** 575 Pacific Hwy Tel (02) 9475 4054 **Caringbah** Carrington Superstore Tel (02) 9342 7933
Midvale Park Homecentre Superstore Tel (08) 9463 4117 **Scarb Living Midvale Park** Homecentre Superstore Tel (08) 9463 2111
Yongaprah Homecentre Superstore Tel (08) 4363 4141 **Wotana** Homecentre Superstore Tel (08) 9463 2302 **Pyrmont** (02) 2111 1111 **Wentworth** Tel (02) 9220 0200
Musgrave (08) 937 3473 **Wentworth** Tel (07) 3473 2323 **Gold Coast** (07) 5529 7433 **Pacific Fair** Broadmead Tel (07) 5529 7433

We're in the right location (now and in the future)

The old real estate adage of 'position, position, position' is applied when it comes to choosing prime retail locations for a Nick Scali store.

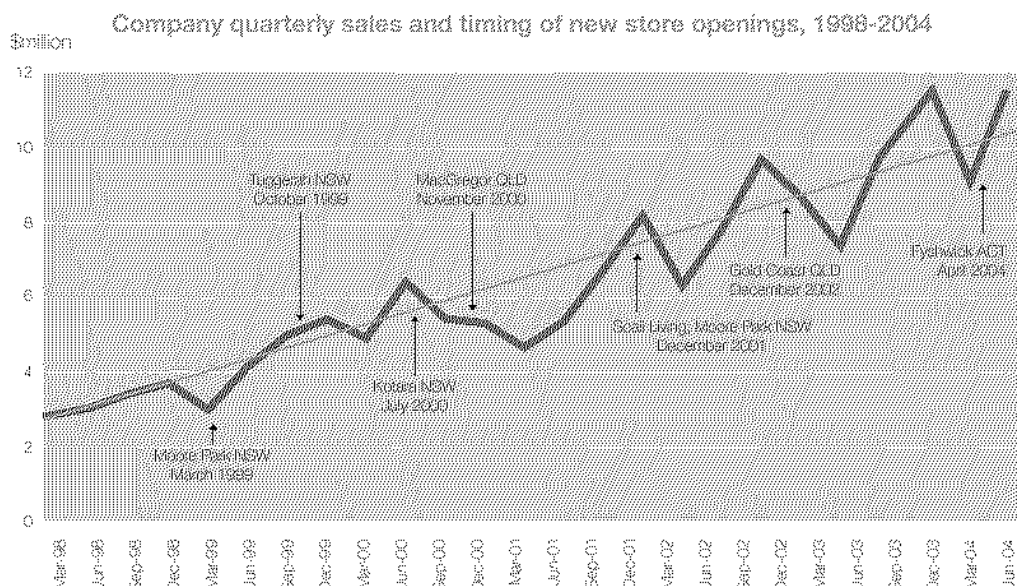
Factors include local demography, proximity to synergistic (and even competitor) retailers, transport and parking. The proximity of the store to a distribution centre is also an important aspect of the business model. The preferred range is within three hours by road transport.

The Company has also proven that both standalone stores and those within the bulky goods or 'homemaker' centres work

equally well, giving greater flexibility in new site selection.

The most recent store to open was on 1 April 2004 in Fyshwick, ACT. A prime example of the standalone success story, this store achieved profitability in its third month. The first two months' operational losses (which were to be expected) were totally expunged by the end of the third month of trading. This store is already one of the Company's best performers despite its limited profile to date.

In Queensland, the Company will open two new stores in mid November 2004.



Located in the Brisbane region, these stores have been built from the ground up and will increase the Nick Scali presence in South East Queensland to four stores.

This increase in stores in one region is particularly significant in terms of the cost benefits that result from sharing the overheads of the Brisbane distribution centre. Additional stores also contribute to the advertising budget, which enables stronger marketing and advertising strategies that, in turn, drive further sales growth in each store.

The Company will continue to seek new opportunities to add further stores to the Brisbane distribution centre. Due to be opened in January 2005, the distribution centre will have the capacity to service up to nine stores.

The Company looks at sites for new store locations, in both existing and new markets, on a daily basis. There are still significant opportunities in the traditional market of NSW; both in Sydney/Greater Sydney area and in regional NSW. The Company believes that the Greater Sydney area has the capacity for five additional Nick Scali stores, while there are clear opportunities for stores to be located in regional NSW cities.



The Company is also considering opportunities interstate. The strategy would include opening three or four stores simultaneously to enable the Company to leverage its infrastructure off a centralised distribution centre. Using this approach, the economies of scale and the increased advertising budget enable profit to be generated quickly.

Nick Scali plans to maintain its recent track record of stimulating growth through the continued rollout of new stores as the appropriate opportunities arise. The Company has the ability and capacity to accelerate that growth rate should exceptional opportunities present.

Our profits will fund our growth

The Nick Scali business model is one that optimises cash flows. The Company has a strong track record in this area when it operated as a private family company.

The 2004 financial year-end results show that cash flow is sufficient to enable even the most demanding of expansion

programs should the appropriate locational opportunities arise.

Therefore, the challenge for growth of presence lies in finding the appropriate sites, not in financially supporting their development.

The 2004 financial year-end results demonstrate that cash flow is sufficient to enable even the most demanding expansion program.



John W. Ingram, F.C.P.A. (A)

Non-Executive Chairman

John was appointed to the Board as non-executive Chairman on 7 April 2014. He is a former Chairman of the Remuneration & Performance Committee and a member of the Audit Committee of Nick Scall Limited. John has formerly Managing Director of Group Group Limited. He is currently the Chairman of Mally Larkin and a non-executive director of Energy Capital Limited, Direct Group Limited, Sun International, Jentel Australia, Sargent Australia Pty Limited and The Victor Chang Cancer Research Institute. He is the Managing Director of the Australian Academy of Science.

Anthony J. Scall, B.Com. (B)

Managing Director

Anthony is Managing Director of Nick Scall Limited. He joined the Company in 1992, after completing the Director of Company's degree from the University of New South Wales, which was responsible for the incorporation of the Company and its first management and then made a significant industry and business background. He is a former director of the Australian Academy of Science and a member of the Board of Nick Scall Limited.

Anthony is a member of the Remuneration & Performance Committee of Nick Scall Limited.

Nick D. Scall (C)

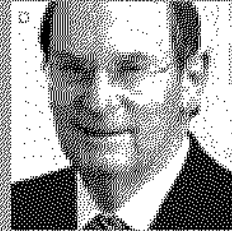
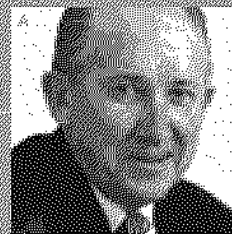
Non-Executive Director

Nick founded the business of Nick Scall over 40 years ago and continues to be a shareholder in the Company. He was previously a director of the Company and was involved in the founding of the business. In 1982, Nick founded a private and public company, the founding director of Larkin and Robinson Australia. Nick has served as a member of public company boards, including other companies and has made many contributions towards the business community in Australia, including serving as the President of the Board of Directors of the Australian Academy of Science. Nick is a member of the Audit Committee and the Remuneration & Performance Committee of Nick Scall Limited.

Greg R. Laurie, B.Com. (D)

Non-Executive Director

Greg was appointed to the Board on 7 April 2014. He is the Chairman of the Audit Committee and a member of the Remuneration & Performance Committee of Nick Scall Limited. Greg was previously Director of Group Group Limited from 1999 to 2014 and served from 2014 to 2015.



Senior Management

Bernard C. Y. Hui

B.Bus., C.A., M.B.A., F.C.I.S.

Chief Financial Officer and Company Secretary

Bernard joined Nick Scall Limited as Chief Financial Officer in April 2014. He is a former Director of the Company. Bernard was Chief Financial Officer and Company Secretary of Public Scall Limited, a public company listed on the Australian Stock Exchange. He has more than 20 years of experience in the financial management of a company in the publicly listed industry. Bernard is a non-executive director of NSW Commerce Association Incorporated.

Nicky D. Scall, B.Com.

Marketing & IT Manager and Alternate Director to Nick Scall

Nicky is the Marketing & IT Manager for Nick Scall Limited. He joined the Company in 2001 after working as a director of Greenway, a company in London, UK. Nicky is responsible for the development of advertising, website and social media, and creation of marketing strategies. He is a former representative of the Company's relationship between business and social media.

Corporate Governance Statement

Role of the Board

The directors are responsible for the direction and supervision of the Company's business and for its overall corporate governance. This includes ensuring that internal controls and reporting procedures are adequate and effective. The directors recognise the need to maintain the highest standards of behaviour, ethics and accountability. Responsibility for the management of the day-to-day operations and administration is delegated to the Managing Director.

The primary functions of the board include:

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

The Board currently consists of the Chairman, the Managing Director and 2 non-executive directors. The term of directors' appointments is governed by the 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.

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

Audit Committee

The Audit Committee consists of 3 non-executive directors. The Chairman of the Audit Committee must not be the Chairman of the Board. Audit Committee meetings will be held regularly throughout the year. The responsibilities of the Audit Committee are to:

- assist the Board to discharge fiduciary responsibilities with regard to the Company's accounting, control and reporting practices by monitoring the internal control environment and management over corporate assets;
- review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer;
- provide assurance regarding the quality and reliability of financial information used by the Board and to enable the Board to maintain confidence in the financial reports;
- oversee the activities of the external audit staff of the Company and to review the Company's risk management policies and internal control processes;
- review and recommend to the Board the adoption of the Company's annual financial statements, including income tax and other fiscal matters

incorporated within the financial statements;

- liaise with and review the performance of the external auditor, who may be invited to attend Audit Committee meetings to discuss financial matters and business risk; and
- review the risk exposures and controls with respect to existing information technology systems and those under development.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently consists of the whole Board and is responsible for:

- reviewing remuneration arrangements of senior management of the Company, including the Managing Director;
- recommending to the Board any increase to the remuneration of an existing employee of the Company for which Board approval is required; and
- recommending to the Board the remuneration of a new senior executive employee of the Company, which must be submitted for approval by the Board.

Code of Ethics

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

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

Directors' Report

The directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30 June 2004.

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, F.C.P.A.

Non-Executive Chairman

John was appointed to the Board as non-executive Chairman on 7 April 2004. He is also the Chairman of the Remuneration & Nomination Committee and a member of the Audit Committee of Nick Scali Limited. John was formerly Managing Director of Crane Group Limited. He is currently the Chairman of Wattyl Limited and a non-executive director of Rinker Group Limited, United Group Limited, Superannuation Trust of Australia (Savings Australia Pty Limited) and The Victor Chang Cardiac Research Institute and is National President of the Australia Industry Group.

Nick D. Scali, Non-Executive Director

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

Greg R. Laurie, B.Com., Non-Executive Director

Greg was appointed to the Board on 7 April 2004. He is the Chairman of the Audit Committee and a member of the Remuneration & Nomination Committee of Nick Scali Limited. Greg was Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003.

Executive Directors

Anthony J. Scali, B.Com., Managing Director

Anthony is Managing Director of Nick Scali Limited. He joined the Company full-time in 1982 after completing his Bachelor of Commerce degree from the University of New South Wales. While he is responsible for the overall operation of the Company and identifying

current and future trends in the furniture industry, a key function he leads is the direct sourcing of suitable products for Nick Scali Limited to retail.

Anthony is a member of the Remuneration & Nomination Committee of Nick Scali Limited.

Alternate Director

Nicky D. Scali, B.Com., Marketing & IT Manager and Alternate Director to Nick Scali

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

Company Secretary

Bernard C. Y. Hui, B.Bus., C.A., M.B.A., F.C.I.S. Chief Financial Officer and Company Secretary

Bernard joined Nick Scali Limited as Chief Financial Officer in April 2003. Prior to joining the Company, Bernard was Chief Financial Officer and Company Secretary of Rebel Sport Limited, a public company listed on the Australian Stock Exchange. He has over 20 years' experience in senior financial management roles, predominantly in the specialty retail industry. Bernard is a non-executive director of NSW Gymnastics Association Incorporated.

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

	No. of Ordinary Shares
John W. Ingram	200,000
- Non-Executive Chairman	
- Appointed 7 April 2004	
Anthony J. Scali	40,500,000*
- Managing Director	
Nick D. Scali	40,500,000*
- Non-Executive Director	
Greg R. Laurie	30,000
- Non-Executive Director	
- Appointed 7 April 2004	
Nicky D. Scali (resigned 7 April 2004 & appointed as Alternate Director to Nick Scali)	40,500,000*

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

At the date of this report, there were no share 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.

Review Of Operations

On 26 May 2004, the Company listed on the Australian Stock Exchange. The directors believe that this significant step for the Company will materially assist its growth plans in existing and new markets throughout Australia.

During April 2004, the Company opened its first store in the Australian Capital Territory.

A review of operations is set out in the Chairman's Report and the Managing Director's Report, both of which form part of the Directors' Report.

Principal Activities

The principal activities of the Company during the year were the sourcing and retailing of household furniture and related accessories.

No significant change in the nature of these activities occurred during the year.

Results Of Operations

The net profit of the Company for the financial year after providing for income tax amount to \$6.74m. (2003: \$6.99m.). The prior year's result included a profit of \$2.50m. after income tax, on the sale of the Company's property at Auburn, New South Wales.

Dividends

Partially and fully franked dividends totalling \$9.83m. (2003: \$6.50m.) were paid during the year, prior to the Initial Public Offer (IPO). A fully franked dividend of 1.00 cent per ordinary share has been declared by the directors since balance date. Based on the number of shares outstanding at 30 June 2004, this amounts to \$810,000. In accordance with Accounting Standard AASB1044 "Provisions, Contingent Liabilities and Contingent Assets", this dividend has not been provided for in the financial statements.

Significant Changes in State Of Affairs

Shareholders' equity increased by \$3.35m. (net of transaction costs related to the share issue), following the issue of 4,000,000 new ordinary shares at \$1.00 per share as part of the IPO. The Company listed on the Australian Stock Exchange on 26 May 2004.

Significant Events After Balance Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company,

the results of those operations, or the state of affairs of the Company in future financial years.

Likely Developments And Expected Results

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

Environmental Regulation And Performance

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

During the financial year, the directors are not aware of any particular or significant environmental issues which have been raised in relation to the Company's operations.

Directors' And Auditors' Indemnification

During the financial year, the Company paid premiums to indemnify 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.

Directors' And Other Officers' Emoluments

Remuneration policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the executive team. The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Remuneration Committee intends to link the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance. The Remuneration Committee will formulate such incentive plans, from time to time, as deemed appropriate for the Company.

Details of the nature and amount of each element of the emolument of each director of the Company and each of the three executive officers of the Company for the financial year are as follows:

Directors' Report

Emoluments* of Directors of Nick Scali Limited

	Base Fee \$	Superannuation \$	Total \$
J. W. Ingram – Non-Executive Chairman	11,468	1,032	12,500
A. J. Scali – Managing Director	96,434	20,066	116,500
N. D. Scali – Non-Executive Director	49,731	–	49,731
G. R. Laurie – Non-Executive Director	8,410	757	9,167
Nicky D. Scali – Alternate Director to N.D. Scali	60,832	6,828	67,660

Emoluments* of the three executive officers of the Company

	Base Fee \$	Bonus \$	Superannuation \$	Total \$
J. Trovatiello – Sales Director	226,303	–	–	226,303
B.C.Y. Hui – Chief Financial Officer & Company Secretary	153,086	–	13,778	166,864
G. Sullivan – Operations Manager	85,746	2,100	7,717	95,563

There are no other executive officers of the Company.

There were no share options granted by the Company.

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

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

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

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 & Nomination*
Number of meetings held:	7	–	–
Number of meetings attended:			
J. W. Ingram	1 (1)	–	–
A. J. Scali	7	–	–
N. D. Scali #	7	–	–
G. R. Laurie	1 (1)	–	–
Former Director: N. D. Scali Jnr (resigned & appointed as an Alternate Director 7 April 2004)	6 (6)		

* The Company listed on the Australian Stock Exchange on 26 May 2004. The first meetings of the Audit Committee and the Remuneration & Nomination Committee are scheduled in August 2004.

Where a director did not attend all meetings of the Board or relevant committee during the financial year, the number of meetings for which the director was eligible to attend is shown in brackets.

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.

Signed in accordance with a resolution of the Board of Directors



J. W. Ingram Chairman



A. J. Scali Managing Director

Sydney, 27th August 2004

Financial Statements 2004

Directors' Declaration

Independent Audit Report

Statement of Financial Performance

For the year ended 30 June 2004

		2004	2003
	Notes	\$'000	\$'000
Sales revenue	2	43,392	36,119
Cost of sales	3(b)	(17,999)	(16,918)
Gross Profit		25,393	19,201
Other revenues from ordinary activities	2	416	10,338
Distribution expenses		(463)	(101)
Marketing expenses		(3,591)	(3,082)
Occupation expenses		(5,812)	(4,208)
Administration expenses		(6,323)	(5,190)
Borrowing costs expense		(22)	(293)
Written down value of property, plant and equipment sold		(24)	(7,619)
Profit from Ordinary Activities before Income Tax		9,574	9,046
Income Tax Relating to Ordinary Activities	4	(2,837)	(2,056)
Profit from Ordinary Activities after Income Tax	17	6,737	6,990
Share issue costs	16	(648)	-
Total Revenues, Expenses and Valuation Adjustments Attributable to Members of Nick Scali Limited and recognised directly in Equity		(648)	-
Total Changes in Equity other than those resulting from Transactions with Owners as Owners attributable to Members of Nick Scali Limited		6,089	6,990
Basic Earnings Per Share (cents per share)	7	8.7 cents	
Diluted Earnings Per Share (cents per share)	7	8.7 cents	
Net Tangible Asset Backing per Share (cents per share)		9.2 cents	

Statement of Financial Position

As at 30 June 2004

	Notes	2004 \$'000	2003 \$'000
Current Assets			
Cash assets	22	8,581	8,547
Receivables	8	240	202
Inventories	9	6,423	6,136
Other financial assets	10	–	12
Other assets	11	294	59
Total Current Assets		15,538	14,956
Non-Current Assets			
Receivables	8	–	5,200
Deferred tax assets	4	296	331
Property, plant and equipment	12	1,556	1,619
Total Non-Current Assets		1,852	7,150
Total Assets		17,390	22,106
Current Liabilities			
Payables	13	6,714	12,227
Interest bearing liabilities	14	2,185	1,034
Current tax liabilities	4	690	1,348
Provisions	15	250	232
Total Current Liabilities		9,839	14,841
Non-Current Liabilities			
Provisions	15	87	59
Total Non-Current Liabilities		87	59
Total Liabilities		9,926	14,900
Net Assets		7,464	7,206
Equity			
Contributed equity	16	3,364	12
Reserves	17	78	5,588
Retained profits	17	4,022	1,606
Total Equity		7,464	7,206

Statement of Cash Flows

For the year ended 30 June 2004

	Notes	2004 \$'000	2003 \$'000
Cash Flows from Operating Activities			
Receipts from customers		47,727	39,963
Payments to suppliers and employees		(37,807)	(32,197)
Interest received		346	252
Borrowing costs		(22)	(293)
Income tax paid		(3,460)	(1,569)
Net Cash Flows From Operating Activities	22(a)	6,784	6,156
Cash Flows from Investing Activities			
Purchase of property, plant and equipment		(625)	(640)
Proceeds from disposal of assets		16	-
Net Cash Flows From Investing Activities		(609)	(640)
Cash Flows from Financing Activities			
Proceeds from issue of ordinary shares		4,000	-
Payment of share issue costs		(648)	-
Payments to related parties, net		(5,118)	(886)
Payment of dividends on ordinary shares		(4,322)	-
Repayment of hire-purchase liability principal		(53)	(32)
Net Cash (Used) In Financing Activities		(6,141)	(918)
Net Increase in Cash Held		34	4,598
Add Opening Cash brought forward		8,547	3,949
Closing Cash Carried Forward	22(b)	8,581	8,547

Notes to the Financial Statements

For the year ended 30 June 2004

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 including applicable Accounting Standards. Other mandatory professional reporting requirements (Urgent Issues Group Consensus Views) have also been complied with.

The financial report has been prepared in accordance with the historical cost convention and does not take into account changing money values or, except where stated, current valuations of non-current assets.

(b) Changes in accounting policies

The policies adopted are consistent with those of the previous year.

(c) Taxes

Income taxes

Tax-effect accounting is applied using the liability method whereby income tax is regarded as an expense and is calculated on the accounting profit after allowing for permanent differences. To the extent timing differences occur between the time items are recognised in the financial statements and when items are taken into account in determining taxable income, the net related taxation benefit or liability, calculated at current rates, is disclosed as a future income tax benefit or a provision for deferred income tax. The net future income tax benefit relating to tax losses and timing differences is not carried forward as an asset unless the benefit is virtually certain of being realised.

Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST except where 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 except for 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.

(d) Property, plant and equipment

All classes of property, plant and equipment are measured at cost, less where applicable, any accumulated depreciation.

Items of property, plant and equipment are depreciated over their estimated useful lives. Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation periods are:

	2004	2003
Office Equipment	20%–33%	20%–33%
Furniture and Fittings	10%–33%	10%–33%
Leasehold Improvements	Lease term	Lease term
Motor vehicles	20%	20%

(e) 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

The minimum lease payments of operating leases, where the lessor effectively retains substantially all of the risks and benefits of ownership of the leased items, are recognised as an expense on the straight line basis.

The lease incentive liability in relation to the non-cancellable operating lease is being reduced on an imputed interest basis over the term of the lease at the rate implicit in the lease. Contingent rentals are recognised as an expense in the financial year in which they are incurred.

Notes to the Financial Statements

For the year ended 30 June 2004

Note 1: Statement of Significant Accounting Policies (continued)

Finance leases

Leases which effectively transfer substantially all of the risks and benefits incidental to ownership of the leased item to the Company are capitalised at the present value of the minimum lease payments and disclosed as property, plant and equipment under lease. A lease liability of equal value is also recognised.

Capitalised lease assets are depreciated over the shorter of the estimated useful life of the assets and the lease term. Minimum lease payments are allocated between interest expense and reduction of the lease liability with the interest expense calculated using the interest rate implicit in the lease and recognised directly in net profit.

The cost of improvements to or on leasehold property is capitalised, disclosed as leasehold improvements, and amortised over the unexpired period of the lease or the estimated useful lives of the improvements, whichever is the shorter.

(f) Inventories

Inventories are valued at the lower of cost and net realisable value.

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.

Stock in transit is recognised when the title of the stock passes to the Company.

(g) Employee benefits

Provision is made for employee benefits accumulated as a result of employees rendering services up to the reporting date. These benefits include wages and salaries, annual leave and long service leave.

Liabilities arising in respect of wages and salaries, annual leave, long service leave and any other employee entitlements expected to be settled within twelve months of the reporting date are measured at their nominal amounts.

Employee benefit expenses and revenues arising in respect of the following categories:

- wages, salaries, non-monetary benefits, annual leave, long service leave and other leave entitlements; and
- other types of employee benefits

are charged against profits on a net basis in their respective categories.

(h) Foreign currencies

Translation of foreign currency transactions

Transactions in foreign currencies are converted to local currency at the rates of exchange ruling at the date of the transaction.

Amounts payable to and by the entity that are outstanding at the balance date and are denominated in foreign currencies have been converted to local currency using rates of exchange ruling at the end of the financial year.

Except for certain specific hedges, all resulting exchange differences arising on settlement or resettlement are brought to account in determining the net profit or loss for the financial year. Any gains or costs on entering a hedge are deferred and amortised over the life of the contract.

(i) Derivative financial instruments

Forward exchange contracts

The Company enters into forward exchange contracts where it agrees to buy or sell specified amounts of foreign currencies in the future at a predetermined exchange rate. The objective is to match the contract with anticipated future cash flows from sales and purchases in foreign currencies, to protect the Company against the possibility of loss from future exchange rate fluctuations. The forward exchange contracts are usually for no longer than 4 months.

Forward exchange contracts are recognised at the date the contract is entered into. Exchange gains or losses on forward exchange contracts are recognised in net profit except those relating to hedges of specific commitments that are deferred and included in the measurement of the sale or purchase.

(j) Cash and cash equivalents

Cash on hand, in bank and short-term deposits are stated at nominal value.

For the purposes of the Statement of Cash Flows, cash includes cash on hand and in banks, convertible into cash within 2 working days.

(k) Revenue recognition*Sale of goods*

Sales revenue is recognised in the Statement of Financial Performance on delivery of goods to customers. Customers deposits are held in a forward deposit account and transferred to sales on delivery to customers.

Interest

Interest is recognised when the control over the right to receive interest is obtained.

(l) Trade and other receivables

Trade receivables are recognised and carried at original invoice amount less a provision for any uncollectable debts. An estimate for doubtful debts is made when collection of the full amount is no longer probable. Bad debts are written-off as incurred.

Receivables from related parties are recognised and carried at the nominal amount due.

(m) Recoverable amounts

Non-current assets are not carried at an amount above their recoverable amount, and where carrying values exceed this recoverable amount, assets are written down. In determining recoverable amounts, the expected net cash flows have not been discounted to the present value.

(n) Trade and other payables

Liabilities for trade creditors and other amounts are carried at cost which is the fair value of the consideration to be paid in the future for goods and services received, whether or not billed to the Company.

Payables to related parties are carried at the principal amount.

(o) Interest bearing liabilities

All external loans are measured at the principal amount. Interest is charged as an expense as it accrues.

(p) Provisions

Provisions are recognised when the economic entity has a legal, equitable or constructive obligation to make a future sacrifice of economic benefits to other entities as a result of past transactions or other past events, it is probable that a future sacrifice of economic benefits will be required and a reliable estimate can be made of the amount of the obligation.

A provision for dividends is not recognised as a liability unless the dividends are declared, determined or publicly recommended on or before the reporting date.

(q) 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.

(r) Lease incentive contributions

The Company has received financial incentive contributions from the lessors of certain stores on the signing of new lease agreements. On receipt, these incentive contributions are recorded as a liability in the financial statements.

This liability is reduced and amortised over the lease term.

(s) Earnings per share

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

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

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares;

divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

(t) Comparatives

Where necessary, comparatives have been reclassified and re-positioned for consistency with current year disclosures.

Notes to the Financial Statements
For the year ended 30 June 2004

	2004 \$	2003 \$
Note 2: Revenue from Ordinary Activities		
<i>Revenue from operating activities</i>		
Sales revenue	43,392	36,119
Total revenue from operating activities	43,392	36,119
<i>Revenue from non operating activities</i>		
Proceeds from sale of property, plant and equipment	16	10,000
Interest income	346	253
Other income	54	85
Total revenue from non operating activities	416	10,338
Total revenue from ordinary activities	43,808	46,457
Note 3: Operating Expenses and Losses/(Gains)		
(a) Expenses		
Bad debts written off	4	-
Depreciation/amortisation of non-current assets		
Office equipment	203	133
Furniture and fittings	118	76
Leasehold improvements	306	204
Motor vehicles under hire purchase	37	27
Total depreciation/amortisation of non-current assets	664	440
Rental expense on operating leases	4,750	3,391
(b) Losses/(gains)		
Net foreign currency gain*	494	255
Net loss/(gain) on disposal of property, plant and equipment	8	(2,381)

*Exchange gain has been included in cost of sales.

	2004 \$'000	2003 \$'000
Note 4: Income Tax		
The prima facie tax, using tax rates applicable on profit differs from the income tax provided in the financial statements as follows:		
Prima facie income tax on operating profit before income tax @ 30%	2,872	2,714
Tax effect of permanent differences:		
Capital losses transferred in	-	(749)
Deductible costs for raising capital	(39)	-
(Over)/under provision prior year	2	83
Other permanent differences	2	8
Income tax expense relating to ordinary activities	2,837	2,056
Deferred tax assets and liabilities		
Current tax payable	690	1,348
Future income tax benefit – non-current	296	331
This future income tax benefit will only be obtained if:		
(a) future assessable income is derived of a nature and of an amount sufficient to enable the benefit to be realised;		
(b) the conditions for deductibility imposed by tax legislation continue to be complied with; and		
(c) no changes in tax legislation adversely affect the Company in realising the benefit.		
Note 5: Dividends		
(a) Dividends paid during the year		
Pre-IPO dividends paid to pre-IPO shareholder	9,831	6,500
(b) Dividends declared and not recognised at year-end		
In addition to the above dividends, since the year-end, the directors have declared the payment of a final fully franked dividend of 1.00 cent per share for the year ended 30 June 2004. The aggregate amount of the proposed dividend expected to be paid on 29 October 2004 out of retained profits at 30 June 2004, has not been recognised as a liability at year-end.	810	
(c) Dividend franking account		
The amount of franking credits available for the subsequent financial year are:		
– franking account balance as at the end of the financial year @ 30% (2003: 30%)	2	-
– franking account balance that will arise from the payment of income tax as at the end of the financial year	690	1,348
	692	1,348

Notes to the Financial Statements

For the year ended 30 June 2004

	2004 \$	2003 \$
Note 6: Auditors' Remuneration		
Amounts received or due and receivable by Ernst & Young for:		
- audit or review of the financial report of the Company	60,000	36,000
- other services provided to the Company	36,759	85,321
	96,759	121,321
- services related to Initial Public Offering, capitalised in Contributed Equity	207,662	
	2004 \$'000	
Note 7: Earnings Per Share		
(a) Earnings used in calculating basic earnings per share	6,737	
	No. of Shares	
(b) Weighted number of shares outstanding used to calculate basic EPS	77,382,514	
	Cents per Share	
Basic earnings per share	8.7	
Diluted earnings per share	8.7	
In accordance with AASB 1027 Earnings Per Share, comparative information has not been disclosed.		
	2004 \$'000	2003 \$'000
Note 8: Receivables		
Current		
Trade debtors	222	200
Sundry debtors	18	2
	240	202
Non Current		
Loans to related entities	-	5,209
Less provision for write-down	-	(9)
	-	5,200

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

(i) Trade debtors are non-interest bearing and generally on 30 day terms.

(ii) Sundry debtors are non-interest bearing and have repayment terms between 30 and 90 days.

	2004 \$'000	2003 \$'000
Note 9: Inventories		
Finished goods	5,752	4,865
Provision for diminution in value	(100)	(100)
	5,652	4,765
Stock in transit	771	1,371
	6,423	6,136
Note 10: Other Financial Assets (Current)		
Deposits	—	12
Note 11: Other Assets		
Prepaid expenses	294	59
Note 12: Property, Plant and Equipment		
Office equipment – at cost	1,039	836
Accumulated depreciation	(556)	(353)
	483	483
Furniture and fittings – at cost	656	539
Accumulated depreciation	(430)	(315)
	226	224
Leasehold improvements – at cost	1,504	1,325
Accumulated depreciation	(787)	(481)
	717	844
Motor vehicles – at cost	249	174
Accumulated depreciation	(119)	(106)
	130	68
Total property, plant and equipment	1,556	1,619

Notes to the Financial Statements

For the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Note 12: Property, Plant and Equipment (continued)		
Reconciliation of the carrying amounts of property, plant and equipment		
At the beginning and end of the current financial year		
<i>Freehold land and buildings</i>		
Carrying amount at beginning	–	7,500
Disposals	–	(7,500)
	–	–
<i>Office equipment</i>		
Carrying amount at beginning	483	464
Additions	203	208
Disposals	–	(56)
Depreciation charged	(203)	(133)
	483	483
<i>Furniture and fittings</i>		
Carrying amount at beginning	224	258
Additions	120	83
Disposals	–	(41)
Depreciation charged	(118)	(76)
	226	224
<i>Leasehold improvements</i>		
Carrying amount at beginning	844	737
Additions	179	334
Disposals	–	(23)
Depreciation charged	(306)	(204)
	717	844
<i>Motor vehicles</i>		
Carrying amount at beginning	68	81
Additions	123	14
Disposals	(24)	–
Depreciation charged	(37)	(27)
	130	68
Total property, plant and equipment – net book value	1,556	1,619

	2004 \$'000	2003 \$'000
Note 13: Payables (Current)		
Trade creditors	1,155	2,972
Other creditors and accruals	5,559	4,446
Loan from related entities	–	4,809
	6,714	12,227

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing and have an average term of 30 to 60 days.
- (iii) Australian dollar equivalent of amounts payable in foreign currencies not effectively hedged included in trade creditors at year end was Euro 111,000.

Note 14: Interest Bearing Liabilities**Current**

Commercial bills – secured (b)	2,176	972
Hire purchase liability	30	83
Less: deferred charges	(21)	(21)
	2,185	1,034

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) The bank facilities are secured by a first registered charge over the assets and undertakings of the Company.
The commercial bills relate to refinanced letters of credit, denominated in US dollars and are fully hedged by forward exchange contracts taken out by the Company.
- (ii) The hire purchase liability relates to a Company-owned van, with the final payment due in January 2006.
- (b) The comparative balance has been reclassified from Payables.

Note 15: Provisions**Current**

Employee benefits (refer Note 20)	250	232
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Non-Current

Employee benefits (refer Note 20)	87	59
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Notes to the Financial Statements
For the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Note 16: Contributed Equity		
81,000,000 (2003: 6,003) fully paid ordinary shares	3,364	12

	Number of ordinary shares	2004 \$'000	2003 \$'000
Movement in ordinary shares on issue			
Balance at the beginning of the financial year	6,003	12	12
Issued to existing shareholder following capital reconstruction	76,993,997	–	–
Issued during the year pursuant to the Nick Scall Limited prospectus dated 8 April 2004	4,000,000	4,000	–
Transaction costs relating to share issues	–	(648)	–
Balance at the end of the financial year	81,000,000	3,364	12

(a) Terms and conditions of contributed equity

Ordinary shares are entitled to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held.

Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

Note 17: Reserves

Asset revaluation	–	–
Capital profits	78	5,588
	78	5,588
Asset revaluation reserves		
Opening balance	–	1,066
Transfer to retained profits	–	(1,066)
Closing balance at 30 June 2004	–	–
Capital profits reserve		
Opening balance	5,588	5,588
Transfer to retained earnings	(5,510)	–
Closing balance at 30 June 2004	78	5,588

(a) Capital profits reserve

(i) Nature and purpose of reserve

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

	2004 \$'000	2003 \$'000
Note 17: Reserves (continued)		
Retained profits		
Opening balance	1,606	50
Profit from ordinary activities after income tax	6,737	6,990
Transfer from capital profits reserve/asset revaluation reserve	5,510	1,066
Dividend paid	(9,831)	(6,500)
Closing balance at 30 June 2004	4,022	1,606

Note 18: Expenditure Commitments

(a) Hire-purchase commitments payable

– not later than one year	30	83
– later than one but not later than five years	–	–
– total minimum lease payments	30	83
Deduct future finance charges	(21)	(21)
– lease liability	9	62
Disclosed as:		
– current liability	9	62
– non-current liability	–	–
	9	62

(b) Operating leasing expenditure commitments

– not later than one year	4,352	2,646
– later than one year but not later than five years	14,214	8,682
– later than 5 years	5,457	2,256
Aggregate expenditure contracted for at balance date	24,023	13,584

Note 19: Contingent Assets and Liabilities

There are no contingent liabilities at the end of the financial year.

Notes to the Financial Statements

For the year ended 30 June 2004

	2004 \$'000	2003 \$'000
Note 20: Employee Benefits		
<i>Aggregate employee benefits, including on-costs</i>		
Provision for employee benefits		
– current (refer Note 15)	250	232
– non-current (refer Note 15)	87	59
Accrual for wages and salaries included in 'other creditors and accruals'		
– current	88	45
	425	336
<i>Number of employees</i>		
Number of full and part-time employees at balance date	102	98

Superannuation funds

The Company contributes to a number of superannuation funds which exist to provide benefits for employees and their dependants on retirement, death and/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.

Note 21: Events Subsequent to Reporting Date

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

	2004 \$'000	2003 \$'000
Note 22: Statement of Cash Flows		
(a) Reconciliation of operating profit after tax to net cash flows from operations		
Profit from ordinary activities after tax	6,737	6,990
<i>Non-Cash Items:</i>		
Depreciation of non-current assets	664	441
(Gain)/Loss on disposal of property, plant and equipment	8	(2,381)
<i>Changes in assets and liabilities:</i>		
(Increase) in value of trade and other receivables	(38)	(85)
(Increase) in value of inventories	(291)	(337)
Decrease in other financial assets	12	2
Decrease/(increase) in value of prepayments	(235)	422
Increase in value of bank bill liabilities	1,205	-
(Decrease)/increase in value of payables	(700)	543
(Decrease)/increase in value of provisions	45	74
(Decrease)/increase in value of tax provision	(658)	719
(Decrease) in value of deferred tax liabilities	-	(8)
Decrease/(increase) in value of future income tax benefits	35	(224)
<i>Net cash flow from operating activities</i>	<i>6,784</i>	<i>6,156</i>
(b) Reconciliation of Cash		
Cash balances comprise:		
- cash on hand	8,581	8,547
(c) Financing Arrangements		
The following operating lines of credit were available at balance date:		
- credit facilities	5,600	4,350
- amount utilised	(3,904)	(1,506)
Unused credit facilities	1,696	2,844

Notes to the Financial Statements

For the year ended 30 June 2004

Note 23: Related Party Disclosures

Directors

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

Apart from the details disclosed below, no Director has entered into a material contract with the Company since the end of the previous financial period and there were no material contracts involving directors' interests existing at balance date.

Related party agreements

Chatswood and Auburn Leases

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

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

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

Location	242-248 Parramatta Road, Auburn, NSW	575 Pacific Highway, Chatswood, NSW
Term	10 Years, commencing 1 March 2004	7 Years, commencing 1 April 2004
Rent	\$620,000 (plus GST) per annum	\$480,000 (plus GST) per annum

Employment/Consultancy Agreements

	Anthony Scali	Nicky Scali	Nick Scali
Type of agreement	Employment agreement	Employment agreement	Consultancy agreement
Title	Managing Director	Marketing and Information Technology Manager	Consultant
Remuneration	\$350,000, subject to annual review, commencing May 2004.	\$200,000, subject to annual review, commencing May 2004.	\$60,000, subject to annual review, commencing May 2004.
Term	Evergreen	Evergreen	3 years
Non-competition period	12 months after termination, within Australia	12 months after termination, within Australia	12 months after termination, within Australia

Other related party transactions

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

- A personally-related entity of Messrs Anthony Scali and Nick Scali disposed of 36,500,000 shares in the Company as part of the Initial Public Offer in May 2004. The transaction value was \$36.5m.
- Personally-related entities of Messrs Anthony Scali and Nick Scali made or repaid loans to the Company during the year. All loans were settled prior to the Initial Public Offer in May 2004. There are no loans outstanding to or from any personally-related entities.
- The Company paid property lease rentals and outgoings to personally-related entities of Messrs Anthony Scali and Nick Scali totalling \$1,080,675 during the year.
- During the previous financial year, the Company sold its land and building at Auburn, New South Wales to Scali Consolidated Pty Ltd, a personally-related entity of Messrs Anthony Scali and Nick Scali for \$10,000,000, being the market value at sale date. The Company recorded a profit of \$2,500,000 on the sale.

Note 24: Director and Executive Disclosures

(a) Remuneration of Specified Directors and Specified Executives

(i) Remuneration Policy

The Remuneration Committee of the Board of Directors is responsible for determining and reviewing compensation arrangements for the directors, the Managing Director and the executive team. The Remuneration Committee will assess the appropriateness of the nature and amount of emoluments of such officers on a periodic basis by reference to relevant employment market conditions with the overall objective of ensuring maximum stakeholder benefit from the retention of a high quality Board and executive team.

To assist in achieving these objectives, the Remuneration Committee intends to link the nature and amount of executive directors' and officers' emoluments to the Company's financial and operational performance. The Remuneration Committee will formulate such incentive plans, from time to time, as deemed appropriate for the Company.

	Salary and Fees \$	Cash Bonus \$	Super- annuation \$	Total \$
Specified Directors				
J. W. Ingram Non-Executive Chairman	11,468	–	1,032	12,500
A. J. Scali Managing Director	96,434	–	20,066	116,500
N. D. Scali Non-Executive Director	49,731	–	–	49,731
G. R. Laurie Non-Executive Director	8,410	–	757	9,167
N. D. Scali Jnr Alternate Director to N. D. Scali	60,832	–	6,828	67,660
Total	226,875	–	28,683	255,558

There are no retirement benefits payable to non-executive directors and no share options have been issued by the Company.

Employment agreements have been entered into with the Managing Director, the Marketing and Information Technology Manager and the Company's founder, Mr N.D. Scali. The details of these agreements are disclosed in Note 23 above.

Specified Executives

J. Trovatiello Sales Director	226,303	–	–	226,303
B. C. Y. Hui Chief Financial Officer and Company Secretary	153,086	–	13,778	166,864
G. Sullivan Operations Manager	85,746	2,100	7,717	95,563
Total	465,135	2,100	21,495	488,730

(b) Remuneration options

No share options have been issued by the Company.

Notes to the Financial Statements

For the year ended 30 June 2004

Note 24: Director and Executive Disclosures (continued)

(c) Shareholdings of Specified Directors and Specified Executives

Shares held in Nick Scali Limited (number)	Balance 1 Jul 03	Net Change Other	Balance 30 Jun 04
Specified Directors			
J.W. Ingram	–	200,000	200,000
A.J. Scali/N.D. Scali/N.D. Scali Jnr*	6,003*	40,493,997*	40,500,000*
G.R. Laurie	–	30,000	30,000
Specified Executives			
J. Trovatiello	–	52,000	52,000
B.C.Y. Hui	–	453,000	453,000
G. Sullivan	–	–	–
Total	6,003	41,228,997	41,235,000

*Shares are held by a personally-related entity of Messrs Anthony, Nick and Nicky Scali. The net change resulted from the reconstruction of contributed equity and the subsequent sale of shares pursuant to the Nick Scali Limited prospectus dated 7 April 2004.

Note 25: Financial Instruments

(a) Interest Rate Risk Exposure

The Company's exposure to interest rate risk and the weighted average interest rate for classes of financial assets and liabilities is set out below:

As at 30 June 2004	Note	Interest Rate %	Interest Bearing \$'000	Non-interest Bearing \$'000	Total \$'000
Financial Assets					
Cash	22(b)	5.00%	8,581	–	8,581
Receivables	8	–	–	240	240
Hedging foreign currency receivable	25 (b)	–	–	1,844	1,844
			8,581	2,084	10,665
Terms and Conditions					
Receivables are non-interest bearing.					
Financial Liabilities					
Payables	13	–	–	6,714	6,714
Interest-bearing liabilities	14	2.25%	2,185	–	2,185
			2,185	6,714	8,899

Note 25: Financial Instruments (continued)

(a) Interest Rate Risk Exposure (continued)

As at 30 June 2003	Note	Interest Rate %	Interest Bearing \$'000	Non-interest Bearing \$'000	Total \$'000
Financial Assets					
Cash	22(b)	4.40%	8,547	–	8,547
Receivables	8	–	–	202	202
			8,547	202	8,749
Terms and Conditions					
Receivables are non-interest bearing.					
Financial Liabilities					
Payables	13	–	–	12,227	12,227
Interest-bearing liabilities	14	2.00%	1,034	–	1,034
			1,034	12,227	13,261

Terms and Conditions

Trade and other creditors are non-interest bearing and have repayment terms of 30–90 days.

Customer deposits are non-interest bearing.

Bank bills, included as interest-bearing liabilities, are denominated in US dollars.

(b) Foreign Exchange Risk

The Company enters into forward exchange contracts to hedge certain anticipated inventory commitments denominated in foreign currencies.

The terms of these commitments do not exceed four months.

The Company's policy is to enter into forward foreign currency exchange contracts to hedge foreign currency denominated inventory purchases based on firm orders placed with overseas suppliers, within Board approved limits.

At balance date, the values of forward exchange contracts outstanding were as follows:

	30 Jun 04 Foreign Currency Value	30 Jun 04 Australian \$ Equivalent
United States Dollars	1,261,475	1,843,948

Notes to the Financial Statements

For the year ended 30 June 2004

Note 25: Financial Instruments (continued)

(c) Credit Risk Exposure

Credit exposure represents the extent of credit related losses that the Company may be subject to on amounts to be exchanged from financial assets.

The Company, while exposed to credit related losses in the event of non-performance by counter-parties to financial instruments, does not expect any counter-parties to fail to meet their obligations.

On-Balance Sheet Financial Instruments

The credit risk on financial assets, excluding investments, which have been recognised on the Statement of Financial Position are the carrying amount, net of any provisions for doubtful debts.

The Company minimises concentration of credit risk by undertaking relatively small value transactions with a large number of customers, and the majority of transactions are cash, cheque or credit card based. The Company is not materially exposed to any individual customer.

Off-Balance Sheet Financial Instruments

Forward foreign currency exchange contracts are subject to credit risk in relation to the relevant counter-parties, which are the Company's bankers.

The maximum credit risk exposure on forward foreign currency contracts is the full amount of the foreign currency the Company pays when settlement occurs, should the counter-party fails to pay the amount which it is committed to pay the Company. The full amount of the exposure is disclosed at Note 25(b) above.

(d) Net Fair Value of Financial Instruments

The carrying amounts of financial assets and liabilities approximate their fair values.

Note 26: Segment Information

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

Note 27: Impact of Adopting AASB Equivalents to IASB Standards

Nick Scali Limited has commenced assessing changes to its accounting policies and financial reporting from current Australian Standards to Australian equivalents of International Financial Reporting Standards (IFRS) during the financial year. Following preliminary reviews of IFRS, the Company does not expect any material impact on reported results going forward based on existing accounting balances and policies.

Hedge Accounting

Under AASB 139 *Financial Instruments: Recognition and Measurement* in order to achieve a qualifying hedge, the entity is required to meet the following criteria:

- Identified the type of hedge – fair value or cash flow;
- Identify the hedged item or transaction;
- Identify the nature of the risk being hedged;
- Identify the hedging instrument;
- Demonstrate that the hedge has and will continue to be highly effective; and
- Document the hedging relationship, including the risk management objectives and strategy for undertaking the hedge and how effectiveness will be tested.

This will result in a change in the Company's current accounting policy which applies hedge accounting to its purchase of inventory under forward foreign exchange contracts. All of the contracts during the year are general hedges and are not able to be separately identified and documented in accordance with the requirements of the new standard. Under the new policy hedge accounting will no longer be able to be applied to such forward foreign exchange contracts and all gains and losses on the contracts will be recognised in the income statement. Reliable estimation of the future financial effect of this change in accounting policy is not yet known and depends on the nature of the forward foreign exchange contracts the Company enters into in the future.

Directors' Declaration

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

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 2004 and of the performance for the year ended on that date; and
- (ii) complying with Accounting Standards and Corporations Regulations 2001; and

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

On behalf of the Board



J. W. Ingram Chairman



A. J. Scali Managing Director

Dated at Sydney this 27 day of August 2004



■ The Ernst & Young Building
321 Kent Street
Sydney NSW 2000
Australia

■ Tel 61 2 9248 5555
Fax 61 2 9248 6346
OX Sydney Stock
Exchange 10172

CPO Box 2646
Sydney NSW 2001

Independent audit report to members of Nick Scali Limited

Scope

The financial report and directors' responsibility

The financial report comprises the statement of financial position, statement of financial performance, statement of cash flows, accompanying notes to the financial statements, and the directors' declaration for Nick Scali Limited (the company), for the year ended 30 June 2004.

The directors of the company are responsible for preparing a financial report that gives a true and fair view of the financial position and performance of the company, and that complies with Accounting Standards in Australia, in accordance with the Corporations Act 2001. This includes responsibility for the maintenance of adequate accounting records and internal controls that are designed to prevent and detect fraud and error, and for the accounting policies and accounting estimates inherent in the financial report.

Audit approach

We conducted an independent audit of the financial report in order to express an opinion on it to the members of the company. Our audit was conducted in accordance with Australian Auditing Standards in order to provide reasonable assurance as to whether the financial report is free of material misstatement. The nature of an audit is influenced by factors such as the use of professional judgement, selective testing, the inherent limitations of internal control, and the availability of persuasive rather than conclusive evidence. Therefore, an audit cannot guarantee that all material misstatements have been detected.

We performed procedures to assess whether in all material respects the financial report presents fairly, in accordance with the Corporations Act 2001, including compliance with Accounting Standards in Australia, and other mandatory financial reporting requirements in Australia, a view which is consistent with our understanding of the company's financial position, and of its performance as represented by the results of its operations and cash flows.

We formed our audit opinion on the basis of these procedures, which included:

- examining, on a test basis, information to provide evidence supporting the amounts and disclosures in the financial report, and
- assessing the appropriateness of the accounting policies and disclosures used and the reasonableness of significant accounting estimates made by the directors.

While we considered the effectiveness of management's internal controls over financial reporting when determining the nature and extent of our procedures, our audit was not designed to provide assurance on internal controls.

We performed procedures to assess whether the substance of business transactions was accurately reflected in the financial report. These and our other procedures did not include consideration or judgement of the appropriateness or reasonableness of the business plans or strategies adopted by the directors and management of the company.

**Independence**

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. 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.

Audit opinion

In our opinion, the financial report of Nick Scali Limited is in accordance with:

- (a) the Corporations Act 2001, including:
 - (i) giving a true and fair view of the financial position of Nick Scali Limited at 30 June 2004 and of its performance for the year ended on that date; and
 - (ii) complying with Accounting Standards in Australia and the Corporations Regulations 2001; and
- (b) other mandatory financial reporting requirements in Australia.

A handwritten signature in cursive script that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in cursive script that reads 'J. K. Haydon'.

J. K. Haydon

Partner

Sydney, 27 August 2004.

ASX Additional Information

Additional information required by the Australian Stock Exchange Ltd and not shown elsewhere in this report is as follows. The information is current as at 27 August 2004.

(a) Distribution of shareholders as at 27 August 2004

The number of shareholders, by size of holding, are:

Shareholders Category	No. of Ordinary Shares
1 – 1,000	162
1,001 – 5,000	408
5,001 – 10,000	337
10,000 – 100,000	359
100,001 – and over	30
	1,296

There was 1 shareholder holding less than a marketable parcel of 358 shares at 27 August 2004.

(b) Twenty largest shareholders as at 27 August 2004

Name	No. of Ordinary Shares Held	Percentage of Capital Held
Scafi Consolidated Pty Ltd	40,500,000	50.00%
National Nominees Limited	3,818,229	4.71%
Citigroup Nominees Pty Limited<CFS Developing Companies A/c>	2,806,499	3.46%
Citigroup Nominees Pty Limited<CFSIL CFS WS Small Comp A/c>	2,644,649	3.26%
JP Morgan Nominees Australia Limited	2,348,971	2.90%
RBC Global Services Australia Nominees Pty Limited<PIPOOLED A/c>	2,086,553	2.58%
Queensland Investment Corporation	1,723,800	2.13%
MF Custodians Ltd	1,644,355	2.03%
RBC Global Services Australia Nominees Pty Limited<PIIC A/c>	1,513,102	1.87%
Cogent Nominees Pty Limited<SMP Accounts>	1,180,566	1.46%
Health Super Pty Ltd	1,093,012	1.35%
ANZ Nominees Limited	1,064,816	1.35%
RBC Global Services Australia Nominees Pty Limited<BKCUST A/c>	483,205	.60%
RBC Global Services Australia Nominees Pty Limited<PP A/c>	475,891	.59%
Mutual Trust Pty Limited	475,000	.59%
MF Custodians Ltd	306,000	.38%
Invia Custodian Pty Ltd<CLIME CAPITAL LTD A/c>	226,710	.28%
Thang Pty Ltd	218,000	.27%
Equity Trustees Limited<SGH Micro Cap Trust A/c>	200,000	.25%
Mr Bernard Hui	200,000	.25%
	65,009,358	80.26%

(c) Substantial shareholders

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

Shareholder	Ordinary Shares
Scafi Consolidated Pty Limited	40,500,000
CBA and Commonwealth Bank Group	5,421,534

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

Corporate Information

Nick Scarr Limited
ABN: 62 000 403 836

Stores Locations

New South Wales	Australian Capital Territory	Queensland
Adelaide	Perth	Western Australia
Chatswood		Gold Coast
Canberra		
Moore Park, VIC		
Tuggerah		
Kuala Lumpur		

Registered Office

81-82, 3-9 Birnie Avenue
Lidcombe, NSW 2141
Telephone: 02 9248 4000
Facsimile: 02 9248 4022
Website: www.nickscarr.com.au

Company Secretary

Bernard C. Y. Fung, B.Bus., Q.A., M.B.A., F.C.I.S.

Auditors

Ernst & Young
321 Kent Street
Sydney, NSW 2000

Solicitors

Colson Brothers
Level 8, Gateway
1 Macquarie Place
Sydney, NSW 2000

Bankers

National Australia Bank Limited

Share Registry

ASX Perpetual Registrars Limited
Level 8, 550 George Street
Sydney, NSW 2000
Telephone: 02 8280 7711
Facsimile: 02 9287 0399
Website: www.asxperpetual.com.au

Stock Exchange

The Company is listed on the Australian Stock Exchange.
The listing exchange is Sydney.
ASX code: NICK

Annual General Meeting

The Annual General Meeting will be held at 11.30 am
on 27 October 2004 at Merzies Hotel
34 Carrington Street, Sydney.

