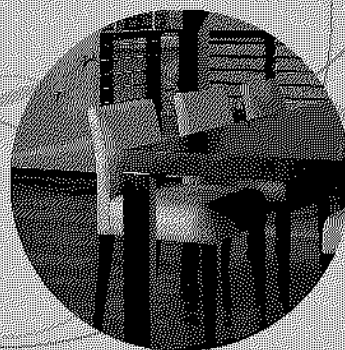
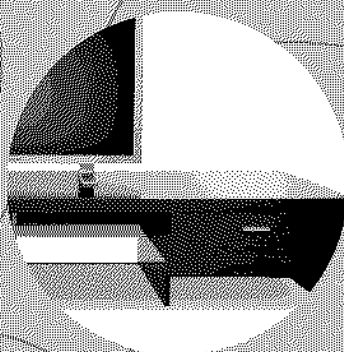
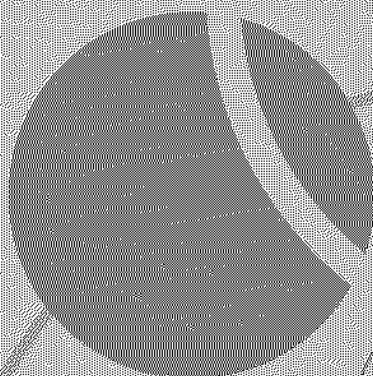
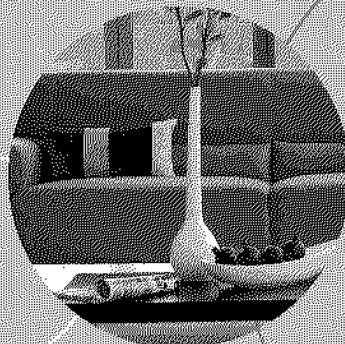
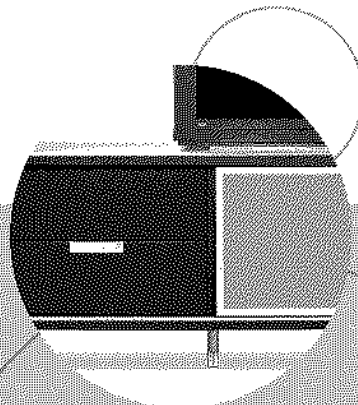


ANNUAL REPORT 2005

nickscali
L I M I T E D

ANNUAL REPORT 2005





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Nick Scall Limited operates within Australia as a retailer of quality, contemporary furniture at affordable prices, principally targeting consumers in the middle to upper income brackets. The Company currently retails from 17 showrooms (8 in New South Wales, 4 in Queensland, 1 in ACT and 4 in South Australia) and has distribution centres in Sydney, Brisbane and Adelaide.

The success of the Company's business model can be attributed to:

- offering a specific range of quality furniture — a specialty being leather-upholstered lounges;
- sourcing directly from relatively lower cost manufacturers and bypassing wholesalers;
- retailing from strategically located Company owned stores; and
- offering comparable quality product at better price points than competitors.

Chairman and Managing Directors Review

The company has completed its first full year as a public company and we are pleased to report that we have exceeded our prospectus forecast despite the difficult trading conditions endured in the second half of the financial year.

During the year Sales increased by 25% to \$54.2 million, an increase of 20% over the previous year, and Earnings before interest, tax and depreciation rose by 18% to \$11.7 million. Net Profit After Tax increased by 20% to \$8.1 million. This result comfortably exceeds the prospectus forecast of \$7.7 million.

Directors have declared a fully franked final dividend of 3.5 cents per share, payable on 31 October 2005. This takes the total dividend for the year to 6.5 cents per share fully franked, which is 1 cent per share higher than forecast in the prospectus. The total dividend for the year represents a payout ratio of 65%.

The sales growth achieved was attributable to the seven new stores opened during the second half of the year. Three of these stores were part of the acquisition of the Payneham business in South Australia, in March 2005, that provided an immediate store network in a new market for the Company. At the same time as this acquisition, a greenfield store at Mile End in Adelaide was added, bringing the total number of stores in South Australia to four. In Brisbane two new stores were opened at Fortitude Valley and Aspley, whilst in Sydney one new store was opened at Bella Vista in the Norwest Homemaker's Centre. All the new stores are performing well and will contribute significantly to the expected sales revenue and profit growth in the June 2006 year.

In March 2005 two new Distribution Centres were established, in Adelaide and in Brisbane. Both of these have excess capacity to cater for the store rollout planned for the future in these markets. Plans are also well under way to increase the size of the NSW Distribution Centre as more stores are planned for Sydney and regional New South Wales.

The outlook for the 2006 financial year will be impacted by any continuing softening in the retail market. The Company, however, will be assisted by the full year impact of the stores opened during the 2005 financial year. In addition, the Company is committed to managed growth with new stores currently in the planning phase in existing and new markets.

The first store in Victoria, at Chirnside, is expected to open in January 2006 with more Victorian stores to follow soon afterwards. Other stores expected to open in 2006 include Townsville, Queensland, Campbelltown, New South Wales and Kawana Waters, Queensland. As sales revenue grows the Company's purchasing power is increasingly providing better value buying, lower freight rates, higher margins and greater support from suppliers. Nick Scali Limited is now one of the largest importers of furniture into Australia, if not the largest in leather lounges. The continued growth will enhance these advantages further in the future.

Cash flow was strong during the 2005 year and enabled the Company to fund the increased number of stores without increased borrowings. As a result our balance sheet remains strong and Nick Scali Limited is in a very strong financial position to pursue appropriate opportunities.

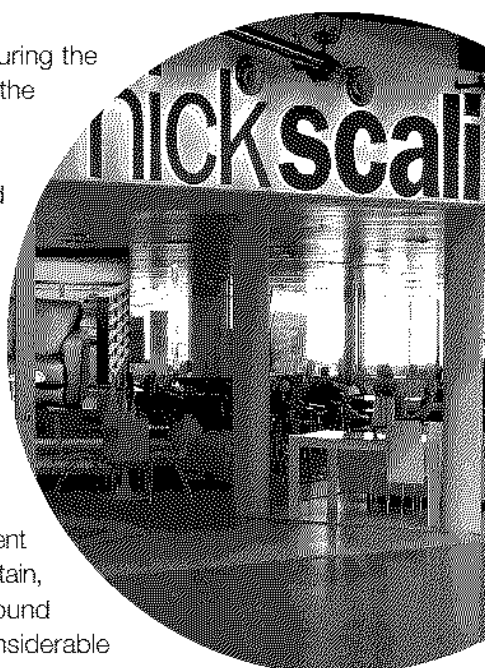
Whilst the retail environment remains somewhat uncertain, we believe we have a sound business model and considerable opportunity to continue the recent growth path of the Company. To achieve this, we are committed to attracting and retaining quality staff and to continue to develop our information systems and controls.

In the current environment, it is important that we also continue to focus on corporate governance issues. The Board is committed to an ongoing process in this area. Further details in this regard are included in the following pages of this Report.

We would like to thank all our employees and senior management for their considerable efforts and commitment, particularly during the more difficult second half of the year.

John Ingram &
Chairman

Anthony Scali
Managing Director



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 subcommittees. There are two subcommittees – the Audit Committee and the Remuneration and Nomination Committee. The members of these subcommittees are the three non executive Directors.

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

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

LAY SOLID FOUNDATIONS FOR MANAGEMENT AND OVERSIGHT

Role of the Board

The primary functions of the Board include:

- formulating and approving the objectives, strategies and long-term plans for the Company's continued development and operation, in conjunction with management;
- monitoring the implementation of these objectives, strategies and long-term plans to ensure the Company, to the best of its ability, delivers value to shareholders;
- 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 the 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 on the payment of dividends to shareholders.

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

STRUCTURE THE BOARD TO ADD VALUE

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

The background and skills of each of the non-executive Directors is complementary. This assists the Board in effectively reviewing and challenging the performance of management and the exercise of independent judgment.

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

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

Corporate Governance Statement

PROMOTE ETHICAL AND RESPONSIBLE DECISION-MAKING

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

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

SAFEGUARD INTEGRITY IN FINANCIAL REPORTING

Statement by Managing Director and Chief Financial Officer

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

Audit Committee

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

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

- ensure that information systems, processes and technology are reviewed periodically for future sustainability and the adequacy of controls.

Mr Greg R. Laurie, who is an Independent Non-Executive Director, is Chairman of the Audit Committee.

Three Audit Committee Meetings were held during the year ended 30 June 2005, attended by all Committee members.

MAKE TIMELY AND BALANCED DISCLOSURE

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

RESPECT THE RIGHTS OF SHAREHOLDERS

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

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

RECOGNISE AND MANAGE RISK

The Board and the senior management team have addressed a number of specific risk areas of the operations of the Company.

A process to formally review each risk area of the Company has commenced.

ENCOURAGE ENHANCED PERFORMANCE

The evaluation of the performance of the Board and its sub committees is the responsibility of the Remuneration and Nomination Committee.

During 2006, the second full year of the Company as a listed entity, it is intended to undertake a peer group evaluation of the Board's performance.

REMUNERATE FAIRLY AND RESPONSIBLY

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

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

The Company intends to implement an equity-based long term incentive plan within the next twelve months.

Remuneration and Nomination Committee

The Remuneration and Nomination Committee currently consists of the non executive directors of the Company, and is responsible for:

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

The Committee has met once in the last twelve months. All members attended, together with the Managing Director and Company Secretary. In addition, matters for consideration by the Committee have been dealt with during the Board meetings, where Remuneration and Nomination Committee members were in attendance.

RECOGNISE THE LEGITIMATE INTERESTS OF STAKEHOLDERS

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

A formal Code of Conduct for non shareholder stakeholders will be developed during the next six months.

Directors' Report

The Directors present their report together with the financial report of Nick Scali Limited for the financial year ended 30th June 2005 and the Auditors' Report thereon.

DIRECTORS

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

NON-EXECUTIVE DIRECTORS

John W Ingram, FCPA,
Non-Executive Chairman

John was appointed to the Board as non-executive Chairman on 7 April 2004. He is also the Chairman of the Remuneration and Nomination Committee and a member of the Audit Committee of Nick Scali Limited. John was formerly Managing Director of Crane Group Limited. He is currently the Chairman of Watty 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 of the Company. He was solely responsible for running the business until Anthony Scali 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, BCom,
Non-Executive Director

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

EXECUTIVE DIRECTOR

Anthony J Scali, BCom,
Managing Director

Anthony is Managing Director of Nick Scali Limited. He joined the Company full-time in 1982 after completing his Bachelor of Commerce degree from the University of New

South Wales. 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 product from manufacturers (principally overseas) for Nick Scali to retail.

ALTERNATE DIRECTOR

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

COMPANY SECRETARY

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

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	200,000
Anthony J Scali - Managing director	40,500,000*
Nick D Scali - Non executive director	40,500,000*
Gregory R Laurie - Non executive director	30,000
Nicky D Scali - Alternate director	40,500,000*

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

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

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

REVIEW OF OPERATIONS

Sales increased by 25% to \$54.2 million. Earnings before interest, tax and depreciation rose by 18% to \$11.7 million, whilst Net Profit After Tax increased by 20% to \$8.1 million.

During the year, new stores were open at Norwest in NSW, Aspley and Fortitude Valley in Queensland and Mile End in South Australia. In addition, the Company acquired three existing stores in South Australia. All of these stores have contributed to the result, and we will have the benefit of a full year's trading from those stores from July 2005.

PRINCIPAL ACTIVITIES

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

RESULTS OF OPERATIONS

The net profit of the Company for the financial year after providing for income tax amount to \$8.09m (2004: \$6.74m).

DIVIDENDS

Fully franked dividends totaling \$5.42m (2004: \$9.83m partially and fully franked) were paid during the year. A fully franked dividend of 3.5 cents per ordinary share has been declared by the Directors since balance date. Based on the number of shares outstanding at 30 June 2005, this would amount to \$2.84m. 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

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

SIGNIFICANT EVENTS AFTER BALANCE DATE

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

LIKELY DEVELOPMENTS AND EXPECTED RESULTS

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

ENVIRONMENTAL REGULATION AND PERFORMANCE

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

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

DIRECTORS' AND AUDITORS' INDEMNIFICATION

During the financial period, the Company has made an agreement 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.

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

REMUNERATION REPORT

Remuneration Philosophy

The structure of non-executive director and senior management is separate and distinct.

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

The Company intends to implement an equity-based long term incentive plan within the next twelve months.

Non-executive director's fees are all paid as fixed amounts and are set in line with those for comparable companies and the responsibilities in respect of the Board and Committees.

Remuneration and Nomination Committee

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

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

The committee has met once in the last twelve months. All members attended, together with the Managing Director and Company Secretary. In addition, matters for consideration by the Committee have been dealt with during the Board meetings, where Remuneration and Nomination Committee members were in attendance.

Directors' Report

Emoluments* of Directors of Nick Scali Limited

	Salary and Fees \$	Superannuation \$	Total \$
J.W. Ingram - Non-Executive Chairman	69,266	-	69,266
A.J. Scali - Managing Director	356,794	11,585	368,379
N.D. Scali - Non Executive Director	58,984	-	58,984
G.R. Laurie - Non Executive Director	46,254	4,541	50,795

Emoluments* of Executive Officers of Nick Scali Limited

	Salary and Fees \$	Bonus \$	Superannuation \$	Other \$	Total \$
Nicky D. Scali - Marketing and IT Manager	194,110	-	16,514	-	210,624
B.C.Y. Hui - Chief Financial Officer and Company Secretary (ceased employment 1 April 2005)	131,636	-	7,168	54,500	193,304
D. Chiera - Chief Financial Officer and Company Secretary (appointed 9 March 2005)	60,021	-	5,402	-	65,423
G. Sullivan - Operations Manager	84,315	14,100	7,588	-	106,003

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 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:	11	3	1
Number of meetings attended:			
J.W. Ingram	11	3	1
G.R. Laurie	11	3	1
A.J. Scali	11	3	1
N.D. Scali	11	3	1

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.



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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 2005, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the Corporations Act 2001 or any applicable code of professional conduct.

Ernst & Young

Ernst & Young

J K Haydon

J K Haydon
Partner

Date: 9 August 2005

Non-Audit Services

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

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

Tax compliance services	8,235
Special turnover audits	2,472

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

J.W. Ingram

J.W. Ingram Chairman

A.J. Scali

A.J. Scali Managing Director

Sydney, 9 August 2005

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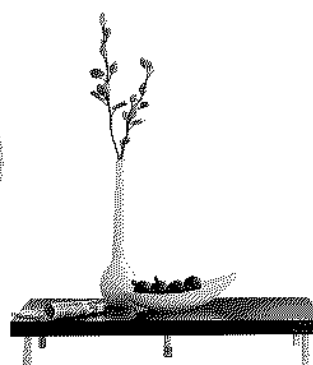
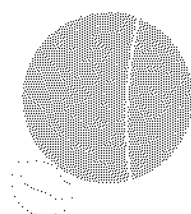
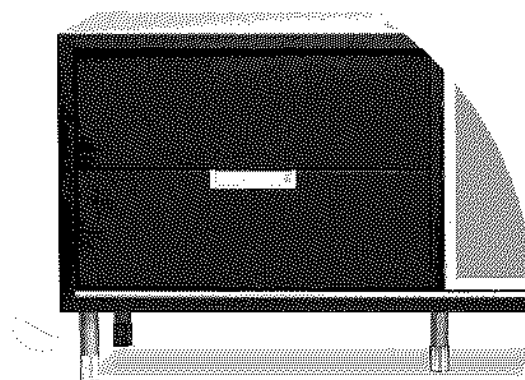
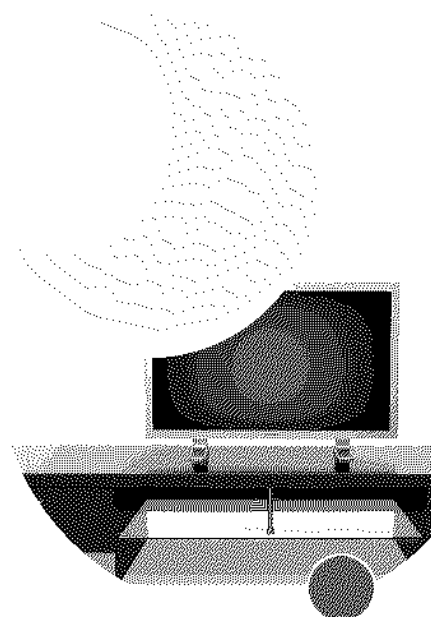
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Statement of Financial Performance

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Revenue from Sale of Goods	2	54,217	43,392
Cost of sales	3(b)	(22,525)	(17,999)
Gross Profit		31,692	25,393
Other revenue from ordinary activities	2	581	416
Distribution expenses		(502)	(463)
Marketing expenses		(4,202)	(3,591)
Occupation expenses		(6,808)	(5,812)
Administration expenses		(9,273)	(6,323)
Borrowing costs expense		(20)	(22)
Written down value of property, plant & equipment sold		-	(24)
Profit from Ordinary Activities before Income Tax		11,468	9,574
Income Tax Relating to Ordinary Activities	4	(3,383)	(2,837)
Profit from Ordinary Activities after Income Tax		8,085	6,737
Share issue costs	17	-	(648)
Total Revenue, 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		8,085	6,089
Basic Earnings per Share (cents per share)	7	10.0 cents	8.7 cents
Diluted Earnings per Share (cents per share)	7	10.0 cents	8.7 cents
Net tangible Asset Backing per Share (cents per share)		12.3 cents	9.2 cents

Statement of Financial Position

As at 30 June 2005

	Notes	2005 \$'000	2004 \$'000
CURRENT ASSETS			
Cash assets	23	6,683	8,581
Receivables	8	2,176	240
Inventories	9	9,888	6,423
Other financial assets	10	1	-
Other assets	11	291	294
Total Current Assets		19,039	15,538
NON-CURRENT ASSETS			
Deferred tax assets	4	341	296
Property, plant and equipment	12	2,888	1,556
Intangible assets	13	2,378	-
Total Non-Current Assets		5,607	1,852
Total Assets		24,646	17,390
CURRENT LIABILITIES			
Payables	14	10,454	6,714
Interest bearing liabilities	15	6	2,185
Current tax liabilities	4	1,403	690
Provisions	16	225	250
Total Current Liabilities		12,088	9,839
NON-CURRENT LIABILITIES			
Interest bearing liabilities	15	1	-
Provisions	16	252	87
Total Non-Current Liabilities		253	87
Total Liabilities		12,341	9,926
Net Assets		12,305	7,464
EQUITY			
Contributed equity	17	3,364	3,364
Reserves	18	78	78
Retained profits	18	8,863	4,022
Total Equity		12,305	7,464

Statement of Cash Flow

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers		58,075	47,727
Payments to suppliers and employees		(47,909)	(37,807)
Interest received		371	346
Borrowing costs		(20)	(22)
Income tax paid		(2,716)	(3,460)
Net Cash Flows from Operating Activities	23(a)	7,801	6,784
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property, plant & equipment		(1,907)	(625)
Acquisition of Adelaide stores	23(d)	(2,092)	-
Acquisition costs on acquisition of Adelaide stores		(278)	-
Proceeds from disposal of assets		-	16
Net Cash Flows from Investing Activities		(4,277)	(609)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of interest bearing liabilities		(2,160)	-
Payment of dividends on ordinary shares		(3,244)	(4,322)
Repayment of hire-purchase liability principal		(18)	(53)
Proceeds from issue of ordinary shares		-	4,000
Payment of share issue costs		-	(648)
Payments to related parties		-	(5,118)
Net Cash (Used) in Financing Activities		(5,422)	(6,141)
Net (Decrease)/Increase in Cash Held		(1,898)	34
Add Opening Cash brought forward		8,581	8,547
Closing Cash carried forward	23(b)	6,683	8,581

Notes to the Financial Statements

For the year ended 30 June 2005

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

(b) Changes in accounting policy

The accounting 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 included in the Statement of Cash Flows are 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.

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

Major depreciation periods are:

	2005	2004
Office equipment	10%-33.3%	20%-33%
Furniture and fittings	20%-33%	10%-33%
Leasehold improvements	Lease term	Lease term
Plant & Equipment	20%-22.5%	20%
Motor vehicles	20%-22.5%	20%-22.5%

(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-cancelable 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 2005

(f) 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.

(g) Employee Entitlements

Provision is made for employee entitlement 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 entitlements expenses and revenues arising in respect of the following categories:

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

All resulting exchange differences arising on settlement or resettlement are brought to account in determining the net profit or loss for the financial year.

(i) Derivative financial instruments

Foreign 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 four months.

(j) Cash and cash equivalents

Cash on hand and in bank and short-term deposits are stated at the lower of cost and net realisable 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

Sales revenue is recognised in profit & loss account on delivery of furniture to customers. Customers deposits are held in a forward deposit account and transferred to trade debtors on receipt of goods. 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 uncollectible 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.

(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.

Notes to the Financial Statements

For the year ended 30 June 2005

(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 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 leases 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.

(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 equity)
- 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.

(u) Intangibles

Goodwill

Goodwill represents the excess of the purchase consideration over the fair value of identifiable net assets acquired at the time of acquisition of the Adelaide stores.

Notes to the Financial Statements

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 2: Revenue from Ordinary Activities		
<i>Revenue from operating activities</i>		
Sales revenue	54,217	43,392
Total revenue from operating activities	54,217	43,392
<i>Revenue from non operating activities</i>		
Proceeds from sale of property, plant & equipment	-	16
Interest income	371	346
Other income	210	54
Total revenue from non operating activities	581	416
Total revenue from ordinary activities	54,798	43,808

Note 3: Operating Expenses and Losses/(Gains)

Operating profit before income tax has been determined after:

(a) Expenses

Bad debts written off	4	4
<i>Depreciation/Amortisation of non-current assets</i>		
Office equipment	199	203
Furniture and fittings	67	118
Leasehold improvements	305	306
Motor vehicles	54	37
Total depreciation/amortisation of non-current assets	625	664
Rental expense on operating leases	6,034	4,750

(b) Losses/(gains)

Net foreign currency (gain) *	(115)	(494)
Net loss/(gain) on disposal of property, plant and equipment	-	8

* Exchange gain has been included in cost of sales

Notes to the Financial Statements

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 4: Income Tax		
Prima facie income tax on operating profit before income tax @ 30%	3,441	2,872
Tax effect of permanent differences:		
Deductible costs for raising capital	-	(39)
(Over)/under provision Prior Year	(25)	2
Other permanent differences	(33)	2
	3,383	2,837

Deferred tax assets and liabilities

Current tax payable	1,403	690
Future income tax benefit	341	296

The 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
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(b) Dividends declared and paid during the year relating to previous financial year

A final dividend of 1.00 cent per share, in relation to the year ended 30 June 2004, was paid on 29 October 2004.	810	-
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(b) Interim dividends declared and paid during the year, relating to current financial year

An interim dividend of 3.00 cents per share was paid on 31 March 2005	2,434	-
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(d) 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 3.5 cents per share for the year ended 30 June 2005 (2004: 1.00 cent per share). The aggregate amount of the proposed dividend expected to be paid on 31 October 2005 out of retained profits at 30 June 2005, has not been recognised as a liability at year end.

2,835	810
6,079	10,641

(e) 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% (2004: 30%)	1,327	2
- franking account balance that will arise from the payment of income tax as at the end of the financial year	1,403	690
- franking account balance that will arise from the payment of fully franked dividends	(1,215)	(347)
	1,515	345

Notes to the Financial Statements

For the year ended 30 June 2005

	2005 \$	2004 \$
Note 6: Auditors' Remuneration		
Amounts received or due and receivable by Ernst & Young for:		
- audit or review of the financial report of the Company	90,442	60,000
- other services provided to the Company (including taxation compliance and advice and performance of special turnover audits)	10,707	36,759
	101,149	96,759
- services related to Initial Public Offering, capitalised in Contributed Equity		207,662

	Note	2005 \$'000	2004 \$'000
Note 7: Earnings Per Share			
(a) Earnings used in calculating basic earnings per share		8,085	6,737
		No. of Shares 2005	No. of Shares 2004
(b) Weighted number of shares outstanding used to calculate basic EPS		81,000,000	77,852,514
		Cents per Share	Cents per Share
Basic earnings per Share		10.0	8.7
Diluted earnings per share		10.0	8.7

Note 8: Receivables			
Current			
Trade debtors		400	222
Hedging foreign currency receivable	26(b)	1,605	-
Sundry debtors		171	18
		2,176	240

- (a) Terms and conditions relating to the above financial instruments:
- (i) Trade debtors are non-interest bearing and generally on 30 day or less terms.
 - (ii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 90 days.

Notes to the Financial Statements

For the year ended 30 June 2005

	2005 \$	2004 \$
Note 9: Inventories		
Finished Goods	8,441	5,752
Provision for diminution in value	-	(100)
	8,441	5,652
Stock in transit	1,447	771
	9,888	6,423

Note 10: Other Financial Assets (Current)		
Deposits	1	-

Note 11: Other Assets		
Prepaid expenses	291	294

Note 12: Property, Plant and Equipment		
Office equipment - at cost	2,088	1,039
Accumulated depreciation	(755)	(556)
	1,333	483
Furniture & fittings - at cost	688	656
Accumulated depreciation	(497)	(430)
	191	226
Leasehold improvements - at cost	2,305	1,504
Less: accumulated depreciation	(1,092)	(787)
	1,213	717
Motor vehicles - at cost	324	249
Accumulated depreciation	(173)	(119)
	151	130
Total property, plant and equipment	2,888	1,556

Notes to the Financial Statements

For the year ended 30 June 2005

2005	2004
\$'000	\$'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

Office Equipment

Carrying amount at beginning	483	483
Additions	1,030	203
Additions as part of acquisition of Adelaide stores	19	-
Depreciation charged	(199)	(203)
	<u>1,333</u>	<u>483</u>

Furniture & fittings

Carrying amount at beginning	226	224
Additions	32	120
Depreciation charged	(67)	(118)
	<u>191</u>	<u>226</u>

Leasehold Improvements

Carrying amount at beginning	717	844
Additions	801	179
Depreciation charged	(305)	(306)
	<u>1,213</u>	<u>717</u>

Motor vehicles

Carrying amount at beginning	130	68
Additions	44	123
Additions as part of acquisition of Adelaide stores	31	-
Disposals	-	(24)
Depreciation charged	(54)	(37)
	<u>151</u>	<u>130</u>

2,888	1,556
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Note 13: Intangible Assets

Goodwill paid on acquisition of stores in Adelaide	2,100	-
Acquisition costs	278	-
Total intangibles assets	2,378	-

Notes to the Financial Statements

For the year ended 30 June 2005

	Notes	2005 \$'000	2004 \$'000
Note 14: Payables (Current)			
Trade creditors		1,321	1,155
Customer deposits		3,998	2,964
Hedging foreign currency payable	26(b)	1,605	-
Other creditors and accruals		3,530	2,595
		10,454	6,714

(a) Terms and conditions

Terms and conditions relating to the above financial instruments

- (i) Trade creditors are non-interest bearing and are normally settled on 30 day terms
- (ii) Other creditors are non-interest bearing and have an average of 30 to 60 days.
- (iii) Australian Dollar Equivalents of unhedged amounts payable in foreign currencies not effectively hedged included in trade creditors at year end was 161,296 (Euro 91,338).

Note 15: Interest Bearing Liabilities			
Commercial bills - secured		-	2,176
HP liability		8	30
Less: deferred charges		(1)	(21)
		7	2,185

Disclosed as:

- current liability	6	2,185
- non-current liability	1	-

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 facility relates to a Company owned van, forklift and photocopier, with the final payments due in June 2005, December 2005 and November 2007, respectively.

Note 16: Provisions			
Current			
Employee benefits (refer Note 21)		225	250
Non-Current			
Employee benefits (refer Note 21)		252	87

Notes to the Financial Statements

For the year ended 30 June 2005

		2005	2004	
		\$'000	\$'000	
Note 17: Contributed Equity				
81,000,000 (2004: 81,000,000) fully paid ordinary shares		3,364	3,364	
	2005 Number of ordinary shares	2005 \$'000	2004 Number of ordinary shares	2004 \$'000
Movement in ordinary shares on issue				
Balance at the beginning of the financial year	81,000,000	3,364	6,003	12
Issued to existing shareholder following capital reconstruction	-	-	76,993,997	-
Issued during the year pursuant to the Nick Scali Limited prospectus dated 18 April 2004	-	-	4,000,000	4,000
Transaction costs relating to share issue	-	-	-	(648)
Balance at the end of the financial year	81,000,000	3,364	81,000,000	3,364

(a) Terms and conditions of contributed equity

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

Note 18: Reserves		
Capital profits	78	78
	78	78
Capital profits reserve		
Opening balance	78	5,588
Transfer to retained earnings	-	(5,510)
Closing balance at 30 June 2005	78	78

(a) Capital profits reserve

(i) Nature and purpose of reserve

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

Retained profits

Opening Balance	4,022	1,606
Profit from Ordinary Activities after Income Tax	8,085	6,737
Transfer from Capital Profits Reserve	-	5,510
Dividend Paid	(3,244)	(9,831)
Closing Balance	8,863	4,022

Notes to the Financial Statements

For the year ended 30 June 2005

	2005 \$'000	2004 \$'000
Note 19: Expenditure Commitments		
(a) Hire-purchase commitments payable		
- not later than one year	7	22
- later than one year but not later than five years	1	8
- total minimum lease payments	8	30
Deduct future finance charges	(1)	(21)
- lease liability	7	9
(b) Operating leasing expenditure commitments		
- not later than one year	8,174	4,352
- later than one year but not later than five years	27,568	14,214
- later than 5 years	12,277	5,457
Aggregate expenditure contracted for at balance date	48,019	24,023

Note 20: Contingent Liabilities

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

Note 21: Employee Benefits

Aggregate employee benefits, including on-costs

Provision for employee benefits		
- current (refer Note 16)	225	250
- non-current (refer Note 16)	252	87
Accrual for wages and salaries included in 'other creditors and accruals'		
- current (refer Note 14)	77	88
	554	425
	2005	2004
Number of employees		
Number of full time and part-time employees at balance date	188	102

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 Change Act.

Note 22: Events Subsequent to Reporting Date

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

Notes to the Financial Statements

For the year ended 30 June 2005

2005
\$'000

2004
\$'000

Note 23: Statement of Cash Flows

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

Profit from ordinary activities after tax	8,085	6,737
<i>Non-Cash Items</i>		
Depreciation of non-current assets	625	664
(Gain)/Loss on disposal of property, plant and equipment	-	8
<i>Changes in assets & liabilities</i>		
(Increase) in value of trade & other receivables	(1,936)	(38)
(Increase) in value of inventories	(2,981)	(291)
Decrease / (increase) in other financial asset	(1)	12
Decrease / (increase) in value of prepayments	3	(235)
Increase in value of bill liabilities	-	1,205
(Decrease) / increase in value of payables	3,224	(700)
Increase in value of provisions	114	45
(Decrease) / increase in value of tax provision	713	(658)
(Decrease) / increase in value of future income tax benefits	(45)	35
<i>Net cash flow from operating activities</i>	<u>7,801</u>	<u>6,784</u>

(b) Reconciliation of Cash

Cash balances comprise:

- cash on hand	6,683	8,581
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(c) Financing Arrangements

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

- credit facilities	6,600	5,600
- amount utilised	(1,797)	(3,904)
Unused credit facilities	<u>4,803</u>	<u>1,696</u>

(d) Acquisition of Adelaide Businesses

On 1 March 2005 the Company acquired selected assets of Payneham Home Furnishings Pty Ltd, an Adelaide based furniture retailer. The components of the acquisition costs were:

- plant and equipment	50
- inventory	484
- customer deposits	(529)
- employee provision	(13)
- goodwill arising on acquisition	2,100
	<u>2,092</u>
Net cash effect	
- cash paid for purchase of assets as reflected in the statement of cash flows	<u>2,092</u>

Notes to the Financial Statements

For the year ended 30 June 2005

Note 24: 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 25.

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 arrangements

Chatswood and Auburn Leases

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

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

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

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

Employment/Consultancy Agreements

	Anthony Scali	Nicky D Scali	Nick Scali
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 the directors and personally-related entities were made in the ordinary course of business on normal commercial terms and conditions

Year ended 30 June 2005:

- The Company paid property lease rentals and outgoings to personally related entities of Messrs Anthony Scali and Nick Scali totalling \$1,156,068 during the year

Notes to the Financial Statements

For the year ended 30 June 2005

Note 24: Related Party Disclosures (continued)

Year ended 30 June 2004:

- 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

Note 25: Director and Executive Disclosures

(a) Remuneration of Specified Directors and Specified Executives

(i) Remuneration philosophy

The structure of non-executive director and senior management is separate and distinct.

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 achievement of individual targets for each executive.

The Company intends to implement an equity-based long term incentive plan within the next twelve months.

Non-executive director's fees are all paid as fixed amounts and are set in line with those for comparable companies and the responsibilities in respect of the Board and Committees.

Remuneration and Nomination Committee

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

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

The committee has met once in the last twelve months. All members attended, together with the Managing Director and Company Secretary. In addition, matters for consideration by the Committee have been dealt with during the Board meetings, where Remuneration and Nomination Committee members were in attendance.

	Salary and Fees \$	Cash Bonus \$	Superannuation \$	Total \$
Specified Directors				
J.W. Ingram Non-Executive Chairman	69,266	-	-	69,266
A.J. Scali Managing Director	356,794	-	11,585	368,379
N.D. Scali Non-Executive Director	58,984	-	-	58,984
G.R. Laurie Non-Executive Director	46,254	-	4,541	50,795
TOTAL	531,298	-	16,126	547,424

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 25: Director and Executive Disclosures (continued)

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 24 above.

	Salary and Fees \$	Cash Bonus \$	Superannuation \$	Other \$	Total \$
Specified Executives					
Nicky D. Scali Marketing and IT Manager	194,110	-	16,514	-	210,624
B.C. Y. Hui Chief Financial Officer and Company Secretary <i>(ceased employment 1 April 2005)</i>	131,636	-	7,168	54,500	193,304
D. Chiera Chief Financial Officer and Company Secretary <i>(appointed 9 March 2005)</i>	60,021	-	5,402	-	65,423
G. Sullivan Operations Manager	84,315	14,100	7,588	-	106,003
TOTAL	470,082	14,100	36,672	54,500	575,354

The bonus paid to the Operations Manager was determined on the basis of performance criteria, including delivery and cost targets.

(b) Shareholdings of Specified Directors and Specified Executives

	Balance 1 Jul 2004	Net Change	Balance 30 June 2005
Shares held in Nick Scali Limited (number)			
Specified Directors			
J.W. Ingram	200,000	-	200,000
A.J. Scali, N.D. Scali & Nicky D. Scali #	40,500,000	-	40,500,000
G.R. Laurie	30,000	-	30,000
Specified Executives			
B.C. Y. Hui Chief Financial Officer and Company Secretary <i>(ceased employment 1 April 2005)</i>	453,000	-	453,000
D. Chiera Chief Financial Officer and Company Secretary <i>(appointed 9 March 2005)</i>	-	-	-
G. Sullivan Operations Manager	-	-	-
TOTAL	41,183,000	-	41,183,000

Shares are held by a personally-related entity of Messrs Anthony, Nick and Nicky D. Scali.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 26: 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 2005	Note	Interest Rate %	Interest Bearing \$'000	Non-interest Bearing \$'000	Total \$'000
Financial Assets					
Cash	23(b)	5.52%	6,683	-	6,683
Receivables	8	-	-	571	571
Hedging foreign currency receivable	26(b)	-	-	1,605	1,605
			6,683	2,176	8,859
Financial Liabilities					
Payables	14	-	-	8,849	8,849
Interest-bearing liabilities	15	8.25%	7	-	7
Hedging foreign currency receivable	26(b)	-	-	1,605	1,605
			7	10,454	10,461

As at 30 June 2004

Financial Assets

Cash	23(b)	5.00%	8,581	-	8,581
Receivables	8	-	-	240	240
			8,581	240	8,821

Terms and Conditions

Receivables are non-interest bearing.

Financial Liabilities

Payables	14	-	-	6,714	6,714
Interest-bearing liabilities	15	5.00%	2,185	-	2,185
			2,185	6,714	8,899

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.

Notes to the Financial Statements

For the year ended 30 June 2005

Note 26: Financial Instruments (continued)

(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 exchange contracts to hedge foreign currency denominated inventory purchases based on firm orders placed with overseas suppliers, within Board approval limits.

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

	30 June 2005 Foreign Currency Value	30 June 2005 Australian \$ Equivalent
United States Dollars	1,223,881	1,604,879

(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 minimizes 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.

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 fail to pay the amount which it is committed to pay the Company.

The full amount of the exposure is disclosed at Note 26(b) above.

(d) Net Fair Value of financial Instruments

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

Note 27: Segment Information

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

Notes to the Financial Statements

For the year ended 30 June 2005

Note 28: Impact of Adopting AASB Equivalents to IASB Standards

Nick Scali Limited has assessed the key areas that may have been impacted by the transition to IFRS. This will form the basis of accounting for IFRS in the future, and is required when the Company prepares its first fully compliant financial report for the year ended 30 June 2006.

In particular, the Company has analysed the following standards with regard to the potential impact on the accounts. These impacts are best estimates and subject to change.

- Inventories (AASB 102) - Inventories are specifically identified, and the costs of bringing the inventory to the warehouses (cartage, freight and duty) is included. This cost is less than net realisable value, and is therefore the appropriate measure as per the standard.
- Segment Reporting (AASB 114) - The Company operates in one segment (retail) and in Australia only. There is therefore no additional reporting required.
- Property Plant & Equipment (AASB 116) - Given the nature of the Company's property plant & equipment, the current method of measuring at cost and depreciating on the basis of useful life continues to be appropriate.
- Rent Under Operating Leases (AASB 117) - The leases the Company enters into are generally ones where rent increases are either CPI, market or fixed percentages (usually around 3 - 3.5%). The increases therefore generally reflect CPI increases. The Company considers that the leases reflect the time pattern of the benefit received and hence there is no material impact on the transition to IFRS.
- Employee Benefits (AASB 119) - The difference to the balance sheet as a result of the adoption of this standard is not material.
- The Effects of Changes in Foreign Exchange Rates (AASB 121) - Fair value hedge accounting can only be considered where effectiveness tests are met. Ineffectiveness outside the prescribed range precludes the use of fair value hedge accounting and can result in significant volatility in the Statement of Financial Performance. Nick Scali currently hedges its foreign exchange risk and under AIFRS these hedges will be classified as fair value hedges. Fair value movements in fair value hedges will not lead to volatility in equity reserve balances. The Company aims to continue to align its hedging transactions to underlying exposures to achieve hedge accounting eligibility and thereby reduce Statement of Financial Performance volatility.
- Impairment of Assets (Goodwill) (AASB 136) - The Company acquired goodwill and other assets on the acquisition of the Adelaide stores. The Company has assessed the carrying value of goodwill as at June 2005 under the impairment test, and consider the carrying value to be appropriate.

The company does not expect any material impact on transition to IFRS.

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 2005 and of the performance for the year ended on that date; and
 - (ii) complying with Accounting Standards and Corporations Regulations 2001; and
 - (b) there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.
- 2) This declaration has been made after receiving the declarations required to be made to the directors in accordance with section 295A of the Corporations Act 2001 for the financial period ending 30 June 2005.

On behalf of the Board



J.W. Ingram Chairman



A.J. Scali Managing Director

Sydney, 9 August 2005

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 2005.

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.

Liability limited by the Accountants Scheme, approved
under the Professional Standards Act 1994 (NSW)



Independence

We are independent of the company, and have met the independence requirements of Australian professional ethical pronouncements and the Corporations Act 2001. We have given to the directors of the company a written Auditors' Independence Declaration a copy of which is included in the Director's 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.

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 2005 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.

Ernst & Young

Ernst & Young

J K Haydon

J K Haydon

Partner

Sydney

Date: 9 August 2005

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 2005.

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

Shareholders Category	No. of Ordinary Shareholders
1 - 1,000	143
1,001 - 5,000	404
5,001 - 10,000	297
10,000 - 100,000	274
100,001 and over	27
	1,145

(b) Twenty largest shareholders as at 30 June 2005

Name	No. of Ordinary Shares Held	Percentage of Capital Held
Scall Consolidated Pty Limited	40,500,000	50.00%
National Nominees Limited	7,612,865	9.40%
RBC Global Services Aust P/L	4,528,760	5.59%
RBC Global Services Aust P/L	4,208,773	5.20%
Citicorp Nominees Pty Ltd	2,717,525	3.35%
Citicorp Nominees Pty Ltd	1,881,266	2.32%
Queensland Investment Corporation	1,312,657	1.62%
Health Super Pty Ltd	1,093,012	1.35%
J P Morgan Nominees Aust Ltd	1,034,952	1.28%
ANZ Nominees Ltd	818,168	1.01%
ANZ Nominees Ltd	680,962	0.84%
Mutual Trust Pty Ltd	475,000	0.59%
RBC Global Services Aust Nominees P/L	240,820	0.30%
Thang Pty Ltd	218,000	0.27%
AUST Executor Trustees NSW Ltd	200,000	0.25%
Mr Bernard Choon Yin Hui	200,000	0.25%
Mr John Weir Ingram	200,000	0.25%
Mr Michael Richard Gordon & Mrs Gordan	188,000	0.23%
Cogent Nominees Pty Ltd	157,724	0.19%
Steve Jarvin Motors Pty Ltd	150,000	0.19%
	68,418,484	84.47%

(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
Scall Consolidated Pty Limited	40,500,000
Commonwealth Bank Group	5,291,811
Perpetual Trustees Australia Limited	9,309,670
	55,101,481

(d) Voting rights

All ordinary shares carry one vote per share without restriction.

Notice Of Annual General Meeting

Notice is hereby given that the Annual General Meeting of Nick Scali Limited ("the Company") will be held at Nick Scali Head Office, 3-9 Birnie Avenue, Lidcombe, on Monday, 24 October 2005 at 11.30am.

Business

- (1) To receive and consider the Statement of Financial Position and Statement of Financial Performance of the Company, the Directors' Declaration and the Directors' Report and Independent Audit Report for the year ended 30 June 2005.

- (2) Re-election of directors:

Mr N.D.Scali, who retires in accordance with the Company's Constitution and being eligible, offers himself for re-election.

Mr Scali 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 the business until 1982. He 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. Mr Scali is a member of the Audit Committee and the Remuneration & Nomination Committee of Nick Scali Limited.

Mr G.R. Laurie, who retires in accordance with the Company's Constitution and being eligible, offers himself for re-election.

Mr Laurie was appointed to the Board on 7 April 2004. He is the Chairman of the Audit Committee and a member of the Remuneration and Nomination committee of Nick Scali Limited. He was Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003. Mr Laurie is also a director of Repco Corporation Limited and Bradken Limited.

- (3) Non-binding Advisory Vote

To adopt the Remuneration Report of the company for the year ended 30 June 2005. The Remuneration Report is set out in Note 25 of the Annual Report

- (4) General: To transact any other business which may be lawfully brought forward.

By Order of the Board
D Chiera
Company Secretary
9 August 2005

Notes

- (1) Each member has the right to appoint a proxy. A proxy need not be a member of the Company.
- (2) A member who is entitled to cast 2 or more votes may appoint 2 proxies and may specify the proportion or number of votes each proxy is appointed to exercise.
- (3) Proxies given by companies must be executed under seal or under the hand of an attorney duly authorised in writing.
- (4) To be effective, the form appointing a proxy and the Power of Attorney (if any) under which it is signed (or attested copy thereof), must be delivered to the registered office of the Company at 3-9 Birnie Avenue, Lidcombe, New South Wales, 2141 or sent by facsimile to (02) 9748 4022 not less than 48 hours before the appointed time for holding the meeting.

Proxy Form

Registered Office: 3-9 Birnie Avenue, Lidcombe, NSW, 2141
Tel: 02 9748 4000 Fax: 02 9748 4022 Email: dchiera@nickscali.com.au

I/We, _____ of _____ being a member/members of Nick Scali Limited and holding _____ shares hereby appoint _____ or failing him/her _____ or failing my/our appointing a named parson, THE CHAIRMAN of the meeting as my/our proxy to vote for me/us and on my/our behalf at the annual general meeting of the Company to be held at Nick Scali Limited Head Office, 3-9 Birnie Avenue, Lidcombe, NSW, on Monday, 24 October 2005 at 11.30am and at any subsequent meeting held pursuant to an adjournment of that meeting.

This form is to be used in accordance with the direction below. Unless the proxy is direct, he/she may vote or abstain as he/she thinks fit.

Agenda Item No.	For	Against
(1) To receive and consider the Statement of Financial Position and Statement of Financial Performance of the Company, the Directors' Declaration and the Directors' Report and Independent Audit Report for the year ended 30 June 2005	☐	☐
(2) Re-election as director: Mr N.D Scali	☐	☐
Mr G.R Laurie	☐	☐
(3) Non binding Advisory Vote	☐	☐

Signed: _____
(under common seal if company)

Instructions:

- To direct the appointee to cast all votes covered by this instrument in respect of an item of business in a particular manner, place a sufficient indication (including, without limitation, a tick or cross) in the relevant box in respect of that item of business.
- To direct the appointee to cast only some of the votes covered by this instrument in respect of an item of business in a particular manner, place in the relevant box in respect of that item of business either the number of votes to be cast in that manner or the percentage of total votes covered by this instrument.
- Insert name of member, as it appears in the register of members.
- Insert name and address of proxy. The proxy must be a natural person.
- All joint holders of shares must sign this form. A corporation must sign under seal or by its duly appointed attorney.
- Proxy forms and, if applicable, the powers of attorney (certified copies of the powers of attorney) under which they are signed, must be deposited at the Registered Office of Nick Scali Limited, 3-9 Birnie Avenue, Lidcombe, New South Wales, 2141 or sent by facsimile to (02) 9748 4022. Proxies must be received by the Company not less than 48 hours before the appointed time for the holding of the meeting.

Corporate Information

Nick Scali Limited

ABN: 82 000 403 896

Stores Locations

New South Wales

Auburn
Chatswood
Caringbah
Kotara
Moore Park
Moore Park - Scali Living
Norwest
Tuggerah

Australian Capital Territory

Fyshwick

Queensland

Aspley
Fortitude Valley
Gold Coast
Macgregor

South Australia

City Living
Leather World
Mile End
Payneham

Registered Office

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

Company Secretary

Dominic Chiera

Auditors

Ernst & Young
Ernst & Young Centre
680 George Street
Sydney, NSW 2000

Solicitors

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

Bankers

National Australia Bank Limited

Share Registry

ASX Perpetual Registrars Limited
Level 8, 580 George Street
Sydney, NSW 2000
Telephone: 02 8280 7111
Facsimile: 02 9287 0303
Website: www.asxperpetual.com.au

Stock Exchange

The company is listed on the Australian Stock Exchange
The Home exchange is Sydney.
ASX code: NCK

Annual General Meeting

The Annual General Meeting will be held at 11:30 am
on 24 October 2005
at Nick Scali Limited Head Office,
3-9 Birnie Avenue, Lidcombe.

