

## 1. Company details

Name of entity:	Nick Scali Limited
ABN:	82 000 403 896
Reporting period:	For the half-year ended 31 December 2019
Previous period:	For the half-year ended 31 December 2018

## 2. Results for announcement to the market

			<b>\$'000</b>
Revenues from ordinary activities	down	2.5% to	137,548
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	down	15.7% to	21,390
Profit for the half-year attributable to the owners of Nick Scali Limited	down	15.7% to	21,390

### Dividends

	<b>Amount per security Cents</b>	<b>Franked amount per security Percentage</b>
Final dividend for the year ended 30 June 2019 paid on 29 October 2019	20.0	100.0

On 6 February 2020 the directors declared a fully franked final dividend of 25.0 cents per ordinary share with a record date of 6 March 2020 to be paid on 27 March 2020.

### Comments

The profit for the consolidated entity after providing for income tax amounted to \$21,390,000 (31 December 2018: \$25,387,000).

	<b>31 Dec 2019 \$'000</b>	<b>31 Dec 2018 \$'000</b>
Profit after income tax expense	21,390	25,387
Interest income	(314)	(463)
Interest expense - lease liabilities	3,321	-
Interest expense - borrowings	432	528
Income tax expense	<u>8,913</u>	<u>10,372</u>
Earnings Before Interest and Tax (EBIT)	33,742	35,824
Depreciation and amortisation expense	<u>14,576</u>	<u>2,402</u>
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u><u>48,318</u></u>	<u><u>38,226</u></u>

## 3. Net tangible assets

	<b>Reporting period Cents</b>	<b>Previous period Cents</b>
Net tangible assets per ordinary security	<u><u>93.32</u></u>	<u><u>106.85</u></u>

**Nick Scali Limited**

**ABN 82 000 403 896**

**Half-Year Report – 31 December 2019**

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The Company's directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'consolidated entity') consisting of Nick Scali Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the half-year ended 31 December 2019.

### **Directors**

The names and details of the Company's directors (referred to hereafter as the "Board") in office at any time during the period until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

John Ingram  
Greg Laurie  
Carole Molyneux  
Stephen Goddard  
Anthony Scali

### **Principal activities**

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

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

### **Operating and financial review**

For the half-year to 31 December 2019, the consolidated entity recorded a net profit after tax of \$21.4m, down 15.7% on the prior half-year result of \$25.4m.

The decrease in profit was driven by a reduction in revenue of 2.5% to \$137.5m for the half-year, with negative comparable store sales growth only partially offset by the impact of new store openings.

The Group achieved a solid gross margin of 62.2% for the half-year, although this was down on the prior half-year margin of 62.8% due to product mix and competitive pressures.

Operating expenses increased for the half-year due to the growth in the number of showrooms, which drove increased employment and property costs.

### **Showroom network**

During the period 1 July 2019 to 31 December 2019, the Group opened one new Nick Scali Furniture showroom in St Lukes, Auckland, New Zealand and added a further Nick Scali Clearance showroom in Perth, Western Australia.

The Group anticipates opening another showroom in New Zealand and two new showrooms in Australia in the second half of financial year 2020.

### **Significant changes in the state of affairs**

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

### **Rounding of amounts**

The Company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

### **Auditor's independence declaration**

The directors received the declaration from the auditor of Nick Scali Limited and is included on page 4 of the Financial Statements.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the director



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John Ingram  
Chairman

6 February 2020  
Sydney



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Anthony Scali  
Managing Director

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**Building a better  
working world**

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

As lead auditor for the review of the half-year financial report of Nick Scali Limited for the half-year ended 31 December 2019, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

This declaration is in respect of Nick Scali Limited and the entities it controlled during the financial period.

Ernst & Young

Lisa Nijssen-Smith  
Partner  
6 February 2020

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	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
Revenue from contracts with customers	3	137,548	141,078
Cost of goods sold		(51,940)	(52,485)
<b>Gross profit</b>		<b>85,608</b>	<b>88,593</b>
Other income	3	2,887	1,094
<b>Expenses</b>	4		
Marketing expenses		(9,438)	(9,217)
Employment expenses		(21,166)	(19,026)
General and administration expenses		(5,493)	(5,649)
Property expenses		(2,778)	(16,420)
Distribution expenses		(953)	(686)
Depreciation and amortisation		(14,576)	(2,402)
Finance costs		(3,788)	(528)
<b>Profit before income tax expense</b>		<b>30,303</b>	<b>35,759</b>
Income tax expense		(8,913)	(10,372)
<b>Profit after income tax expense for the half-year attributable to the owners of Nick Scali Limited</b>		<b>21,390</b>	<b>25,387</b>
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(6)	(2)
Net change in the fair value of cash flow hedges taken to equity, net of tax		(1,126)	(326)
Other comprehensive income for the half-year, net of tax		(1,132)	(328)
<b>Total comprehensive income for the half-year attributable to the owners of Nick Scali Limited</b>		<b>20,258</b>	<b>25,059</b>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share		26.4	31.3
Diluted earnings per share		26.4	31.3

	Note	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		43,658	36,284
Receivables		616	1,108
Inventories	6	37,038	37,597
Other financial assets	7	-	679
Prepayments		1,863	1,869
<b>Total current assets</b>		<b>83,175</b>	<b>77,537</b>
<b>Non-current assets</b>			
Property, plant and equipment	8	261,354	92,664
Deferred tax		6,074	-
Intangibles assets		2,378	2,378
<b>Total non-current assets</b>		<b>269,806</b>	<b>95,042</b>
<b>Total assets</b>		<b>352,981</b>	<b>172,579</b>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Borrowings	9	8,100	13,600
Payables	10	16,322	17,479
Lease liabilities	11	24,859	-
Deferred revenue	12	21,741	26,323
Current tax liabilities		1,036	362
Provisions	13	2,791	3,405
Other financial liabilities	14	930	-
<b>Total current liabilities</b>		<b>75,779</b>	<b>61,169</b>
<b>Non-current liabilities</b>			
Borrowings	15	25,562	20,062
Lease liabilities	16	171,770	-
Deferred revenue	17	399	171
Provisions	18	1,499	5,805
Deferred tax		-	189
<b>Total non-current liabilities</b>		<b>199,230</b>	<b>26,227</b>
<b>Total liabilities</b>		<b>275,009</b>	<b>87,396</b>
<b>Net assets</b>		<b>77,972</b>	<b>85,183</b>
<b>Equity</b>			
Issued capital		3,364	3,364
Reserves		(1,044)	530
Retained profits		75,652	81,289
<b>Total equity</b>		<b>77,972</b>	<b>85,183</b>

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



	Issued Capital \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange reserve \$'000	Retained profits \$'000	Total equity \$'000
<b>Balance at 1 July 2018</b>	<b>3,364</b>	<b>341</b>	<b>78</b>	<b>1,018</b>	<b>(1)</b>	<b>78,863</b>	<b>83,663</b>
Profit after income tax expense for the half-year	-	-	-	-	-	25,387	25,387
Other comprehensive income for the half-year, net of tax	-	-	-	(326)	(2)	-	(328)
Total comprehensive income for the half-year	-	-	-	(326)	(2)	25,387	25,059
Employee share rights recognised under Executive Performance Rights Plan	-	(358)	-	-	-	-	(358)
Dividends paid (Note 5)	-	-	-	-	-	(19,440)	(19,440)
<b>Balance at 31 December 2018</b>	<b>3,364</b>	<b>(17)</b>	<b>78</b>	<b>692</b>	<b>(3)</b>	<b>84,810</b>	<b>88,924</b>

	Issued capital \$'000	Equity benefit reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange reserve \$'000	Retained profits \$'000	Total equity \$'000
<b>Balance at 1 July 2019</b>	<b>3,364</b>	<b>(29)</b>	<b>78</b>	<b>475</b>	<b>6</b>	<b>81,289</b>	<b>85,183</b>
Adjustment to opening balance for adoption of AASB16	-	-	-	-	-	(10,827)	(10,827)
Adjusted opening balance at 1 July 2019	3,364	(29)	78	475	6	70,462	74,356
Profit after income tax expense for the half-year	-	-	-	-	-	21,390	21,390
Other comprehensive income for the half-year, net of tax	-	-	-	(1,126)	(6)	-	(1,132)
Total comprehensive income for the half-year	-	-	-	(1,126)	(6)	21,390	20,258
Employee share rights recognised under Executive Performance Rights Plan	-	(442)	-	-	-	-	(442)
Dividends paid (Note 5)	-	-	-	-	-	(16,200)	(16,200)
<b>Balance at 31 December 2019</b>	<b>3,364</b>	<b>(471)</b>	<b>78</b>	<b>(651)</b>	<b>-</b>	<b>75,652</b>	<b>77,972</b>

	Note	31 Dec 2019 \$'000	31 Dec 2018 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers		147,874	156,039
Payments to suppliers and employees		(107,352)	(122,766)
		40,522	33,273
Interest receipts		314	463
Income tax payments		(9,381)	(10,064)
Net cash from operating activities		31,455	23,672
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(2,357)	(2,102)
Proceeds from the sale of property, plant and equipment		9,767	-
Net cash from investing activities		7,410	(2,102)
<b>Cash flows from financing activities</b>			
Payment of dividends on ordinary shares	5	(16,200)	(19,440)
Repayment of lease liabilities		(11,538)	-
Interest payments - lease liabilities		(3,321)	-
Interest payments - borrowings		(432)	(528)
Net cash used in financing activities		(31,491)	(19,968)
Net increase in cash and cash equivalents		7,374	1,602
Cash and cash equivalents at the beginning of the half-year		36,284	36,585
Cash and cash equivalents at the end of the half-year		43,658	38,187

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

## **Note 1. Basis of preparation**

### **Basis of preparation**

These general purpose financial statements for the half-year reporting period ended 31 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Where necessary, and as a result of a change in the classification of certain expenses during the current year, comparative amounts in the statement of comprehensive income have been reclassified for consistency with presentation in the current year.

### **Basis of consolidation**

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as at 31 December 2019. A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of the subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intercompany transactions, balances and unrealised gains on transactions between the Company and its subsidiaries are eliminated. Accounting policies of the subsidiaries are consistent with the policies adopted by the Company.

### **Changes in accounting policies, accounting standards and interpretations**

The accounting policies adopted in the preparation of the interim financial statements are consistent with those followed in the preparation of the annual financial statements for the period 30 June 2019, except as noted below.

- **AASB 16 Leases.** This standard has been adopted by the Company on 1 July 2019.

AASB 16 Leases has replaced existing accounting requirements for leases under AASB 117 and has resulted in the recognition of a right-of-use asset and an associated lease liability in the consolidated statement of financial position in respect of each of the Group's property leases. Subsequently, an interest expense has been recognised in relation to the lease liabilities and depreciation has been charged for the right-of-use assets.

The new standard has been adopted using the modified retrospective approach and has a material impact on the Group's financial statements. The Company has measured the right-of-use asset at the date of implementation as if the standard had been applied since the commencement date of each lease, but discounted using the company's incremental borrowing rate at the date of implementation. The cumulative effect of this approach is recognised as an adjustment to equity on 1 July 2019, and the Company has not restated any of comparative information in the Group's financial statements for the half-year ended 31 December 2019.

The practical expedients that have been adopted by the Group in its implementation of AASB 16, are to apply a single discount rate to the entire portfolio of leases and to exclude initial direct costs incurred on establishment of existing leases. Further, all leases with lease terms less than 12 months have been excluded under the short-term leases exemption.

#### *Impact of adoption*

At the date of the adoption of the standard the Group had 59 property leases for retail showrooms and warehouse

facilities across Australia and New Zealand, and the impact of adoption on opening retained profits as at 1 July 2019 was as follows:

	<b>\$000</b>
Right-of-use assets	174,312
Current lease liabilities	(23,467)
Non-current lease liabilities	(171,297)
Reversal of provisions for deferred lease incentives	4,988
Deferred tax effect of above adjustments	4,637
	<hr/>
Reduction in opening retained profits as at 1 July 2019	10,827
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#### *Right-of-use assets*

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost and depreciated on a straight-line basis over the unexpired term of the lease. Right-of-use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The group has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less. Lease payments on these assets are expensed to the profit and loss as incurred.

#### *Lease Liabilities*

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease. The carrying amount of the lease is remeasured if there is a change in future lease payments (arising from a change in index or a rate used) the residual guarantee or the lease term. The remeasurement is an adjustment to the corresponding right-of-use asset or to profit and loss.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as at 30 June 2019 as follows:

	<b>\$000</b>
Operating lease commitments as at 30 June 2019	126,984
Discounted operating lease commitments as at 30 June 2019	110,136
Add:	
Payments in option extension periods not recognised as at 30 June 2019	84,628
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Lease liabilities as at 1 July 2019	194,764
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### **Significant accounting judgements, estimates and assumptions**

In the process of applying the Company's accounting policies, management has made judgements, estimates and assumptions. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current information available to management. Actual results may differ from these judgements, estimates and assumptions. Judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

#### *Impairment of goodwill*

The Company determines whether goodwill is impaired on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated.

#### *Lease term of contracts with renewable options*

The Company determines the lease term to be the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised. In assessing the likelihood of a lease option being exercised, the Company considers the costs of termination, the extent of any leasehold improvements, the strategic importance of the lease location and the current market rent for the site.

*Estimation of useful lives of assets*

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

*Net realisable value of inventory*

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 including freight, cartage and import duties are included in the cost of finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Judgment is applied in assessing the net realisable value.

**Note 2. Segment information**

The Company has identified the Managing Director and the Board of Directors as the chief operating decision makers. The Company has one reportable segment being the retailing of furniture in Australia and New Zealand.

**Note 3. Revenue**

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
<b>Revenue</b>		
Revenue from contracts with customers	137,548	141,078
	<hr/>	<hr/>
<b>Other income</b>		
Net gain on disposal of property, plant and equipment	1,826	-
Rental income	592	537
Interest income	314	463
Sundry income	155	94
	<hr/>	<hr/>
	<b>2,887</b>	<b>1,094</b>
	<hr/> <hr/>	<hr/> <hr/>

**Note 4. Expenses**

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
Included within employment expenses		
Salaries and wages	17,446	15,752
Superannuation expense	1,503	1,329
Share-based payments	-	149
	<hr/>	<hr/>
Included within property expenses		
Operating lease payments	-	13,673

**Note 5. Equity - Dividends**

*Dividends*

Dividends paid during the half-year were as follows:

	<b>31 Dec 2019</b>	<b>31 Dec 2018</b>
	<b>\$'000</b>	<b>\$'000</b>
Final fully franked dividend for 30 June 2019: 20.0 cents (2018: 24.0 cents)	<u>16,200</u>	<u>19,440</u>

On 6 February 2020 the directors declared a fully franked interim dividend of 25.0 cents per fully paid ordinary share with a record date of 6 March 2020 to be paid on 27 March 2020.

**Note 6. Current assets - Inventories**

	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods - at net realisable value	29,753	32,017
Stock in transit - at cost	<u>7,285</u>	<u>5,580</u>
	<u><u>37,038</u></u>	<u><u>37,597</u></u>

During the half-year ended 31 December 2019, \$953,000 (31 December 2018: \$372,000) was recognised as an expense to cost of goods sold for inventories carried at net realisable value.

**Note 7. Current assets - Other financial assets**

	<b>31 Dec 2019</b>	<b>30 Jun 2019</b>
	<b>\$'000</b>	<b>\$'000</b>
Derivative hedge receivable (Note 20)	<u>-</u>	<u>679</u>

**Note 8. Non-current assets - Property, plant and equipment**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Land and buildings - at cost	75,063	81,496
Less: Accumulated depreciation	(5,025)	(4,461)
	<u>70,038</u>	<u>77,035</u>
Right-of-use asset leased property - at cost	275,946	-
Less: Accumulated depreciation	(100,585)	-
	<u>175,361</u>	<u>-</u>
Leasehold improvements - at cost	19,245	18,019
Less: Accumulated depreciation	(9,459)	(8,536)
	<u>9,786</u>	<u>9,483</u>
Fixtures and fittings - at cost	957	953
Less: Accumulated depreciation	(710)	(690)
	<u>247</u>	<u>263</u>
Motor vehicles - at cost	683	673
Less: Accumulated depreciation	(338)	(322)
	<u>345</u>	<u>351</u>
Office equipment - at cost	12,663	11,994
Less: Accumulated depreciation	(7,086)	(6,462)
	<u>5,577</u>	<u>5,532</u>
	<u>261,354</u>	<u>92,664</u>

**Note 9. Current liabilities - Borrowings**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Bank loans	<u>8,100</u>	<u>13,600</u>

**Note 10. Current liabilities - Payables**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Trade creditors	9,376	11,194
Other creditors and accruals	6,946	6,285
	<u>16,322</u>	<u>17,479</u>

**Note 11. Current liabilities – Lease liabilities**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Lease liabilities	24,859	-

**Note 12. Current Liabilities - Deferred revenue**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Customer deposits	21,648	26,276
Accidental damage warranties	93	47
	<u>21,741</u>	<u>26,323</u>

**Note 13. Current liabilities - Provisions**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Employee entitlements	2,791	2,784
Deferred lease incentives	-	621
	<u>2,791</u>	<u>3,405</u>

**Note 14. Current liabilities – Other Financial Liabilities**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Derivative hedge payable (Note 20)	930	-

**Note 15. Non-current liabilities - Borrowings**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Bank loans	25,562	20,062

**Note 16. Non-current liabilities – Lease liabilities**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Lease liabilities	171,770	-



**Note 17. Non-current liabilities - Deferred revenue**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Accidental damage warranties	399	171

**Note 18. Non-current liabilities - Provisions**

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
Deferred lease incentives	-	4,367
Employee entitlements	792	883
Lease make good	707	555
	<u>1,499</u>	<u>5,805</u>

**Note 19 Financing facilities**

Unrestricted access was available on the following lines of credit at the reporting date:

	31 Dec 2019 \$'000	30 Jun 2019 \$'000
<b>Total facilities:</b>		
Bank loans expiring within 12 months	8,100	14,500
Bank loans expiring in greater than 12 months	25,562	20,062
Bank guarantees	2,000	2,000
Interchangeable facilities, including letters of credit	5,000	5,000
	<u>40,662</u>	<u>41,562</u>

**Facilities used at reporting date:**

Bank loans expiring within 12 months	8,100	13,600
Bank loans expiring in greater than 12 months	25,562	20,062
Bank guarantees	1,706	1,706
Interchangeable facilities, including letters of credit	-	-
	<u>35,368</u>	<u>35,368</u>

**Facilities unused at reporting date:**

Bank loans expiring within 12 months	-	900
Bank loans expiring in greater than 12 months	-	-
Bank guarantees	294	294
Interchangeable facilities, including letters of credit	5,000	5,000
	<u>5,294</u>	<u>6,194</u>

## **Note 20. Financial instruments**

### ***Foreign currency risk***

All of the Company's sales are denominated in either Australian dollars or New Zealand dollars, whilst the majority of inventory purchases are denominated in US dollars. Where appropriate the Company uses forward currency contracts and options to manage its currency exposures; and where the qualifying criteria are met, these are designated as hedging instruments for the purposes of hedge accounting.

As at 31 December 2019, the Company has trade payables of \$6,369,000 (30 June 2019: \$3,145,000) denominated in US dollars and stock in transit of \$7,285,000 (30 June 2019: \$5,580,000) denominated in US dollars, all of which are covered by designated cash flow hedges. As a result, the sensitivity to a reasonably possible change in the US dollar exchange rate is minimal. The cash flows relating to cash flow hedge positions held at 31 December 2019 are expected to occur from January 2020 through to June 2020, and the profit and loss is expected to be affected through cost of sales as the hedged items (inventory) are sold to customers. All forecast transactions subject to hedge accounting have occurred or are highly likely to occur.

During the half-year, the Company designated foreign currency forward contracts as hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur from January 2020 through to June 2020.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated with the contracts (both the counter-party's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2019, an unrealised loss of \$1,126,000 (31 December 2018: an unrealised loss of \$326,000) is recorded in other comprehensive income.

## **Note 21. Fair value measurement**

### ***Fair value hierarchy***

All financial instruments for which fair value is recognised or disclosed are categorised with the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At the reporting date the fair value of derivative financial instrument represented a derivative hedge payable of \$930,000 (30 June 2019: receivable \$679,000). All foreign currency forward contracts were measured at fair value using the Level 2 method. Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

## **Note 22. Contingent liabilities**

There are no contingent liabilities at 31 December 2019 (30 June 2018: Nil).

## **Note 23. Commitments**

### ***Capital Commitments***

At 31 December 2019, the Group had capital commitments of \$4,230,000 in relation to the purchase of a property in Auburn, NSW.

**Note 24. Related party transactions**

*Other related party transactions*

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

*Receivable from and payable to related parties*

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

*Loans or from related parties*

There were no loans to or from related parties at either the current or previous reporting date.

**Note 25. Events after the reporting period**

Apart from the dividend declared as disclosed in Note 5, no other matter or circumstance has arisen since 31 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Company's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Company's financial position as at 31 December 2019 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors



John Ingram  
Chairman

6 February 2020  
Sydney



Anthony Scali  
Managing Director

# Independent Auditor's Review Report to the Members of Nick Scali Limited

## Report on the Half-Year Financial Report

### Conclusion

We have reviewed the accompanying half-year financial report of Nick Scali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2019, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2019 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

### Directors' Responsibility for the Half-Year Financial Report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

### Auditor's Responsibility

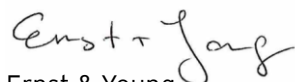
Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2019 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.


A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.



## Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

  
Ernst & Young

  
Lisa Nijssen-Smith  
Partner  
Sydney  
6 February 2020

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