

1. Company details

Name of entity:	Nick Scali Limited
Nick Scali Limited:	82 000 403 896
Reporting period:	For the half-year ended 31 December 2015
Previous period:	For the half-year ended 31 December 2014

2. Results for announcement to the market

			\$'000
Revenue from ordinary activities	up	32.0% to	102,459
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	up	40.7% to	14,131
Profit for the half-year attributable to the owners of Nick Scali Limited	up	40.7% to	14,131

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2015 paid on 28 October 2015	8.0	8.0

On 9 February 2016 the directors declared a fully franked interim dividend of 9.0 cents per fully paid ordinary share with a record date 2 March 2016 to be paid on 23 March 2016

Comments

The profit for the company after providing for income tax amounted to \$14,131,000 (31 December 2014: \$10,046,000).

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Profit after income tax expense	14,131	10,046
Interest received	(434)	(598)
Finance costs	184	206
Income tax expense	6,109	4,321
Earnings Before Interest and Tax (EBIT)	19,990	13,975
Depreciation and amortisation expense	1,145	991
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>21,135</u>	<u>14,966</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>62.94</u>	<u>54.13</u>

Nick Scali Limited

Nick Scali Limited 82 000 403 896

Half-year Report - 31 December 2015

The directors present their report, together with the financial statements, on the company for the half-year ended 31 December 2015.

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. Directors were in office for this entire period unless otherwise stated.

John W Ingram
Nick D Scali
Greg R Laurie
Carole A Molyneux
Anthony J Scali
Nicky D Scali (Alternate Director)

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.

Operating and financial review

For the half year to 31 December 2015, the Company reported a record first half NPAT result of \$14.1m, up 40.7% on the prior year first half NPAT result of \$10.0m.

Profit growth was driven by a 32% increase in sales revenue to \$102.5m for the half year. The higher sales resulted from same store sales growth of 11.6% and the contribution from the opening of new stores.

Gross margin was maintained at 60.0% (H1 15: 60.3%), despite the falling Australian dollar.

Operating Expenses as a percentage to sales were reduced to 39.5% (H1 15: 41.2%).

Store network

The Company opened 2 new Nick Scali Furniture stores since June 2015, in Casula (NSW) and a fourth store in WA has opened at Midland. The total number of stores at 31 December 2015 was 48, comprising 43 Nick Scali Furniture stores and 5 Sofas2Go stores.

The company purchased properties at Macgregor (QLD) and Nunawading (VIC) during the period.

Significant changes in the state of affairs

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

Rounding of amounts

The company is of a kind referred to in Class Order 98/100, 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 it is included on page 3 of the Financial Statements.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman



Anthony J Scali
Managing Director

9 February 2016
Sydney



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

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the review of Nick Scali Limited for the half-year ended 31 December 2015, 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.

Ernst & Young



Kathy Parsons
Partner
9 February 2016

Contents

Statement of comprehensive income	5
Statement of financial position	6
Statement of changes in equity	7
Statement of cash flows	8
Notes to the financial statements	9
Directors' declaration	13
Independent auditor's review report to the members of Nick Scali Limited	14

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Revenue from sale of goods	2	102,459	77,630
Cost of goods sold		(40,996)	(30,857)
Gross Profit		61,463	46,773
Other Income	2	600	781
Expenses			
Marketing expenses		(7,528)	(5,787)
Employment expenses		(15,442)	(11,476)
General & Administration expenses		(3,239)	(2,852)
Property expenses		(13,547)	(11,447)
Distribution expenses		(738)	(428)
Depreciation and Amortisation		(1,145)	(991)
Finance costs		(184)	(206)
Profit before income tax expense		20,240	14,367
Income tax expense		(6,109)	(4,321)
Profit after income tax expense for the half-year attributable to the owners of Nick Scali Limited		14,131	10,046
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(526)	428
Other comprehensive income for the half-year, net of tax		(526)	428
Total comprehensive income for the half-year attributable to the owners of Nick Scali Limited		13,605	10,474
		Cents	Cents
Basic earnings per share		17.4	12.4
Diluted earnings per share		17.4	12.4

	Note	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Assets			
Current assets			
Cash and cash equivalents	3	25,077	33,680
Receivables		190	235
Inventories		27,495	24,212
Other Financial Assets		6	561
Other Assets		317	177
Total current assets		<u>53,085</u>	<u>58,865</u>
Non-current assets			
Property, Plant and Equipment		51,954	35,094
Intangibles Assets		2,378	2,378
Total non-current assets		<u>54,332</u>	<u>37,472</u>
Total assets		<u>107,417</u>	<u>96,337</u>
Liabilities			
Current liabilities			
Payables		30,239	33,172
Current tax liabilities		1,784	1,143
Provisions		1,108	1,250
Total current liabilities		<u>33,131</u>	<u>35,565</u>
Non-current liabilities			
Borrowings		18,662	12,062
Deferred tax		68	490
Provisions		2,199	1,994
Total non-current liabilities		<u>20,929</u>	<u>14,546</u>
Total liabilities		<u>54,060</u>	<u>50,111</u>
Net assets		<u>53,357</u>	<u>46,226</u>
Equity			
Issued capital	4	3,364	3,364
Reserves		(196)	324
Retained profits		50,189	42,538
Total equity		<u>53,357</u>	<u>46,226</u>

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

Nick Scali Limited
Statement of changes in equity
For the half-year ended 31 December 2015



	Contributed equity \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2014	3,364	16	78	(129)	36,801	40,130
Profit after income tax expense for the half-year	-	-	-	-	10,046	10,046
Other comprehensive income for the half-year, net of tax	-	-	-	428	-	428
Total comprehensive income for the half-year	-	-	-	428	10,046	10,474
Share-based payments	-	5	-	-	-	5
Dividends paid (note 5)	-	-	-	-	(5,670)	(5,670)
Balance at 31 December 2014	<u>3,364</u>	<u>21</u>	<u>78</u>	<u>299</u>	<u>41,177</u>	<u>44,939</u>
	Contributed equity \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2015	3,364	44	78	202	42,538	46,226
Profit after income tax expense for the half-year	-	-	-	-	14,131	14,131
Other comprehensive income for the half-year, net of tax	-	-	-	(526)	-	(526)
Total comprehensive income for the half-year	-	-	-	(526)	14,131	13,605
Share-based payments	-	6	-	-	-	6
Dividends paid (note 5)	-	-	-	-	(6,480)	(6,480)
Balance at 31 December 2015	<u>3,364</u>	<u>50</u>	<u>78</u>	<u>(324)</u>	<u>50,189</u>	<u>53,357</u>

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

	Note	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Cash flows from operating activities			
Receipts from customers		112,750	80,009
Payments to suppliers and employees		(98,063)	(70,578)
		14,687	9,431
Interest received		434	598
Income taxes paid		(5,665)	(4,250)
Net cash from operating activities		9,456	5,779
Cash flows from investing activities			
Purchase of property, plant and equipment		(17,995)	(7,165)
Net cash used in investing activities		(17,995)	(7,165)
Cash flows from financing activities			
Payment of dividends on ordinary shares	5	(6,480)	(5,670)
Proceeds from borrowings		6,600	3,000
Interest paid		(184)	(207)
Net cash used in financing activities		(64)	(2,877)
Net decrease in cash and cash equivalents		(8,603)	(4,263)
Cash and cash equivalents at the beginning of the financial half-year		33,680	35,903
Cash and cash equivalents at the end of the financial half-year		25,077	31,640

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

Note 1. Significant accounting policies

These general purpose financial statements for the interim half-year reporting period ended 31 December 2015 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented 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 2015 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.

Significant accounting judgements

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, which have the most significant effect on the amounts recognised in the financial statements:

Operating Lease Commitments

The Company has entered into commercial property leases for its stores. The Company has determined that the lessors retain all the significant risks and rewards of ownership of these properties and has thus classified the leases as operating leases.

Significant accounting estimates and assumptions

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

Impairment of goodwill

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in the financial report.

Estimation of useful lives of assets

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

AASB 2014-1 Amendments to Australian Accounting Standards (Parts A to C)

The company has applied Parts A to C of AASB 2014-1 from 1 July 2014. These amendments affect the following standards: AASB 2 'Share-based Payment': clarifies the definition of 'vesting condition' by separately defining a 'performance condition' and a 'service condition' and amends the definition of 'market condition'; AASB 3 'Business Combinations': clarifies that contingent consideration in a business combination is subsequently measured at fair value with changes in fair value recognised in profit or loss irrespective of whether the contingent consideration is within the scope of AASB 9; AASB 8 'Operating Segments': amended to require disclosures of judgements made in applying the aggregation criteria and clarifies that a reconciliation of the total reportable segment assets to the entity's assets is required only if segment assets are reported regularly to the chief operating decision maker; AASB 13 'Fair Value Measurement': clarifies that the portfolio exemption applies to the valuation of contracts within the scope of AASB 9 and AASB 139; AASB 116 'Property, Plant and Equipment' and AASB 138 'Intangible Assets': clarifies that on revaluation, restatement of accumulated depreciation will not necessarily be in the same proportion to the change in the gross carrying value of the asset; AASB 124 'Related Party Disclosures': extends the definition of 'related party' to include a management entity that provides KMP services to the entity or its parent and requires disclosure of the fees paid to the management entity; AASB 140 'Investment Property': clarifies that the acquisition of an investment property may constitute a business combination.

Note 2. Revenue

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Sales Revenue	102,459	77,630
Interest income	434	598
Rent received	43	74
Sundry income	123	109
Total Other Income	600	781
Total Revenue	103,059	78,411

Note 3. Current assets - cash and cash equivalents

	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Cash on hand	1	2
Cash at bank	25,076	33,678
	<u>25,077</u>	<u>33,680</u>

Note 4. Equity - issued capital

	31 Dec 2015 Shares	30 Jun 2015 Shares	31 Dec 2015 \$'000	30 Jun 2015 \$'000
Authorised and fully paid ordinary shares	<u>81,000,000</u>	<u>81,000,000</u>	<u>3,364</u>	<u>3,364</u>

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Note 5. Equity - dividends

Dividends paid during the financial half-year were as follows:

	31 Dec 2015 \$'000	31 Dec 2014 \$'000
Final dividend for the year ended 30 June 2015: 8.0 cents (2014: 7.0 cents)	<u>6,480</u>	<u>5,670</u>

On 9 February 2016 the directors declared a fully franked interim dividend of 9.0 cents per fully paid ordinary share with a record date 2 March 2016 to be paid on 23 March 2016.

Note 6. Financial instruments

Foreign currency risk

During the period, 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 during January 2016 to June 2016.

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 to the contracts (both the counterparty's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2015, an unrealised loss of \$526,000 (31 December 2014: an unrealised gain of \$428,000) is in other comprehensive income.

Note 7. 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)

	Level 1 \$'000	Level 2 \$'000	Level 3 \$'000	Total \$'000
31 Dec 2015				
<i>Assets</i>				
Cash flow hedge payable	-	463	-	463
Total assets	-	463	-	463
30 Jun 2015				
<i>Liabilities</i>				
Cash flow hedge receivable	-	288	-	288
Total liabilities	-	288	-	288

Valuation techniques for fair value measurements categorised within level 2 and level 3

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies.

Note 8. Contingent liabilities

There are no contingent liabilities as at 31 December 2015 (2014: Nil).

Note 9. Segment Information

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

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

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

Note 10. 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 2015 that has significantly affected, or may significantly affect the company's operations, the results of those operations, or the company's state of affairs in future financial years.

Note 11. Financial facilities

The Company raised additional credit facilities with HSBC Bank for \$4.5m on 12 October 2015 and utilised \$4.5m in relation to the purchase of a property at Macgregor. The facility for the Macgregor property is for a 3 year term and expires on 12 October 2018. The loan is secured by a first mortgage over the property asset to which the borrowing relates.

The Company raised additional credit facilities with ANZ Bank for \$3.6m on 21 October 2015 and utilised \$2.1m in relation to the purchase of a property at Nunawading. The facility for the Nunawading property is for a 3 year term and expires on 21 October 2018. The loan is secured by a first mortgage over the property asset to which the borrowing relates.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', 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 2015 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 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman



Anthony J Scali
Managing Director

9 February 2016
Sydney



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

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

To the members of Nick Scali Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Nick Scali Limited, which comprises the statement of financial position as at 31 December 2015, the statement of comprehensive income, statement of changes in equity and 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.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the company's financial position as at 31 December 2015 and its 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 Nick Scali Limited, 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. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Nick Scali is not in accordance with the *Corporations Act 2001*, including:

- i giving a true and fair view of the company's financial position as at 31 December 2015 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young



Kathy Parsons
Partner Sydney
9 February 2016