

Appendix 4D

Half-Year Financial Report

Name of entity

Nick Scali Limited (NCK)

ABN: 82 000 403 896

Half-year ended **31 DECEMBER 2014**

Comparative period **31 DECEMBER 2013**

Results for announcement to the market

Extracts for announcement to the market

				\$A'000
Revenue from ordinary activities	Up	8.3%	to	77,630
Profit (loss) from ordinary activities after tax attributable to members	Up	27.7%	to	10,046
Profit (loss) from extraordinary items after tax attributable to members		-		-
Net profit (loss) for the period attributable to members	Up	27.7%	to	10,046
Net tangible asset backing per share (cents per share)	December 2014			52.54
	December 2013			45.21
Dividends (distributions)	Amount per security		Franked amount per security	
	7.0 cents		7.0 cents	
Record date for determining entitlements to the dividend	5 March 2015			
Date the dividend is payable	26 March 2015			

Half-Year Financial Report 31 December 2014

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Directors' report

Your directors submit their report for the half-year ended 31 December 2014.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below.

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

John W. Ingram	<i>Independent Non-Executive Chairman</i>
Nick D. Scali	<i>Non-Executive Director</i>
Greg R. Laurie	<i>Independent Non-Executive Director</i>
Carole Molyneux	<i>Independent Non-Executive Director</i>
Anthony J. Scali	<i>Managing Director</i>
Nicky D. Scali	<i>Alternate Director</i>

Review and results of operations

For the half year to 31 December 2014, the Company reported a record first half NPAT result of \$10.0m, up 27.7% on the prior year first half NPAT result of \$7.9m.

Sales revenue for the half was \$77.6m, up 8.3% on last year and up 1.2% on a comparable store basis. The sales increase is attributable to the comparable store growth, the contribution from net 2 additional stores and from the recently implemented online channel.

Gross Margin percentage was maintained at 60.3% (H1-14: 60.3%) despite a decline in the value of the Australian dollar.

Operating Expenses as a percentage to sales decreased from 43.9% last half to 41.2% this half.

In July 2014 the Company purchased a property in Caringbah for \$6.3m with the plan to develop a Nick Scali store in the future. During the half year the Company also opened two new stores for Nick Scali Furniture at Rutherford (NSW) and Cairns (QLD) in December 2014. The Company has plans to open five stores in the second half of the year, some of which are subject to finalising negotiations with landlords.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 15.

Rounding

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$'000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class Order applies.

On behalf of the Board, signed in accordance with a resolution of the directors.



J.W. Ingram Chairman



A.J. Scali Managing Director

Sydney, 11 February 2015

Statement of income

For the half year ended 31 December 2014

		Half-year Ended 31 Dec '14 \$'000	Half-year Ended 31 Dec '13 \$'000
Revenue from sale of goods	2	77,630	71,691
Cost of goods sold		(30,857)	(28,441)
Gross profit		46,773	43,250
Other income	2	781	600
Employment expenses		(11,476)	(10,981)
General & Administration expenses		(2,852)	(2,700)
Marketing expenses		(5,787)	(6,216)
Property expenses		(11,447)	(11,275)
Distribution expenses		(428)	(316)
Finance cost		(206)	(153)
Depreciation and Amortisation		(991)	(947)
Profit before income tax		14,367	11,262
Income tax expense		(4,321)	(3,392)
Net profit after tax		10,046	7,870
Earnings per share			
Basic Earnings per share (cents per share)		12.4	9.7
Diluted Earnings per share (cents per share)		12.4	9.7

Statement of comprehensive income

For the half year ended 31 December 2014

	Half-year Ended 31 Dec '14 \$'000	Half-year Ended 31 Dec '13 \$'000
Net profit after tax	10,046	7,870
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges gain/(loss) taken to equity	428	(344)
Other comprehensive income for the period	<u>428</u>	<u>(344)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>10,474</u></u>	<u><u>7,526</u></u>

Statement of financial position

As at 31 December 2014

		As at 31 Dec '14 \$'000	As at 30 Jun '14 \$'000
Current assets			
Cash and cash equivalents	8	31,640	35,903
Receivables		379	164
Inventories		19,715	19,013
Other financial assets	9	429	8
Other assets		614	92
Total current assets		52,777	55,180
Non-current assets			
Property, plant and equipment		28,574	22,868
Intangible assets		2,378	2,378
Total non-current assets		30,952	25,246
TOTAL ASSETS		83,729	80,426
Current liabilities			
Payables		22,976	27,407
Current tax liabilities		2,368	2,367
Provisions		1,293	1,379
Total current liabilities		26,637	31,153
Non-current liabilities			
Provisions		1,730	1,972
Deferred tax liability		661	409
Borrowings		9,762	6,762
Total non-liabilities		12,153	9,143
TOTAL LIABILITIES		38,790	40,296
NET ASSETS		44,939	40,130
Equity			
Contributed equity		3,364	3,364
Reserves		398	(35)
Retained profits		41,177	36,801
TOTAL EQUITY		44,939	40,130

Statement of cash flows

For the half-year ended 31 December 2014

	Half-year Ended 31 Dec '14 \$'000	Half-year Ended 31 Dec '13 \$'000
Cash flows from operating activities		
Receipts from customers	80,009	82,012
Payments to suppliers and employees	(70,578)	(71,789)
Interest received	598	600
Income tax paid	(4,250)	(3,696)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>5,779</u>	<u>7,127</u>
Cash flows from investing activities		
Purchase of property, plant & equipment	(7,165)	(1,317)
NET CASH FLOWS (USED IN)/FROM INVESTING ACTIVITIES	<u>(7,165)</u>	<u>(1,317)</u>
Cash flows from financing activities		
Equity dividends paid	(5,670)	(4,860)
Proceeds from borrowings	3,000	-
Interest paid on borrowings	(207)	(153)
NET CASH FLOWS (USED IN)/FROM FINANCING ACTIVITIES	<u>(2,877)</u>	<u>(5,013)</u>
NET (DECREASE)/INCREASE IN CASH AND CASH EQUIVALENTS	(4,263)	797
Cash and cash equivalents at 1 July	35,903	26,441
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	<u>31,640</u>	<u>27,238</u>

Statement of changes in equity

For the half-year ended 31 December 2014

	Contributed equity	Equity benefits reserve	Assets revaluation reserve	Cash flow hedge reserve	Retained profits	Total
	\$'000	\$'000	\$'000	\$'000	\$'000	\$'000
Half Year Ended 31 December 2014						
As at 1 July 2014	3,364	16	78	(129)	36,801	40,130
Profit for the period	-	-	-	-	10,046	10,046
Other comprehensive income	-	-	-	428	-	428
Total comprehensive income	-	-	-	428	10,046	10,474
Share-based payment	-	5	-	-	-	5
Equity dividends	-	-	-	-	(5,670)	(5,670)
As at 31 December 2014	3,364	21	78	299	41,177	44,939

Half Year Ended 31 December 2013

As at 1 July 2013	3,364	13	78	594	32,285	36,334
Profit for the period	-	-	-	-	7,870	7,870
Other comprehensive income	-	-	-	(344)	-	(344)
Total comprehensive income	-	-	-	(344)	7,870	7,526
Share-based payment	-	(5)	-	-	-	(5)
Equity dividends	-	-	-	-	(4,860)	(4,860)
As at 31 December 2013	3,364	8	78	250	35,295	38,995

	Half-year Ended 31 Dec 14	Half-year Ended 31 Dec 13
Dividends per share declared (cents per share)	7.0	6.0

Notes to the financial statements

For the half-year ended 31 December 2014

Note 1: Basis of preparation of the half-year financial report

(a) Corporate information

The financial report of Nick Scali Limited (the Company) for the half-year ended 31 December 2014 was authorised for issue in accordance with a resolution of the directors on 11th February 2015. Nick Scali Limited, a for profit entity, is a company incorporated in Australia and limited by shares which are publicly traded on the Australian Stock Exchange.

(b) Statement of significant accounting policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The accounting policies adopted in the preparation of the half year financial report statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2014, except for the early adoption of phase 1 and phase 2 of AASB 9 *Financial Instruments* and the adoption of revised Standards and interpretations noted below:

- AASB 2014-1 Part A – Amendments to Australian Accounting Standards - Annual Improvements 2010-2012 and 2011-2013 Cycle
- AASB 2014-1 Part B – Amendments to Australian Accounting Standards - Defined Benefit Plans
- AASB 2013-9 Part C - Amendments to Australian Accounting Standards - Financial Instruments

The adoption of these new and revised Standards and interpretations did not have any material impact on the amounts recognised or disclosures in the financial statements of the Company.

(c) Basis of preparation

The half-year financial report has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

(d) Changes in accounting policies

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective, other than *AASB9 : Financial Instruments*, these have not been adopted by the Company for the interim reporting period.

Notes to the financial statements (cont'd)

For the half-year ended 31 December 2014

	Half-year Ended 31 Dec '14 \$'000	Half-year Ended 31 Dec '13 \$'000
Note 2: Revenue and expenses		
(a) Specific Items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.		
(i) Revenue		
Sale of goods	<u>77,630</u>	<u>71,691</u>
(ii) Other income		
Interest Income	598	600
Sundry Income	<u>183</u>	<u>-</u>
	781	600
(b) Seasonality of Operations		
There are no significant seasonal factors for the business.		
(c) Revision of Accounting Estimates		
There was no revision of accounting estimates made during the period.		
Note 3: Dividends paid and proposed		
Equity dividends on ordinary shares		
(a) Dividends paid during the half-year		
Final franked dividend for financial year 30 June 2014 7.0 cents (2013: 6.0 cents)	5,670	4,860
(b) Dividends proposed and not recognised as a liability		
Interim franked dividend for half-year ended 31 Dec 2014 7.0 cents (2013: 6.0 cents)	5,670	4,860
	As at 31 Dec '14 '000	As at 30 Jun '14 '000
Note 4: Issued capital		
Ordinary shares		
Issued and fully paid	<u>81,000</u>	<u>81,000</u>
Note 5: Segment reporting		
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 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 segment's revenue and profit is the same as that of the Company as a whole and as disclosed in the statement of income.		

Notes to the financial statements (cont'd)

For the half-year ended 31 December 2014

Note 6: Contingent assets and liabilities

Since the last annual reporting date, there has been no material change of any contingent assets or contingent liabilities. There are no significant contingent assets or liabilities as at the date of this report.

Note 7: Events after the balance date

There have been no material or significant events that have occurred after the balance date.

Note 8: Additional information

	As at 31 Dec '14 \$'000	As at 30 Jun '14 \$'000
Reconciliation of cash		
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash at bank and in hand	<u>31,640</u>	<u>35,903</u>

Note 9: Financial Instruments

Fair Values

Assets and liabilities measured at fair value are as follows:

Other financial assets - current

Forward Currency Contracts	429	-
Deposits	<u>-</u>	<u>8</u>
	429	8

Foreign currency forward contracts are initially recognised in the statement of financial position at cost and subsequently remeasured to their fair value. Accordingly there is no difference between the carrying value and the fair value of derivative financial instruments at reporting date. The carrying value approximates the fair value of interest bearing liabilities.

All financial instruments for which fair value is recognised or disclosed are categorised within 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)

All foreign currency forward contracts were measured at fair value using the Level 2 method.

Valuation techniques

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. All contracts are fully cash collateralised, thereby eliminating both counterparty and the Company's own credit risk.

Risk management activities

During the period, the Company designated foreign currency forward contracts in hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur during January 2015 to March 2015.

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 2014, an unrealised gain of \$428,000 (31 December 2013: an unrealised loss of \$344,000) is in other comprehensive income.

Notes to the financial statements (cont'd)

For the half-year ended 31 December 2014

Note 10: Financial Facilities

The Company raised additional credit facilities with ANZ Bank for \$6.2m on 28 July 2014 and utilised \$3.0m on 28 July 2014 in relation to the purchase of a property at Caringbah. The facility for the Caringbah property is for a 5 year term and expires on 30 June 2019. The loan is secured by a first mortgage over the property asset to which the borrowing relates.

Directors' declaration

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

In the opinion of the directors :

- (1) the financial statements and notes of the Company for the half year ended 31 December 2014 are 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 2014 and the performance for the half-year ended on that date; and
 - (ii) complying with Accounting Standards and the Corporations Regulations 2001; and

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

On behalf of the Board



J.W. Ingram Chairman



A.J. Scali Managing Director

Sydney, 11 February 2015

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 2014, 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 2014 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.

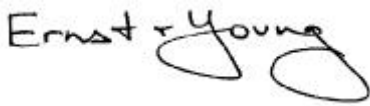
Independence

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 2014 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*.



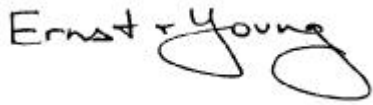
Ernst & Young



Kathy Parsons
Partner
Sydney
11 February 2015

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

In relation to our review of the financial report of Nick Scali Limited for the half-year ended 31 December 2014, 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



Kathy Parsons
Partner
11 February 2015