nickscali LIMITED

ANNUAL REPORT 2015

nickscali FURNITURE

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Contents

Chairman and Managing Director's Review

Operating Performance

Your Company reported a record net profit after tax of $17.1m for the year ended 30 June 2015, an increase of 20% on the previous corresponding period.

Sales revenue increased 10.1% to $155.7m for the year with this resulting from same store sales growth of 3.4%, some contribution from the seven new stores opened in the latter part of FY15 and a consistent investment in marketing. Gross Margins were slightly higher than last year despite the decline in the Australian Dollar through the period. Operating expenses increased by $4.9million, or 7.7%, driven by the start-up costs for the new stores but decreased as a percentage of sales from 45.3% to 44.3% due mainly to continued cost efficiency.

The business performed well in an environment where consumers remained cautious with their spending. The Company's ability to hold gross margin above 60% and continuing vigilance in cost control has delivered this record Net Profit After Tax for the year to June 2015.

Seven Nick Scali Furniture stores were opened during the year, bringing total Group stores at 30 June to forty six. Two new stores were opened during the first half of the fiscal year - at Rutherford in NSW and Cairns in QLD - both in late December 2014 in time for the end of season promotion. In the second half, a further two new stores were opened in NSW, one at West Gosford and the other at Penrith. All these new stores are trading to expectation.

In an exciting development, the Nick Scali brand was launched in WA during the year. A Distribution Centre was opened in Perth in the first half and three new stores commenced trading in the second half. These stores were at Joondalup, O'Connor and Osborne Park. The reception to the Nick Scali brand in Western Australia has been strong with performance from the stores so far being at the top of expectation. This region now represents a significant opportunity for the business.

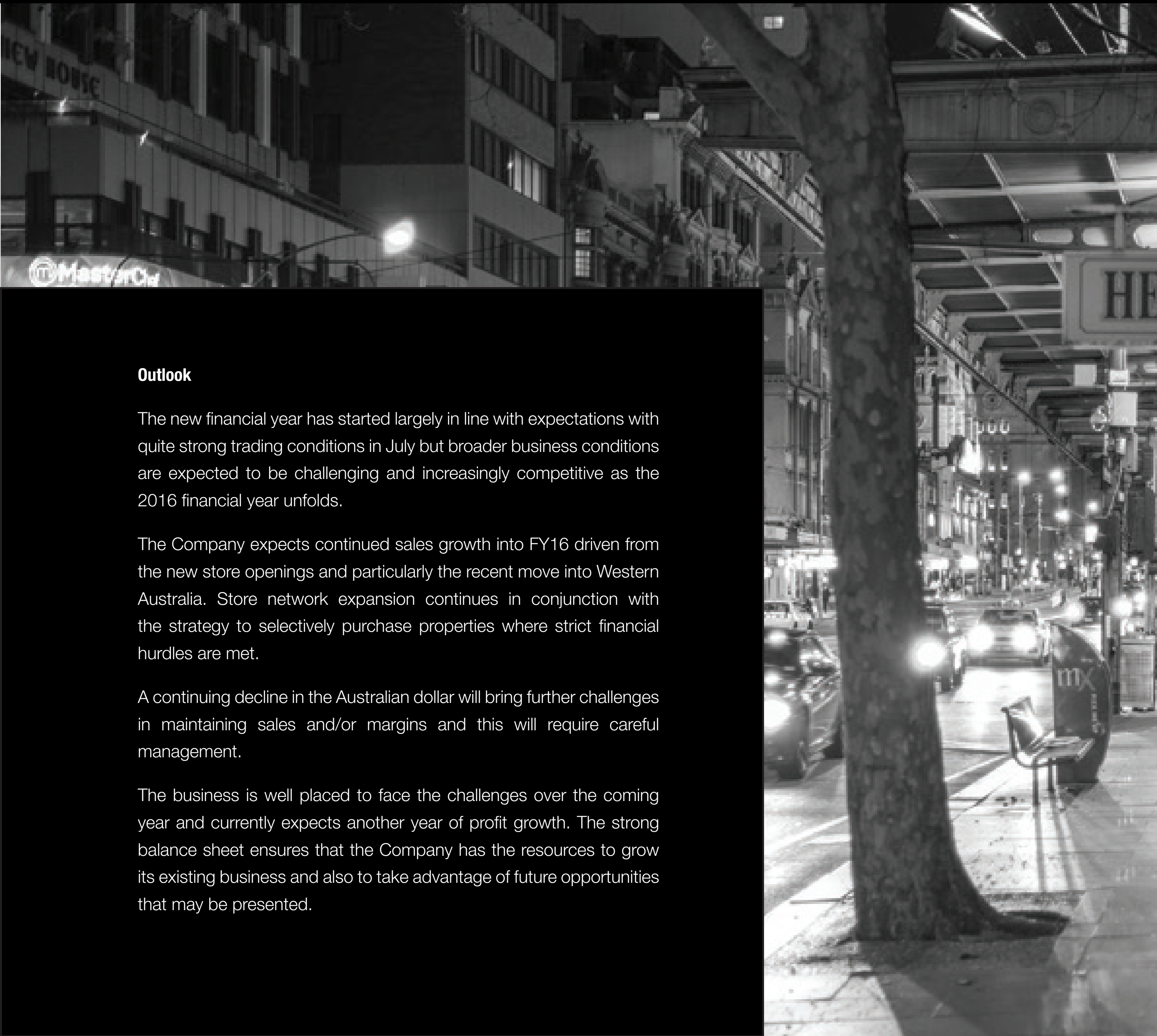
For the present year, sites for a further two new stores have been secured and two Nick Scali stores are planned to open before December 2015, at Casula in NSW and a fourth store in Western Australia at Midland.

Properties were purchased during the year - in Caringbah, NSW and for the new store at Joondalup, WA, for $6.3million and $4.5million respectively. The Company has also committed to purchase a property at Nunawading, Victoria in the current period, which will bring the total number of owned stores to five.

The year ended 30 June 2015 has been another positive year for the Company and its people, and the Directors take this opportunity to thank all employees for their efforts towards achieving the strong sales and profit result. The Directors also thank shareholders for their continued support.

Dividend

The Directors have declared a fully franked final dividend of 8.0 cents per share, bringing the total dividend for the year to 15.0 cents per share. The final dividend will have a record date of 7 October 2015 and a payment date of 28 October 2015. The Directors consider that the dividend payout ratio of 71% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth, in the current environment.



Outlook

The new financial year has started largely in line with expectations with quite strong trading conditions in July but broader business conditions are expected to be challenging and increasingly competitive as the 2016 financial year unfolds.

The Company expects continued sales growth into FY16 driven from the new store openings and particularly the recent move into Western Australia. Store network expansion continues in conjunction with the strategy to selectively purchase properties where strict financial hurdles are met.

A continuing decline in the Australian dollar will bring further challenges in maintaining sales and/or margins and this will require careful management.

The business is well placed to face the challenges over the coming year and currently expects another year of profit growth. The strong balance sheet ensures that the Company has the resources to grow its existing business and also to take advantage of future opportunities that may be presented.

Directors' Report

The directors present their report, together with the financial statements, on the company for the year ended 30 June 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.

Dividends

Dividends paid during the financial year were as follows:

	2015 $'000	2014 $'000
Final franked dividend for 30 June 2014: 7.0 cents (2013: 6.0 cents)	5,670	4,860
Interim franked dividend for 30 June 2015: 7.0 cents (2014: 6.0 cents)	5,670	4,860
	11,340	9,720

In addition to the above dividend, since the end of the financial year directors have declared a fully franked dividend of 8.0 cents per fully paid ordinary share to be paid on 28 October 2015 out of retained profit at 30 June 2015.

Operating and financial review

Nick Scali Limited is a furniture retailer operating primarily on the east coast of Australia. The Company operates two brands; the Nick Scali brand with 41 stores and Sofas2Go with 5 stores. The two brands operate under the same infrastructure provided by the Company but are positioned differently to capture somewhat different customers within the furniture market, which is heavily fragmented.

Key profitability drivers are the ability to continue to grow sales and market share through a store network with appropriate reach and to manage the style, quality and cost of the furniture to maintain margins.

For the financial year ended 30 June 2015 the Company reported a record NPAT result of $17.1m, up 20.0% on the previous year's underlying NPAT. The strong profit resulted from higher sales revenue of $155.7m, which was up 10.1% on last year. The increase in sales revenue was generated by new store openings and by comparable store sales growth of 3.4%. These were assisted by focused marketing activity and careful selection of the product range and price points.

Gross margin remained solid at 60.7%, slightly higher than last year of 60.4%, with retail price increases offsetting a weaker AUD, price pressures from suppliers and increased discounting flowing from the highly competitive market.

Operating expenses increased due to the opening of new stores and inflationary pressures but as a percentage to sales these expenses decreased from 45.3% last year to 44.3%, reflecting the continued focus on managing costs in line with sales growth.

Cash flows from operating activities during the year were $18.8m, down 16.0% on the previous year due to the one off gain on the surrender of lease in relation to the NSW Government resumption of land during the 2013 financial year.

Net cash outflow from all activities were $2.2m. The decreased cash flow was primarily due to purchase of property during the year.

The Company has borrowings of $12.1m and cash reserves (including customer deposits) of $35.9m. It is therefore soundly positioned for further investment initiatives, including strategic property purchases in key locations to position the business well for the future and act as a hedge against leased property cost increases.

Net Assets were $46.2m as at 30 June 2015, up $6.1m on last year.

Store network

During the year, the Company opened 7 new Nick Scali stores. Three stores were opened in WA (Joondalup, O'Connor and Osborne Park), three in NSW (Rutherford, West Gosford and Penrith) and one in QLD (Cairns). The total number of stores at 30 June 2015 was 46, comprising 41 Nick Scali stores and 5 Sofas2Go stores.

During the year the Company entered into a lease for a distribution centre in Western Australia, where three stores are now operating. The company also acquired two properties during the year, one at Caringbah (NSW) with plans to redevelop the site during calendar 2015 and one at Joondalup (WA).

The company committed to purchase a property at Nunawading (VIC) which will settle after 30 June 2015.

The Directors believe that the Company has considerable room for further expansion of its store network, with various sites currently under negotiation for opening in the new financial year in existing markets.

Outlook and Risks

The furniture market is closely tied to the housing market and consumer confidence, and is largely dependent on these two external factors. While the Company experienced pleasing overall growth during FY15, monthly sales continue to remain volatile and Directors continue to be cautious for the FY16 year. Continuing low interest rates and sustained housing construction should result in favourable market conditions.

Any further decline in the AUD against the USD will bring a risk of gross margin decline and this will continue to be addressed through product range and price point management, which to date has been successful. Directors expect sales and profit to improve over the next few years as the Company continues to expand its store network.

The Company has a strong balance sheet, supported by a healthy cash position and minimal debt which will enable the Company to support its growth strategy.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 30 June 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.

Likely developments and expected results of operations

Refer to the Operating and financial review on page 4.

Environmental regulation

The company is not subject to any significant environmental regulation under Australian Commonwealth or State law. 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.

Information on directors

Name: John W Ingram
Title: Independent Non-Executive Chairman
Qualifications: AM, FCPA
Experience and expertise:
John was appointed to the Board as non-executive Chairman on 7 April 2004. John was formerly Managing Director of Crane Group Limited.
Other current directorships:
Independent Director of Australian Super and non-executive Chairman of Shriro Holdings Limited.
Former directorships (last 3 years):
Non-Executive Director of United Group Limited, April 2003 to November 2012.
Special responsibilities:
Member of the Audit Committee and the Remuneration Committee.
Interests in shares: 370,399

Name: Nick D Scali
Title: Non-Executive Director
Experience and expertise:
Nick founded the business of Nick Scali over 50 years ago and continues to act as a consultant to the Company. He was solely responsible for managing the business until Anthony (his son) joined in 1982. Nick is considered a pioneer and innovator in the importing and retailing of furniture into Australia. Over the years, he has served on a number of public company boards, founded other enterprises, introduced modular kitchens into the Australian market and in doing so founded a new industry, and has made major contributions towards the Australian Italian community, including serving as the President of the Italian Chamber of Commerce for 4 years.
Other current directorships:
Director of the Italian Chamber of Commerce
Former directorships (last 3 years): None
Special responsibilities:
Member of the Audit Committee and the Remuneration Committee.
Interests in shares: Nil

Name: Greg R Laurie
Title: Independent Non-Executive Director
Qualifications: BCom
Experience and expertise:
Greg was appointed to the Board on 7 April 2004. He has extensive experience in manufacturing and distribution industries, and was the Finance Director of Crane Group Limited from 1989 until his retirement from that role in 2003.
Other current directorships:
Independent Non-Executive Director of Bradken Limited, Shriro Holdings Limited and Big River Group Pty Limited
Former directorships (last 3 years):
None
Special responsibilities:
Chairman of the Audit Committee and a member of the Remuneration Committee.
Interests in shares: 30,000

Name: Carole A Molyneux
Title: Independent Non-Executive Director
Experience and expertise:
Carole was appointed to the Board on 26 June 2014. She has extensive experience in retail and was the Chief Executive Officer of Suzanne Grae, (part of the Sussan Retail Group), for eighteen years until 2013.
Other current directorships:
Independent Non-Executive Director of Malcolm Webster Holdings, White Ribbon Australia and Racing NSW.
Former directorships (last 3 years):
Independent Non-Executive Director of Paraquad NSW, March 2006 to May 2013.
Special responsibilities:
Member of the Remuneration Committee.
Interests in shares: Nil

Name: Anthony J Scali
Title: Managing Director
Qualifications: BCom
Experience and expertise:
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. Anthony has over 30 years' experience in retail, and the selection and direct sourcing of product from manufacturers both in Australia and overseas.
Other current directorships:
None
Former directorships (last 3 years):
None
Special responsibilities:
As Managing Director Anthony is responsible for the development and implementation of the Company's strategy for growth, as well as the overall operation of the business.
Interests in shares: 40,500,000

Name: Nicky D Scali
Title: Marketing Manager and Alternate Director to Nick Scali
Qualifications: BCom
Experience and expertise:
Nicky joined the Company in 1991 after completing a Bachelor of Commerce degree from Bond University. He has gained considerable experience and expertise throughout the business over the years, in particular in relation to marketing, retail operations and IT.
Other current directorships:
None
Former directorships (last 3 years):
None
Special responsibilities:
Nicky is responsible for the buying of all advertising media and the development and execution of all creative strategies. He is also involved in the development of the national retail sales teams.
Interests in shares: 40,500,000

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

At the date of this report, no Directors held options over ordinary shares.

Company secretary

The company secretary since January 2015 is Kevin Fine. He is a current member of the Institute of Chartered Accountants in Australia and began his career in Audit and Advisory with firms including Arthur Andersen, Moores Rowland and Ernst & Young. Kevin's retail career began with Shoprite Holdings Ltd (South Africa). He then spent 7 years with the Specialty Fashion Group Ltd as Head of Finance and 7 years with OrotonGroup Ltd as Chief Financial Officer and Company Secretary.

Meetings of directors

The number of meetings of the company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2015, and the number of meetings attended by each director were:

	DIRECTOR'S MEETINGS		REMUNERATION COMMITTEE		AUDIT AND RISK COMMITTEE	
	Attended	Held	Attended	Held	Attended	Held
John W Ingram	9	10	2	2	3	4
Nick D Scali	6	10	1	2	1	4
Greg R Laurie	10	10	2	2	4	4
Carole A Molyneux	10	10	1	2	–	–
Anthony J Scali	9	10	–	–	–	–
Nicky D Scali (Alternate Director)	10	10	–	–	–	–

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

1. Carole A Molyneux was appointed as a Non-Executive Director on 26th June 2014.
2. Mr Anthony J Scali is not a member of the sub-committees, but was invited to attend these meetings and his attendance was recorded.
3. Mr Nicky D Scali is an alternate Director and is not a member of the sub-committees.

Audit Committee

The members of the Audit Committee are as follows:
Greg R Laurie (Chairman)
John W Ingram
Nick D Scali
Carole A Molyneux (appointed on 11 August 2015)

Remuneration Committee

The members of the Remuneration Committee are as follows:
John W Ingram (Chairman)
Nick D Scali
Greg R Laurie
Carole A Molyneux

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the company, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The quality of Nick Scali Limited's Directors and Executives is a major factor in the overall performance of the Company. The Company believes it is essential to attract and retain high quality and committed employees. To this end, the Company embraces the following principles in its remuneration framework.

Remuneration Committee

The Remuneration Committee currently consists of the Non- Executive Board members and is responsible for:

- Reviewing remuneration arrangements of senior management, including the Managing Director.
- Reviewing and approving any discretionary component of short and long term incentives for the Managing Director and senior executives.
- Recommending to the Board any increase in the remuneration of existing senior employees of the Company for which Board approval is required.
- Recommending to the Board the remuneration of new senior executives appointed by the Company.
- 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, with the advice of external parties if appropriate.

The Committee has met two times in the last twelve months. In addition, matters for consideration by the Committee have been dealt with during various Board meetings, where Remuneration Committee members were in attendance.

In accordance with best practice corporate governance, the structure of non-executive directors and executive remunerations are separate.

Remuneration Report – Audited (continued)

Non-executive directors remuneration
Non-Executive Directors are paid an annual fee, which is periodically reviewed. The review is the responsibility of the Remuneration Committee. The Committee may seek advice from external parties in making a determination.

Non-Executive Directors do not receive bonuses and they are not entitled to participate in the Executive Performance Rights Plan.

Executive remuneration
The Company provides appropriate rewards to attract and retain key personnel. Base salaries and short term incentives are at the discretion of the Remuneration Committee having regard to the nature of each role, the experience of the individual employee and the performance of the individual. Market information is used to benchmark base salaries.

For executives who report directly to the Managing Director, a portion of the remuneration is at risk by way of short term incentives.

The executive remuneration and reward framework has four components:

- salary & fees
- short term benefits
- share based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

The reward strategy accomplishes these objectives by providing a mix of fixed remuneration, short-term incentives and long-term incentives. The incentives are designed to deliver value to executives for performance against a combination of profitability, total shareholder returns and achievement against strategic goals. STI awards are based on current year KPIs such as profit after tax, and non-financial activities that achieve short to medium term objectives, while LTI awards are based on maintaining long term shareholder value using performance measures such as EPS.

Short-term incentives (STI)
Nick Scali operates short-term incentive (STI) programs that reward KMPs on the achievement of predetermined key performance indicators (KPIs) established for each financial year, according to the accountabilities of his/her role and its impact on the organisation's performance. KPIs include profit targets and personal performance criteria. Using a profit target ensures variable reward is paid only when value is created for shareholders and when profit meets or exceeds the profit target recommended by the Remuneration Committee for approval by the Board. There are minimum levels of performance to trigger payouts and the profit targets are linked to a sliding scale set at the beginning of each financial year. The STI is set as a variable annual incentive, where challenging performance measures are set to incentivise superior performance. The Managing Director may also recommend to the Board discretionary bonuses in exceptional circumstances. The incentives are cash bonuses.

The Remuneration Committee is responsible for assessing whether the KPIs are met. The following table shows the STI cash bonus target and the amount achieved for each KMP in FY15:

	STI TARGET		**STI ACHIEVED**	
Name	Total $	Financial Measures %	Total $	Financial Measures %
Anthony J Scali	180,000	100%	180,000	100%
Kevin Fine	75,000	100%	75,000	100%

Long-term incentives (LTI)
Long term incentives, in the form of the Executive Performance Rights Plan, are provided to employees in order to align remuneration with the creation of shareholder value over the long term. To achieve this purpose the Board has determined earnings per share growth over a period of time to be the most appropriate measure of performance. The plan operates to grant to employees Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not subject to retesting during the period. Earnings per share is based on the Company's total profit after tax and before non-recurring items, all as determined by the Board.

Remuneration Report – Audited (continued)

There is no exercise price for the shares and the employees are able to exercise the Right up to two years following vesting, after which time the Right will lapse.

In the financial year 2015, the remuneration available to key management personnel, subject to achieving specified targets, was split across the following components:

	Base	STI		LTI	
Name	**$**	**%**	**$**	**%**	**$**
Anthony J Scali	600,000	30%	180,000	–	–
Kevin Fine	375,000	40%	150,000	–	–

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the company are set out in the following tables.

The key management personnel of the company consisted of the following directors of the company:

- John W Ingram – Non-Executive Chairman
- Nick D Scali – Non-Executive Director
- Greg R Laurie – Non-Executive Director
- Carole A Molyneux – Non-Executive Director
- Anthony J Scali – Managing Director
- Nicky D Scali – Marketing Manager

And the following persons:

- Kevin Fine – Chief Financial Officer & Company Secretary (Appointed 5 January 2015)
- Gary K Jenkins – Chief Financial Officer & Company Secretary (Resigned 10 December 2014)

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

The terms 'Director' and 'Executive Officer' have been treated as mutually exclusive for the purposes of this disclosure.

Executive Officers are those directly accountable and responsible for operational management & strategic direction. The percentage of remuneration which is performance related is the cash bonuses, which are discretionary, and the Executive Performance Rights share-based payments.

No other Directors or Executives Officers received performance related remuneration during the year (2014: none).

	SALARY & FEES	SHORT TERM BENEFITS	SHARE BASED PAYMENTS	POST EMPLOYMENT BENEFITS	LONG TERM BENEFITS	TOTAL
		Cash Incentive	Share Rights	Superannuation	Long Service Leave	
2015	$	$	$	$	$	$
Non-Executive Directors:						
John W Ingram	100,000	–	–	–	–	100,000
Nick D Scali	61,012	–	–	5,796	–	66,808
Greg R Laurie	82,192	–	–	7,808	–	90,000
Carole A Molyneux	72,950	–	–	6,928	–	79,878
Executive Directors:						
Anthony J Scali	569,450	141,240	–	18,783	12,923	742,396
Nicky D Scali	314,216	100,000	–	18,783	6,573	439,572
Other Key Management Personnel:						
Kevin Fine	171,258	–	–	9,031	–	180,289
Gary K Jenkins	139,147	30,550	–	13,710	–	183,407
	1,510,225	271,790	–	80,839	19,496	1,882,350

Kevin Fine – Chief Financial Officer & Company Secretary (Appointed 5 January 2015)
Gary K Jenkins – Chief Financial Officer & Company Secretary (Resigned 10 December 2014)

Remuneration Report – Audited (continued)

2014	SALARY & FEES $	SHORT TERM BENEFITS Cash Incentive $	SHARE BASED PAYMENTS Share Rights $	POST EMPLOYMENT BENEFITS Superannuation $	LONG TERM BENEFITS Long Service Leave $	TOTAL $
Non-Executive Directors:						
John W Ingram	100,000	–	–	–	–	100,000
Nick D Scali	82,380	–	–	7,620	–	90,000
Greg R Laurie	82,380	–	–	7,620	–	90,000
Executive Directors:						
Anthony J Scali	582,225	81,900	–	17,775	10,161	692,061
Nicky D Scali	315,225	49,950	–	17,775	6,266	389,216
Other Key Management Personnel:						
Gary K Jenkins	151,998	–	–	14,060	–	166,058
Michael T Potts	69,376	70,000	(7,407)	4,102	–	136,071
Brett Daley	89,936	–	–	4,785	–	94,721
	1,473,520	201,850	(7,407)	73,737	16,427	1,758,127

Michael T Potts – Chief Financial Officer & Company Secretary (Resigned 17 September 2013)
Brett Daley – Interim Chief Financial Officer & Company Secretary (5 September 2013 to 1 December 2013) Salary and Fees includes termination payments of $35,452 for 2014.

Share-based compensation
Performance conditions in relation to Rights:

COMPANY'S AVERAGE PERCENTAGE COMPOUND EPS GROWTH PER ANNUM	PERCENTAGE OF RIGHTS EXERCISABLE
Below 5% p.a. compound	Nil
5% p.a. compound	50% of Rights exercisable
10% p.a. compound and above	100% of Rights exercisable
Greater than 5% p.a. compound and less than 10% p.a. compound	Calculated on a pro rata basis between 50% and 100% depending on company's EPS performance

Company's EPS growth over the previous five financial years:

	2011	2012	2013	2014	2015
Basic earnings per share growth	3.0%	-22.0%	35.0%	17.0%	20.0%

Additional disclosures relating to key management personnel
Interest in the Shares of the Company
The beneficial interest of each Director in the contributed equity of the Company are as follows:

	BALANCE AT THE START OF THE YEAR	RECEIVED AS PART OF REMUNERATION	ADDITIONS	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Ordinary shares					
John W Ingram	370,399	–	–	–	370,399
Greg R Laurie	30,000	–	–	–	30,000
Scali Consolidated Pty Ltd	40,500,000	–	–	–	40,500,000
	40,900,399	–	–	–	40,900,399

Scali Consolidated Pty Ltd, a Director related entity of Messrs Anthony J Scali and Nicky D Scali

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

During the financial period, the Company has indemnified 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 or Officers 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.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young, as part of the terms of audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount) – except for any loss in respect of any matters which are finally determined to have resulted from Ernst & Young's negligent, wrongful or wilful acts or omissions. No payment has been made to indemnify Ernst & Young during or since the financial year.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

There were no non-audit services provided during the financial year by the auditor.

Officers of the company who are former partners of Ernst & Young

There are no officers of the company who are former partners of Ernst & Young.

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 is included on page 14 of the Financial Statements.

Auditor

Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

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 directors

J.W. Ingram
Chairman

A.J. Scali
Managing Director

11 August 2015
Sydney

Auditor's Independence Declaration

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

In relation to our audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2015, 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 August 2015

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Corporate Governance Statement

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.

This Corporate Governance Statement of Nick Scali Limited (the 'company') has been prepared in accordance with the 3rd Edition of the Australian Securities Exchange's ('ASX') Corporate Governance Principles and Recommendations of the ASX Corporate Governance Council ('ASX Principles and Recommendations') and is included in the company's Annual Report pursuant to ASX Listing Rule 4.10.3. This listing rule requires the company to disclose the extent to which it has followed the recommendations during the financial year, including reasons where the company has not followed a recommendation and any related alternative governance practice adopted.

The ASX Principles and Recommendations and the company's response as to how and whether it follows those recommendations are set out below.

Principle 1: Lay solid foundations for management and oversight

Recommendation 1.1
A listed entity should disclose:
(a) the respective roles and responsibilities of its board and management; and
(b) those matters expressly reserved to the board and those delegated to management.

The company's Board maintains the following roles and responsibilities:

- being accountable for the performance of the company;
- providing leadership and setting the strategic objectives of the company;
- appointing the Chair and, if the company has one, the Deputy Chair and/or the "senior independent director";
- appointing, and when necessary replacing, the Chief Executive Officer ('CEO') and other senior executives including the Company Secretary;
- assessing the performance of the Managing Director and overseeing succession plans for senior executives;
- overseeing management's implementation of the company's strategic objectives;
- approving operating budgets and major capital expenditure;
- overseeing the integrity of the company's accounting and corporate reporting systems, including the external audit;
- overseeing the company's process for market disclosure of all material information concerning the company that a reasonable person would expect to have a material effect on the price or value of the company's securities;
- ensuring that the company has in place an appropriate risk management framework and setting the risk parameters within which the Board expects management to operate;
- approving the company's remuneration framework;
- monitoring the effectiveness of the company's governance practices; and
- reporting to and communications with shareholders.

The Board has delegated the day-to-day management of the company to the Managing Director and other senior executives ('management'). The company's management is responsible for the following:

– implementing the strategic objectives set by the Board;
– operating within the risk parameters set by the Board;
– operational and business management of the company;
– managing the company's reputation and operating performance in accordance parameters set by the Board;
– day-to-day running of the company;
– providing the Board with accurate, timely and clear information to enable the Board to perform its responsibilities; and
– approving capital expenditure (except acquisitions) within delegated authority levels.

Senior executives have their roles and responsibilities defined in specific position descriptions.

Recommendation 1.2

A listed entity should:

(a) undertake appropriate checks before appointing a person, or putting forward to security holders a candidate for election, as a director; and

(b) provide security holders with all material information in its possession relevant to a decision on whether or not to elect or re-elect a director.

Before appointing a director, or putting forward to shareholders a director for appointment, the company undertakes comprehensive reference checks that cover elements such as the person's character, experience, employment history, qualifications, criminal history, bankruptcy history, and disqualified officer status. Directors are required to declare each year that they have not been disqualified from holding the office of director by the Australian Securities and Investments Commission ('ASIC').

An election of directors is held each year. A director that has been appointed during the year must stand for election at the next Annual General Meeting ('AGM'). 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 company provides to shareholders for their consideration information about each candidate standing for election or re-election as a director that the Board considers necessary for shareholders to make a fully informed decision. Such information includes the person's biography, which include experience and qualifications, details of other directorships, adverse information about the person that the Board is aware of including material that may affect the person's ability to act independently on matters before the Board, and whether the Board supports the appointment or re-election.

Recommendation 1.3

A listed entity should have a written agreement with each director and senior executive setting out the terms of their appointment.

The terms of the appointment of a non-executive director are set out in writing and cover matters such as the term of appointment, time commitment envisaged, required committee work and other special duties, requirements to disclose their relevant interests which may affect independence, corporate policies and procedures, indemnities, and remuneration entitlements.

Executive directors and senior executives are issued with service contracts which detail the above matters as well as the person or body to whom they report, the circumstances in which their service may be terminated (with or without notice), and any entitlements upon termination.

Recommendation 1.4

The company secretary of a listed entity should be accountable directly to the board, through the chair, on all matters to do with the proper functioning of the board.

The Company Secretary reports directly to the Board through the Chairman and is accessible to all directors. The Company Secretary's role, in respect of matters relating to the proper functioning of the Board, includes:

i. advising the Board and its Committees on governance matters;
ii. monitoring compliance of the Board and associated committees with policies and procedures;
iii. coordinating all Board business;
iv. retaining independent professional advisors;
v. ensuring that the business at Board and committee meetings is accurately minuted; and
vi. assisting with the induction and development of directors.

Recommendation 1.5

A listed entity should:

- **have a diversity policy which includes requirements for the board or a relevant committee of the board to set measurable objectives for achieving gender diversity and to assess annually both the objectives and the entity's progress in achieving them;**
- **disclose that policy or a summary of it; and**
- **disclose as at the end of each reporting period the measurable objectives for achieving gender diversity set by the board or a relevant committee of the board in accordance with the entity's diversity policy and its progress towards achieving them, and either:**
  (1) the respective proportions of men and women on the board, in senior executive positions and across the whole organisation (including how the entity has defined "senior executive" for these purposes); or
  (2) if the entity is a "relevant employer" under the Workplace Gender Equality Act, the entity's most recent "Gender Equality Indicators", as defined in and published under that Act.

The company has a diversity policy which requires the Board to set measurable objectives for achieving gender diversity and to assess the objectives and the company's progress towards achieving them on an annual basis.

The policy aims to provide a work environment where employees have equal access to career opportunities, training and benefits. It also aims to ensure that employees are treated with fairness and respect, and are not judged by unlawful or irrelevant reference to gender, age, ethnicity, race, cultural background, disability, religion, sexual orientation or caring responsibilities. This commitment enables the company to attract and retain employees with the best skills and abilities.

The Company's objectives in relation to gender diversity are:

(1) To recruit from a diverse range of people.
(2) To ensure all employees have equal access opportunities in the workplace.
(3) To ensure there is equal pay for equal work.
(4) To continue to build an environment that is accepting of a diverse range of backgrounds and views.

The respective proportion of women and men in the company including its subsidiaries ('consolidated entity') as at 30 June 2015 are as follows:

	PORTION OF WOMEN	PROPORTION OF MEN
On the Board	17%	83%
In senior executive positions	22%	78%
Across the whole organisation	35%	65%

For this purpose, the Board defines a senior executive as a person who makes, or participates in the making of, decisions that affect the whole or a substantial part of the business or has the capacity to affect significantly the company's financial standing. This therefore includes all senior management and senior executive designated positions as well as senior specialised professionals.

Recommendation 1.6

A listed entity should:

(a) have and disclose a process for periodically evaluating the performance of the board, its committees and individual directors; and

(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board reviews its performance regularly, as well as the performance of individual Committees and directors. The process of evaluation consists of assessing the relative strengths and weaknesses of the directors and the committees they are member of and identifying areas that can be improved. This is achieved by way of collective Board discussions and individual interviews. The use of an external facilitator may be utilised periodically to assist in the review process.

Recommendation 1.7

A listed entity should:

(a) have and disclose a process for periodically evaluating the performance of its senior executives; and

(b) disclose, in relation to each reporting period, whether a performance evaluation was undertaken in the reporting period in accordance with that process.

The Board conducts an annual performance assessment of the Managing Director against agreed performance measures determined at the start of the year. The Managing Director undertakes the same assessments of senior executives. In assessing the performance of the individual, the review includes consideration of the senior executive's function, individual targets, group targets, and the overall performance of the company.

The Managing Director provides a report to the Board on the performance of senior executives together with remuneration recommendations which must be approved by the Board after consultation with the Remuneration Committee. The last review of senior executives in accordance with this process was undertaken during June 2015.

Principle 2: Structure the board to add value

Recommendation 2.1

The board of a listed entity should:

(a) have a nomination committee which:

- ***has at least three members, a majority of whom are independent directors; and***
- ***is chaired by an independent director,***

and disclose:

- ***the charter of the committee;***
- ***the members of the committee; and***
- ***as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or***

(b) if it does not have a nomination committee, disclose that fact and the processes it employs to address board succession issues and to ensure that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to enable it to discharge its duties and responsibilities effectively.

The Board has not established a nomination committee; instead the responsibility for these practices rests with the full Board.

The Board is responsible for addressing board succession issues and for ensuring that the board has the appropriate balance of skills, knowledge, experience, independence and diversity to discharge its duties.

The majority of the Board members and the Chair are independent.

Recommendation 2.2

A listed entity should have and disclose a board skills matrix setting out the mix of skills and diversity that the board currently has or is looking to achieve in its membership.

The Board currently believes that its membership adequately provides the appropriate mix of skills and experience. External consultants may be brought in with specialist knowledge to address areas where applicable.

The mix of skills comprised in the current Board, and that the Board would look to maintain, and to build on, includes:

- technical expertise (including finance);
- ability to think strategically;
- assess senior executives and set key performance hurdles.

Details of the directors, their term of office and their qualifications, skills and experiences are detailed in the Directors' Report.

Recommendation 2.3
A listed entity should disclose:

(a) ***the names of the directors considered by the Board to be independent directors;***

(b) ***if a director has an interest, position, association or relationship of the type described in 2.3 but the board is of the opinion that it does not compromise the independence of the director, the nature of the interest, position, association or relationship in question and an explanation of why the board is of that opinion; and***

(c) ***the length of service of each director.***

The Board assesses annually the independence of each director to ensure that those designated as independent do not have any alliance to the interests of management, substantial shareholders or other relevant stakeholders. They must be free of any interest, position, association or relationship that might influence, or reasonably be perceived to influence, in a material respect, their capacity to bring an independent judgement to bear on issues before the Board and to act in the best interests of the company and its security holders generally.

Details of the Board of directors, their appointment date, length of service and independence status is as follows:

DIRECTOR'S NAME	APPOINTMENT DATE	LENGTH OF SERVICE AT REPORTING DATE	INDEPENDENCE STATUS
John W Ingram	7 April 2004	11 years	Independent
Nick D Scali	20 July 1962	52 years	Not-independent
Greg R Laurie	7 April 2004	11 years	Independent
Carole A Molyneux	26 June 2014	1 years	Independent
Anthony J Scali	25 July 1983	31 years	Not-independent
Nicky D Scali (Alternate Director)	07 April 2004	11 years	Not-independent

The Board may determine that a director is independent notwithstanding the existence of an interest, position, association or relationship of the kind identified in the examples listed under Recommendation 2.3 of the ASX Principles and Recommendations.

Recommendation 2.4
A majority of the board of a listed entity should be independent directors.

Having regard to the response to Recommendation 2.3 above, the majority of the Board at the reporting date were independent.

Recommendation 2.5
The chair of the board of a listed entity should be an independent director and, in particular, should not be the same person as the CEO of the entity.

John W Ingram is Chair of the Board and is considered to be an independent director of the company. Anthony J Scali is the Managing Director and Chief Executive Officer.

Recommendation 2.6
A listed entity should have a program for inducting new directors and provide appropriate professional development opportunities for directors to develop and maintain the skills and knowledge needed to perform their role as directors effectively.

New directors undertake an induction program coordinated by the Company Secretary on behalf of the Remuneration Committee. The program includes strategy briefings, explanations of company policies and procedures, governance frameworks, cultures and values, company history, director and executive profiles and other pertinent company information. A director development program is also available which is coordinated by the Company Secretary to ensure that directors can enhance their skills and remain abreast of important developments to enable them to discharge their director obligations as effectively as possible.

Principle 3: Act ethically and responsibly

Recommendation 3.1
A listed entity should:

(a) ***have a code of conduct for its directors, senior executives and employees; and***

(b) ***disclose that code or a summary of it.***

The company maintains a code of conduct for its directors, senior executives and employees. In summary, the code requires the following of each relevant person:

- act honestly, in good faith and in the best interests of the company as a whole;
- exercise a duty to use care and diligence in fulfilling the functions of office or position and exercising the powers attached to that office or position;
- use the powers of office for a proper purpose and in the best interests of the company as a whole;
- recognise that the primary responsibility is to the company as a whole but may, where appropriate, have regard for the interest of other stakeholders of the company;

- not to make improper use of information acquired as a director or employee;
- not take improper advantage of their position as a member of the Board or employee;
- properly manage and declare any conflict of interest with the company;
- directors to be independent in judgement and actions and to take all reasonable steps to be satisfied as to the soundness of all decisions taken by the Board;
- confidential information received in the course of the exercise of their duties remains the property of the company and, unless appropriate authority granted, it is improper to disclose it, or allow it to be disclosed;
- not to engage in conduct likely to affect the reputation of company; and
- to comply with the spirit, as well as the letter, of the law and with the principles of this Code.

Principle 4: Safeguard integrity in corporate reporting

Recommendation 4.1
The board of a listed entity should:
(a) have an audit committee which:
(1) has at least three members, all of whom are non-executive directors and a majority of whom are independent directors; and
(2) is chaired by an independent director, who is not the chair of the board,
and disclose:
(3) the charter of the committee;
(4) the relevant qualifications and experience of the members of the committee; and
(5) in relation to each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or
(b) if it does not have an audit committee, disclose that fact and the processes it employs that independently verify and safeguard the integrity of its corporate reporting, including the processes for the appointment and removal of the external auditor and the rotation of the audit engagement partner.

The Board maintains an Audit Committee, the members of which are:

DIRECTOR'S NAME	EXECUTIVE STATUS	INDEPENDENCE STATUS
Greg R Laurie – *Chairman*	Non-Executive	Independent
John W Ingram	Non-Executive	Independent
Nick D Scali	Non-Executive	Non-independent
Carole A Molyneux	Non-Executive	Independent

The Majority of the Committee members and the Chair are independent, thereby satisfying this Recommendation.

Details of the qualifications and experience of the members of the Committee are included in the 'Information of directors' section of the Directors' Report.

Audit Committee meetings are held regularly throughout the year. The Audit Committee operates under a Charter approved by the Board. The Audit Committee's responsibilities under the Charter 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 and recommend to the Board the adoption of the Company's annual and half-yearly financial statements;
- 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;
- liaise with and review the performance 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.

Four Audit Committee Meetings were held during the year with the Managing Director and Chief Financial Officer also attending. In addition to these meetings the Chairman of the Audit Committee met periodically with management and the external auditors.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' report.

Recommendation 4.2
The board of a listed entity should, before it approves the entity's financial statements for a financial period, receive from its Managing Director and CFO a declaration that, in their opinion, the financial records of the entity have been properly maintained and that the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the entity and that the opinion has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

In relation to the financial statements for the financial year ended 30 June 2015, the company's Managing Director and CFO have provided the Board with declarations, that in their opinion:

- the financial records of the company have been properly maintained;
- the financial statements comply with the appropriate accounting standards and give a true and fair view of the financial position and performance of the company; and
- has been formed on the basis of a sound system of risk management and internal control which is operating effectively.

Recommendation 4.3
A listed entity that has an AGM should ensure that its external auditor attends its AGM and is available to answer questions from security holders relevant to the audit.

The engagement partner for the company's audit attends the AGM and is available to answer shareholder questions from shareholders relevant to the audit.

Principle 5: Make timely and balanced disclosure

Recommendation 5.1
A listed entity should:
(a) have a written policy for complying with its continuous disclosure obligations under the Listing Rules; and
(b) disclose that policy or a summary of it.

Listing Rule 3.1 requires a listed entity, subject to certain exceptions, to disclose to ASX immediately any information concerning it that a reasonable person would expect to have a material effect on the price or value of its securities. The company is committed to providing the market with complete and timely information about disclosure events in compliance with its continuous disclosure obligations and the Corporations Act 2001.

The company maintains a policy that outlines the responsibilities relating to the directors, officers and employees in complying with the company's disclosure obligations. Where any such person is of any doubt as to whether they possess information that could be classified as market sensitive, they are required to notify the Company Secretary immediately, in the first instance, so that appropriate analysis and internal consultation can be conducted. Legal advice may also be sought internally or from the company's external counsel.

The Company Secretary is required to consult with the Managing Director in relation to matters brought to his or her attention for potential announcement. Where the matter is urgent and the Managing Director is not contactable, the Chairman is contacted. Where the Chairman is not contactable, the Company Secretary may decide whether an announcement is made, or whether a trading halt is warranted.

Generally, the Managing Director is ultimately responsible for decisions relating to the making of market announcements. The Company Secretary is responsible for ensuring that the Board is aware of items of business that could result in an announcement. The Board is required to authorise announcements of significance to the company such as significant acquisitions, disposals and closures, material profit upgrades or downgrades, dividend declarations and buybacks, and any other transaction flagged by the Chairman as being fundamentally significant.
The Company Secretary is responsible for advising when announcements are not required due to either circumstances such as where the information relates to matters of supposition or is insufficiently definite, it concerns an incomplete proposal or negotiation, the information is confidential or would represent a breach of law if disclosed, and where a reasonable person would not expect the disclosure of the information.

No member of the company shall disclose market sensitive information to any person unless they have received acknowledgement from the ASX that the information has been released to the market.

Principle 6: Respect the rights of security holders

Recommendation 6.1
A listed entity should provide information about itself and its governance to investors via its website.

The company maintains information in relation to privacy policy, diversity policy, annual reports, ASX announcements and contact details on the company's website.

Recommendations 6.2 and 6.3
A listed entity should design and implement an investor relations program to facilitate effective two-way communication with investors (6.2).
A listed entity should disclose the policies and processes it has in place to facilitate and encourage participation at meetings of security holders (6.3).

In order for investors to gain a greater understanding of the company's business, governance practices, financial performance and future prospects, the company schedules interactions during the year where it engages with institutional and private investors, analysts and the financial media.

These meetings and discussions must be approved by the Managing Director and are generally conducted by the Managing Director and/or the CFO. The discussions are restricted to explanations of information already within the market or which deal with non-price sensitive information. These meetings are not held within a four week blackout period in advance of the release of interim or full-year results.

The company encourages shareholders to attend the company's AGM and to send in questions prior to the AGM so that they may be responded to during the meeting. It also encourages ad hoc enquiry via email which are responded to. Written transcripts of the meeting are made available on the company's website.

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 to the market a Results Presentation which provides additional information for shareholders.

The Annual Report and announcements to the ASX Limited are included on the Company's website.

Recommendation 6.4

A listed entity should give security holders the option to receive communications from, and send communications to, the entity and its security registry electronically.

The company engages its share registry to manage the majority of communications with shareholders. Shareholders are encouraged to receive correspondence from the company electronically, thereby facilitating a more effective, efficient and environmentally friendly communication mechanism with shareholders. Shareholders not already receiving information electronically can elect to do so through the share registry, Link Market Services Limited at www.linkmarketservices.com.au.

Principle 7: Recognise and manage Risk

Recommendations 7.1 and 7.2

The board of a listed entity should:

(a) have a committee or committees to oversee risk, each of which:

(1) has at least three members, a majority of whom are independent directors; and

(2) is chaired by an independent director, and disclose:

(3) the charter of the committee;

(4) the members of the committee; and

(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or

(b) if it does not have a risk committee or committees that satisfy (a) above, disclose that fact and the processes it employs for overseeing the entity's risk management framework (7.1).

The Board or a committee of the Board should: (a) review the entity's risk management framework at least annually to satisfy itself that it continues to be sound; and (b) disclose, in relation to each reporting period, whether such a review has taken place (7.2).

The Audit Committee recommends to the Board the policy and overall direction of risk management for the Company. Responsibility for day to day management of risk rests with Management. The Audit Committee reports to the Board in relation to matters relevant to its responsibilities. During the reporting period, the Audit Committee, and through it the Board, received a number of reports on the operation and effectiveness of the policies, processes and controls within the Company.

The members of the Committee are detailed in Recommendation 4.1 above.

The charter includes the committee's responsibilities which include procedures for general risk oversight and monitoring, internal control and risk management, risk transfer and insurance and other responsibilities.

The Committee assists the Board by providing independent and objective review, advice and assistance in developing Board policy and monitoring corporate activity within the scope of its responsibility, making recommendations to the Board for resolution, and assisting the Board in identifying and managing risks.
The Audit Committee reviews the company's risk management framework at least annually to ensure that it is still suitable to the company's operations and objectives and that the company is operating within the risk parameters set by the Board.

Share Trading Policy

The Company also has a Share Trading Policy for directors and employees. Subject at all times to not being in possession of inside information, directors, officers (and their related entities) may deal in Nick Scali Limited securities during the eight (8) week period commencing on the second business day following:

- an announcement of Nick Scali Limited's full year financial results, and
- an announcement of Nick Scali Limited's half year financial results, and
- the Annual General Meeting of Nick Scali Limited, and
- any announcement by the Company indicating expected results, provided that such a trading window does not extend beyond the end of a Nick Scali Limited financial reporting period (half year or full year); in which case the window will instead close at the end of that reporting period.

Approval to trade outside these windows will only be granted in exceptional personal circumstances, upon prior notice to and approval from:

- in the case of directors, the Chairman;
- in the case of the Chairman, the Chairman of the Audit Committee;
- in the case of officers, the Managing Director.

Directors and designated employees are encouraged to give prior notification to the Company Secretary of any proposed dealing in the Company's securities and in any event must advise the Company Secretary as soon as possible after a trade has occurred.

The Board recognises that it is the individual responsibility of each director and employee to ensure he or she complies with the spirit and the letter of insider trading laws and that notification to the Company Secretary in no way implies approval of any transaction.

Work, Health and Safety (WHS)

An important focus for the Board is to ensure the safety and wellbeing of all our employees.

The Company has a WHS committee, made up of representatives from operations, stores, warehouse and Head Office.

The WHS Committee meets regularly to oversee and manage the WHS risk for the Company. During these meetings the WHS Committee reports on, reviews and follows up any WHS issues or incidents that have occurred.

Recommendation 7.3

A listed entity should disclose:

(a) if it has an internal audit function, how the function is structured and what role it performs; or

(b) if it does not have an internal audit function, that fact and the processes it employs for evaluating and continually improving the effectiveness of its risk management and internal control processes.

There is not a dedicated internal audit function, however, considerable importance is placed on maintaining a strong control environment in the company. There is an organisation structure with clearly drawn lines of accountability and delegation of authority. Internal control reviews are undertaken on a periodic basis and the results are reported to the Audit Committee.

The external audit function is separate and independent of the above processes. From time to time, third party consultants are engaged to perform procedures to review internal controls.

Recommendation 7.4

A listed entity should disclose whether it has any material exposure to economic, environmental and social sustainability risks and, if it does, how it manages or intends to manage those risks.

The company is not subject to any significant environmental regulation under Australian Commonwealth or State law.

The management of the company and the execution of its growth strategies are subject to a number of risks which could adversely affect the company's future development. The following is not an exhaustive list or explanation of all risks and uncertainties associated with the company, but those considered by management to be the principal material risks:

Customer base

The company needs to attract new customers, in sufficient numbers and to retain existing customers, especially in markets where the company already has a degree of market penetration. In order to do this, the company is using traditional TV marketing. If these strategies fail, the revenue may be reduced which could have an adverse effect on the financial results.

Patents, trademarks and brand reputation

Maintaining and enhancing the company's brand is critical to the implementation of the company's strategies. If the company fails to meet customer (and supplier) expectations, negative publicity and complaints on social media platforms could damage the brand and ultimately reduce customers' willingness to buy from the company. If the company fails to maintain the brand or if excessive expenses are incurred in this effort, the company's business, results of operations, financial condition and financial results may be materially and adversely affected. As with all brands, the company is exposed to risk from unauthorised use of its trademarks and other intellectual property. Any infringement could lead to a loss in profits and have a negative impact on image and continued success. Patents and trademarks are registered and where any infringements are identified, appropriate legal action is taken

Cash and other financial risk

The management of cash is of fundamental importance. The decrease in cash in the year reflects the improved trading results offset by the acquisition of two properties during the year. At the reporting date the consolidated entity had a cash balance of $33.6 million (2014: $35.9 million). The available cash will be used to carry out the company's expansion plans and future potential commercial property purchases. The company is also exposed to financial risks such as foreign currency risk and interest rate risk. Refer to the 'Financial Instrument' note to the financial statements for further information on these risks and how they are managed.

Loss of key people

The company's senior executive team is instrumental in implementing the company's strategies and executing business plans which support the business operations and growth. The buying team have strong supplier relationships which are central to the company's ability to source and are critical to bringing new initiative products to market in a timely faction. Service agreements are in place and the risk of the loss of key personnel is mitigated by regular reviews of remuneration packages (including short and long term incentive schemes), training and development of relevant team members and succession planning within the team.

Refer to commentary at Recommendations 7.1 and 7.2 for further information on the company's risk management framework.

Principle 8: Remunerate fairly and responsibly

Recommendation 8.1
The board of a listed entity should:
(a) have a remuneration committee which:
- ***(1) has at least three members, a majority of whom are independent directors; and***
- ***(2) is chaired by an independent director, and disclose:***
- ***(3) the charter of the committee;***
- ***(4) the members of the committee; and***
- ***(5) as at the end of each reporting period, the number of times the committee met throughout the period and the individual attendances of the members at those meetings; or***

(b) if it does not have a remuneration committee, disclose that fact and the processes it employs for setting the level and composition of remuneration for directors and senior executives and ensuring that such remuneration is appropriate and not excessive.

The Board has a Remuneration Committee and the members are detailed in Recommendation 4.1 above.

Details of the qualifications and experience of the members of the Committee is detailed in the 'Information of directors' section of the Directors' Report.

The Remuneration Committee oversees remuneration policy and monitors remuneration outcomes to promote the interests of shareholders by rewarding, motivating and retaining employees.

The Committee's charter sets out the roles and responsibilities, composition and structure of the Committee. In summary, the charter provides for the committee to monitor and advise upon the following matters:
- the company's remuneration structure including long term incentives and superannuation arrangements;
- remuneration and incentives of the Board, Managing Director and Company Secretary;
- performance and remuneration of senior management;
- remuneration strategies, practices and disclosures generally;
- The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies;
- employee share payment plans;
- recruitment, retention and termination strategies;
- management succession, capability and talent development; and
- the Remuneration Report, contained within the Directors' Report.

When considered necessary, the Committee may obtain external advice from independent consultants in determining the company's remuneration practices including remuneration levels.

The number of Committee meetings held and attended by each member is disclosed in the 'Meetings of directors' section of the Directors' Report.

Recommendation 8.2
A listed entity should separately disclose its policies and practices regarding the remuneration of non-executive directors and the remuneration of executive directors and other senior executives.

Details in relation to the company's remuneration policies are contained in the Remuneration Report, within the Directors' Report.

Recommendation 8.3
A listed entity which has an equity-based remuneration scheme should:
(a) have a policy on whether participants are permitted to enter into transactions (whether through the use of derivatives or otherwise) which limit the economic risk of participating in the scheme; and
(b) disclose that policy or a summary of it

The use of derivatives or other hedging arrangements for unvested securities of the company or vested securities of the company which are subject to escrow arrangements is prohibited. Where a director or other senior executive uses derivatives or other hedging arrangements over vested securities of the company, this will be disclosed.

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2015 $'000	2014 $'000
Revenue from sale of goods	2	155,743	141,442
Cost of goods sold		(61,280)	(56,019)
Gross Profit		**94,463**	**85,423**
Other Income	2	1,452	1,284
Expenses			
Marketing expenses		(13,504)	(12,543)
Employment expenses	3	(24,153)	(22,297)
General & Administration expenses		(6,209)	(5,576)
Property expenses	3	(24,223)	(23,046)
Distribution expenses		(873)	(639)
Depreciation and Amortisation	3	(2,105)	(1,947)
Finance costs		(426)	(301)
Profit before income tax expense		**24,422**	**20,358**
Income tax expense	4	(7,345)	(6,122)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited	**20**	**17,077**	**14,236**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		331	(723)
Other comprehensive income for the year, net of tax		331	(723)
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		**17,408**	**13,513**
		CENTS	**CENTS**
Basic earnings per share	32	21.1	17.6
Diluted earnings per share	32	21.1	17.6

The above statement of comprehensive income should be read in conjunction with the accompanying notes

Statement of Financial Position

AS AT 30 JUNE 2015

	NOTE	2015 $'000	2014 $'000
Assets			
Current assets			
Cash and cash equivalents	5	33,680	35,903
Receivables	6	235	164
Inventories	7	24,212	19,013
Other Financial Assets	8	561	8
Other Assets	9	177	92
Total current assets		58,865	55,180
Non-current assets			
Property, Plant and Equipment	10	35,094	22,868
Intangibles Assets	11	2,378	2,378
Total non-current assets		37,472	25,246
Total assets		**96,337**	**80,426**
Liabilities			
Current liabilities			
Payables	12	33,172	27,407
Current tax liabilities	13	1,143	2,367
Provisions	14	1,250	1,379
Total current liabilities		35,565	31,153
Non-current liabilities			
Borrowings	15	12,062	6,762
Deferred tax	16	490	409
Provisions	17	1,994	1,972
Total non-current liabilities		14,546	9,143
Total liabilities		**50,111**	**40,296**
Net assets		**46,226**	**40,130**
Equity			
Issued capital	18	3,364	3,364
Reserves	19	324	(35)
Retained profits	20	42,538	36,801
Total equity		**46,226**	**40,130**

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

Statement of Changes in Equity

FOR THE YEAR ENDED 30 JUNE 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 2013	3,364	13	78	594	32,285	36,334
Profit after income tax expense for the year	–	–	–	–	14,236	14,236
Other comprehensive income for the year, net of tax	–	–	–	(723)	–	(723)
Total comprehensive income for the year	–	–	–	(723)	14,236	13,513
Share–based payments (note 33)	–	3	–	–	–	3
Dividends paid (note 21)	–	–	–	–	(9,720)	(9,720)
Balance at 30 June 2014	**3,364**	**16**	**78**	**(129)**	**36,801**	**40,130**

	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 year	–	–	–	–	17,077	17,077
Other comprehensive income for the year, net of tax	–	–	–	331	–	331
Total comprehensive income for the year	–	–	–	331	17,077	17,408
Share-based payments (note 33)	–	28	–	–	–	28
Dividends paid (note 21)	–	–	–	–	(11,340)	(11,340)
Balance at 30 June 2015	**3,364**	**44**	**78**	**202**	**42,538**	**46,226**

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

Statement of Cash Flows

FOR THE YEAR ENDED 30 JUNE 2015

	NOTE	2015 $'000	2014 $'000
Cash flows from operating activities			
Receipts from customers		171,247	166,298
Payments to suppliers and employees		(144,859)	(139,104)
		26,388	27,194
Interest received		1,061	1,124
Income taxes paid		(8,628)	(5,902)
Net cash from operating activities	31	**18,821**	**22,416**
Cash flows from investing activities			
Purchase of property, plant and equipment	10	(14,578)	(2,933)
Net cash used in investing activities		**(14,578)**	**(2,933)**
Cash flows from financing activities			
Payment of dividends on ordinary shares	21	(11,340)	(9,720)
Proceeds from borrowings		5,300	–
Interest paid		(426)	(301)
Net cash used in financing activities		**(6,466)**	**(10,021)**
Net increase/(decrease) in cash and cash equivalents		(2,223)	9,462
Cash and cash equivalents at the beginning of the financial year		35,903	26,441
Cash and cash equivalents at the end of the financial year	5	**33,680**	**35,903**

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

Notes to the Financial Statements

FOR YEAR ENDED 30 JUNE 2015

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

Significant accounting judgements, estimates and assumptions

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.

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial report was authorised for issue in accordance with a resolution of the Directors on 11 August 2015.

Note 1. Significant accounting policies (continued)

Historical cost convention
The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been prepared at fair value.

Foreign currency translation
Both the functional and presentation currency of the Company is Australian dollars ($). Items included in the financial report of the Company are measured using that functional currency.

Foreign currency transactions
Transactions in foreign currencies are initially recorded in the functional currency by applying the exchange rates ruling at the date of the transaction or at the hedged rate if qualifying financial instruments have been used to reduce exposure. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date or hedged rates.

All exchange differences are recognised in the statement of income, except when deferred in equity as qualifying cash flow hedges.

Revenue recognition
Revenue is recognised when it is probable that the economic benefit will flow to the company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

Sale of goods
Revenue is recognised when the risks and rewards of ownership of the goods have passed to the buyer and the costs incurred in respect of the transaction can be reliably measured. Risk and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. Revenue recognised equals fair value of the consideration received or receivable.

Interest income
Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Income tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax, assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Note 1. Significant accounting policies (continued)

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Other taxes
Revenues, expenses and assets are recognised net of the amount of GST except:

- when 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
- receivables and payables, which are stated with the amount of GST included. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Current and non-current classification
Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents
Cash and short-term deposits in the statement of financial position comprise cash at bank and in hand and short-term deposits with an original maturity of six months or less. For the purposes of the statement of cash flows, cash and equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

Trade and other receivables
Trade receivables are recognised and carried at original invoice amount less an allowance for any uncollectible amounts. An allowance for doubtful debts is made when there is objective evidence that the Company will not be able to collect the debts. Bad debts are written off when identified.

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

Derivative financial instruments
The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk including forward foreign exchange contracts and options.

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged.

As appropriate, the Company designates derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

Derecognition of financial assets and financial liabilities

Financial assets
A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised when:

- the rights to receive cash flows from the asset have expired;
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or

Note 1. Significant accounting policies (continued)

- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Property, plant and equipment
All classes of property, plant and equipment are measured at cost, less accumulated depreciation and any impairment in value. Depreciation is provided on a straight line basis on all property, plant and equipment.

Major depreciation periods are:

Buildings	20 – 40 years
Office equipment	3 –12 years
Furniture and fittings	3 – 15 years
Leasehold & building improvements	5 – 15 years
Motor vehicles	6 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated at the shorter of the depreciation period or the term of the lease. Land is not depreciated.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

The carrying values of property, plant & equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

Intangible assets
Goodwill
Goodwill on acquisition is initially measured at cost being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is not amortised.

Goodwill is reviewed for impairment at each reporting date, or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

When goodwill forms part of a cash-generating unit and an operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this manner is measured based on the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment of non-financial assets
Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Note 1. Significant accounting policies (continued)

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables
Trade and other payables are carried at amortised cost and due to their short term nature they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30 days of recognition.

Interest-bearing loans and borrowings
All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Borrowings are classified as current liabilities unless the Company has an unconditional right to defer settlement of the liability for a least 12 months after the reporting date.

Borrowing costs are recognised as an expense when incurred, unless they are directly attributable to the acquisition, construction or production of a qualifying asset whereby they are capitalised.

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
Leases where the Lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating leases are recognised as an expense in the statement of income on a straight-line basis over the lease term.

The Company has received financial incentive contributions from the lessor's 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.

Finance costs
Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions
Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

Employee entitlements
Wages, salaries and annual leave
Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Long service leave
The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on national government bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Share-based payments
The Company provides benefits to employees in the form of share-based payments through its Executive Performance Rights Plan. These equity settled share-based payments are measured at the fair value of the Rights at grant date. Fair value is determined by valuation. The fair value is expensed on a straight line basis over the vesting period, with a corresponding increase in equity, based on the Company's estimate of the number of shares that will eventually vest giving consideration to the likelihood of employee turnover and likelihood of non-market performance conditions being met.

Note 1. Significant accounting policies (continued)

At each reporting date the Company revises its estimate of the number of Rights expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss over the remaining vesting period, along with the reversal of any previous charges relating to Rights which may have lapsed.

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

Make good provision
A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with restoring the premises to its condition at the time the Company initially leased the premises, subject to fair wear and tear.

The calculation of this provision requires assumptions such as cost estimates and an assessment of the likelihood the Company will continue to lease the premises at the end of the current lease. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the expense or asset (if applicable) and provision.

Assets and liabilities measured at fair value are classified, into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Contributed equity
Ordinary share capital is recognised at the fair value of the consideration received by the company.

Any transaction cost arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Earnings per share
Basic earnings per share
Basic earnings per share (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 earnings per share
Diluted EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

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.

New Accounting Standards and Interpretations not yet mandatory or early adopted
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the company for the annual reporting period ended 30 June 2015. The company has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

	2015 $'000	2014 $'000
Note 2. Revenue		
Sales Revenue	155,743	141,442
Interest income	1,061	1,124
Rent received	160	–
Sundry income	231	160
Total other income	1,452	1,284
Total Revenue	157,195	142,726

Note 3. Expenses

Profit before income tax includes the following specific expenses:

(a) Expenses

	2015 $'000	2014 $'000
Operating lease rental – minimum lease payments	24,223	23,046
Other expenses includes:		
Depreciation/Amortisation of non-current assets		
Land & Buildings	207	180
Building improvements	109	96
Office Equipment	678	573
Furniture and fittings	288	336
Leasehold improvements	751	694
Motor vehicles	72	68
	2,105	1,947
Employee benefits expenses		
Salaries and wages	17,040	15,591
Superannuation expense	1,701	1,557
Share-based payments	28	3
Other	5,384	5,146
	24,153	22,297

(b) Losses/(gains)

	2015 $'000	2014 $'000
Loss on disposal of property, plant and equipment	207	165

(i) Realised exchange gains and losses have been included in cost of sales

	2015 $'000	2014 $'000
Note 4. Income tax expense		
Income tax expense		
Current income tax charge	7,405	6,072
Adjustments in respect of current income tax of previous years	–	4
Relating to origination and reversal of temporary differences	(60)	46
Aggregate income tax expense	7,345	6,122
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	24,422	20,358
Tax at the statutory tax rate of 30%	7,327	6,107
Adjustments in respect of current income tax of previous years	–	4
Other items (net)	18	11
Income tax expense	7,345	6,122
Deferred tax assets not recognised		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Depreciation – tax rate	(600)	(472)
Legal fees	(3)	(1)
Compensation for lease surrender	(1,612)	(1,612)
Inventory write off accrual	171	–
Employee entitlements	826	797
Audit fee accrual	34	20
Superannuation accrual	57	48
Deferred rent	679	707
Unallocated Credit Note	27	35
Make good	18	14
Cashflow Hedge (Note 23)	(87)	55
Total deferred tax assets not recognised	(490)	(409)
Note 5. Current assets – cash and cash equivalents		
Cash on hand	2	4
Cash at bank	33,678	35,899
	33,680	35,903

	2015 $'000	2014 $'000
Note 6. Current assets – Receivables		
Trade debtors (i)	186	101
Sundry debtors (ii)	49	63
	235	164

Terms and conditions relating to the above financial instruments:
(i) Trade debtors are non-interest bearing and generally less than 30 day terms.

Past due but not impaired
Customers with balances past due but without provision for impairment of receivables amount to $7,000 as at 30 June 2015 ($16,000 as at 30 June 2014).

The ageing of the past due but not impaired receivables are as follows:

	2015 $'000	2014 $'000
Current	179	85
0 – 30 days	2	12
> 60 days	5	4
	186	101

(ii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.

	2015 $'000	2014 $'000
Note 7. Current assets – inventories		
Finished goods – at cost	20,422	15,255
Stock in transit – at cost	3,790	3,758
	24,212	19,013

During 2015, $601,849 (2014: $317,775) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of goods sold.

	2015 $'000	2014 $'000
Note 8. Current assets – Other Financial Assets		
Deposits	273	8
Cash flow hedge receivable (note 23)	288	–
	561	8
Note 9. Current assets – Other Assets		
Prepaid expenses	177	92

	2015 $'000	2014 $'000
Note 10. Non-current assets – Property, Plant and Equipment		
Land and buildings – at cost	26,146	15,716
Less: Accumulated depreciation	(696)	(490)
	25,450	15,226
Building improvements – at cost	1,440	792
Less: Accumulated depreciation	(290)	(181)
	1,150	611
Leasehold improvements – at cost	9,527	8,065
Less: Accumulated depreciation	(5,039)	(4,415)
	4,488	3,650
Fixtures and fittings – at cost	3,242	3,333
Less: Accumulated depreciation	(2,436)	(2,266)
Less: Impairment	(79)	(46)
	727	1,021
Motor vehicles – at cost	766	705
Less: Accumulated depreciation	(575)	(526)
	191	179
Office equipment – at cost	7,045	5,960
Less: Accumulated depreciation	(3,957)	(3,779)
	3,088	2,181
	35,094	22,868

Reconciliations

Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the current financial year:

	LAND, BUILDINGS & BUILDING IMPROVEMENTS $'000	LEASEHOLD IMPROVEMENTS $'000	FIXTURES & FITTINGS $'000	MOTOR VEHICLES $'000	OFFICE EQUIPMENT $'000	TOTAL $'000
Balance at 1 July 2013	15,657	3,058	1,276	187	1,869	22,047
Additions	457	1,449	81	60	886	2,933
Disposals	–	(163)	(1)	–	(1)	(165)
Impairment	–	–	(10)	–	–	(10)
Depreciation charged	(276)	(694)	(326)	(68)	(573)	(1,937)
Balance at 30 June 2014	**15,838**	**3,650**	**1,020**	**179**	**2,181**	**22,868**
Additions	11,078	1,649	17	90	1,744	14,578
Disposals	–	(60)	(22)	(6)	(159)	(247)
Write off of assets	–	–	(33)	–	–	(33)
Depreciation charged	(316)	(751)	(255)	(72)	(678)	(2,072)
Balance at 30 June 2015	**26,600**	**4,488**	**727**	**191**	**3,088**	**35,094**

Land & Buildings are subject to a registered first mortgage to secure bank loans relating to their purchase.

	2015 $'000	2014 $'000
Note 11. Non-current assets – Intangibles Assets		
Goodwill on acquisition of stores in Adelaide	2,378	2,378

No impairment loss was recognised in the current financial year.

Goodwill acquired through business combinations has been allocated to one individual cash generating unit for impairment testing, being the Adelaide stores and related distribution centre. The recoverable amount of the Adelaide stores has been determined based on a value in use calculation using cash flow projections based on financial budgets approved by senior management covering a five year period.

The pre-tax discount rate applied to cash flow projections is 12.5% (2014: 13.0%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 3.0% (2014: 3.0%) for the five years, which is considered to be a conservative representation of the long term average growth rate of the cash generating unit.

The following describes each key assumption on which management has based its cash flow projection when determining the value in use of the Adelaide stores.

A consistent gross margin of 60% (2014: 60%) has been assumed, based on the Company's profit history of consistent store by store margins.

The continuity of leases on premises for the next five years has been assumed where appropriate.

The value in use calculation is most sensitive to assumptions relating to sales growth, cost of capital and terminal values.

However, it would require a significant adverse change in these assumptions to impact the existing non-impairment assessment. The significant adverse change is not expected.

	2015 $'000	2014 $'000
Note 12. Current liabilities – Payables		
Trade creditors (i)	7,112	6,138
Other creditors and accruals (ii)	5,930	4,621
Cash flow hedge payable (iii) (note 23)	–	182
Customer deposits	18,295	14,757
Annual leave	1,835	1,709
	33,172	27,407

Refer to note 22 for further information on financial instruments.

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) 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.

	2015 $'000	2014 $'000
Note 13. Current liabilities – Current tax liabilities		
Provision for income tax	1,143	2,367
Note 14. Current liabilities – provisions		
Long service leave	697	671
Deferred Rent	553	708
	1,250	1,379

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 Charge Act.

Number of employees

Number of full-time and part-time employees at balance date 299 (2014: 265)

	2015 $'000	2014 $'000
Note 15. Non-current liabilities – borrowings		
Commercial bills payable	12,062	6,762

Refer to note 22 for further information on financial instruments.

	2015 $'000	2014 $'000
Note 16. Non-current liabilities – deferred tax		
Deferred tax liability	490	409
Note 17. Non-current liabilities – provisions		
Long service leave	224	277
Deferred Rent	1,710	1,648
Lease make good	60	47
	1,994	1,972

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

2015	DEFERRED RENT $'000	LEASE MAKE GOOD $'000
Carrying amount at the start of the year	2,356	47
Utilised	(519)	(10)
Amounts provided	426	23
Carrying amount at the end of the year	2,263	60

	2015 SHARES	2014 SHARES	2015 $'000	2014 $'000
Note 18. Equity – issued capital				
Authorised and fully paid ordinary shares	81,000,000	81,000,000	3,364	3,364

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.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business.

The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position. There were no changes in the Company's approach to capital management during the period.

The company would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The company is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Company has established specific borrowing facilities in relation to property purchases, which are secured over those specific properties. The Company uses external equity only when required for specific projects.

The Company pays dividends at the discretion of the Board. The dividend amount is based on market conditions and the profitability of the Company.

	2015 $'000	2014 $'000
Note 19. Equity – reserves		
Capital profits reserve	78	78
Hedging reserve – cash flow hedges	202	(129)
Equity benefits reserve	44	16
	324	(35)

Capital profits reserve

The reserve is used to recognise increments and decrements in the fair value of land and buildings, excluding investment properties.

Cash flow hedge reserve

The reserve is used to recognise the effective portion of the gain or loss of cash flow hedge instruments that is determined to be an effective hedge.

Equity benefits reserve

This reserve is used to record the value of share-based payments provided to employees as part of their remuneration.
Refer to note 33 for further details of these plans.

Note 19. Equity – reserves (continued)

	EQUITY BENEFITS RESERVE $'000	CAPITAL PROFITS RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	TOTAL $'000
Movements in reserves				
Movements in each class of reserve during the current and previous financial year are set out below:				
Balance at 1 July 2013	13	78	594	685
Amounts recognised for cash flow hedges	–	–	(484)	(484)
Income tax on items taken directly to or transferred from equity	–	–	310	310
Amounts transferred to non-financial assets	–	–	(549)	(549)
Share-based payment	3	–	–	3
Balance at 30 June 2014	**16**	**78**	**(129)**	**(35)**
Amounts recognised for cash flow hedges	–	–	2,784	2,784
Income tax on items taken directly to or transferred from equity	–	–	(141)	(141)
Amounts transferred to non-financial assets	–	–	(2,312)	(2,312)
Share-based payment	28	–	–	28
Balance at 30 June 2015	**44**	**78**	**202**	**324**

	2015 $'000	2014 $'000
Note 20. Equity – retained profits		
Retained profits at the beginning of the financial year	36,801	32,285
Profit after income tax expense for the year	17,077	14,236
Dividends paid (note 21)	(11,340)	(9,720)
Retained profits at the end of the financial year	42,538	36,801
Note 21. Equity – dividends		
Dividends		
Dividends paid during the financial year were as follows:		
Final franked dividend for 30 June 2014: 7.0 cents (2013: 6.0 cents)	5,670	4,860
Interim franked dividend for 30 June 2015: 7.0 cents (2014: 6.0 cents)	5,670	4,860
	11,340	9,720

In addition to the above dividend, since the end of the financial year directors have declared a fully franked dividend of 8.0 cents per fully paid ordinary share to be paid on 28 October 2015 out of retained profit at 30 June 2015.

	2015 $'000	2014 $'000
Note 21. Equity – dividends (continued)		
Franking credits		
Franking credits available at the reporting date based on a tax rate of 30%	15,137	11,369
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	918	2,367
Franking credits available for subsequent financial years based on a tax rate of 30%	16,055	13,736
Franking credits available for subsequent financial years based on a tax rate of 30%	13,278	11,306

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

The tax rate at which paid dividends have been franked is 30% (30 June 2014: 30%).
Dividends declared and unpaid will be franked at the rate of 30% (30 June 2014: 30%).

Note 22. Financial instruments

Financial risk management objectives and Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Market risk is the risk that changes in market prices, such as interest rates and exchange rates, will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Company has exposure to the following risks from its use of financial instruments:
– Foreign exchange risk
– Interest rate risk
– Credit risk
– Liquidity risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further financial quantitative disclosures are included throughout these financial statements.

The Company's financial risk management policies are established to identity and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the consolidated entity's activities.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established an Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee provides regular reports to the Board of Directors on its activities.

The Company's principal financial instruments comprise bank loans, and cash and short-term deposits. The main purpose of these financial Instruments is to raise finance for and fund the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the year, the Company's policy that no trading in financial instruments shall be undertaken.

Note 22. Financial instruments (continued)

Market risk

Foreign currency risk

All of the Company's sales are denominated in the functional currency (Australian dollars), whilst the majority of stock purchases are denominated in currencies other than the Company's functional currency, primarily US dollars. Where appropriate the Company has used forward currency contracts and options to manage its currency exposures; and where the qualifying criteria has been met, they have been designated as hedging instruments for the purposes of hedge accounting.

As at 30 June 2015, the Company has Trade Payables of $1,029,162 (2014: $1,693,601) and Stock In Transit of $2,920,597 (2014: $3,561,420) denominated in USD, all of which are covered by designated cash flow hedges (June 2014: all hedged). 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 year end are expected to occur in July through to September 2015, 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 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 July 2015 to September 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 30 June 2015, an unrealised gain of $331,000 (30 June 2014: an unrealised loss of $723,000) is in other comprehensive income.

Interest rate risk

Financial instruments utilised that are subject to interest, and therefore interest rate risk, are cash and commercial bills. Management continually monitor the exposure to interest rate risk. The following table sets out the carrying amount by maturity of the financial instruments exposed to interest rate risk at reporting date.

The fair value of the cash and commercial bills shown below are based on the face value of those financial instruments.

	2015		2014	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Floating rate Cash Assets <1 Year	3.42%	33,678	3.80%	35,899
Floating rate Commercial Bills – Liabilities <5 Year	4.00%	(12,062)	4.40%	(6,762)
Net exposure to cash flow interest rate risk		21,616		29,137

Note 22. Financial instruments (continued)

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate.

	EFFECT ON PROFIT BEFORE TAX $'000	EFFECT ON EQUITY $'000
2015		
+100 basis points	216	–
-100 basis points	(216)	–
	–	–
2014		
+100 basis points	291	–
-100 basis points	(291)	–
	–	–

Credit risk

Credit risk refers to the risk that a counter-party will default on its contractual obligations resulting in a financial loss to the Company. In most cases, the Company requires full and final payment either prior to, or upon delivery of the goods to the customer. In limited cases where credit is provided, the Company trades on credit terms with recognised, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Company.

All amounts past due in excess of 30 days are individually assessed and provided for as doubtful if reasonable doubt as to collectability exists.

With respect to credit risk arising from financial assets of the Company, which comprise of cash and cash equivalents and receivables, the Company's maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is in the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements. Cash and cash equivalents are only invested with corporations which are approved by the Board.

Refer to note 6 for receivables past due and not impaired.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The company manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Note 22. Financial instruments (continued)

	LESS THAN 3 MONTHS $'000	3 TO 12 MONTHS $'000	MORE THAN 12 MONTHS $'000	OVER 5 YEARS $'000	REMAINING CONTRACTUAL MATURITIES $'000
2015					
Non-derivatives					
Non-interest bearing					
Trade Creditors	7,047	65	–	–	7,112
Other creditors	5,930	–	–	–	5,930
Interest-bearing – variable					
Borrowings	87	5,639	6,762	–	12,488
Total non-derivatives	13,064	5,704	6,762	–	25,530
2014					
Non-derivatives					
Non-interest bearing					
Trade Creditors	6,138	–	–	–	6,138
Other creditors	4,621	–	–	–	4,621
Interest-bearing – variable					
Borrowings	76	227	6,826	–	7,129
Total non-derivatives	10,835	227	6,826	–	17,888

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 23. 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
2015				
Assets				
Cash flow hedge receivable	–	288	–	288
Total assets	–	288	–	288
2014				
Liabilities				
Cash flow hedge payable	–	182	–	182
Total liabilities	–	182	–	182

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.

	2015 $	2014 $
Note 24. Key management personnel disclosures		
Compensation		
The aggregate compensation made to directors and other members of key management personnel of the company is set out below:		
Short-term employee benefits	1,782,015	1,675,370
Post-employment benefits	80,839	73,737
Long-term benefits	19,496	16,427
Share-based payments	–	(7,407)
	1,882,350	1,758,127

For details of share-based payments to Key Management Personnel see the remuneration report (audited) within the Directors' Report included on pages 7-10 of this financial report.

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the company, and its network firms:

	2015 $	2014 $
Audit services – Ernst & Young		
Audit or review of the financial statements	93,000	90,000
Amounts received or due and receivable by related practises of KPMG for:		
Tax compliance services	19,500	19,500

Note 26. Contingent liabilities

There are no contingent liabilities as at 30 June 2015 (2014: Nil).

	2015 $'000	2014 $'000
Note 27. Commitments		
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	21,964	18,588
One to five years	47,280	42,344
More than five years	13,181	6,197
	82,425	67,129

Operating leases are in respect of Nick Scali and Sofas2Go leased premises.

Leases are entered into for varying terms.

Rent reviews are based on CPI increases or fixed increases. In some cases there are market reviews, particularly when exercising renewal options. A number of the leases contain options to renew in favour of the Company.

Capital Commitments

As at 30 June 2015 the Company had committed to acquire a property at Nunawading (VIC) for a purchase price of $4.3m excluding statutory costs, and the Company had paid a deposit of $200,000.

	2015 $	2014 $

Note 28. Related party transactions

Parent entity

Nick Scali Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in note 24 and the remuneration report in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	2015 $	2014 $
Other transactions:		
Rent and Outgoings paid to commonly controlled entities	1,433,936	1,430,014

Auburn and Chatswood Leases

The Company leases premises at Auburn and Chatswood, both in New South Wales, from entities controlled by Messrs Anthony J Scali and Nicky D 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 arm's 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
Term:	The lease expired on 28 February 2014 and is currently on a month to month tenancy. The owners have agreed to finalise a new lease at commercial rates and on commercial terms in the first half of FY16.
Rent and Outgoings:	$848,503 (plus GST) per annum
Location:	575 Pacific Highway, Chatswood, NSW
Term:	The lease expired on 31 March 2014 and is currently on a month to month tenancy. The owners have agreed to finalise a new lease at commercial rates and on commercial terms in the first half of FY16.
Rent and Outgoings:	$585,433 (plus GST) per annum

Other related party transactions

Dealings between the Company and the Directors and personally-related entities were made during the 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 to/from related parties

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

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 29. 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 30. Events after the reporting period

Apart from the dividend declared as disclosed in note 21, no other matter or circumstance has arisen since 30 June 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.

	2015 $'000	**2014 $'000**
Note 31. Reconciliation of profit after income tax to net cash from operating activities		
Profit after income tax expense for the year	17,077	14,236
Adjustments for:		
Depreciation of property, plant and equipment	2,105	1,947
Net loss on disposal of property, plant and equipment	247	165
Share-based payments	28	3
Interest expense classified as investing cash flows	426	301
Net fair value change on derivatives	331	(723)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	(71)	7,084
Increase in inventories	(5,200)	(4,444)
Decrease in deferred tax assets	–	939
Decrease/(increase) in prepayments	(85)	194
Increase in value of other financial asset	(554)	(7)
Increase in trade and other payables	5,767	3,942
Decrease in provision for income tax	(1,223)	(1,437)
Increase in deferred tax liabilities	81	409
Decrease in other provisions	(108)	(193)
Net cash from operating activities	18,821	22,416
Financing Facilities Available		
The following operating lines of credit were available at balance date:		
Credit facilities	18,262	9,762
Amount utilised	(12,947)	(7,697)
Unused credit facilities	5,315	2,065

The credit facilities provided are from St. George Bank ($6.8m), ANZ ($6.2M), NAB ($2.3M) and HSBC ($3.0m).
The St George Bank facilities relate to 2 commercial bill facilities totalling $6.8m. This is in relation to the purchase of the property at Alexandria in 2011 and Fyshwick in 2012.

Note 31. Reconciliation of profit after income tax to net cash from operating activities (continued)

The facility for the Alexandria property is for a 5 year term and expired in July 2015. The facility for the Fyshwick property is for a 3 year term and expires in November 2015. The loans are secured by a first mortgage over the property assets to which the borrowing relates.

The ANZ facility is in relation to the purchase of the property at Caringbah in 2014. The facility is for a five year term and expires in June 2019. The loan is secured by a first mortgage over the property asset to which the borrowing relates.

The NAB facility is in relation to the purchase of the property at Joondalup in 2014. The facility is for a three year term and expires in Feb 2018. The loan is secured by a first mortgage over the property asset to which the borrowing relates.

Otherwise the Company's assets are unencumbered.

The HSBC facilities include $2.0m for documentary letters of credit in relation to payment of overseas suppliers with $0.5m utilised and $1.0m for bank guarantees with $0.5m utilised.

The carrying value approximates the fair value of interest bearing liabilities. Fair values of the Company's interest-bearing loans are determined by using a discounted cash flow method using discounted rate that reflects the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 June 2015 was assessed to be insignificant.

	2015 $'000	2014 $'000
Note 32. Earnings per share		
Profit after income tax attributable to the owners of Nick Scali Limited	17,077	14,236
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	81,000,000	81,000,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,000,000	81,000,000
	Cents	**Cents**
Basic earnings per share	21.1	17.6
Diluted earnings per share	21.1	17.6

Note 33. Share-based payments

The Company has an Executive Performance Rights Plan which is provided for executives and other employees. In accordance with the provisions of the plan, executives and employees are awarded Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not retested during the period. There is no exercise price for the shares and the employees are able to exercise the Right for up to two years following vesting, after which time the Right will lapse.

In the 2014-15 financial year Rights were issued which include performance hurdles requiring compound annual EPS growth of between 5% and 10%. Under the grant, 50% of the Rights are exercisable on the achievement of 5% EPS growth, 100% on the achievement of 10% EPS growth, and for the achievement of between 5% and 10% EPS growth the number of Rights exercisable is calculated on a pro-rata basis.

The expense recognised in relation to employee share rights during the year was $28,609 (2014: $2,720).

The following table reconciles the outstanding Rights granted under the Executive Performance Rights Plan at the beginning and end of the financial year:

	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED/ OTHER	BALANCE AT THE END OF THE YEAR
2015	30,000	34,418	–	–	64,418
2014	58,462	10,000	–	(38,462)	30,000

Fair Value of Rights Granted

The fair value of Rights at grant date is valued under risk neutral conditions. Under these conditions the value of the Right is equivalent to the share price reduced by the present value of dividends payable on the shares until vesting. The present value of the dividends is deducted from the share price because the Right holder is not entitled to dividend until the Rights are exercised. The valuation assumes that the Rights are exercised as they vest.

The key assumptions used for determining fair value at grant date are as follows:

	2015	2014
Share Price at Grant Date	$2.80	$2.00
Dividend Yield	6.0%	6.0%
Franking Rate	30.0%	30.0%
Imputations credits valuation factor	65.0%	65.0%
Implied pre-tax effective dividend yield	7.7%	7.7%

Directors' Declaration

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 comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;

- the attached financial statements and notes give a true and fair view of the company's financial position as at 30 June 2015 and of its performance for the financial 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.

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

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

J.W. Ingram
Chairman

A.J. Scali
Managing Director

11 August 2015
Sydney

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

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

Independent auditor's report to the members of Nick Scali Limited

Report on the financial report

We have audited the accompanying financial report of Nick Scali Limited, which comprises the statement of financial position as at 30 June 2015, the statement of income, the statement of comprehensive income, the statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' responsibility for the financial report

The directors of the company are responsible for the preparation of the 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 financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit 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.

Building a better working world

Opinion

In our opinion:

a. the financial report of Nick Scali Limited is 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 2015 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

Report on the remuneration report

We have audited the Remuneration Report included in pages 7 to 10 of the directors' report for the year ended 30 June 2015. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300 A of the *Corporations Act 2001*.Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Opinion

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2015 complies with section 300 A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
Sydney
11 August 2015

Shareholder Information

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows.
The information is current as at 06 August 2015.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	NUMBER OF HOLDERS OF ORDINARY SHARES
Shareholders Category	
1 to 1,000	296
1,001 to 5,000	440
5,001 to 10,000	146
10,001 to 100,000	112
100,001 and Over	17
Total	1,011

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Scali Consolidated Pty Limited	40,500,000	50.00
RBC Investor Services Australia Nominees Pty Limited	7,964,866	9.83
Citicorp Nominees Pty Limited	7,381,380	9.11
National Nominees Limited	4,537,503	5.60
RBC Investor Services Australia Nominees Pty Limited	3,615,656	4.46
Molvest Pty Ltd	3,000,000	3.70
HSBC Custody Nominees (Australia) Limited	1,964,461	2.43
Grahger Capital Securities Pty Ltd	1,600,000	1.98
RBC Investor Services Australia Nominees Pty Ltd	1,127,893	1.39
BNP Paribas Noms Pty Ltd	1,078,544	1.33
J P Morgan Nominees Australia Limited	1,064,871	1.31
RBC Investor Services Australia Nominees Pty Limited	497,027	0.61
Citicorp Nominees Pty Limited	451,388	0.56
Grahger Capital Securities Pty Ltd	400,000	0.49
Bond Street Custodians Limited	310,000	0.38
HSBC Custody Nominees (Australia) Limited	135,329	0.17
Mr Bernard Choon Yin Hui	122,400	0.15
Bond Street Custodians Limited	88,680	0.11
Eastcote Pty Ltd	75,000	0.09
Cashmere Dell Pty Ltd	67,200	0.08
	75,982,198	93.81

	ORDINARY SHARES NUMBER HELD	% OF TOTAL SHARES ISSUED
Substantial holders		
Substantial holders in the company are set out below:		
Scali Consolidated Pty Limited	40,500,000	50.00
Perpetual Trustees Australia Limited	11,098,387	13.70
Commonwealth Bank of Australia	4,968,552	6.13
	56,566,939	69.83

Voting rights

Ordinary shares

All ordinary shares carry one vote per share without restriction.

There are no other classes of equity securities.

Corporate Information

Nick Scali Limited
ABN 82 000 403 896

Store Locations

nick scali FURNITURE

New South Wales
Alexandria
Auburn
Bankstown
Belrose
Campbelltown
Caringbah
Castle Hill
Casula[1]
Chatswood
Kotara
Moore Park
Penrith
Rutherford
Tuggerah
Warrawong
West Gosford

Australian Capital Territory
Fyshwick

Victoria
Chirnside
Essendon
Frankston
Mildura
Moorabbin
Nunawading
Richmond
Springvale
South Wharf
Taylors Lakes

South Australia
Gepps Cross
Marion
Mile End
Glynde

Queensland
Aspley
Bundall
Cairns
Fortitude Valley
Jindalee
Macgregor
Maroochydore
Townsville

Western Australia
Joondalup
O'Connor
Osborne Park
Midland[2]

sofas2go

New South Wales
Moore Park
Prospect
Campbelltown

Australian Capital Territory
Fyshwick

Victoria
Springvale

[1] Casula opens in August 2015
[2] Midland opens in September 2015

Registered Office
B1-B3, 3-29 Birnie Avenue
Lidcombe, NSW 2141
Telephone: 02 9748 4000
Facsimile: 02 9748 4022
Website: www.nickscali.com.au

Company Secretary
Kevin Fine

Auditors
Ernst & Young
Ernst & Young Building
680 George Street
Sydney NSW 2000

Solicitors
Dimarco Lawyers
Level 7, 67 Castlereagh Street
Sydney NSW 2000

Share Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000

Stock Exchange
Nick Scali Limited shares are listed on the Australian Securities Exchange
ASX code: NCK

Annual General Meeting
The Annual General Meeting will be held at 10H00 on Thursday 29th October 2015
At Nick Scali Limited Head Office