nickscali LIMITED

ANNUAL REPORT 2016

Contents

A Message from the Chairman

I wish to take this opportunity to advise all shareholders that the founder of the Company, Mr Nick Scali, has notified the Board of his intention to retire as a Director at this year's Annual General Meeting, following a restructure of his family investments.

As a result of this restructure, our Managing Director, Anthony Scali, has increased his economic interest in Nick Scali Limited to 27.3 % and has advised the Board of his ongoing commitment and confidence in the future of the Company.

On behalf of the Board, I would like to record our deep thanks to Nick and the Scali family for their commitment and contribution to the success of the Company over the past 54 years, and in particular Nick's contribution and advice to the Board as a Director since listing in 2004.

In conclusion, the Board expresses its sincere thanks to our employees, whose commitment and dedication allows us to deliver value to our shareholders and our customers. As Chairman of the Board, I would also like to express my thanks to my fellow Directors for their continued support and contribution to the success of Nick Scali Limited.

Chairman and Managing Director's Review

Operating Performance

For the fourth consecutive year, your Company achieved another record profit for the year ended 30 June 2016 and continues to deliver on its strategy of executing careful network growth and furthering operational efficiency.

Sales revenue increased 30.4% to $203 million for the year, resulting from same store sales growth of 11.1%, seven new stores opened during FY15 that traded for the full 2016 financial year, some contribution from the two new stores opened in early FY16. These initiatives were supported by increased investment in a targeted marketing programme. Operating expenses grew by $14.8million, or 21.6%, due largely to the new store openings in FY15 and FY16, including establishing the Western Australian operation and also from strengthening the resources available to the corporate office. These operating expenses decreased as a percentage of sales however, to 41.3% from 44.3% last year. Continued cost efficiency, especially in the property category from favourable lease renewals and property acquisitions, along with economies of scale, contributed to this result.

The Company's gross margin held strong at 60.8%, slightly better than last year's 60.7%, despite the decline in the Australian Dollar through the period. This again resulted from tight control of both pricing and product.

Two Nick Scali Furniture stores were opened and one was closed during the year, bringing the total Company stores at 30 June 2016 to 47 stores. The two new stores opened during the first half of the fiscal year were at Casula (NSW) and Midland (WA). The Nick Scali Furniture brand, which was launched in WA in the second half of fiscal 2015, now has four stores in that State.

New stores in Hobart (TAS) and Geelong (VIC) have been opened post balance date, in August 2016, and a further two to four stores are expected to open during the remainder of the 2017 financial year.

A new, custom built, warehouse facility for NSW is to be constructed for the Company and is expected to open in June 2017 to support the growth of the business and to improve supply chain efficiency.

The Directors take this opportunity to thank all management and staff for their contribution and commitment in achieving the strong results for 2016 financial year. The Directors also express their thanks to shareholders for their continuing support.

Dividends

In August 2016 the Directors declared a fully franked final dividend of 14 cents per share and also a special dividend of 3 cents per share. This brought total dividends for the year to 26 cents per share. The final dividend will have a record date of 5th October 2016 and a payment date of 26th October 2016. The dividend payout ratio for the full year of 71% (excluding the special dividend), appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth. The Directors declared the special dividend as a recognition of the particularly strong result and also the desire for shareholders to benefit from the Company's franking credit balance.

Outlook

The market conditions and sales order growth achieved in the 2016 financial year have largely continued into July.

The Company currently expects modest sales growth in FY17 compared with FY16. However, the exceptional profit growth achieved in the 2016 financial year, driven by the large number of store openings and strong comparable store growth in that year, is not expected to be replicated in FY17.

Further store network expansion continues however, where the longer-term network target remains at around 75 stores in Australia and New Zealand. The Company is in the early planning phase for the launch of the Nick Scali brand into New Zealand in FY18.

The Company's foreign exchange hedge book together with careful management of product mix and promotions is expected to assist in securing a stable margin of around 60% into FY17.

The Company therefore expects another year of profit growth in FY17 and with a strong balance sheet it is well placed to both grow its existing business and to take advantage of strategic opportunities as they are identified.

Directors' Report

The directors present their report, together with the financial statements, on the company for the year ended 30 June 2016.

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 – resigned on 29 April 2016)

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:

	2016 $'000	2015 $'000
Final franked dividend for 30 June 2015: 8.0 cents (2014: 7.0 cents)	6,480	5,670
Interim franked dividend for 30 June 2016: 9.0 cents (2015: 7.0 cents)	7,290	5,670
	13,770	11,340

In addition to the above dividend, since the end of the financial year directors have declared a fully franked final dividend of 14.0 cents per fully paid ordinary share and a fully franked special dividend of 3.0 cents per fully paid ordinary share to be paid on 26 October 2016 out of retained profits at 30 June 2016.

Operating and financial review

Nick Scali Limited is a furniture retailer operating in Australia. The Company operates two brands; the Nick Scali brand with forty two stores and Sofas2Go with five 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 2016 the Company reported a record NPAT result of $26.2m, up 53.1% on the previous year's NPAT. Sales revenue of $203.0m was up 30.4% on last year and the increase was achieved from comparable store sales growth of 11.1%, the opening of seven new stores in the 2015 financial year, a further two new stores in the 2016 financial year and an increase in marketing activity.

A focus on product and corresponding range management resulted in the gross margin remaining solid at 60.8%, slightly higher than last year of 60.7% while selective retail price increases were able to offset a weaker comparable AUD.

Operating expenses decreased as a percentage to sales from 44.3% last year to 41.3%, reflecting the continued cost efficiencies achieved in line with sales growth.

Net cash flows from operating activities during the year were $32.0m, up 70.1% on the previous year. Net cash inflows from all activities were $3.4m after a $23.6m investment in fixed assets. This included the purchase of properties in Nunawading (VIC) and Macgregor (QLD) in October 2015, the build of a new store in Caringbah (NSW) on a Company owned property, new store fitouts for Casula (NSW) and Midland (WA) and various store refurbishments.

Borrowings increased by $9.1m to $21.2m and relate to property purchases. With cash reserves (including customer deposits) of $37.0m, the Company is well positioned for further investment initiatives, including strategic property purchases in key locations to position the business for the future and act as a hedge against possible cost increases for leased properties.

Net Assets were $57.8m as at 30 June 2016, up $11.6m on last year.

Store network

During the year, the Company opened three new stores comprising two Nick Scali Furniture stores in Midland (WA) and Casula (NSW) and one Sofas2Go store in Caringbah (NSW) while two stores were closed including one Nick Scali Furniture store in Mildura (VIC) and one Sofas2Go store in Moore Park (NSW). The total number of stores at 30 June 2016 was forty seven.

The Directors believe that the Company has considerable room for further expansion of its store network within Australia and New Zealand, 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. Continuing low interest rates and sustained housing construction should result in favourable market conditions in financial year 2017.

A 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, price point management and a sustained currency hedging policy, which to date have been successful.

Directors expect sales and profit growth 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 2016 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):
None
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 and Shriro Holdings Limited.
Former directorships (last 3 years):
Big River Group Pty Limited.
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 Audit Committee and 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: 22,078,947

Name: Nicky D Scali
Title: Former Marketing Manager and Alternate Director to Nick Scali (resigned on 29 April 2016)
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

'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.

Special responsibilities of directors

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)
- Greg R Laurie
- Nick D Scali
- Carole A Molyneux

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 2016, 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	10	10	2	2	4	4
Nick D Scali	7	10	1	2	3	4
Greg R Laurie	10	10	2	2	4	4
Carole A Molyneux	10	10	2	2	4	4
Anthony J Scali[1]	10	10	–	–	–	–
Nicky D Scali (Alternate Director)[2]	7	10	–	–	–	–

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

[1] Mr Anthony J Scali is not a member of the sub-committees, but was invited to attend these meetings and his attendance was recorded.

[2] Mr Nicky D Scali the former alternate Director resigned on 29 April 2016.

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. For the purposes of the report, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the business.

1. Details of key management personnel

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

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 – Alternate Director and Marketing Manager (Resigned on 29 April 2016)

And the following executive:

Kevin Fine – Chief Financial Officer & Company Secretary

2. Remuneration strategy

The quality of Nick Scali Limited's Directors and Executives is a major factor in the overall performance of the Company. To this end, the Company believes that an appropriately structured remuneration strategy underpins a performance based culture which in turn drives shareholder returns. The remuneration strategy is designed to attract and retain high quality and committed non-executive directors and employees.

The executive remuneration and reward framework has two components:

- fixed remuneration comprising of salary and superannuation
- variable at risk incentives comprising
  - short term incentives in the form of a cash based reward
  - long term incentives in the form of an equity reward

The incentives are designed to deliver value to executives for performance against a combination of profitability, total shareholder returns and achievement against strategic goals. Short term incentives motivate employees to achieve outstanding performance and are based on current year predetermined KPIs such as profit after tax, and non-financial activities that achieve short to medium term objectives, while long term incentives align employees with shareholder interests and are based on maintaining long term shareholder value using performance measures such as EPS.

Remuneration Report – Audited (continued)

3. Remuneration Committee

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

- Reviewing remuneration arrangements and succession planning of senior management, including the Managing Director and engaging external compensation consultants if necessary.
- 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 twice 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.

4. Remuneration Structure

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

4.1 Non-executive directors' remuneration

Non-Executive Directors are paid an annual fee, which is periodically reviewed. Non-Executive Directors do not receive bonuses and they are not entitled to participate in the Executive Performance Rights Plan.

Non-Executive Chairman and Directors' fees were reviewed in FY15 and changed with effect from 1 July 2015 to the annual fees reflected below:

	2016 $	2015 $
Base fee for Non-Executive Chairman	130,000	100,000
Base fee for Non-Executive Director	87,000	79,000
Fee for Audit Committee Chairman	15,000	11,000
Fee for Audit Committee Member	4,000	–
Fee for Remuneration Committee Chairman	–	–
Fee for Remuneration Committee Member	1,000	–

The pool for non-executive directors' fees is capped at $750,000 per year as approved by shareholders at the 2015 Annual General Meeting.

4.2 Executive remuneration

The Company provides appropriate rewards to attract and retain key personnel. Base salaries, short and long term incentives are established by the Remuneration Committee for each executive having regard to the nature of each role, the experience of the individual employee and the performance of the individual and are then approved by the Board. Market information and/or external consultants are engaged as appropriate and are used to benchmark executive remuneration.

4.2.1 Remuneration mix

The Company's executive remuneration is structured as a mix of fixed and variable remuneration through at risk short term and long term components. The mix of these components varies for different management levels.

The relative proportion and components of the senior executives total remuneration opportunity for the 2016 financial year was:

	FIXED BASE		VARIABLE				TOTAL	
			STI		LTI			
	$	% of Total	$	% of Total	$	% of Total	$	% of Total
Anthony Scali	700,000	56	560,000	44	–	–	1,260,000	100
Kevin Fine	386,250	53	193,125	26	154,500	21	733,875	100

4.2.2 Fixed remuneration

Fixed compensation is set to provide a base level of compensation which is appropriate to the position and responsibility and is competitive in the market. Fixed compensation is reviewed annually with effect from 1 September each year, by the Remuneration Committee by reviewing the Company and individual performance, skills, experience and comparative market compensation and where appropriate, external advice.

The Company provides superannuation contributions in line with statutory obligations with benefits being delivered to the employee's choice of Superannuation Fund.

Remuneration Report – Audited (continued)

4.2.3 Variable remuneration – 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 their 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 to reward contributions from high performing employees. 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 the financial year 2016:

2016	STI TARGET		STI ACHIEVED	
Name	Total $	* Financial Measures %	Total $	* Financial Measures %
Anthony J Scali	560,000	100%	560,000	100%
Kevin Fine	193,125	100%	193,125	100%

* Financial Measures include net profit after tax

2015	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%

* Financial Measures include net profit after tax
** Kevin Fine was appointed on 5 January 2015 and his STI target was set and measured on a pro rata basis, his annualised target was $150,000

4.2.4 Variable remuneration – Long-term incentives (LTI)

Long term incentives, in the form of the Executive Performance Rights Plan (EPRP), are provided to employees in order to align remuneration with the creation of shareholder value over the long term. The LTI plan is only made available to executives and other employees who are able to influence the generation of shareholder value and have a direct impact on the Company's performance against relevant long term performance hurdles.

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.

Rights may also be granted in accordance with the EPRP as a retention award where the performance condition is continued employment with the Company to vesting date – no such retention Rights were awarded during the 2016 financial year.

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.

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 the Company's EPS performance

Remuneration Report – Audited (continued)

The LTI entitlement of a senior executive is calculated as a percentage of fixed annual remuneration as follows:

- Kevin Fine : 40%

The number of Rights granted to a senior executive is then calculated by taking the relevant executive's fixed annual remuneration and multiplying it by the relevant LTI entitlement percentage and dividing this by the Company's volume weighted average share price for the four week period prior to the date of the release of the Company's full year results.

If the performance hurdle is not met or if the participant ceases to be employed by the Company, any unvested Rights will lapse unless otherwise determined by the Board. In the event of a takeover offer for the Company, the Rights may, at the discretion of the Board, vest in accordance with an assessment of performance with the performance period pro-rated to the date of the takeover offer.

Employees who have been granted Rights are prohibited from entering into a transaction to limit the economic risk of such Rights whether through a derivative, hedge or similar arrangement. In addition, employees are prohibited from entering into any margin lending arrangements in respect of shares in the Company where those shares are offered as security for the lending arrangement.

4.3 Group performance

The table below sets out the financial performance of the Company over the past five years:

		2012	2013*	2014	2015	2016	CAGR (%)
Revenue	$m	109.4	127.4	141.4	155.7	203.0	16.7
EBITDA	$m	13.2	23.9	21.5	25.9	40.1	32.0
Net profit after tax	$m	9.0	16.0	14.2	17.1	26.1	30.5
Earnings per share	Cents	11.1	15.1	17.6	21.1	32.3	30.5
Ordinary dividends per share	Cents	8.0	12.0	13.0	15.0	23.0	30.2
Share price at financial year end	$	1.17	2.18	2.45	3.10	4.68	41.4
Stores	#	35	38	39	46	47	
Basic earnings per share growth	%	-22.4	35.7	16.3	19.9	53.1	

* Includes a once off net gain on the surrender of lease of $5.4m (post tax $3.8m)

4.4 Remuneration outcomes

2016	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	130,000	–	–	–	–	130,000
Nick D Scali	84,018	–	–	7,949	–	91,967
Greg R Laurie	94,064	–	–	8,748	–	102,812
Carole A Molyneux	84,018	–	–	7,794	–	91,812
Executive Directors:						
Anthony J Scali[2]	677,301	560,000	–	19,237	221,658	1,468,196
Nicky D Scali[1]	277,598	166,666	–	16,267	76,422	536,953
Other Key Management Personnel:						
Kevin Fine	370,840	193,125	42,577	19,238	–	625,780
	1,783,014	919,791	42,577	79,233	298,080	3,047,520

[1] Nicky D Scali resigned as Marketing Manager and Alternate Director on 29 April 2016.
Nicky D Scali's long service leave has been re-calculated to start from his original employment date with a related entity.
In addition to the amounts disclosed above, payment of annual leave on cessation amounted to $32,873.

[2] Anthony J Scali's long service leave entitlement has been re-calculated to start from his original employment date with a related entity.

Remuneration Report – Audited (continued)

4.4 Remuneration outcomes (continued)

2015	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	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	180,000	–	18,783	12,923	781,156
Nicky D Scali	314,216	100,000	–	18,783	6,573	439,572
Other Key Management Personnel:						
Kevin Fine[1]	171,258	75,000	–	9,031	–	255,289
Gary K Jenkins[2]	139,147	30,550	–	13,710	–	183,407
	1,510,225	385,550	–	80,839	19,496	1,996,110

[1] Kevin Fine – Chief Financial Officer & Company Secretary (Appointed 5 January 2015)

[2] Gary K Jenkins – Chief Financial Officer & Company Secretary (Resigned 10 December 2014)

4.5 Service Agreements

NAME	TERM OF AGREEMENT	BASE SALARY INCLUDING SUPERANNUATION	TERMINATION BENEFIT
Anthony Scali *Managing Director*	Ongoing commencing 24 May 2004	$700,000	–
Kevin Fine *Company Secretary and CFO*	Ongoing commencing 5 January 2015	$386,250	3 months base salary

4.6 Performance rights granted

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of key executives in this financial year or future reporting years are as follows:

REFERENCE	GRANT DATE	VESTING AND EXERCISABLE DATE	EXPIRY DATE	EXERCISE PRICE ($)	FAIR VALUE PER RIGHT AT GRANT DATE ($)	VESTED AND EXERCISED 30 JUNE 2016	VESTED AND EXERCISED 30 JUNE 2015
FY16/18-1	4 Sep 2015	Aug 2018	30 Jun 2020	0.00	2.78	–	–

4.7 Performance rights holding

30 June 2016	BALANCE 30 JUNE 2015	GRANTED (a)	VESTED AND EXERCISED	LAPSED	BALANCE 30 JUNE 2016
Anthony Scali	–	–	–	–	–
Kevin Fine	–	45,876	–	–	45,876

30 June 2015	BALANCE 30 JUNE 2014	GRANTED (a)	VESTED AND EXERCISED	LAPSED	BALANCE 30 JUNE 2015
Anthony Scali	–	–	–	–	–
Kevin Fine	–	–	–	–	–

(a) All performance awards granted during the year are subject to EPS performance hurdles and remaining in employment until date of vesting

Remuneration Report – Audited (continued)

4.8 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	–	–	(18,421,053)	22,078,947
	40,900,399	–	–	(18,421,053)	22,479,346

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

Anthony J Scali and his associated entities will become the sole owner of Scali Family Investments Pty Ltd (the shareholder of 100% of the shares in Scali Consolidated Pty Ltd) upon the satisfaction of conditions precedent to the formation of a share sale agreement for the remaining shares in the Scali Family Investments Pty Ltd. When this occurs, it will complete the Scali family 'Shareholding Restructure' referred to in the Company's announcement to ASX on 22 March 2016.

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

The following non-audit services were provided by the entity's auditor, Ernst & Young Australia. The Directors are satisfied that the provisions of non-audit services is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of each type of non-audit service provided means the auditor independence was not compromised.

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

	$
Tax compliance services	5,000
Performance rights plan advice	28,000
Other assurance related services	44,000
	77,000

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.

Corporate Governance Statement

Nick Scali Limited Corporate Governance Statement discloses how the Company complies with the recommendations of the ASX Corporate Governance Council (3rd Edition) and sets out the Company's main corporate governance practices. This statement has been approved by the Board and is current as at 30 June 2016. The Corporate Governance Statement of Nick Scali Limited can be found on the Company's website.

Rounding of amounts

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

Auditor's independence declaration

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 16 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	A.J. Scali
Chairman	Managing Director

11 August 2016
Sydney

Auditor's Independence Declaration

Ernst & Young
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Sydney NSW 2000 Australia
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Auditor's Independence Declaration to the Directors of Nick Scali Limited

As lead auditor for the audit of Nick Scali Limited for the financial year ended 30 June 2016, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
11 August 2016

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2016

	NOTE	2016 $'000	2015 $'000
Revenue from sale of goods	3	203,045	155,743
Cost of goods sold		(79,676)	(61,280)
Gross Profit		**123,369**	**94,463**
Other Income	3	1,428	1,452
Expenses			
Marketing expenses		(16,725)	(13,504)
Employment expenses	4	(31,731)	(24,153)
General & Administration expenses		(6,576)	(6,209)
Property expenses	4	(27,521)	(24,223)
Distribution expenses		(1,274)	(873)
Depreciation and Amortisation	4	(3,095)	(2,105)
Finance costs		(423)	(426)
Profit before income tax expense		**37,452**	**24,422**
Income tax expense	5	(11,302)	(7,345)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		**26,150**	**17,077**
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		(908)	331
Other comprehensive income for the year, net of tax		(908)	331
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		**25,242**	**17,408**
		CENTS	**CENTS**
Basic earnings per share	6	32.3	21.1
Diluted earnings per share	6	32.3	21.1

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

Statement of Financial Position
AS AT 30 JUNE 2016

	NOTE	2016 $'000	2015 $'000
Assets			
Current assets			
Cash and cash equivalents	9	37,038	33,680
Receivables	10	197	235
Inventories	11	25,847	24,212
Other Financial Assets	12	44	561
Other Assets		143	177
Total current assets		63,269	58,865
Non-current assets			
Property, Plant and Equipment	13	55,493	35,094
Intangibles Assets	14	2,378	2,378
Deferred tax		331	–
Total non-current assets		58,202	37,472
Total assets		**121,471**	**96,337**
Liabilities			
Current liabilities			
Payables	15	37,274	33,172
Current tax liabilities		1,772	1,143
Provisions	16	1,338	1,250
Total current liabilities		40,384	35,565
Non-current liabilities			
Borrowings	17	21,162	12,062
Deferred tax		–	490
Provisions	18	2,131	1,994
Total non-current liabilities		23,293	14,546
Total liabilities		**63,677**	**50,111**
Net assets		**57,794**	**46,226**
Equity			
Issued capital	19	3,364	3,364
Reserves	22	(488)	324
Retained profits		54,918	42,538
Total equity		**57,794**	**46,226**

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 2016

	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 29)	–	28	–	–	–	28
Dividends paid (note 7)	–	–	–	–	(11,340)	(11,340)
Balance at 30 June 2015	**3,364**	**44**	**78**	**202**	**42,538**	**46,226**
Balance at 1 July 2015	3,364	44	78	202	42,538	46,226
Profit after income tax expense for the year	–	–	–	–	26,150	26,150
Other comprehensive income for the year, net of tax	–	–	–	(908)	–	(908)
Total comprehensive income for the year	–	–	–	(908)	26,150	25,242
Share-based payments (note 29)	–	96	–	–	–	96
Dividends paid (note 7)	–	–	–	–	(13,770)	(13,770)
Balance at 30 June 2016	**3,364**	**140**	**78**	**(706)**	**54,918**	**57,794**

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 2016

	NOTE	2016 $'000	2015 $'000
Cash flows from operating activities			
Receipts from customers		223,388	171,247
Payments to suppliers and employees		(181,064)	(144,859)
		42,324	26,388
Interest received		799	1,061
Income taxes paid		(11,105)	(8,628)
Net cash from operating activities	8	**32,018**	**18,821**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(23,567)	(14,578)
Net cash used in investing activities		**(23,567)**	**(14,578)**
Cash flows from financing activities			
Payment of dividends on ordinary shares	7	(13,770)	(11,340)
Proceeds from borrowings		9,100	5,300
Interest paid		(423)	(426)
Net cash used in financing activities		**(5,093)**	**(6,466)**
Net increase/(decrease) in cash and cash equivalents		3,358	(2,223)
Cash and cash equivalents at the beginning of the financial year		33,680	35,903
Cash and cash equivalents at the end of the financial year	9	**37,038**	**33,680**

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 2016

Note 1. Basis of preparation

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. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been prepared at fair value. The financial report was authorised for issue in accordance with a resolution of the Directors on 11 August 2016.

Significant accounting judgements, estimates and assumptions

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

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.

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.

Net realisable value of inventory

Inventories are valued at the lower of cost and net realisable value. Weighted average cost is used to value inventories. Costs incurred in bringing each product to its present location and condition 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.

New Accounting Standards and Interpretations not yet mandatory or early adopted

The Company adopted all new and amended Australian Accounting Standards and Interpretations that became applicable in the current financial year. The adoption of these Standards did not have a significant impact on the financial results or Statement of financial position.

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 2016. The Company assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

- AASB 9 Financial Instruments – the standard includes requirements to improve and simplify the classification and measurement of financial assets and liabilities. This standard applies to annual reporting periods beginning on or after 1 January 2018. Components of this standard have been early adopted by the Company. The adoption of the full standard by the Company is not expected to have a material impact on the financial statements.
- AASB 15 Revenue from Contracts with Customers – this standard applies to annual reporting periods beginning on or after 1 January 2017. The Company has yet to fully assess the impact of this standard on the financial statements.
- AASB 16 Leases – this standard applies to annual reporting periods beginning on or after 1 January 2019. The adoption of this standard by the Company is expected to have a material impact on the financial statements. The Company has yet to fully qualify this financial impact.

	2016 $'000	2015 $'000

Performance for the year

Note 2. Segment Information

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

Note 3. Revenue

	2016 $'000	2015 $'000
Sales Revenue	203,045	155,743
Interest income	799	1,061
Rent received	380	160
Sundry income	249	231
Total other income	1,428	1,452
Total Revenue	204,473	157,195

Recognition and measurement – 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. Revenue is recognised for major business activities as follows:

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.

	2016 $'000	2015 $'000
Note 4. Expenses		
Profit before income tax includes the following specific expenses:		
Expenses		
Operating lease rental	27,521	24,223
Other expenses includes:		
Depreciation/Amortisation of non-current assets		
Land & Buildings	397	316
Leasehold improvements	1,401	751
Fixtures and fittings	194	288
Motor vehicles	62	72
Office Equipment	1,041	678
	3,095	2,105
Employee benefits expenses		
Salaries and wages	25,871	19,451
Superannuation expense	2,129	1,701
Share-based payments	96	28
Other	3,635	2,973
	31,731	24,153

Recognition and measurement

Leases and Operating 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. 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 comprehensive income on a straight-line basis over the lease term.

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 333 (2015: 299)

	2016 $'000	2015 $'000
Note 5. Income tax expense		
Income tax expense		
Current income tax charge	11,734	7,405
Relating to origination and reversal of temporary differences	(432)	(60)
Aggregate income tax expense	11,302	7,345
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	37,452	24,422
Tax at the statutory tax rate of 30%	11,236	7,327
Other items (net)	66	18
Income tax expense	11,302	7,345
Deferred tax recognised comprises temporary differences attributable to:		
Depreciation – tax rate	(590)	(600)
Compensation for lease surrender	(1,612)	(1,612)
Inventory write off accrual	455	171
Employee entitlements	982	826
Deferred rent	582	679
Make good	100	18
Cash flow Hedge (Note 21)	303	(87)
Other	111	115
Total deferred tax asset /(liability)	331	(490)

Recognition and measurement – 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, 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.

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.

	2016 $'000	2015 $'000
Note 6. Earnings per share		
Profit after income tax attributable to the owners of Nick Scali Limited	26,150	17,077
	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	32.3	21.1
Diluted earnings per share	32.3	21.1

Recognition and measurement – 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 adjusts the Basic EPS to take account of the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration.

	2016 $'000	2015 $'000
Note 7. Equity – Dividends		
Dividends		
Dividends paid during the financial year were as follows:		
Final franked dividend for 30 June 2015: 8.0 cents (2014: 7.0 cents)	6,480	5,670
Interim franked dividend for 30 June 2016: 9.0 cents (2015: 7.0 cents)	7,290	5,670
	13,770	11,340

In addition to the above dividend, since the end of the financial year directors have declared a final fully franked dividend of 14.0 cents per fully paid ordinary share and a special fully franked dividend of 3.0 cents per fully paid ordinary share to be paid on 26 October 2016 out of retained profits at 30 June 2016.

	2016 $'000	2015 $'000
Franking credits		
Franking credits available at the reporting date based on a tax rate of 30%	20,341	15,137
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%	1,567	918
Franking credits available for subsequent financial years based on a tax rate of 30%	21,908	16,055

	2016 $'000	2015 $'000
Note 7. Equity – Dividends (continued)		
Franking credits available for future reporting periods based on a tax rate of 30%	16,007	13,278

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 2015: 30%). Dividends declared and unpaid will be franked at the rate of 30% (30 June 2015: 30%).

	2016 $'000	2015 $'000
Note 8. Reconciliation of profit after income tax to net cash from operating activities		
Profit after income tax expense for the year	26,150	17,077
Adjustments for:		
Depreciation of property, plant and equipment	3,095	2,105
Net (gain) / loss on disposal of property, plant and equipment	(4)	247
Share-based payments	96	28
Interest expense classified as investing cash flows	423	426
Net fair value change on derivatives	(908)	331
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	38	(71)
(Increase)/decrease in inventories	(1,635)	(5,200)
(Increase)/decrease in deferred tax assets	(331)	–
Decrease/(increase) in prepayments	34	(85)
Increase/(decrease) in value of other financial asset	517	(554)
Increase/(decrease) in trade and other payables	4,179	5,767
Decrease/(increase) in provision for income tax	628	(1,223)
Increase/(decrease) in deferred tax liabilities	(490)	81
Decrease/(increase) in other provisions	226	(108)
Net cash from operating activities	32,018	18,821

Operating assets and liabilities

	2016 $'000	2015 $'000
Note 9. Current assets – Cash and cash equivalents		
Cash on hand	2	2
Cash at bank	37,036	33,678
	37,038	33,680

Recognition and measurement – 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 cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

	2016 $'000	2015 $'000
Note 10. Current assets – Receivables		
Trade debtors	197	186
Sundry debtors	–	49
	197	235

Trade debtors are non-interest bearing and generally less than 30 day terms. Customers with balances past due but without provision for impairment of receivables amount to $19,000 as at 30 June 2016 ($7,000 as at 30 June 2015).

Recognition and measurement – 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.

	2016 $'000	2015 $'000
Note 11. Current assets – Inventories		
Finished goods – at cost	21,767	20,422
Stock in transit – at cost	4,080	3,790
	25,847	24,212

During 2016, $1,228,957 (2015: $601,849) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of goods sold.

Recognition and measurement – 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 includes 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.

	2016 $'000	2015 $'000
Note 12. Current assets – Other financial assets		
Deposits	44	273
Derivative hedge receivable (note 21)	–	288
	44	561

	2016 $'000	2015 $'000
Note 13. Non-current assets – Property, Plant and Equipment		
Land and buildings – at cost	48,248	27,586
Less: Accumulated depreciation	(1,384)	(986)
	46,864	26,600
Leasehold improvements – at cost	11,105	9,527
Less: Accumulated depreciation	(5,852)	(5,039)
	5,253	4,488
Fixtures and fittings – at cost	3,186	3,242
Less: Accumulated depreciation	(2,652)	(2,436)
Less: Impairment	–	(79)
	534	727
Motor vehicles – at cost	682	766
Less: Accumulated depreciation	(489)	(575)
	193	191
Office equipment – at cost	7,784	7,230
Less: Accumulated depreciation	(5,135)	(4,142)
	2,649	3,088
	55,493	35,094

Reconciliations

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

	LAND & BUILDING $'000	LEASEHOLD IMPROVEMENTS $'000	FIXTURES & FITTINGS $'000	MOTOR VEHICLES $'000	OFFICE EQUIPMENT $'000	TOTAL $'000
Balance at 1 July 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)
Impairment	–	–	(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
Additions	20,709	2,183	7	67	605	23,571
Disposals	(48)	(17)	(6)	(3)	(3)	(77)
Impairment	–	–	78	–	–	78
Depreciation charged	(397)	(1,401)	(272)	(62)	(1,041)	(3,173)
Balance at 30 June 2016	46,864	5,253	534	193	2,649	55,493

$46.9m of Land & Buildings are used to secure bank loans relating to their purchase.

Note 13. Non-current assets – Property, Plant and Equipment (continued)

Recognition and measurement – 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 useful life 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.

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.

	2016 $'000	2015 $'000
Note 14. Non-current assets – Intangibles assets		
Goodwill on acquisition of stores in Adelaide	2,378	2,378

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.

The pre-tax discount rate applied to cash flow projections is 12.5% (2015: 12.5%), which approximates the Company's cost of capital. Management has based its 5 year cash flow projections when determining the value in use of the Adelaide stores on sales growth of 3% per annum and a gross margin percentage consistent with historical performance.

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

Recognition and measurement – Intangible assets

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 reviewed for impairment annually 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 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.

	2016 $'000	2015 $'000
Note 15. Current liabilities – Payables		
Trade creditors (i)	6,248	7,112
Other creditors and accruals (ii)	8,556	5,930
Derivative hedge payable (iii) (note 21)	1,009	–
Customer deposits	19,382	18,295
Annual leave	2,079	1,835
	37,274	33,172

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.

Recognition and measurement – 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.

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.

	2016 $'000	2015 $'000
Note 16. Current liabilities – Provisions		
Long service leave	928	697
Deferred Rent	410	553
	1,338	1,250
Note 17. Non-current liabilities – Borrowings		
Commercial bills payable	21,162	12,062

Financing facilities available

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

Bank facilities		
Credit facilities	23,362	15,262
Amount utilised	(21,162)	(12,062)
Unused credit facilities	2,200	3,200

	Facility	Utilised
Bank loan		
Expiring financial year 2018	2,300	2,300
Expiring financial year 2019	21,062	18,862
	23,362	21,162
Other	3,000	309
	26,362	21,471

Note 17. Non-current liabilities – Borrowings (continued)

Recognition and measurement – 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. 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.

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.

	2016 $'000	2015 $'000
Note 18. Non-current liabilities – Provisions		
Long service leave	267	224
Deferred Rent	1,531	1,710
Lease make good	333	60
	2,131	1,994

Recognition and measurement

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 the 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.

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.

Deferred rent

The Company has received financial incentive contributions from the lessor on certain stores. These are recorded as a liability and amortised over the lease term.

Capital structure and financial risk management costs

	2016 SHARES	2015 SHARES	2016 $'000	2015 $'000
Note 19. 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.

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 may look to raise capital when an opportunity to invest in a business is seen as value adding. 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 may consider using external equity 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.

Note 20. Financial instruments

Financial risk management objectives

The Company has exposure to foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The Company's financial risk management policies are established to identify 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 Company'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.

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest 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 control exposure within acceptable parameters while maximising return.

Foreign currency risk

All of the Company's sales are denominated in Australian dollars, whilst the majority of stock purchases are denominated in currencies other than Australian dollars, 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 2016, the Company has Trade Payables of $1,282,885 (2015: $1,029,162) and Stock In Transit of $3,026,129 (2015: $2,920,597) denominated in USD, all of which are covered by designated cash flow hedges (June 2015: 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 2016 through to January 2017, 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.

Note 20. Financial instruments (continued)

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 2016 to January 2017.

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 2016, an unrealised loss of $908,000 (30 June 2015: an unrealised gain of $331,000) 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.

	2016		2015	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Floating rate Cash Assets <1 Year	2.58%	37,036	3.42%	33,678
Floating rate Commercial Bills – Liabilities <5 Year	3.20%	(21,162)	4.00%	(12,062)
Net exposure to cash flow interest rate risk		15,874		21,616

A reasonably possible change in the interest rate of +/- 100 basis points would result in an increase/(decrease) of profit before tax of $159,000 (2015: $216,000).

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.

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.

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 20. 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
2016					
Non-derivatives					
Non-interest bearing					
Trade Creditors	6,032	216	–	–	6,248
Other creditors	8,556	–	–	–	8,556
Interest-bearing – variable					
Borrowings	105	318	21,162	–	21,585
Total non-derivatives	14,693	534	21,162	–	36,389

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above. Other creditors include cash flow hedges which are valued as outlined in note 15.

	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	339	12,062	–	12,488
Total non-derivatives	13,064	404	12,062	–	25,530

Note 21. Fair value measurement

Fair value hierarchy

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

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities
Level 2: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable)
Level 3: Valuation techniques (for which the lowest level input that is significant to the fair value measurement is unobservable)

	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
2016				
Liabilities				
Derivative hedge payable	–	1,009	–	1,009
Total liabilities	–	1,009	–	1,009
2015				
Assets				
Derivative hedge receivable	–	288	–	288
Total assets	–	288	–	288

Note 21. Fair value measurement (continued)

Recognition and measurement – Derivative financial instruments

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).

Recognition and measurement – Fair value measurement

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.

Other Notes

	2016 $'000	2015 $'000
Note 22. Equity – Reserves		
Capital profits reserve	78	78
Hedging reserve – cash flow hedges	(706)	202
Equity benefits reserve	140	44
	(488)	324

Movements in reserves

	EQUITY BENEFITS RESERVE $'000	CAPITAL PROFITS RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	TOTAL $'000
Balance at 1 July 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
Amounts recognised for cash flow hedges	–	–	(864)	(864)
Income tax on items taken directly to or transferred from equity	–	–	389	389
Amounts transferred to non-financial assets	–	–	(433)	(433)
Share-based payment	96	–	–	96
Balance at 30 June 2016	140	78	(706)	(488)

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 29 for further details of these plans.

	2016 $	2015 $
Note 23. Key management personnel		
The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:		
Short-term employee benefits	2,627,630	1,895,775
Post-employment benefits	79,233	80,839
Long-term benefits	298,080	19,496
Share-based payments	42,577	–
	3,047,520	1,996,110
Note 24. 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:		
Audit services – Ernst & Young		
Audit or review of the financial statements	95,000	93,000
Other services – Ernst & Young		
Tax review services	5,000	–
Performance rights plan advice	28,000	–
Other assurance related services	44,000	–
	77,000	–
	172,000	93,000

Note 25. Contingent liabilities

There are no contingent liabilities as at 30 June 2016 (2015: Nil).

	2016 $'000	2015 $'000
Note 26. Commitments		
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	19,855	21,964
One to five years	48,217	47,280
More than five years	10,351	13,181
	78,423	82,425

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

At 30 June 2016, the Company had capital commitments of $973,000 principally relating to the completion of the construction at the Nunawading property.

	2016 $	2015 $
Note 27. Related party transactions		
Transactions with related parties		
The following transactions occurred with related parties:		
Rent and Outgoings paid to commonly controlled entities	1,583,405	1,433,936

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 FY17.
Rent and Outgoings:	$935,723 (plus GST) per annum

Location:	575 Pacific Highway, Chatswood, NSW
Term:	The lease expired on 31 March 2014 and transferred to a month to month tenancy. On 29 July 2016, the lease with the related party was terminated and the Company entered into a six month license agreement with Transport for NSW ending 31 January 2017.
Rent and Outgoings:	$647,682 (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.

Note 28. Events after the reporting period

Apart from the dividend declared as disclosed in note 7, no other matter or circumstance has arisen since 30 June 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 29. 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 2015-16 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.

Note 29. Share-based payments (continued)

The expense recognised in relation to employee share rights during the year was $96,190 (2015: $28,609).

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
2016	64,418	78,241	(20,000)	–	122,659
	64,418	78,241	(20,000)	–	122,659
2015	30,000	34,418	–	–	64,418
	30,000	34,418	–	–	64,418

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:

	2016	2015
Share Price at Grant Date	$3.37	$2.80
Dividend Yield	4.5%	6.0%
Franking Rate	30.0%	30.0%
Imputations credits valuation factor	65.0%	65.0%
Implied pre-tax effective dividend yield	6.6%	7.7%

Recognition and measurement – Share-based payments

Share-based payments are measured at the fair value of the Rights at grant date and are 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 the likelihood of non-market performance conditions being met.

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.

Note 30. Summary of significant accounting policies

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.

Note 30. Summary of significant accounting policies (continued)

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.

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 comprehensive income, except when deferred in equity as qualifying 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
- 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.

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.

Note 30. Summary of significant accounting policies (continued)

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.

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.

Rounding of amounts

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

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 2016 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	**A.J. Scali**
Chairman	Managing Director

11 August 2016
Sydney

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

Ernst & Young
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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 2016, 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.

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 2016 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 8 to 13 of the directors' report for the year ended 30 June 2016. The directors of the company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A 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 2016 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
Sydney
11 August 2016

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 2 August 2016.

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	792
1,001 to 5,000	913
5,001 to 10,000	267
10,001 to 100,000	188
100,001 and Over	18
Total	2,178

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	22,078,947	27.26
RBC Investor Services Australia Nominees Pty Limited	9,777,423	12.07
Citicorp Nominees Pty Limited	8,005,241	9.88
RBC Investor Services Australia Nominees Pty Limited	6,616,959	8.17
RBC Investor Services Australia Pty Limited	5,439,666	6.72
National Nominees Limited	4,371,171	5.40
BNP Paribas Noms Pty Ltd	3,783,628	4.67
J P Morgan Nominees Australia Limited	3,336,507	4.12
Molvest Pty Ltd	2,200,000	2.72
HSBC Custody Nominees (Australia) Limited	2,005,650	2.48
Citicorp Nominees Pty Limited	1,052,652	1.30
Grahger Capital Securities Pty Ltd	1,000,000	1.23
RBC Investor Services Australia Nominees Pty Limited	493,529	0.61
Grahger Capital Securities Pty Ltd	485,633	0.60
Netwealth Investments Limited	378,183	0.47
Bond Street Custodians Limited	238,280	0.29
Ms Jennifer Anne Fagg	123,500	0.15
Mr Anthony Wesley Kynaston & Ms Jennifer Anne Fagg	122,000	0.15
Mrs Susan Humphrey	96,324	0.12
Willura Pty Ltd	90,000	0.11
	71,695,293	88.52

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Substantial holders		
Substantial holders in the Company are set out below:		
Scali Consolidated Pty Limited	22,078,947	27.26
Perpetual Limited	12,080,657	14.91
Commonwealth Bank of Australia	6,309,609	7.78
Wilson Asset Management Group	5,377,265	6.64
Airlie Funds Management Pty Ltd	4,605,000	5.69
	50,451,478	62.28

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

nickscali FURNITURE

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

Australian Capital Territory
Fyshwick

Victoria
Chirnside
Essendon
Frankston
Geelong[1]
Moorabbin
Nunawading
Richmond
Springvale
South Wharf
Taylors Lakes

South Australia
Gepps Cross
Glynde
Marion
Mile End

Tasmania
Hobart[2]

Queensland
Aspley
Bundall
Cairns
Fortitude Valley
Jindalee
Macgregor
Maroochydore
Townsville

Western Australia
Joondalup
Midland
O'Connor
Osborne Park

sofas 2go

New South Wales
Caringbah
Campbelltown
Prospect

Australian Capital Territory
Fyshwick

Victoria
Springvale

[1] Geelong opened in August 2016
[2] Hobart opened in August 2016

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
200 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
The home exchange is Sydney
ASX code: NCK

Annual General Meeting
The Annual General Meeting will be held at 12H00 on Thursday 27th October 2016
At Nick Scali Limited Head Office