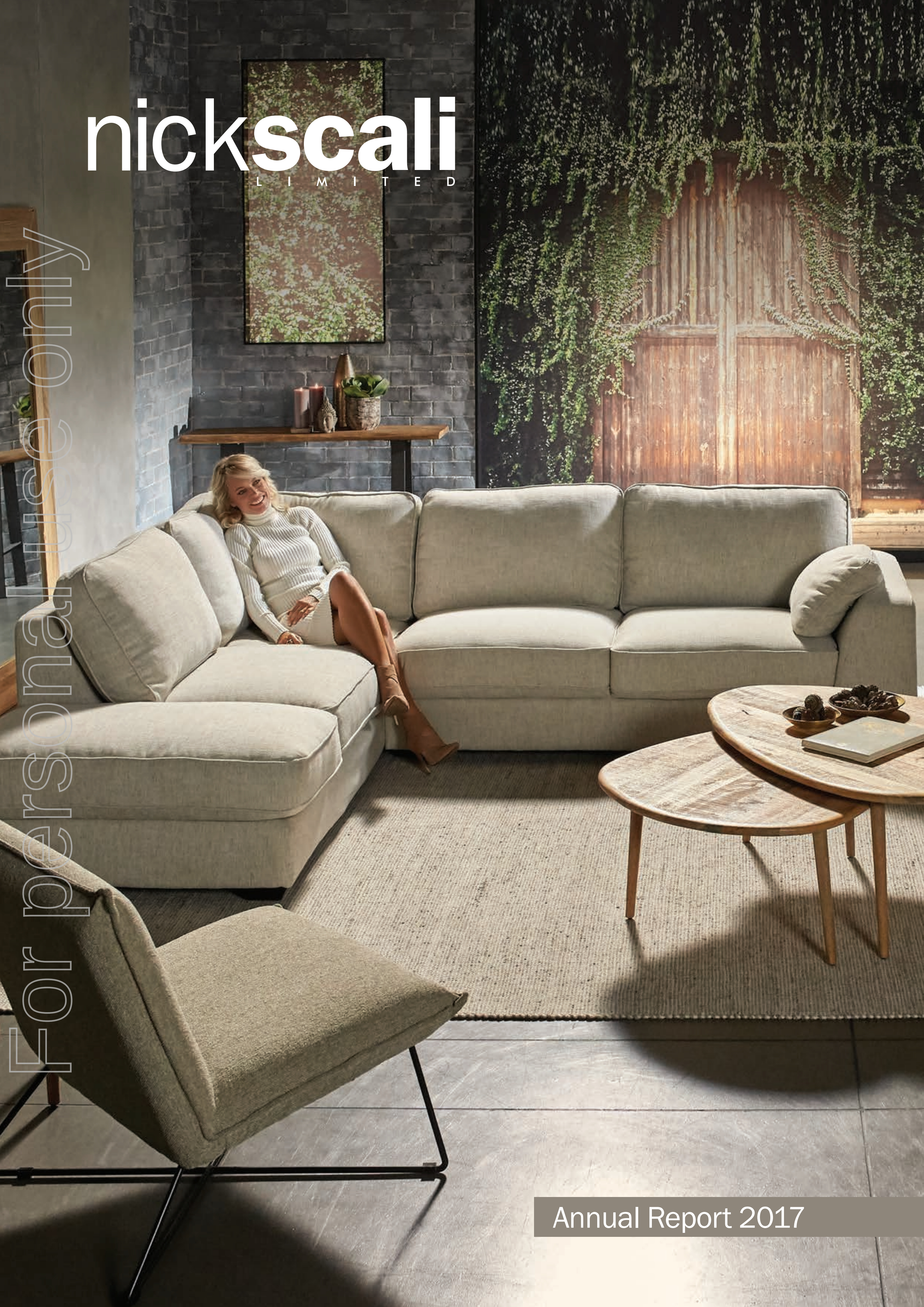
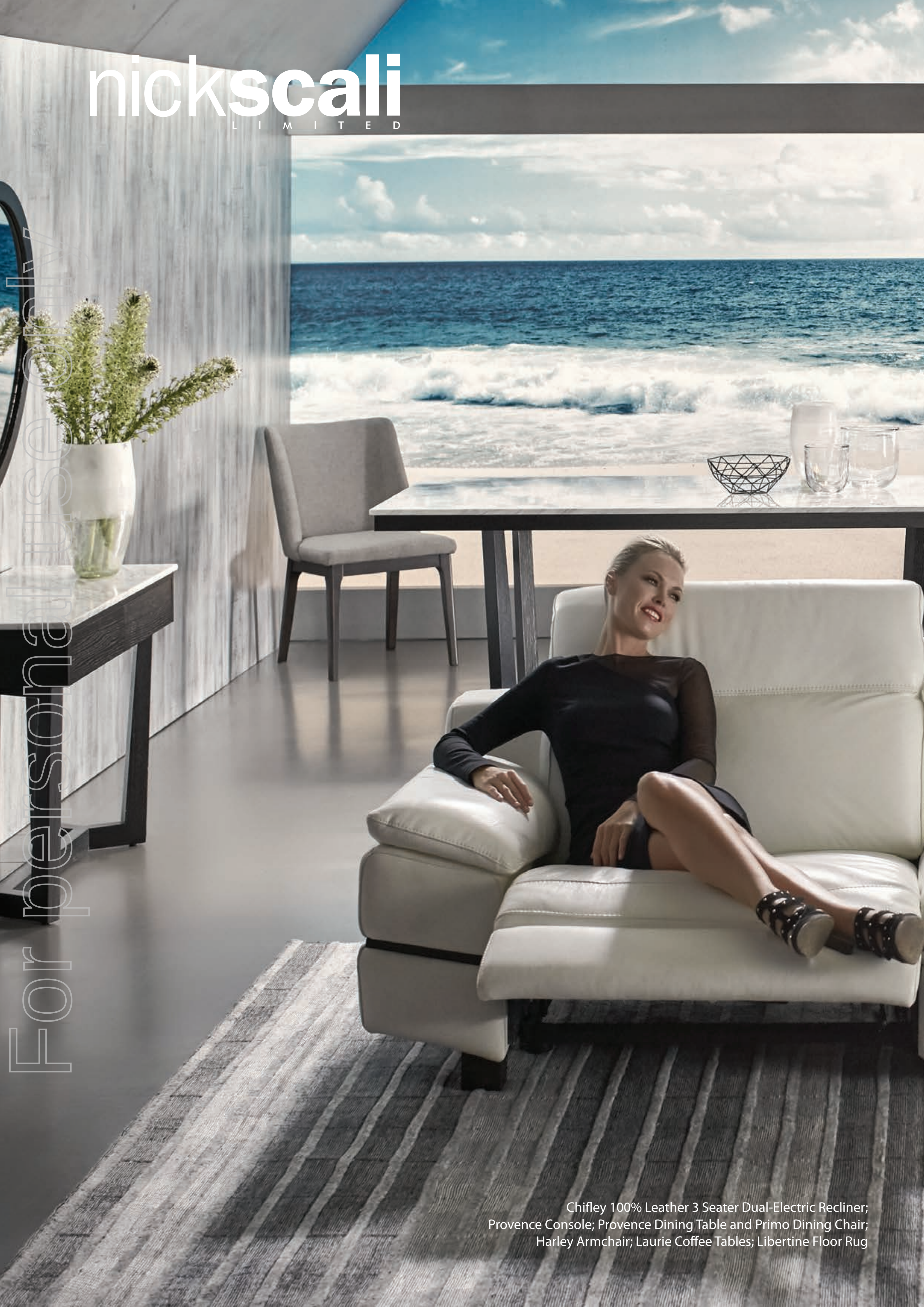
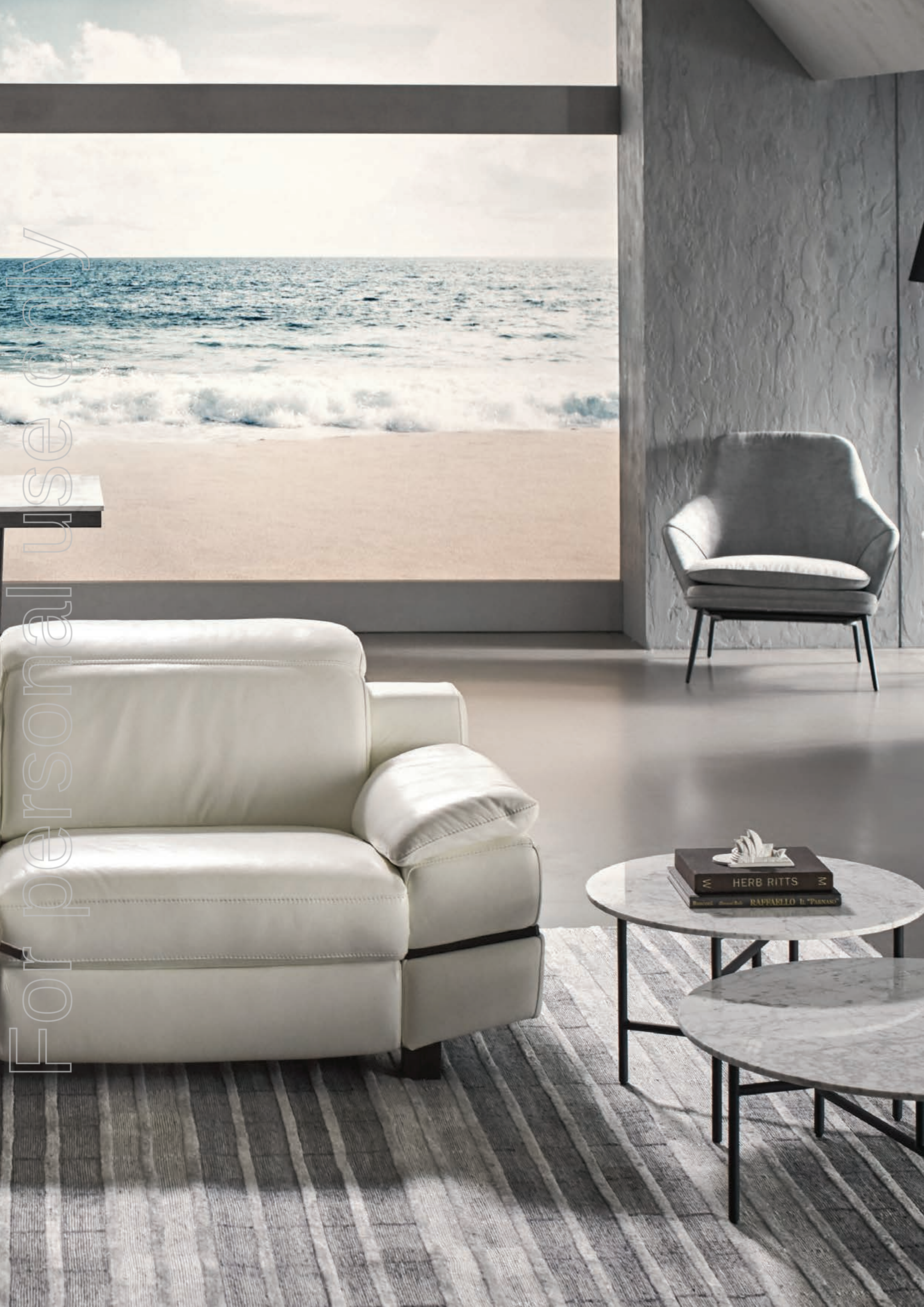
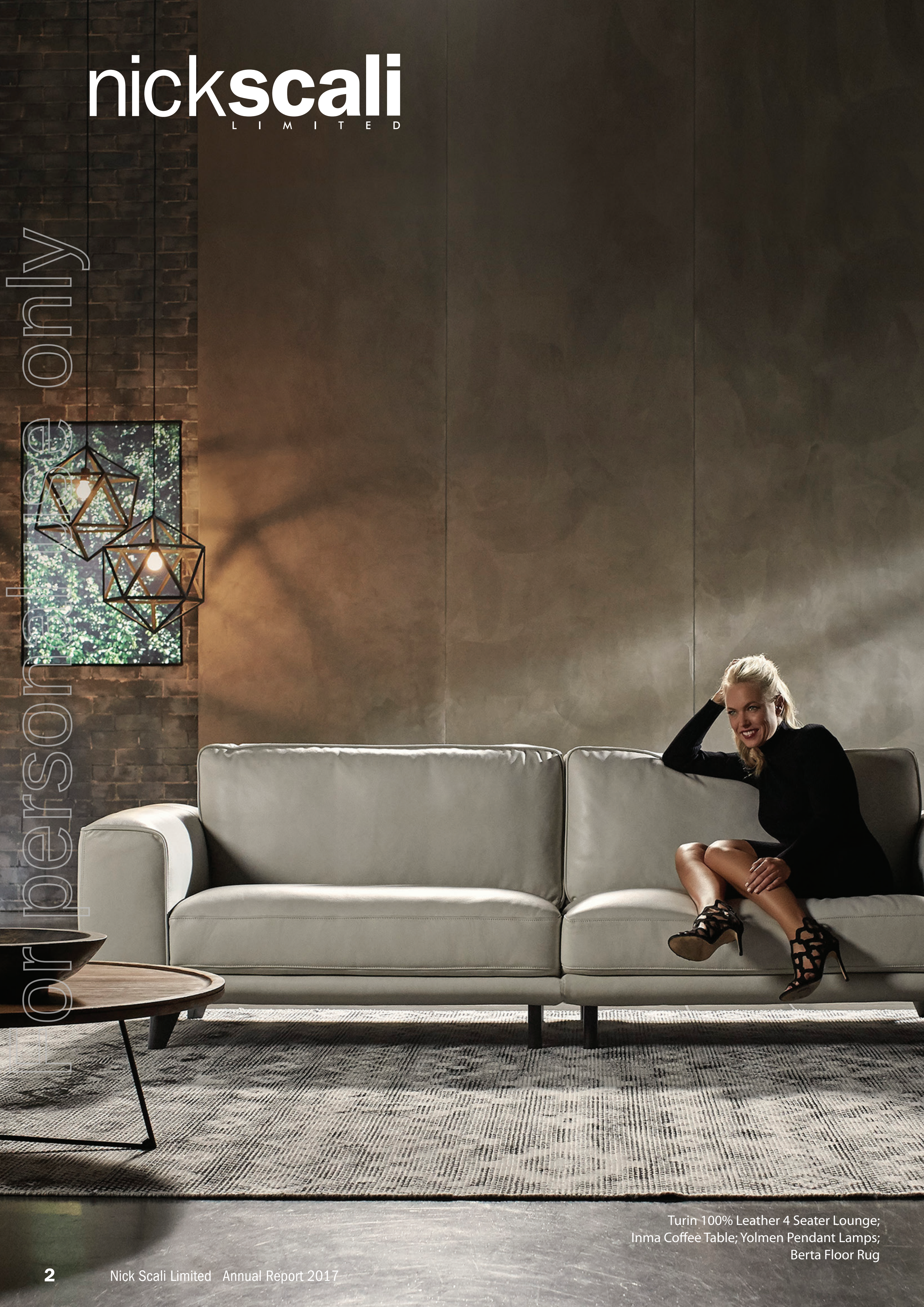


nickscali LIMITED

Annual Report 2017

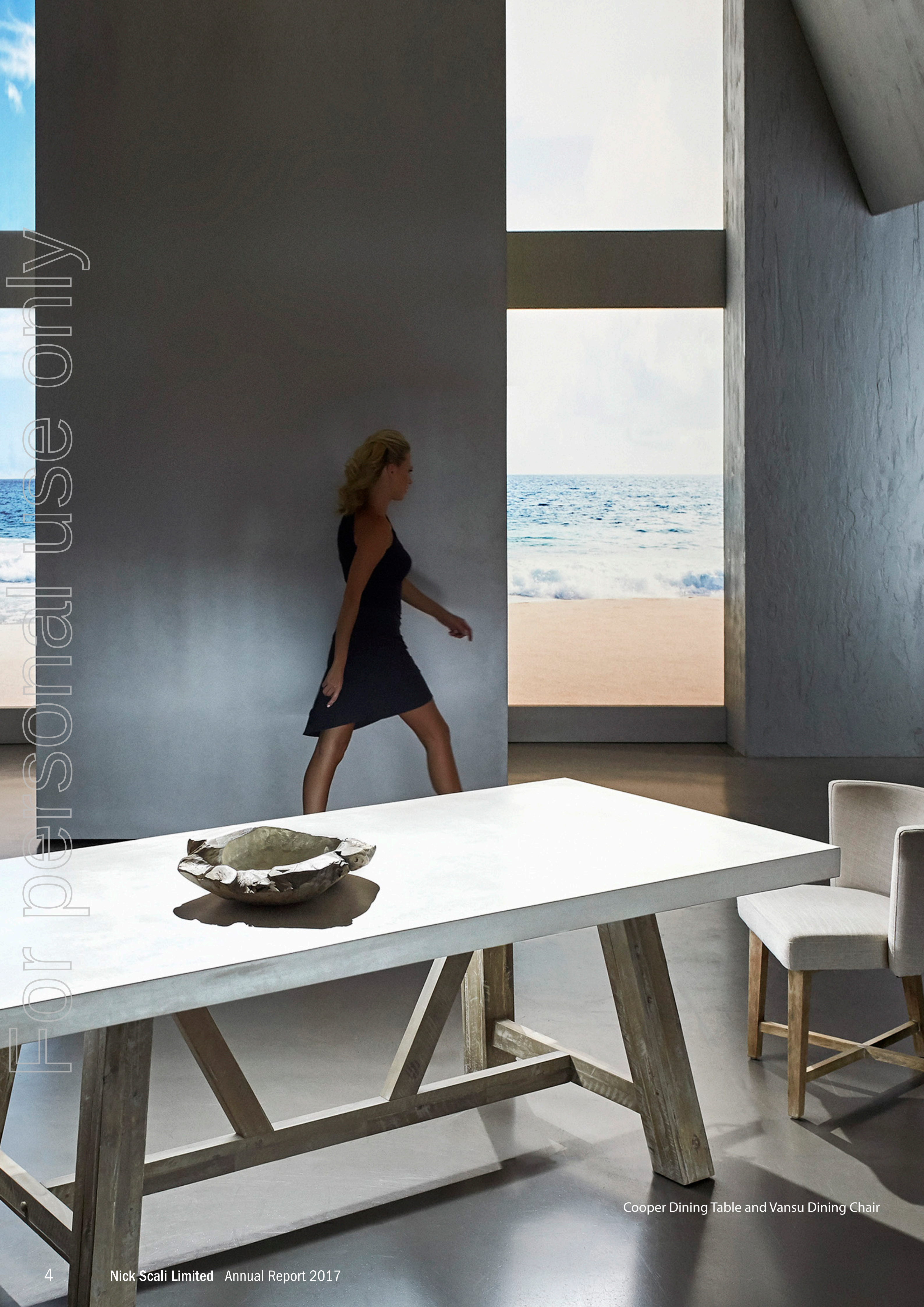

nickscali
LIMITED
Chifley 100% Leather 3 Seater Dual-Electric Recliner;
Provence Console; Provence Dining Table and Primo Dining Chair;
Harley Armchair; Laurie Coffee Tables; Libertine Floor Rug


HERB RITTS
RAFFAELLO IL "PARNASO"



Turin 100% Leather 4 Seater Lounge;
Inma Coffee Table; Yolmen Pendant Lamps;
Berta Floor Rug

Contents



Cooper Dining Table and Vansu Dining Chair

Chairman and Managing Director's Review

Operating Performance

We are delighted to report that Nick Scali has had another excellent year, delivering a net profit after tax increase of 42.4% on the previous year with earnings per share increasing from 32.3 cents per share to 46.0 cents per share. This result was driven by a combination of sales growth, solid gross margins and our low cost of doing business, underpinned by our continued new store rollout.

Sales revenue increased 14.7% to $232.9 million for the year, resulting from same store sales growth of 10.1%, two new stores which opened during FY16 and traded for the full 2017 financial year plus some contribution from the four new stores which opened in FY17, thus only trading for part of the year. Operating expenses decreased as a percentage of sales from 41.3% last year to 38.9%. The Company maintains tight cost control and the percentage decrease was assisted by the ability of the Company to leverage new store growth off its existing infrastructure. The Company's gross margin strengthened to 62.5% from 60.8% with volume growth in certain product categories contributing to the higher margins.

Four Nick Scali Furniture stores were opened and one was closed during the year, bringing the total number of Company stores at 30 June 2017 to 51. Two new stores opened during the first half of the fiscal year, at Geelong (Victoria) and Hobart, which was our first store in Tasmania. A further two new stores opened in the second half - at Jandakot (our fifth store in Western Australia) and at Preston in Victoria. The Company expects to open up to ten new stores during FY18. This includes the first New Zealand store which is planned to open in Auckland in December 2017. A new, custom built, warehouse facility for NSW was completed in June 2017 to support the growth of the business. Supply chain efficiencies will benefit from this investment and from a new warehouse management system introduced at the same time.

Cash flow generation remained strong, with operating cash flow of $42.9m up $10.9m (34.0%) on the prior financial year. Nick Scali maintained its disciplined approach to financial management and maintained its robust balance sheet.

Dividends

The Directors have declared a fully franked final dividend of 20 cents per share, bringing the total dividend for the year to 34 cents per share. The final dividend has a record date of 4th October 2017 and will be paid on 25th October 2017. The Directors consider that the dividend payout ratio of 74% appropriately balances the distribution of profit to shareholders and the reinvestment of earnings for future growth.

Board

During 2016, Mr Nick Scali advised the Board of his intention to retire and not seek re-election at the October 2016 AGM and as a result, Nick ceased to be a director on 27 October 2016. Nick founded the Company over 55 years ago and is widely recognised as a leader and visionary in the furniture industry. On behalf of the Board, Staff and Shareholders, the Directors thank Nick for his service and unique contribution to the success of the Company, in particular as a member of the Board since listing in 2004. We all join together in wishing Nick a long and well deserved retirement and hope that he enjoys it in good health and happiness.

Outlook

The furniture market is directly influenced by consumer confidence, interest rates, unemployment levels and the volume of home renovations and housing sales. Given an expected slowdown in housing sales, the Company believes that same store sales order growth will be challenging.

Whilst the Company is planning to open around 10 new stores in FY18, the benefit to earnings will be generated mainly in FY19 and beyond, due to the associated new store start-up costs and their staggered starting dates.

Nick Scali has a strong balance sheet, with a healthy net cash position, enabling the Company to continue its growth strategy and take advantage of any other opportunities that may arise.

Finally, on behalf of the Board, we thank the Management team and our many Nick Scali team members around the country, for their dedication and hard work. We also thank our shareholders, customers and suppliers, whose continuing support underpins the ongoing success of the Company.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Nick Scali Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2017.

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 (resigned on 27 October 2016)
Greg R Laurie
Carole A Molyneux
Anthony J Scali

Principal activities

The principal activities of the consolidated entity 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:

	2017 $'000	2016 $'000
Final franked dividend for 30 June 2016: 14.0 cents (2015: 8.0 cents)	11,340	6,480
Special franked dividend for 30 June 2016: 3.0 cents (2015: Nil)	2,430	
Interim franked dividend for 30 June 2017: 14.0 cents (2016: 9.0 cents)	11,340	7,290
	25,110	13,770

In addition to the above dividend, since the end of the financial year directors have declared a fully franked final dividend of 20.0 cents per fully paid ordinary share to be paid on 25 October 2017 out of retained profits at 30 June 2017.

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 six 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.

Group Operating Results

	2017 $m	2016 $m	% Change
Revenue	232.9	203.0	14.7%
EBITDA	55.7	40.2	38.7%
EBIT	52.9	37.1	42.7%
NPAT	37.2	26.2	42.4%
EPS (cents)	46.0	32.3	42.4%
DPS (cents)	34.0	23.0	47.8%
Net Cash	18.8	15.9	18.3%

For the financial year ended 30 June 2017 the Company reported a record NPAT result of $37.2m, up 42.4% on the previous year. This strong profit result was generated from Sales Revenue of $232.9m which was up 14.7% on last year. Comparable store sales growth was a healthy 10%. The result was driven by the opening of two new stores in the 2016 financial year, a further four new stores during the 2017 financial year and supported by strong marketing activity.

The continued focus on product, price and corresponding range management led to gross margin increasing to 62.5%, higher than during the last five years when it ranged between 60% and 61%.

Operating expenses decreased as a percentage of sales from 41.3% in FY16 to 38.9% for FY17. The Company continues to maintain tight cost control and the sales increase off the existing infrastructure, leveraged this further.

Net cash flows from operating activities during the year were $42.9m, up 34.0% on the previous year. Net cash inflows from all activities were $2.5m after a $14.3m investment in fixed assets. This included the purchase of a property in Manly Vale (NSW) in February 2017, the completion of the build of a new store in Nunawading (VIC) on a Company owned site, new store fitouts for Geelong (VIC), Hobart (TAS), Preston (VIC) and Jandakot (WA) together with various store refurbishments.

Borrowings remained unchanged at $21.2m and relate to property purchases. With low debt and cash reserves (including customer deposits) of $40.0m, 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 $70.4m as at 30 June 2017, up $12.6m on last year.

Directors' Report (continued)

Group Operating Results (continued)

In June 2017, the NSW Distribution Centre was relocated to a new, larger, purpose-built property at Wetherill Park and a new warehouse management system is in the final stages of implementation. These Distribution Centre initiatives are expected to provide increased efficiency and capacity to optimally service the market in the future.

Store network

During the year, the Company opened four new Nick Scali Furniture stores in Geelong (VIC), Hobart (TAS), Preston (VIC) and Jandakot (WA). The total number of stores at 30 June 2017 was 51.

The Directors believe that the Company has considerable room for further expansion of its store network within Australia and New Zealand, with a long term outlook of around 75 stores across both countries. Various sites have been secured or are under negotiation for opening in the new financial year. The first New Zealand store, trading under a newly incorporated subsidiary, Nick Scali (New Zealand) Limited, is expected to open in Auckland in December 2017 together with a local Distribution Centre to support this and additional stores to open in FY18.

People

The Company is committed to delivering industry best practice across all facets of the Business by recruiting and retaining the best in the industry. All employees continue to be developed through a suite of training and leadership development programmes combined with detailed performance assessment. Competitive remuneration packages incorporating both short and long term incentives ensure that good performance is appropriately rewarded and talent is retained.

The Company has a policy of equal opportunity and advocates diversity in the workplace. The supportive culture underpins the wellbeing of the staff and there are rigorous occupational health and safety practices in place. The Company's Human Resource and Remuneration Strategies are designed to ensure that Nick Scali Furniture remains an employer of first choice in its retail sector.

Outlook and Risks

Nick Scali operates in a competitive retail market which is subject to moderate barriers to entry and changing consumer preferences. The Company believes however that its business model, structure and strategies place the business in a strong position to maintain its market leading position.

The furniture market is directly influenced by consumer confidence, interest rates, unemployment levels and the volume of home renovations and housing sales. Given a likely slowdown in housing sales, the Company believes that same stores sales orders growth will be challenging in FY18.

Whilst the Company is planning to open around 10 new stores in FY18, the benefit to earnings will only be generated in FY19 due to the associated start-up costs of new stores and their staggered starting dates.

Nick Scali has a strong balance sheet, with a healthy net cash position, enabling the Company to continue its growth strategy and take advantage of any opportunities that may arise.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity 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 2017 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

Refer to the Operating and financial review on page 6.

Environmental regulation

The consolidated entity 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 consolidated entity'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:
Non-executive Chairman of Shriro Holdings Limited.
Former directorships (last 3 years):
Independent Director of Australian Super retired on 1 March 2017
Special responsibilities:
Member of the Audit Committee and the Remuneration and Human Resources Committee.
Interests in shares: 370,399

Directors' Report (continued)

Name: Nick D Scali
Title: Non-Executive Director
(resigned on 27 October 2016)
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 and Human Resources Committee.
Interests in shares: Nil

Name: Greg R Laurie
Title: Independent Non-Executive Director
Qualifications: BCom, FAICD
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. Greg has been Chairman of various Audit and Risk Committees since 2004.
Other current directorships:
Independent Non-Executive Director of Shriro Holdings Limited and Bradken Limited and Independent Chairman of Big River Industries Limited.
Former directorships (last 3 years):
None
Special responsibilities:
Chairman of the Audit Committee and a member of the Remuneration and Human Resources 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 White Ribbon Australia and Racing NSW.
Former directorships (last 3 years):
None
Special responsibilities:
Chairman of the Remuneration and Human Resources Committee and member of the Audit 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

'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.

Directors' Report (continued)

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 (resigned 27 October 2016)
- Carole A Molyneux

Remuneration and Human Resources Committee

The members of the Remuneration and Human Resources Committee are as follows:

- Carole A Molyneux (Chairman)
- John W Ingram
- Greg R Laurie

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 2017, and the number of meetings attended by each director were:

	DIRECTOR'S MEETINGS		REMUNERATION AND HUMAN RESOURCES COMMITTEE		AUDIT AND RISK COMMITTEE	
	Attended	Held	Attended	Held	Attended	Held
John W Ingram	10	10	2	2	4	4
Nick D Scali (resigned 27 October 2016)	1	3	–	–	–	1
Greg R Laurie	10	10	2	2	4	4
Carole A Molyneux	9	10	2	2	4	4
Anthony J Scali[1]	10	10	–	–	–	–

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

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

Remuneration Report – Audited

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, 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 consolidated entity consisted of the following directors:

John W Ingram – Non-Executive Chairman
Nick D Scali – Non-Executive Director (Resigned on 27 October 2016)
Greg R Laurie – Non-Executive Director
Carole A Molyneux – Non-Executive Director
Anthony J Scali – Managing Director

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 consolidated entity. To this end, the consolidated entity 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 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.

Directors' Report (continued)

Remuneration Report – Audited (continued)

3. Remuneration and Human Resources Committee

The Remuneration and Human Resources 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 consolidated entity for which Board approval is required.
- Recommending to the Board the remuneration of new senior executives appointed by the consolidated entity.
- 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 and Human Resources 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 FY16 and changed with effect from 1 July 2016 to the annual fees reflected below:

	2017 $	2016 $
Base fee for Non-Executive Chairman	130,000	130,000
Base fee for Non-Executive Director	87,000	87,000
Fee for Audit Committee Chairman	15,000	15,000
Fee for Audit Committee Member	4,000	4,000
Fee for Remuneration and Human Resources Committee Chairman	5,000	–
Fee for Remuneration and Human Resources Committee Member	2,000	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 consolidated entity provides appropriate rewards to attract and retain key personnel. Base salaries, short and long term incentives are established by the Remuneration and Human Resources 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 consolidated entity'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 2017 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 and Human Resources Committee by reviewing the consolidated entity 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 and Human Resources 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 and Human Resources 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 2017 and previous year:

2017	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

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

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 2017 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
Greater than 5% and less than 10% p.a. compound	Calculated on a pro rata basis between 50% and 100% depending on the Company's EPS performance
10% p.a. compound and above	100% of Rights exercisable

Directors' Report (continued)

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:

		2013*	2014	2015	2016	2017	CAGR (%)
Revenue	$m	127.4	141.4	155.7	203.0	232.9	16.3
EBITDA	$m	23.9	21.5	25.9	40.1	55.7	31.8
Net profit after tax	$m	16.0	14.2	17.1	26.1	37.2	32.1
Earnings per share	Cents	15.1	17.6	21.1	32.3	46.0	44.8
Ordinary dividends per share	Cents	12.0	13.0	15.0	23.0	34.0	29.7
Share price at financial year end	$	2.18	2.45	3.10	4.68	6.09	29.3
Stores	#	38	39	46	47	51	
Basic earnings per share growth	%	35.7	16.3	19.9	53.1	42.4	

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

4.4 Remuneration outcomes

2017	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[1]	28,760	–	–	2,732	–	31,492
Greg R Laurie	94,977	–	–	9,023	–	104,000
Carole A Molyneux	87,671	–	–	8,329	–	96,000
Executive Directors:						
Anthony J Scali	680,048	560,000	–	19,615	13,528	1,273,191
Other Key Management Personnel:						
Kevin Fine	398,842	193,125	51,736	19,615	–	663,318
	1,420,298	753,125	51,736	59,314	13,528	2,298,001

[1] Nick D Scali resigned as Non-Executive Director on 27 October 2016.

Directors' Report (continued)

Remuneration Report – Audited (continued)

4.4 Remuneration outcomes (continued)

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]	667,301	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
	1,707,839	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.

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:

30 June 2017

REFERENCE	GRANT DATE	VESTING AND EXERCISABLE DATE	EXPIRY DATE	EXERCISE PRICE ($)	FAIR VALUE PER RIGHT AT GRANT DATE ($)	VESTED AND EXERCISED 30 JUNE 2017	VESTED AND EXERCISED 30 JUNE 2016
FY17/19-1	22 Nov 2016	Aug 2019	30 Jun 2021	0.00	5.66	–	–

30 June 2016

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 2017	BALANCE 30 JUNE 2016	GRANTED (a)	VESTED AND EXERCISED	LAPSED	BALANCE 30 JUNE 2017
Anthony Scali	–	–	–	–	–
Kevin Fine	45,876	33,169	–	–	79,045

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

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

Directors' Report (continued)

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	22,078,947	–	–	–	22,078,947
	22,479,346	–	–	–	22,479,346

Scali Consolidated Pty Ltd is a Director related entity of Mr Anthony J 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.

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 2017. 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.

Directors' Report (continued)

Auditor

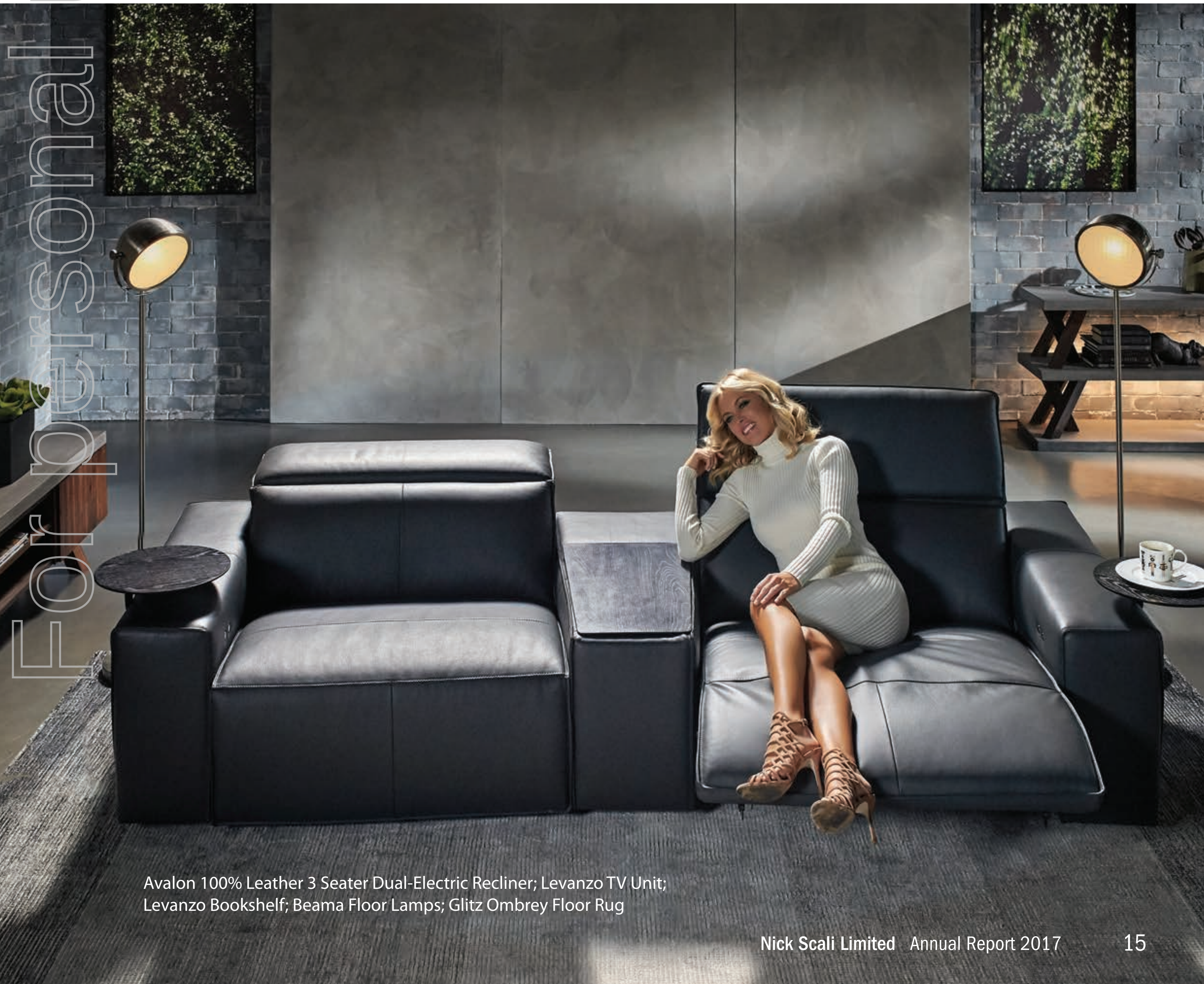
Ernst & Young continues in office in accordance with section 327 of the Corporations Act 2001.

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

John W Ingram Chairman	Anthony J Scali Managing Director

10 August 2017
Sydney



Avalon 100% Leather 3 Seater Dual-Electric Recliner; Levanzo TV Unit; Levanzo Bookshelf; Beama Floor Lamps; Glitz Ombrey Floor Rug

Auditor's Independence Declaration

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

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

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

As lead auditor for the audit of Nick Scali Limited for the financial year ended 30 June 2017, 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

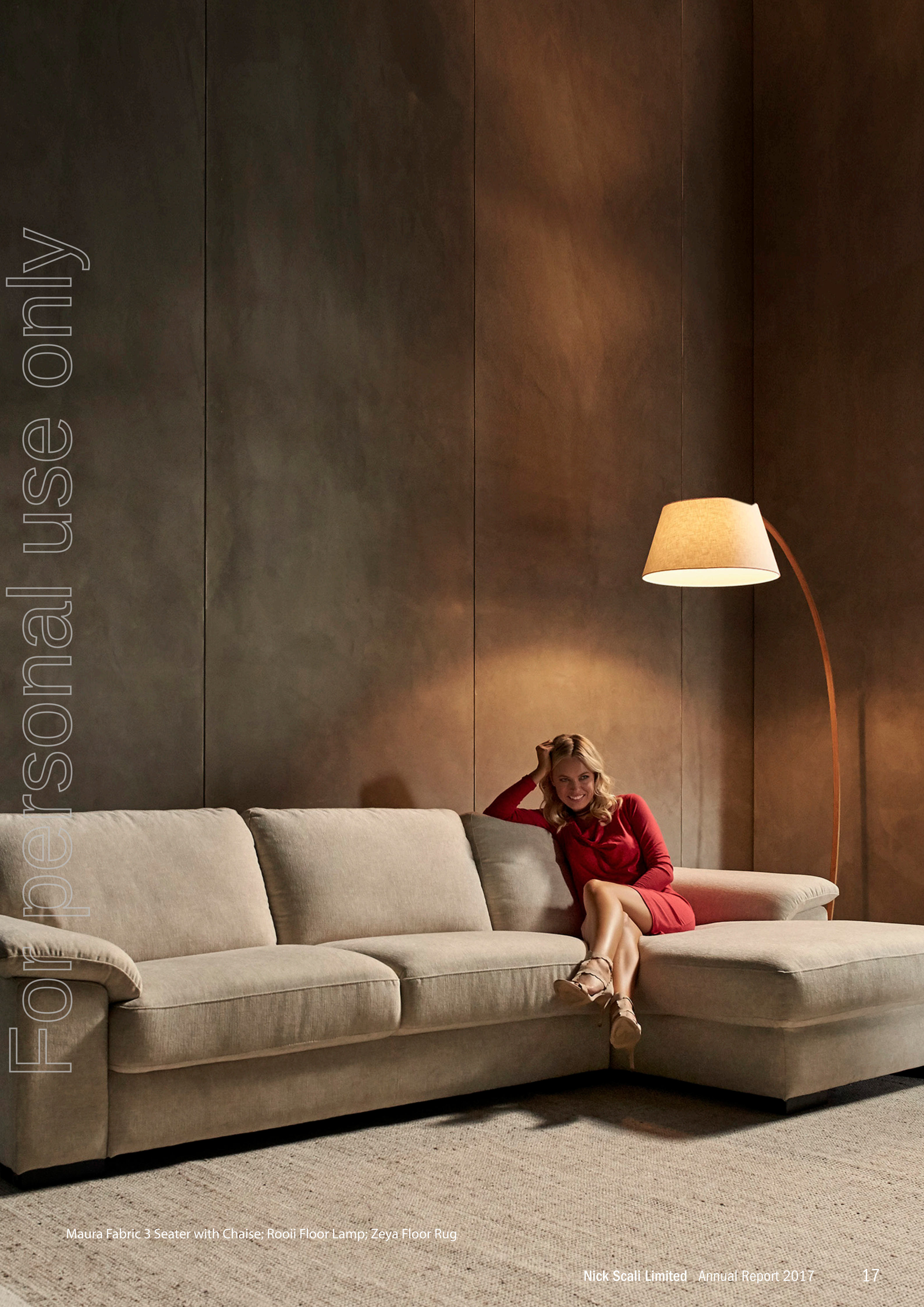
b) no contraventions of any applicable code of professional conductin relation to the audit.

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

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
10 August 2017



Maura Fabric 3 Seater with Chaise; Rooii Floor Lamp; Zeya Floor Rug

For personal use only

Statement of Comprehensive Income

FOR THE YEAR ENDED 30 JUNE 2017

	NOTE	2017 $'000	2016 $'000
Revenue from sale of goods	3	232,908	203,045
Cost of goods sold		(87,346)	(79,676)
Gross Profit		**145,562**	**123,369**
Other Income	3	1,574	1,428
Expenses			
Marketing expenses		(19,188)	(16,725)
Employment expenses	4	(34,707)	(31,731)
General & Administration expenses		(7,682)	(6,576)
Property expenses	4	(27,683)	(27,521)
Distribution expenses		(1,244)	(1,274)
Depreciation and Amortisation	4	(2,814)	(3,095)
Finance costs		(619)	(423)
Profit before income tax expense		**53,199**	**37,452**
Income tax expense	5	(15,963)	(11,302)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		**37,236**	**26,150**
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		320	(908)
Other comprehensive income for the year, net of tax		320	(908)
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		**37,556**	**25,242**
		CENTS	**CENTS**
Basic earnings per share	6	46.0	32.3
Diluted earnings per share	6	46.0	32.3

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

Statement of Financial Position

AS AT 30 JUNE 2017

	NOTE	2017 $'000	2016 $'000
Assets			
Current assets			
Cash and cash equivalents	9	39,944	37,038
Receivables	10	196	197
Inventories	11	29,045	25,847
Other Financial Assets	12	95	44
Other Assets		506	143
Total current assets		69,786	63,269
Non-current assets			
Property, Plant and Equipment	13	66,847	55,493
Intangibles Assets	14	2,378	2,378
Deferred tax		105	331
Total non-current assets		69,330	58,202
Total assets		**139,116**	**121,471**
Liabilities			
Current liabilities			
Payables	15	42,805	37,274
Current tax liabilities		1,057	1,772
Provisions	16	1,508	1,338
Total current liabilities		45,370	40,384
Non-current liabilities			
Borrowings	17	21,162	21,162
Provisions	18	2,200	2,131
Total non-current liabilities		23,362	23,293
Total liabilities		**68,732**	**63,677**
Net assets		**70,384**	**57,794**
Equity			
Issued capital	19	3,364	3,364
Reserves	22	(24)	(488)
Retained profits		67,044	54,918
Total equity		**70,384**	**57,794**

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 2017

	CONTRIBUTED EQUITY $'000	EQUITY BENEFITS RESERVE $'000	CAPITAL PROFITS RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2015	3,364	44	78	202	42,538	46,226
Profit after income tax expense for the 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**
Balance at 1 July 2016	3,364	140	78	(706)	54,918	57,794
Profit after income tax expense for the year	–	–	–	–	37,236	37,236
Other comprehensive income for the year, net of tax	–	–	–	320	–	320
Total comprehensive income for the year	–	–	–	320	37,236	37,556
Share-based payments (note 29)	–	144	–	–	–	144
Dividends paid (note 7)	–	–	–	–	(25,110)	(25,110)
Balance at 30 June 2017	**3,364**	**284**	**78**	**(386)**	**67,044**	**70,384**

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 2017

	NOTE	2017 $'000	2016 $'000
Cash flows from operating activities			
Receipts from customers		256,200	223,388
Payments to suppliers and employees		(197,612)	(181,064)
		58,588	42,324
Interest received		915	799
Income taxes paid		(16,590)	(11,105)
Net cash from operating activities	8	**42,913**	**32,018**
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(14,278)	(23,567)
Net cash used in investing activities		**(14,278)**	**(23,567)**
Cash flows from financing activities			
Payment of dividends on ordinary shares	7	(25,110)	(13,770)
Proceeds from borrowings		–	9,100
Interest paid		(619)	(423)
Net cash used in financing activities		**(25,729)**	**(5,093)**
Net increase/(decrease) in cash and cash equivalents		2,906	3,358
Cash and cash equivalents at the beginning of the financial year		37,038	33,680
Cash and cash equivalents at the end of the financial year	9	**39,944**	**37,038**

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 2017

Basis of preparation

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 10 August 2017.

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. Judgement is applied in assessing the net realisable value.

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 2017. 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 15 Revenue from contracts with Customers

This standard applies to annual reporting period beginning on or after 1 January 2018. During the current year, Management has undertaken an assessment on the potential impact of the adoption of AASB 15. Management has identified all revenue streams including in store and online.

Given the nature of the revenue streams, no impact is expected on the timing of revenue recognition or profit before tax on the assessment to date as the performance obligation relates to the delivery of goods and the price is agreed on order.

AASB 9 Financial Instruments

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 Company have forward contracts and adopt hedging accounting. There are no differences with the classification under the new standard. In addition, regarding the short term receivable, the expected credit loss model is not expected to have a significant impact. The Company has not impaired the balance and is not expected to impair it due to the adoption of the new standard.

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 is in the process of assessing the financial impact of the adoption of this standard.

	2017 $'000	2016 $'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

	2017 $'000	2016 $'000
Sales Revenue	232,908	203,045
Interest income	915	799
Rent received	419	380
Sundry income	240	249
Total other income	1,574	1,428
Total Revenue	234,482	204,473

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.

	2017 $'000	2016 $'000
Note 4. Expenses		
Profit before income tax includes the following specific expenses:		
Expenses		
Operating lease rental	27,683	27,521
Other expenses includes:		
Depreciation/Amortisation of non-current assets		
Land & Buildings	771	397
Leasehold improvements	1,028	1,401
Fixtures and fittings	132	194
Motor vehicles	65	62
Office Equipment	818	1,041
	2,814	3,095
Employee benefits expenses:		
Salaries and wages	27,591	25,871
Superannuation expense	2,439	2,129
Share-based payments	144	96
Other[1]	4,533	3,635
	34,707	31,731

[1] Other Employee Benefits include commissions, payroll tax, workers compensation and contract staff.

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 370 (2016: 333)

	2017 $'000	2016 $'000
Note 5. Income tax expense		
Income tax expense		
Current income tax charge	16,275	11,734
Adjustments in respect of current income tax of previous years	(50)	–
Relating to origination and reversal of temporary differences	(262)	(432)
Aggregate income tax expense	15,963	11,302
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	53,199	37,452
Tax at the statutory tax rate of 30%	15,960	11,236
Adjustments in respect of current income tax of previous years	(50)	–
Other items (net)	53	66
Income tax expense	15,963	11,302
Deferred tax recognised comprises temporary differences attributable to:		
Depreciation – tax rate	(798)	(590)
Compensation for lease surrender	(1,612)	(1,612)
Inventory write off accrual	449	455
Employee entitlements	1,055	982
Deferred rent	592	582
Make good	135	100
Cash flow Hedge (Note 22)	165	303
Other	119	111
Total deferred tax asset /(liability)	105	331

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.

	2017 $'000	2016 $'000
Note 6. Earnings per share		
Profit after income tax attributable to the owners of Nick Scali Limited	37,236	26,150
	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	46.0	32.3
Diluted earnings per share	46.0	32.3

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.

	2017 $'000	2016 $'000
Note 7. Equity – Dividends		
Dividends		
Dividends paid during the financial year were as follows:		
Final fully franked dividend for 30 June 2016: 14.0 cents (2015: 8.0 cents)	11,340	6,480
Special fully final franked dividend for 30 June 2016: 3.0 cents (2015: Nil)	2,430	–
Interim fully franked dividend for 30 June 2017: 14.0 cents (2016: 9.0 cents)	11,340	7,290
	25,110	13,770

In addition to the above dividend, since the end of the financial year directors have declared a final fully franked dividend of 20.0 cents per fully paid ordinary share to be paid on 25 October 2017 out of retained profits at 30 June 2017.

	2017 $'000	2016 $'000
Franking credits		
Franking credits available at the reporting date based on a tax rate of 30%	26,169	20,341
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%	1,374	1,567
Franking credits available for subsequent financial years based on a tax rate of 30%	27,543	21,908

	2017 $'000	2016 $'000
Note 7. Equity – Dividends (continued)		
Franking credits available for future reporting periods based on a tax rate of 30%	20,600	16,007

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 2016: 30%).
Dividends declared and unpaid will be franked at the rate of 30% (30 June 2016: 30%).

	2017 $'000	2016 $'000
Note 8. Reconciliation of profit after income tax to net cash from operating activities		
Profit after income tax expense for the year	37,236	26,150
Adjustments for:		
Depreciation of property, plant and equipment	2,814	3,095
Net (gain) / loss on disposal of property, plant and equipment	111	(4)
Share-based payments	144	96
Interest expense classified as investing cash flows	619	423
Net fair value change on derivatives	320	(908)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1	38
(Increase)/decrease in inventories	(3,198)	(1,635)
(Increase)/decrease in deferred tax assets	226	(331)
Decrease/(increase) in prepayments	(363)	34
Increase/(decrease) in value of other financial asset	(51)	517
Increase/(decrease) in trade and other payables	5,530	4,179
Decrease/(increase) in provision for income tax	(715)	628
Increase/(decrease) in deferred tax liabilities	–	(490)
Decrease/(increase) in other provisions	239	226
Net cash from operating activities	42,913	32,018

Operating assets and liabilities

	2017 $'000	2016 $'000
Note 9. Current assets – Cash and cash equivalents		
Cash on hand	1	2
Cash at bank	39,943	37,036
	39,944	37,038

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.

	2017 $'000	2016 $'000
Note 10. Current assets – Receivables		
Trade debtors	196	197

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 $8,000 as at 30 June 2017 ($19,000 as at 30 June 2016).

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.

	2017 $'000	2016 $'000
Note 11. Current assets – Inventories		
Finished goods – at cost	24,884	21,767
Stock in transit – at cost	4,161	4,080
	29,045	25,847

During 2017, $1,169,776 (2016: $1,228,957) 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.

	2017 $'000	2016 $'000
Note 12. Current assets – Other financial assets		
Deposits	95	44

	2017 $'000	2016 $'000
Note 13. Non-current assets – Property, Plant and Equipment		
Land and buildings – at cost	57,367	48,248
Less: Accumulated depreciation	(2,155)	(1,384)
	55,212	46,864
Leasehold improvements – at cost	12,089	11,105
Less: Accumulated depreciation	(5,372)	(5,852)
	6,717	5,253
Fixtures and fittings – at cost	2,639	3,186
Less: Accumulated depreciation	(2,146)	(2,652)
	493	534
Motor vehicles – at cost	747	682
Less: Accumulated depreciation	(464)	(489)
	283	193
Office equipment – at cost	9,048	7,784
Less: Accumulated depreciation	(4,906)	(5,135)
	4,142	2,649
	66,847	55,493

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 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
Additions	9,119	2,583	93	172	2,311	14,278
Disposals	–	(91)	(2)	(17)	–	(110)
Impairment	(59)	(14)	–	–	–	(73)
Depreciation charged	(712)	(1,014)	(132)	(65)	(818)	(2,741)
Balance at 30 June 2017	55,212	6,717	493	283	4,142	66,847

$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 and 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.

	2017 $'000	2016 $'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.

As a result of the analysis, any reasonable sensitivity analysis will not result in any impairment.

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.

	2017 $'000	2016 $'000
Note 15. Current liabilities – Payables		
Trade creditors (i)	7,603	6,248
Other creditors and accruals (ii)	9,075	8,556
Derivative hedge payable (iii) (note 21)	551	1,009
Customer deposits (iv)	23,343	19,382
Annual leave	2,233	2,079
	42,805	37,274

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.

(iv) Customer deposits relates to deposits received for orders not yet completed.

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.

	2017 $'000	2016 $'000
Note 16. Current liabilities – Provisions		
Long service leave	1,017	928
Deferred Rent	491	410
	1,508	1,338
Note 17. Non-current liabilities – Borrowings		
Commercial bills payable	21,162	21,162

Financing facilities available

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

Bank facilities		
Credit facilities	23,362	23,362
Amount utilised	(21,162)	(21,162)
Unused credit facilities	2,200	2,200

	Facility	Utilised
Bank loan		
Expiring financial year 2019	21,062	18,862
Expiring financial year 2021[1]	2,300	2,300
	23,362	21,162
Other (bank guarantee and letters of credit)	5,000	1,829
	28,362	22,991

[1] This bank loan was renegotiated during the year and has a new expiry date of 30 September 2020.

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 at least 12 months after the reporting date.

	2017 $'000	2016 $'000
Note 18. Non-current liabilities – Provisions		
Long service leave	269	267
Deferred Rent	1,481	1,531
Lease make good	450	333
	2,200	2,131

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 finance cost

	2017 SHARES	2016 SHARES	2017 $'000	2016 $'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 grow its existing business. 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 2017, the Company has Trade Payables of $1,210,531 (2016: $1,282,885) denominated in US dollars and Stock In Transit of $3,176,985 (2016: $3,026,129) denominated in US dollars, all of which are covered by designated cash flow hedges (June 2016: 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 2017 through to February 2018, 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 2017 through to February 2018.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated with the contracts (both the counter-party's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 30 June 2017, an unrealised gain of $320,000 (30 June 2016: an unrealised loss of $908,000) 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.

	2017		2016	
	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000	WEIGHTED AVERAGE INTEREST RATE %	BALANCE $'000
Floating rate Cash Assets <1 Year	2.41%	39,943	2.58%	37,036
Floating rate Commercial Bills – Liabilities <5 Year	3.94%	(21,162)	3.20%	(21,162)
Net exposure to cash flow interest rate risk		18,781		15,874

A reasonably possible change in the interest rate of +/- 100 basis points would result in an increase/(decrease) of profit before tax of $188,000 (2016: $159,000).

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
2017					
Non-derivatives					
Non-interest bearing					
Trade Creditors	7,451	152	–	–	7,603
Other creditors	9,075	–	–	–	9,075
Interest-bearing – variable					
Borrowings	154	465	22,093	–	22,712
Total non-derivatives	16,681	617	22,093	–	39,390

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
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

Note 21. Fair value measurement

Fair value hierarchy

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

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

At the reporting date the fair value of derivative financial instrument represented a derivative hedge payable of $551,000 (2016: derivative hedge payable of $1,009,000). All foreign currency forward contracts were measured at fair value using the Level 2 method. Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

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).

Note 21. Fair value measurement (continued)

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

	2017 $'000	2016 $'000
Note 22. Equity – Reserves		
Capital profits reserve	78	78
Hedging reserve – cash flow hedges	(386)	(706)
Equity benefits reserve	284	140
	(24)	(488)

Movements in reserves

	EQUITY BENEFITS RESERVE $'000	CAPITAL PROFITS RESERVE $'000	CASH FLOW HEDGE RESERVE $'000	TOTAL $'000
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)
Amounts recognised for cash flow hedges	–	–	(1,337)	(1,337)
Income tax on items taken directly to or transferred from equity	–	–	(138)	(138)
Amounts transferred to non-financial assets	–	–	1,795	1,795
Share-based payment	144	–	–	144
Balance at 30 June 2017	284	78	(386)	(24)

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.

	2017 $	2016 $
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	2,173,423	2,627,630
Post-employment benefits	59,314	79,233
Long-term benefits	13,528	298,080
Share-based payments	51,736	42,577
	2,298,001	3,047,520
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	110,000	95,000
Other services – Ernst & Young		
Tax review services	–	5,000
Performance rights plan advice	–	28,000
Other assurance related services	–	44,000
	–	77,000
	110,000	172,000

Note 25. Contingent liabilities

There are no contingent liabilities as at 30 June 2017 (2016: Nil).

	2017 $'000	2016 $'000
Note 26. Commitments		
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	24,748	19,855
One to five years	66,288	48,217
More than five years	16,044	10,351
	107,080	78,423

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 2017, the Company had capital commitments of $893,800 relating to the fitout of the new premises and showrooms.

	2017 $	2016 $
Note 27. Related party transactions		
Transactions with related parties		
The following transactions occurred with related parties:		
Rent and Outgoings paid to director related entities	967,649	1,583,405

Auburn and Chatswood Leases

The Company leases premises at Auburn and leased premises at Chatswood during the year, in New South Wales, from entities related to Mr Anthony J Scali. The following details the term and rent payable by the Company in respect 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:	A new lease which commenced on the 1 November 2016 and expires on the 31 October 2024, has been signed as approved by shareholders at the Extraordinary General Meeting held on 5 June 2017.
Rent and Outgoings:	$967,649 (plus GST) per annum

Location:	575 Pacific Highway, Chatswood, NSW
Term:	The related party lease ended on the 31 July 2016.
Rent and Outgoings:	Nil

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 2017 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 2016-17 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 $199,755 (2016: $96,190).

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
2017	122,659	64,962	(10,000)	–	177,621
	122,659	64,962	(10,000)	–	177,621
2016	64,418	78,241	(20,000)	–	122,659
	64,418	78,241	(20,000)	–	122,659

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:

	2017	2016
Share Price at Grant Date	$5.66	$3.37
Dividend Yield	4.9%	4.5%
Franking Rate	30.0%	30.0%
Imputations credits valuation factor	65.0%	65.0%
Implied pre-tax effective dividend yield	6.6%	6.6%

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. Parent entity information

The Consolidated and the Parent entity results as stated in the Statement of comprehensive income (page 18) and the Statement of financial position (page 19) are identical as the controlled entity did not trade in the 2017 financial year.

Recognition and measurement – Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nick Scali Limited ('company' or 'parent entity') as at 30 June 2017 and the results of all subsidiaries for the year then ended. Nick Scali Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Notes to the Financial Statements for year ended 30 June 2017 (continued)

Note 31. Controlled Entities

Parent Entity

The parent entity is Nick Scali Limited.

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiary in accordance with the accounting policy described in this financial report.

NAME OF ENTITY	COUNTRY OF INCORPORATION	CLASS OF SHARES	EQUITY HOLDING 2017 %	2016 %
Nick Scali (New Zealand) Limited	New Zealand	Ordinary	100	–

Nick Scali (New Zealand) Limited was incorporated on the 26 April 2017 and did not trade during 2017 financial year.

Note 32. 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.

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.

Note 32. Summary of significant accounting policies (continued)

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.

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 2017 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.

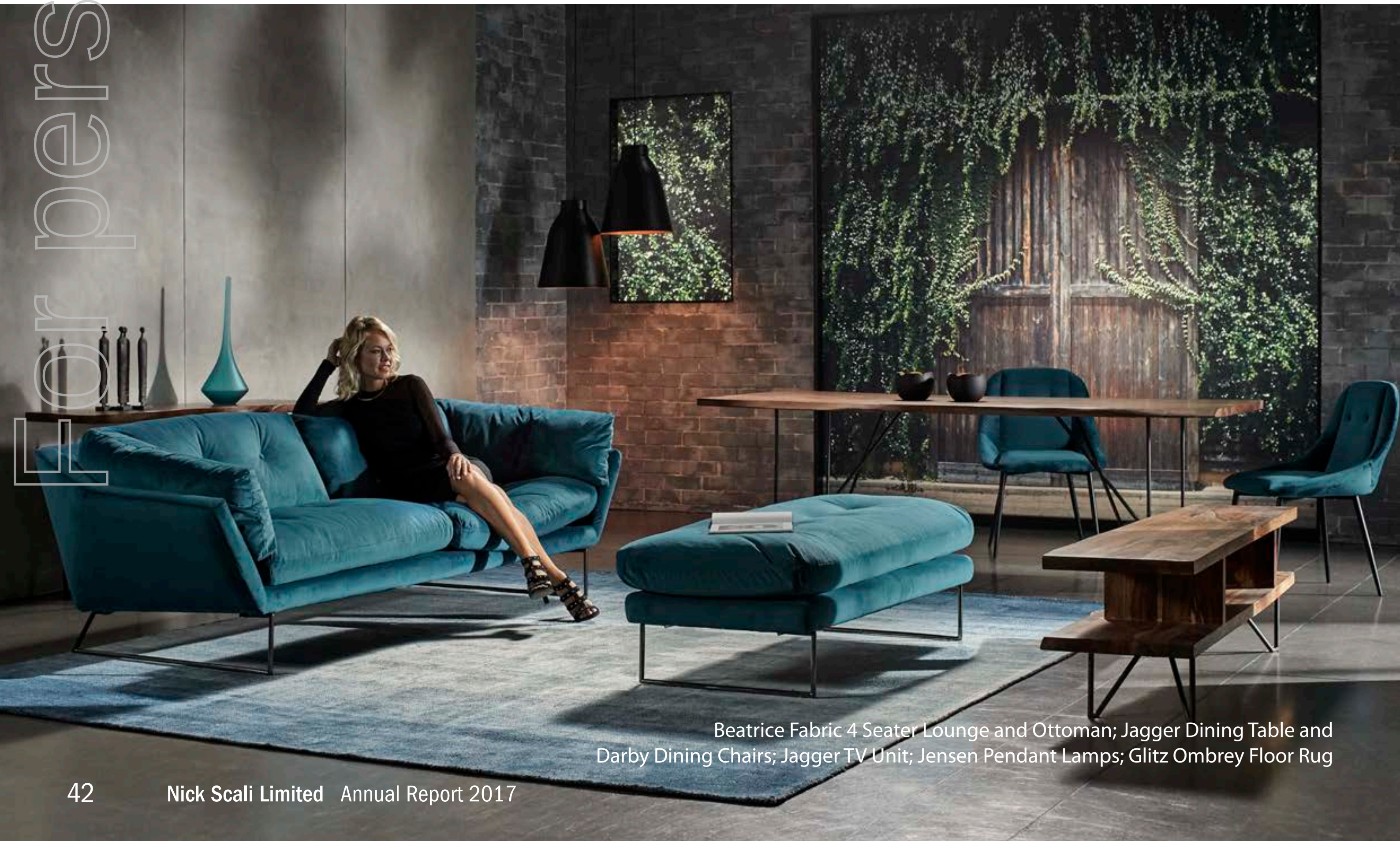
Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

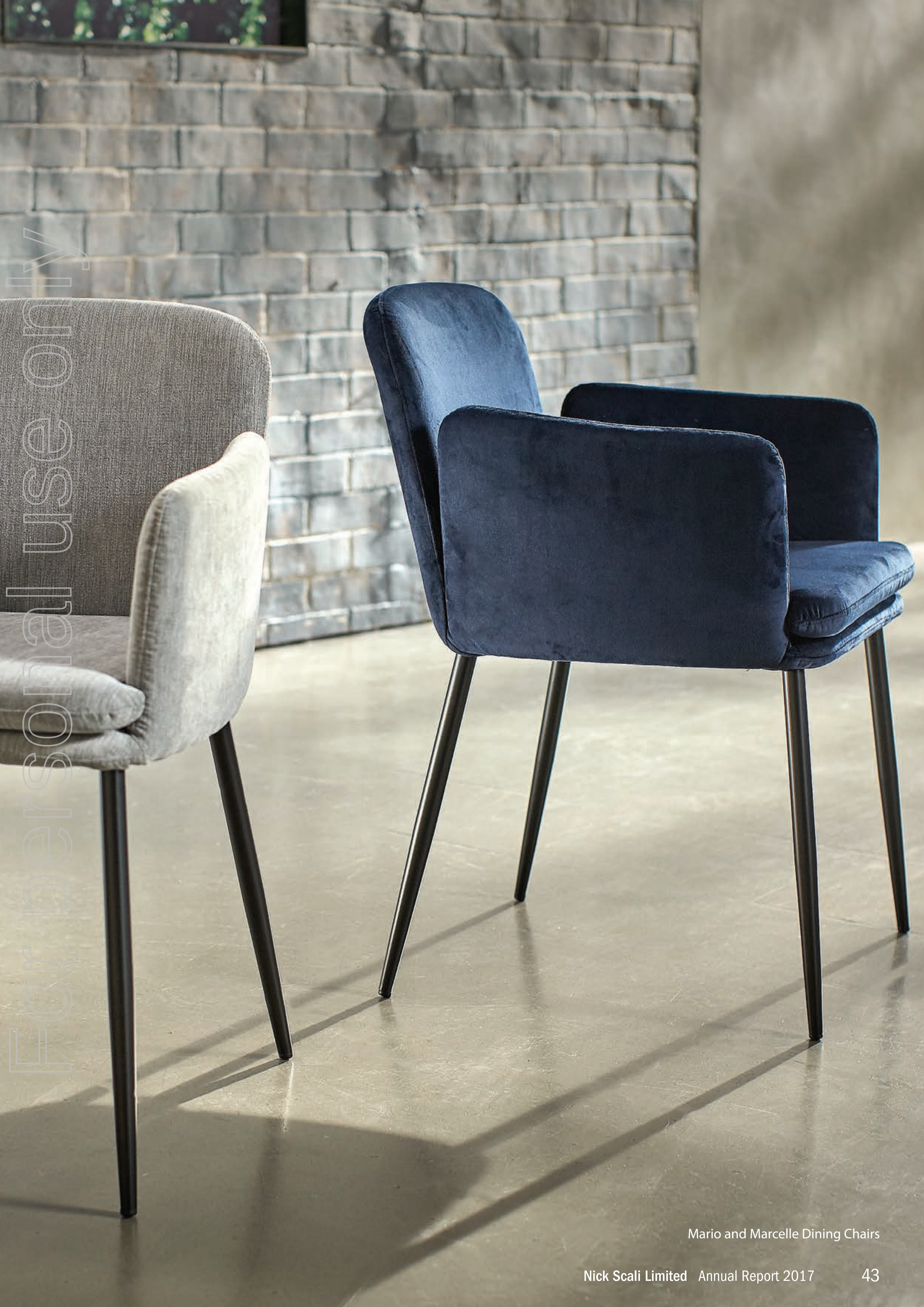
John W Ingram
Chairman

Anthony J Scali
Managing Director

10 August 2017
Sydney



Beatrice Fabric 4 Seater Lounge and Ottoman; Jagger Dining Table and Darby Dining Chairs; Jagger TV Unit; Jensen Pendant Lamps; Glitz Ombrey Floor Rug



Mario and Marcelle Dining Chairs

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

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

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
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Independent Auditor's Report to the Members of Nick Scali Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Nick Scali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2017, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2017 and of its consolidated financial performance for the year ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Inventory provision for obsolescence

Why significant	How our audit addressed the key audit matter
The Company held an inventory balance at 30 June 2017 of $29.04 million with associated provisions for Inventory obsolescence of $1.5million. Given the significance of the judgements the Company exercised in applying its policy to determine the value of provisions to be carried for inventory obsolescence, this was considered to be a key audit matter.	We evaluated the Company's assumptions used in determining the provision for inventory obsolescence by analysing the level of provisioning on an aggregate and on a category of inventory basis. For each inventory category we have assessed the appropriateness of the Company's assumptions. These assumptions are based on expected future sales which rely upon the Company's sales forecasting ability. We assessed the Company's forecasting ability by considering historic sales trends compared to previous sales assumptions made by the Company. We investigated any adjustments made following the application of Company's inventory obsolescence provisioning policy, and assessed whether these were valid.

Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2017 Annual Report other than the financial report and our auditor's report thereon. We obtained the Directors' Report and the Corporate Governance Statement that are to be included in the Annual Report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the Annual Report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors 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 control as the directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

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Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor’s report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group’s internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors’ use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group’s ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor’s report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor’s report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

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From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 9 to 14 of the directors' report for the year ended 30 June 2017.

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2017, complies with section 300A of the *Corporations Act 2001.*

Responsibilities

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.

Ernst & Young

Ernst & Young

Kathy Parsons
Partner
Sydney
10 August 2017

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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 14 July 2017.

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

Shareholders Category	NUMBER OF HOLDERS OF ORDINARY SHARES
1 to 1,000	1,191
1,001 to 5,000	1,429
5,001 to 10,000	371
10,001 to 100,000	230
100,001 and Over	22
Total	3,243

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
HSBC Custody Nominees (Australia) Limited	15,478,968	19.11
Citicorp Nominees Pty Limited	9,546,098	11.80
RBC Investor Services Australia Nominees Pty Limited	3,800,420	4.69
RBC Investor Services Australia Nominees Pty Limited	3,595,696	4.44
J P Morgan Nominees Australia Limited	3,366,177	4.16
BNP Paribas Nominees Pty Ltd	2,817,859	3.47
National Nominees Limited	2,552,198	3.15
Molvest Pty Ltd	2,000,000	2.47
Grahger Retail Securities Pty Ltd C/- Shine Wing Australia	1,000,000	1.23
Brispot Nominees Pty Ltd	490,577	0.61
Netwealth Investments Limited	436,775	0.54
Ecapital Nominees Pty Limited	375,326	0.46
UBS Nominees Pty Limited	286,478	0.35
CS Fourth Nominees Pty Ltd	275,354	0.34
Bond Street Custodians Limited	233,280	0.29
Mr Yu-Lan Chen	201,744	0.25
CS Third Nominees Pty Limited	179,906	0.22
Mr Yonatan Widjaya & Mrs Mela Widjaya	147,500	0.18
BNP Paribas Nominees Pty Ltd	117,186	0.14
	68,980,489	85.16

Shareholder Information (continued)

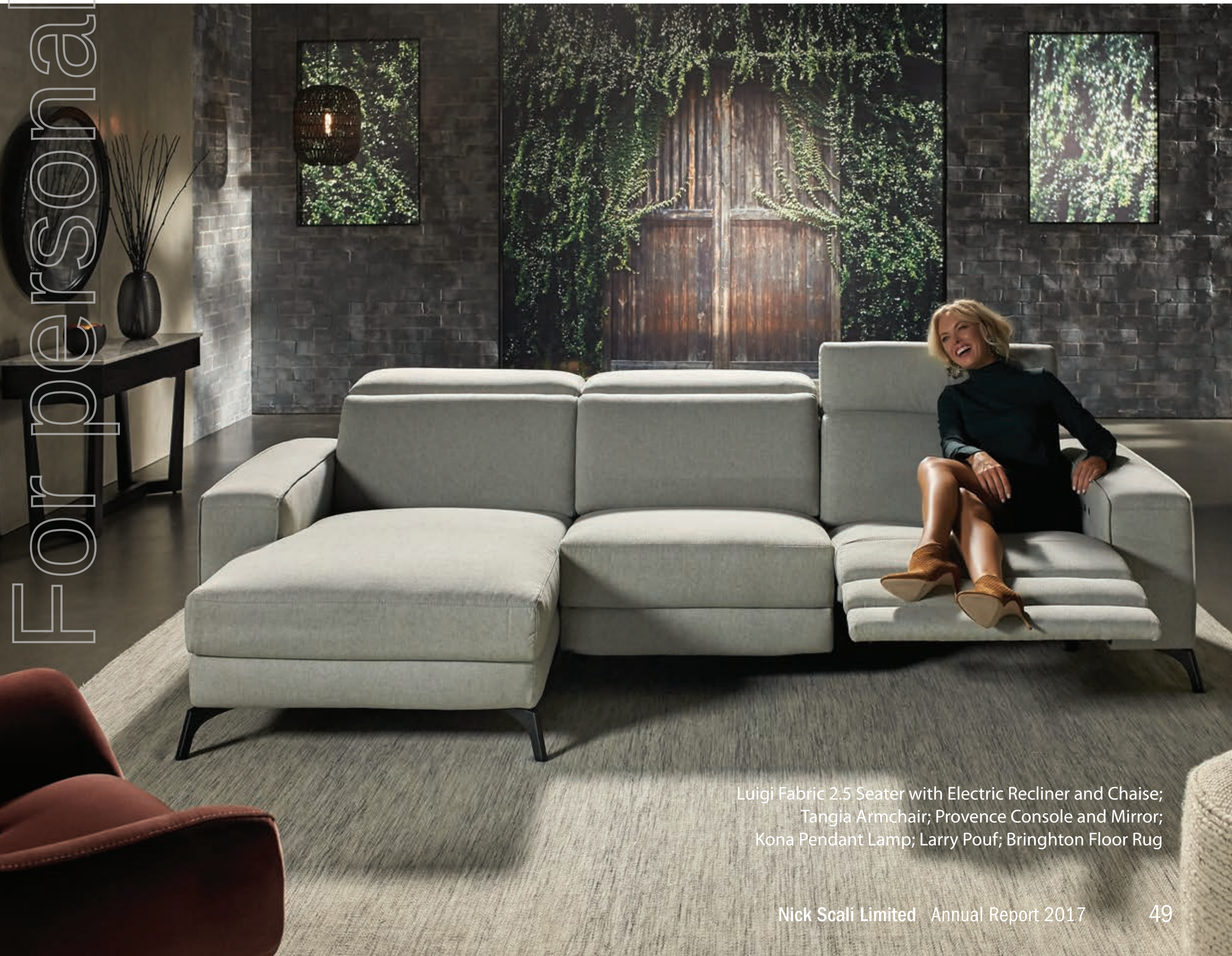
	ORDINARY SHARES	
		% OF TOTAL
	NUMBER HELD	SHARES ISSUED
Substantial holders		
Substantial holders in the Company are set out below:		
Scali Consolidated Pty Limited	22,078,947	27.26
Perpetual Limited	9,773,455	12.07
Colonial First State	4,823,436	5.95
Airlie Funds Management Pty Ltd	3,800,420	4.69
Wilson Asset Management Group	3,595,696	4.44
	44,071,954	54.41

Voting rights

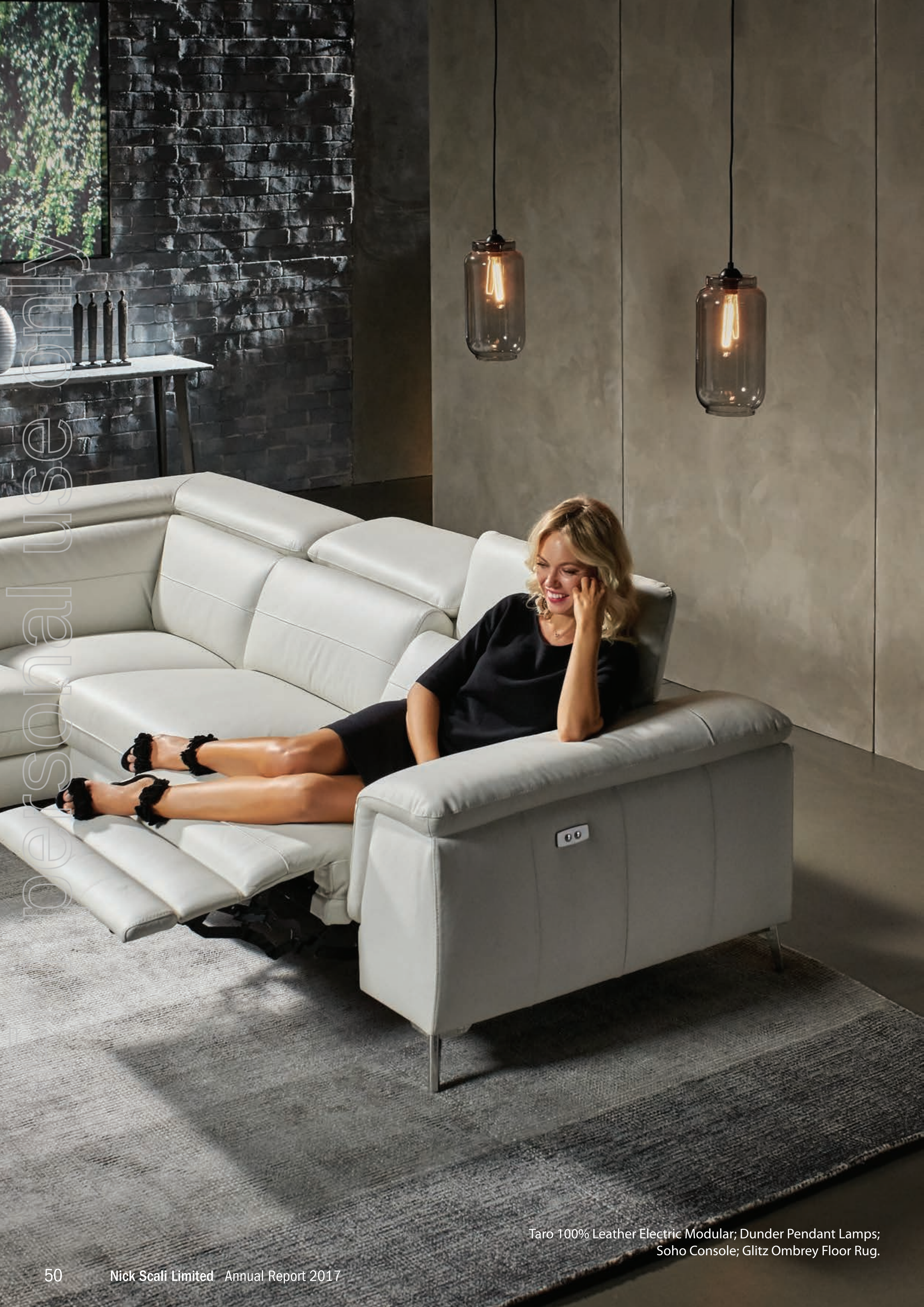
Ordinary shares

All ordinary shares carry one vote per share without restriction.

There are no other classes of equity securities.



Luigi Fabric 2.5 Seater with Electric Recliner and Chaise; Tangia Armchair; Provence Console and Mirror; Kona Pendant Lamp; Larry Pouf; Bringhton Floor Rug



Taro 100% Leather Electric Modular; Dunder Pendant Lamps; Soho Console; Glitz Ombrey Floor Rug.

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
Kotara
Moore Park
Penrith
Rutherford
Tuggerah
Warrawong
West Gosford

Australian Capital Territory
Fyshwick

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

South Australia
Gepps Cross
Glynde
Marion
Mile End

Tasmania
Hobart

Queensland
Aspley
Bundall
Cairns
Fortitude Valley
Jindalee
Macgregor
Maroochydore
Townsville

Western Australia
Cannington[1]
Jandakot
Joondalup
Midland
O'Connor
Osborne Park

sofas2go

New South Wales
Caringbah
Campbelltown
Prospect

Australian Capital Territory
Fyshwick

Victoria
Springvale

[1] Cannington opened in August 2017

Registered Office
(As from 23 August 2017)
Level 7, Triniti 2
39 Delhi Road
North Ryde NSW 2113
Telephone: 02 9748 4000
Website: www.nickscali.com.au

Company Secretary
Kevin Fine

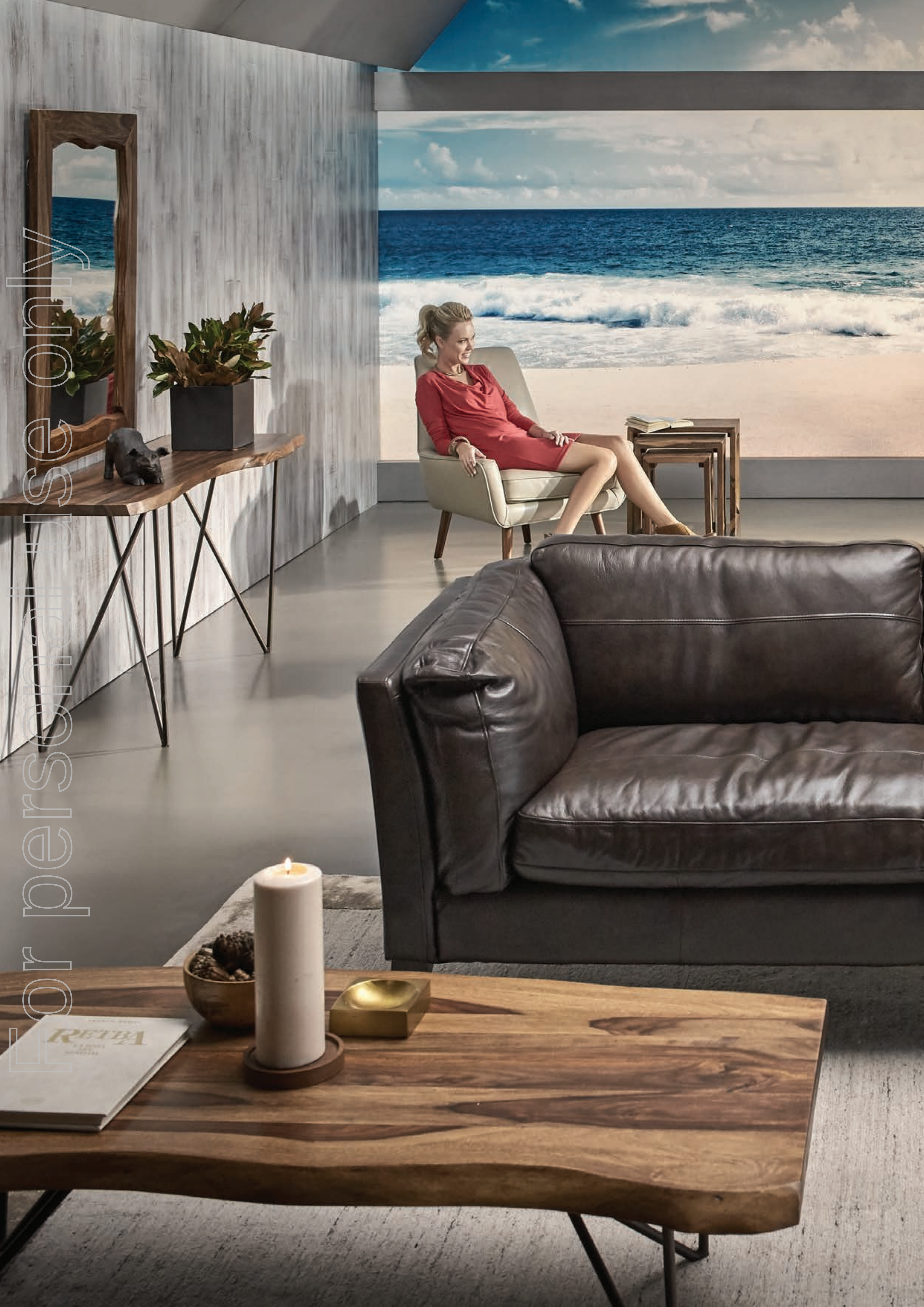
Auditors
Ernst & Young
Ernst & Young Building
200 George Street
Sydney NSW 2000

Solicitors
Ashurst
Level 11, 5 Martin Place
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 26th October 2017
At Nick Scali Limited Head Office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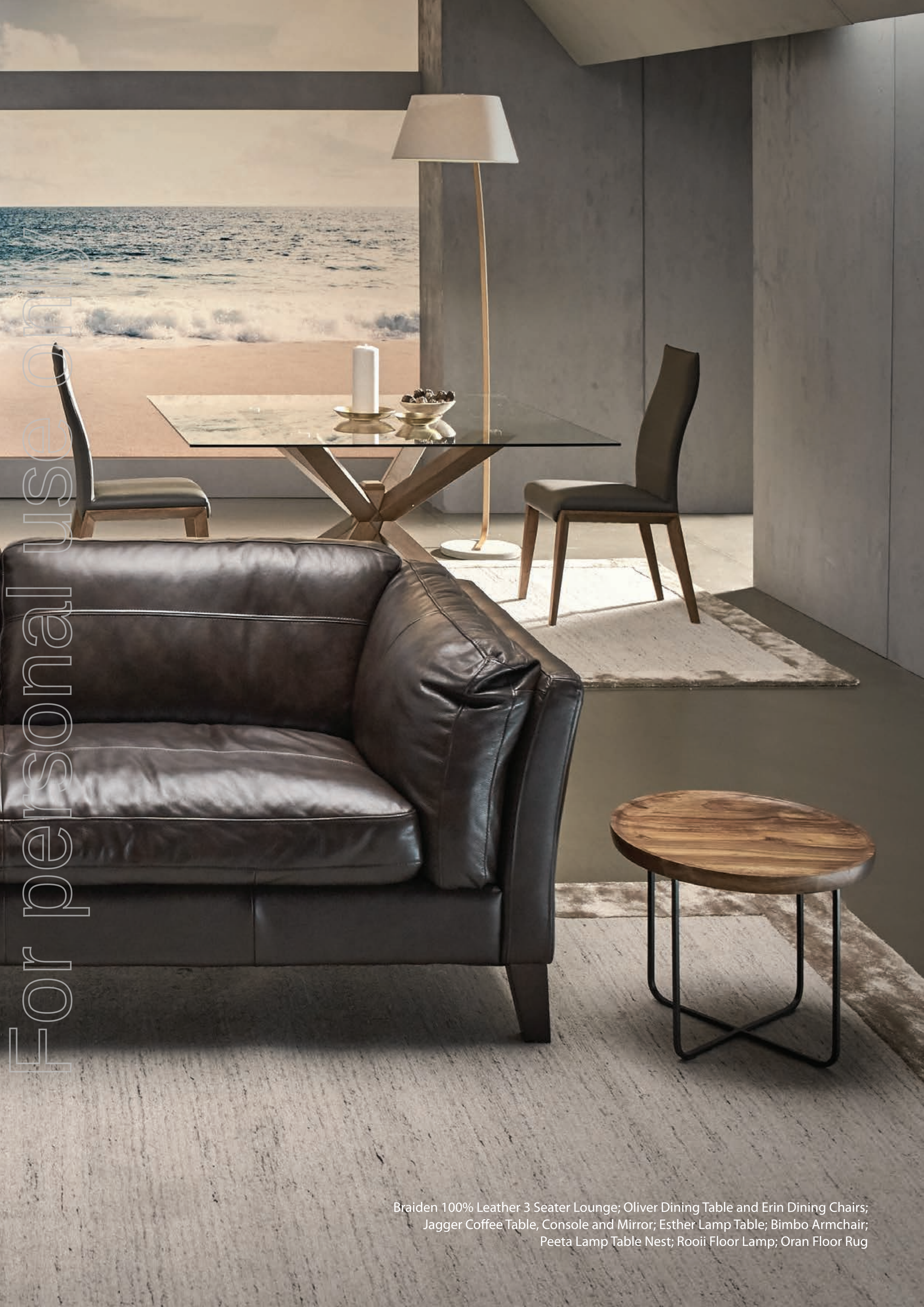

Braiden 100% Leather 3 Seater Lounge; Oliver Dining Table and Erin Dining Chairs; Jagger Coffee Table, Console and Mirror; Esther Lamp Table; Bimbo Armchair; Peeta Lamp Table Nest; Rooii Floor Lamp; Oran Floor Rug

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