

1. Company details

Name of entity:	Nick Scali Limited
ABN:	82 000 403 896
Reporting period:	For the half-year ended 31 December 2016
Previous period:	For the half-year ended 31 December 2015

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	15.5% to	118,369
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	up	44.7% to	20,451
Profit for the year attributable to the owners of Nick Scali Limited	up	44.7% to	20,451

Dividends

	Amount per security Cents	Franked amount per security Cents
Final dividend for the year ended 30 June 2016 paid on 26 October 2016	14.0	100.0
Special dividend for the year ended 30 June 2016 paid on 26 October 2016	3.0	100.0

On 14 February 2017 the directors declared a fully franked interim dividend of 14.0 cents per ordinary share with a record date of 1 March 2017 to be paid on 22 March 2017.

Comments

The profit for the company after providing for income tax amounted to \$20,451,000 (31 December 2015: \$14,131,000).

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Profit after income tax expense	20,451	14,131
Interest income	(494)	(434)
Finance costs	316	184
Income tax expense	8,754	6,109
Earnings Before Interest and Tax (EBIT)	29,027	19,990
Depreciation and amortisation expense	1,453	1,145
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>30,480</u>	<u>21,135</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>78.96</u>	<u>62.94</u>

Nick Scali Limited

ABN 82 000 403 896

Half-Year Report - 31 December 2016

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The directors present their report, together with the financial statements, on the company for the half-year ended 31 December 2016.

Directors

The names and details of the Company's Directors in office at any time during the financial year or until the date of this report are as follows. Directors were in office for this entire period unless otherwise stated.

John W Ingram
Nick D Scali (retired 27 October 2016)
Greg R Laurie
Carole A Molyneux
Anthony J Scali

Principal activities

The principal activities of the Company during the period were the sourcing and retailing of household furniture and related accessories.

No significant change in the nature of these activities occurred during the period.

Operating and financial review

For the half year to 31 December 2016, the Company reported a record first half NPAT result of \$20.5m, up 44.7% on the prior year first half NPAT result of \$14.1m.

Profit growth was driven by a 15.5% increase in sales revenue to \$118.4m for the half-year. The higher sales resulted from same store sales growth of 10.1% and the contribution from the opening of new stores.

Gross margin strengthened to 62.0% (H1-16: 60.0%) largely as a result of economies of scale from volume growth in our specialised categories.

Operating expenses decreased as a percentage of sales to 36.4% (H1-16: 39.5%) due to continued attention to the control of costs and seeking efficiencies.

The company committed to purchase a property at Manly Vale (NSW) which will settle after 31 December 2016.

Store network

The Company opened 3 new Nick Scali Furniture stores since June 2016, in Geelong (VIC), Hobart (TAS) and Jandakot (WA). The total number of stores at 31 December 2016 was 50, comprising 45 Nick Scali Furniture stores and 5 Sofas2Go stores.

Significant changes in the state of affairs

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

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 4 of the Financial Statements.

Notification of auditor rotation requirements

On 26 November 2015 the Board of Directors approved the extension of the Lead Audit Partner rotation period from five years to seven years in accordance with section 324DAB of the Corporations Act 2001 and of the Corporations Legislative Amendment (Audit Enhancement) Act 2012. The decision was based on the directors determining that:

- the continuity of the audit partner is important given historic changes in CFO,
- the audit partner has a detailed understanding of the Company's financial reporting processes and controls and this knowledge is considered valuable to the Board of Directors,
- the two year extension does not give rise to a conflict of interest.

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

On behalf of the directors



John W Ingram
Chairman

14 February 2017
Sydney



Anthony J Scali
Managing Director



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

As lead auditor for the review of Nick Scali Limited for the half-year ended 31 December 2016, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

Ernst & Young



Kathy Parsons
Partner
14 February 2017

	Note	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Revenue from sale of goods	3	118,369	102,459
Cost of goods sold		(45,033)	(40,996)
Gross Profit		73,336	61,463
Other Income	3	683	600
Expenses			
Marketing expenses		(8,132)	(7,528)
Employment expenses	4	(16,742)	(15,442)
General & Administration expenses		(3,840)	(3,239)
Property expenses	4	(13,640)	(13,547)
Distribution expenses		(691)	(738)
Depreciation and Amortisation		(1,453)	(1,145)
Finance costs		(316)	(184)
Profit before income tax expense		29,205	20,240
Income tax expense		(8,754)	(6,109)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		20,451	14,131
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net change in the fair value of cash flow hedges taken to equity, net of tax		1,818	(526)
Other comprehensive income for the year, net of tax		1,818	(526)
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		22,269	13,605
		Cents	Cents
Basic earnings per share		25.2	17.4
Diluted earnings per share		25.2	17.4

	Note	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Assets			
Current assets			
Cash and cash equivalents		37,064	37,038
Receivables		627	197
Inventories	6	27,300	25,847
Other Financial Assets	7	2,226	44
Other Assets		973	143
Total current assets		<u>68,190</u>	<u>63,269</u>
Non-current assets			
Property, Plant and Equipment	8	58,008	55,493
Intangibles Assets		2,378	2,378
Deferred tax		-	331
Total non-current assets		<u>60,386</u>	<u>58,202</u>
Total assets		<u>128,576</u>	<u>121,471</u>
Liabilities			
Current liabilities			
Payables	9	34,204	37,274
Current tax liabilities		2,953	1,772
Provisions	10	1,396	1,338
Total current liabilities		<u>38,553</u>	<u>40,384</u>
Non-current liabilities			
Borrowings	11	21,162	21,162
Deferred tax		500	-
Provisions	12	2,026	2,131
Total non-current liabilities		<u>23,688</u>	<u>23,293</u>
Total liabilities		<u>62,241</u>	<u>63,677</u>
Net assets		<u>66,335</u>	<u>57,794</u>
Equity			
Issued capital		3,364	3,364
Reserves		1,372	(488)
Retained profits		61,599	54,918
Total equity		<u>66,335</u>	<u>57,794</u>

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

Nick Scali Limited
Statement of changes in equity
For the half-year ended 31 December 2016



	Contributed equity \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2015	3,364	44	78	202	42,538	46,226
Profit after income tax expense for the half-year	-	-	-	-	14,131	14,131
Other comprehensive income for the half-year, net of tax	-	-	-	(526)	-	(526)
Total comprehensive income for the half-year	-	-	-	(526)	14,131	13,605
Share-based payments	-	6	-	-	-	6
Dividends paid (note 5)	-	-	-	-	(6,480)	(6,480)
Balance at 31 December 2015	3,364	50	78	(324)	50,189	53,357
	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 2016	3,364	140	78	(706)	54,918	57,794
Profit after income tax expense for the year	-	-	-	-	20,451	20,451
Other comprehensive income for the year, net of tax	-	-	-	1,818	-	1,818
Total comprehensive income for the year	-	-	-	1,818	20,451	22,269
Share-based payments	-	42	-	-	-	42
Dividends paid (note 5)	-	-	-	-	(13,770)	(13,770)
Balance at 31 December 2016	3,364	182	78	1,112	61,599	66,335

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

	Note	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Cash flows from operating activities			
Receipts from customers		129,776	112,750
Payments to suppliers and employees		(104,524)	(98,063)
		25,252	14,687
Interest received		494	434
Income taxes paid		(7,521)	(5,665)
Net cash from operating activities		18,225	9,456
Cash flows from investing activities			
Purchase of property, plant and equipment		(4,113)	(17,995)
Net cash used in investing activities		(4,113)	(17,995)
Cash flows from financing activities			
Payment of dividends on ordinary shares	5	(13,770)	(6,480)
Proceeds from borrowings		-	6,600
Interest paid		(316)	(184)
Net cash used in financing activities		(14,086)	(64)
Net increase/(decrease) in cash and cash equivalents		26	(8,603)
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 half-year		37,064	25,077

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

Note 1. Basis of preparation

Basis of preparation

These general purpose financial statements for the interim half-year reporting period ended 31 December 2016 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2016 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

Changes in accounting policies, accounting standards and interpretations

The accounting policies adopted in the preparation of the interim financial statements are consistent with the followed preparation of the annual financial statements for the period ended 30 June 2016.

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 half year reporting period ended 31 December 2016. The Company assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, are set out below.

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

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

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Sales Revenue	118,369	102,459
Interest income	494	434
Rent received	63	43
Sundry income	126	123
Total other income	683	600
Total Revenue	<u>119,052</u>	<u>103,059</u>

Note 4. Expenses

	31 Dec 2016 \$'000	31 Dec 2015 \$'000
Profit before income tax includes the following specific expenses:		
<i>Expenses</i>		
Operating lease rental	13,640	13,547
Employee benefits expenses		
Salaries and wages	12,320	11,525
Superannuation expense	1,092	1,046
Share-based payments	96	28
Other	3,234	2,843
	16,742	15,442
	16,742	15,442

Note 5. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Final fully franked dividend for 30 June 2016: 14.0 cents (2015: 8.0 cents)	11,340	6,480
Special fully franked dividend for 30 June 2016: 3.0 cents	2,430	-
	13,770	6,480
	13,770	6,480

On 14 February 2017 the directors declared a fully franked interim dividend of 14.0 cents per fully paid ordinary share with a record date 1 March 2017 to be paid on 22 March 2017.

Note 6. Current assets - Inventories

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Finished goods - at cost	22,011	21,767
Stock in transit - at cost	5,289	4,080
	27,300	25,847
	27,300	25,847

For the half year ended 31 December 2016, \$396,261 (2016: \$1,228,957) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of goods sold.

Note 7. Current assets - Other Financial Assets

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Deposits	638	44
Derivative hedge receivable (note 14)	1,588	-
	<u>2,226</u>	<u>44</u>

Note 8. Non-current assets - Property, Plant and Equipment

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Land and buildings - at cost	50,782	48,248
Less: Accumulated depreciation	(1,795)	(1,384)
	<u>48,987</u>	<u>46,864</u>
Leasehold improvements - at cost	11,176	11,105
Less: Accumulated depreciation	(5,754)	(5,852)
	<u>5,422</u>	<u>5,253</u>
Fixtures and fittings - at cost	2,631	3,186
Less: Accumulated depreciation	(2,162)	(2,652)
Less: Impairment	-	-
	<u>469</u>	<u>534</u>
Motor vehicles - at cost	712	682
Less: Accumulated depreciation	(430)	(489)
	<u>282</u>	<u>193</u>
Office equipment - at cost	7,482	7,784
Less: Accumulated depreciation	(4,634)	(5,135)
	<u>2,848</u>	<u>2,649</u>
	<u>58,008</u>	<u>55,493</u>

Note 9. Current liabilities - Payables

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Trade creditors	7,519	6,248
Other creditors and accruals	7,105	8,556
Derivative hedge payable (note 14)	-	1,009
Customer deposits	17,540	19,382
Annual leave	2,040	2,079
	<u>34,204</u>	<u>37,274</u>

Note 10. Current liabilities - Provisions

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Long service leave	905	928
Deferred Rent	491	410
	<u>1,396</u>	<u>1,338</u>

Note 11. Non-current liabilities - Borrowings

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Commercial bills payable	<u>21,162</u>	<u>21,162</u>

Financing facilities available

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

Bank facilities

Credit facilities	23,362	23,362
Amount utilised	<u>(21,162)</u>	<u>(21,162)</u>
Unused credit facilities	<u>2,200</u>	<u>2,200</u>

Bank loan

	Facility	Utilised
Expiring financial year 2018	2,300	2,300
Expiring financial year 2019	21,062	18,862
	<u>23,362</u>	<u>21,162</u>
Other	3,000	1,062
	<u>26,362</u>	<u>22,224</u>

Note 12. Non-current liabilities - Provisions

	31 Dec 2016 \$'000	30 Jun 2016 \$'000
Long service leave	296	267
Deferred Rent	1,252	1,531
Lease make good	478	333
	<u>2,026</u>	<u>2,131</u>

Note 13. Financial instruments

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.

During the period, the Company designated foreign currency forward contracts as hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur during January 2017 to December 2017.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated to the contracts (both the counterparty's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2016, an unrealised gain of \$1,818,000 (2016: an unrealised loss of \$908,000) is in other comprehensive income.

Note 14. 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 receivable of \$1,588,000 (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.

Note 15. Contingent liabilities

There are no contingent liabilities as at 31 December 2016 (2016: Nil).

Note 16. Commitments

Capital Commitments

As at 31 December 2016, the Company had committed to acquire a property at Manly Vale (NSW) for a purchase price of \$6.2m excluding statutory costs and the Company had paid a deposit of \$620,000.

Note 17. Events after the reporting period

Apart from the dividend declared as disclosed in note 5, no other matter or circumstance has arisen since 31 December 2016 that has significantly affected, or may significantly affect the Company's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 18. Related party transactions

Transactions with related parties

The following transaction occurred with related parties:

The Company leases premises at Auburn, in New South Wales, from entities controlled by Mr Anthony J Scali. The following details the term and rent payable by the Company in respect the premises leased. Lease rentals are determined on an arm's length basis. All other material terms of this lease are of a nature that would be typically entered into between unrelated parties.

Location: 242-248 Parramatta Road, Auburn, NSW

Term: The lease expired on 28 February 2014 and is currently on a month to month tenancy. The terms and conditions of a new lease have been agreed at commercial rates and on commercial terms and signing of the lease is imminent.

Rent and Outgoings: \$419,070 (plus GST) per annum

Other related party transactions

Dealings between the Company and the Directors and personally-related entities were made during the year in the ordinary course of business on normal commercial terms and conditions. The nature of these dealings were primarily the reimbursement of personal expenses incurred on Company paid credit cards and the purchase of products for their own use.

Receivable from and payable to related parties

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

Loans to/from related parties

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

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the financial half-year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman



Anthony J Scali
Managing Director

14 February 2017
Sydney



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To the members of Nick Scali Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Nick Scali Limited, which comprises the statement of financial position as at 31 December 2016, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

The directors of the company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal controls as the directors determine are necessary to enable the preparation of the half-year financial report that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2016 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Nick Scali Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.



Conclusion

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

- i giving a true and fair view of the company's financial position as at 31 December 2016 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young



Kathy Parsons
Partner
Sydney
14 February 2017