

1. Company details

Name of entity:	Nick Scali Limited
ABN:	82 000 403 896
Reporting period:	For the year ended 30 June 2018
Previous period:	For the year ended 30 June 2017

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	7.7% to	250,768
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	up	10.1% to	40,979
Profit for the year attributable to the owners of Nick Scali Limited	up	10.1% to	40,979

Dividends

	Amount per security Cents	Franked amount per security Percentage
Final dividend for the year ended 30 June 2017 paid on 25 October 2017	20.0	100.0
Interim dividend for the year ended 30 June 2018 paid on 28 March 2018	16.0	100.0

On 16 August 2018 the directors declared a fully franked final dividend of 24.0 cents per ordinary share with a record date of 3 October 2018 to be paid on 24 October 2018.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$40,979,000 (30 June 2017: \$37,236,000).

	2018 \$'000	2017 \$'000
Profit after income tax expense	40,979	37,236
Interest income	(750)	(915)
Finance costs	928	619
Income tax expense	17,879	15,963
Earnings Before Interest and Tax (EBIT)	59,036	52,903
Depreciation and amortisation expense	3,780	2,814
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	62,816	55,717

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	100.35	83.96

Nick Scali Limited

ABN 82 000 403 896

Annual Report - 30 June 2018

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Contents

Corporate directory	2
Directors Report	3
Auditor's Independence Declaration	17
Consolidated statement of comprehensive income	18
Consolidated statement of financial position	19
Consolidated statement of changes in equity	20
Consolidated statement of cash flows	21
Notes to the financial statements	23
Directors' declaration	50
Independent auditor's report to the members of Nick Scali Limited	51
Shareholder information	55

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Directors	John W Ingram (Independent Non-Executive Chairman) Greg R Laurie (Independent Non-Executive Director) Carole A Molyneux (Independent Non-Executive Director) Stephen T Goddard (Independent Non-Executive Director) Anthony J Scali (Managing Director)
Company secretary	Kevin Fine
Notice of annual general meeting	The details of the annual general meeting of Nick Scali Limited are: The annual General Meeting will be held at 12H00 On Tuesday 23rd October 2018 At Nick Scali Limited Head Office
Registered office (As from 23 August 2017)	Level 7, Triniti II 39 Delhi Road North Ryde NSW 2113 Telephone: 02 9748 4000
Share register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: 02 8280 7100
Auditor	Ernst & Young 200 George Street Sydney NSW 2000
Solicitors	Ashurst Level 11, 5 Martin Place Sydney NSW 2000
Stock exchange listing	Nick Scali Limited shares are listed on the Australian Securities Exchange (ASX code: NCK)
Website	www.nickscali.com.au

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or '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 2018.

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 year unless otherwise stated.

John W Ingram
Greg R Laurie
Carole A Molyneux
Stephen T Goddard (appointed 01 March 2018)
Anthony J Scali

Principal activities

The principal activities of the consolidated entity during the year were the sourcing and retailing of household furniture and related accessories.

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

Dividends

Dividends paid during the financial year were as follows:

	2018 \$'000	2017 \$'000
Final franked dividend for 30 June 2017: 20.0 cents (2016: 14.0 cents)	16,200	11,340
Special franked dividend for 30 June 2017: Nil cents (2016: 3.0 cents)	-	2,430
Interim franked dividend for 30 June 2018: 16.0 cents (2017: 14.0 cents)	12,960	11,340
	<u>29,160</u>	<u>25,110</u>

In addition to the above dividend, since the end of the financial year directors have declared a fully franked final dividend of 24.0 cents per fully paid ordinary share to be paid on 24 October 2018 out of retained profits at 30 June 2018.

Operating and financial review

Nick Scali Limited is a furniture retailer operating in Australia and New Zealand. During the year, the Group operated two brands; Nick Scali Furniture and Sofas2Go, which operated under the same infrastructure provided by the Group. Following a strategic review of the business during the year, the business was consolidated and the Sofas2Go brand was discontinued with the five stores closed or rebranded as Nick Scali Furniture stores.

Group Operating Results

	<u>2018</u>	<u>2017</u>	<u>% Change</u>
	<u>\$m</u>	<u>\$m</u>	
Revenue	250.8	232.9	7.7%
EBITDA	62.8	55.7	12.7%
EBIT	59.0	52.9	11.6%
NPAT	41.0	37.2	10.1%
EPS (cents)	50.6	46.0	10.1%
DPS (cents)	40.0	34.0	17.6%
Net Cash	2.9	18.8	-84.5%

For the financial year ended 30 June 2018 the Group reported a record NPAT result of \$41.0m, up 10.1% on the previous year. Sales revenue increased 7.7% to \$250.8m with the increase derived from a full year's contribution from the four stores opened during financial year 2017 and a smaller contribution from six stores opened during financial year 2018. Same store sales were flat for the year.

Gross margins strengthened by 20 basis points to 62.7% driven by efficiencies from supplier consolidation and volume growth.

Operating expenses as a percentage of sales continue to decrease due to the ability of the Group to leverage sales growth through the existing distribution network.

Net cash flows from operating activities during the year were \$43.1m, up 0.3% on the previous year. Net cash outflows from all activities were \$3.4m after investment in fixed assets of \$28.8m. This included the purchase of a previously leased store in Auburn (NSW) in December 2017, new store fitouts, store refurbishments, the implementation of a new website and warehouse management system in four of the Company's distribution centres.

Borrowings relate solely to property purchases and increased by \$12.5m to \$33.7m due to the acquisition of the Auburn store. With low debt and stable cash reserves (including customer deposits) of \$26.4m, the Group is well positioned to take advantage of opportunities that may arise.

Net Assets were \$83.7m as at 30 June 2018, up \$13.3m on last year.

Store network

During the year, the Group opened six new Nick Scali Furniture stores in Robina (QLD), Cannington (WA), North Lakes (QLD), Toowoomba (QLD), Marsden Park (NSW) and the first store in New Zealand, in Auckland.

The Group has confirmed a further six new stores in financial year 2019, with five of these opening in the first half of the financial year. One of the six will be the second store to open in New Zealand. This will result in a total store network of 60 stores by December 2018.

People

The Group remains 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 Group 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 Group'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

The Group operates in a competitive retail market which is subject to only moderate barriers to entry and changing consumer preferences. However, the Directors continue to believe that the Group is well placed to maintain its market leading position as a result of the robust strategies and structures that are currently in place.

Same store sales growth has been challenging during financial year 2018 particularly given that the Group was cycling off two years of double digit same store sales growth. Trading since June has seen positive same store sales order growth, which is encouraging given the difficult trading conditions experienced in April and May.

At the end of the first half of financial year 2019 the Group will add a new product category of bedrooms and bedding to the range in selected stores, which is expected to generate further sales growth over time.

The performance of the first store in New Zealand has been extremely encouraging. With the second store opening in October, New Zealand will begin to provide a positive contribution. The good start in New Zealand has confirmed that the product and brand acceptance there is better than had been anticipated. The Group is confident that New Zealand will generate significant profit growth in the future.

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 2018 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 4.

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 year.

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:	310,000

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 Independent Chairman of Big River Industries Limited.
Former directorships (last 3 years):	Independent Non-Executive Director of Bradken Limited
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
Former directorships (last 3 years):	None
Special responsibilities:	Chairman of the Remuneration and Human Resources Committee and member the Audit Committee.
Interests in shares:	Nil

Information on directors (continued)

Name:	Stephen T Goddard
Title:	Independent Non-Executive Director
Experience and expertise:	Stephen was appointed to the Board on 01 March 2018. Stephen is an experienced retailer having held a broad range of senior executive positions in the industry. These include Finance Director and Operations Director for David Jones, founding Managing Director of Officeworks, and various senior management roles with Myer.
Other current directorships:	Independent Non-Executive Director of JB Hifi Limited (JBH), GWA Group Limited (GWA) and Accent Group Limited (AX1).
Former directorships (last 3 years):	Independent Non-executive director of Pacific Brands and Surfstitch Group Limited (SRF).
Special responsibilities:	Member of the Audit Committee and Remuneration and Human Resources Committee.
Interests in shares:	6,000

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:	11,039,474

'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 New Zealand and began his career in Audit and Advisory with firms including Arthur Andersen, Moores Rowland and Ernst & Young. Kevin's retail career began with Shoprite Holdings Ltd (South Africa). He then spent 7 years with the Specialty Fashion Group Ltd as Head of Finance and 7 years with Orotongroup Ltd as Chief Financial Officer and Company Secretary.

Special responsibilities of directors
Audit Committee

The members of the Audit Committee are as follows:

- Greg R Laurie (Chairman)
- John W Ingram
- Carole A Molyneux
- Stephen T Goddard (appointed 29 May 2018)

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
- Stephen T Goddard (appointed 21 June 2018)

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 2018, and the number of meetings attended by each director were:

	Directors' Meetings		Remuneration and Human Resources Committee		Audit Committee	
	Attended	Held	Attended	Held	Attended	Held
John W Ingram	10	10	3	3	4	4
Greg R Laurie	10	10	3	3	4	4
Carole A Molyneux	9	10	3	3	3	4
Stephen T Goddard (appointed 01 March 2018)	4	4	1	1	1	1
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
- Greg R Laurie - Non-Executive Director
- Carole A Molyneux - Non-Executive Director
- Stephen T Goddard - Non-Executive Director (appointed on 01 March 2018)
- 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.

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 FY18 and changed with effect from 1 July 2017 to the annual fees reflected below:

	<u>2018</u>	<u>2017</u>
	\$	\$
Base fee for Non-Executive Chairman	200,000	130,000
Base fee for Non-Executive Director	100,000	87,000
Fee for Audit Committee Chairman	17,000	15,000
Fee for Audit Committee Member	5,000	4,000
Fee for Remuneration and Human Resources Committee Chairman	7,000	5,000
Fee for Remuneration and Human Resources Committee Member	3,000	2,000

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 2018 financial year was:

	<u>Fixed</u>		<u>Variable</u>				<u>Total</u>	
	<u>Base</u>		<u>STI</u>		<u>LTI</u>			
	<u>\$</u>	<u>% of Total</u>	<u>\$</u>	<u>% of Total</u>	<u>\$</u>	<u>% of Total</u>	<u>\$</u>	<u>% of Total</u>
Anthony Scali	750,000	50	750,000	50	-	-	1,500,000	100
Kevin Fine	410,000	53	205,000	26	164,000	21	779,000	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.

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 2018 and previous year:

Name	STI Target			STI Achieved		
	Total	* Financial Measures	Non Financial Measures	Total	* Financial Measures	Non Financial Measures
	\$	%	%	\$	%	%
Anthony J Scali	750,000	80%	20%	438,000	48%	100%
Kevin Fine	205,000	100%	-	98,400	48%	-

* Financial Measures include net profit after tax

Name	STI Target			STI Achieved		
	Total	* Financial Measures	Non Financial Measures	Total	* Financial Measures	Non 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 from the effective date of the grant subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not subject to retesting. 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 2018 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

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 predetermined LTI entitlement percentage of fixed remuneration and then 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:

		2014	2015	2016	2017	2018	CAGR
							(%)
Revenue	\$m	141.4	155.7	203.0	232.9	250.8	15.4
EBITDA	\$m	21.5	25.9	40.1	55.7	62.8	30.8
Net profit after tax	\$m	14.2	17.1	26.1	37.2	41.0	30.3
Earnings per share	Cents	17.6	21.1	32.3	46.0	50.6	30.3
Ordinary dividends per share	Cents	13.0	15.0	23.0	34.0	40.0	32.4
Share price at financial year end	\$	2.45	3.10	4.68	6.09	6.73	28.7
Stores	#	39	46	47	50	55	
Basic earnings per share growth	%	16.3	19.9	53.1	42.4	10.1	

4.4 Remuneration outcomes

2018

	Salary and fees	Short-term benefits	Share-based payments	Post-employment benefits	Long-term benefits	Total
	\$	Cash Incentive \$	Share Rights \$	Superannuation \$	Long service leave \$	\$
<i>Non-Executive Directors:</i>						
John W Ingram	200,000	-	-	-	-	200,000
Greg R Laurie	109,589	-	-	10,411	-	120,000
Carole A Molyneux	102,283	-	-	9,717	-	112,000
Stephen T Goddard ¹	30,441	-	-	2,892	-	33,333
<i>Executive Directors:</i>						
Anthony J Scali	668,720	560,000	-	20,049	39,324	1,288,093
<i>Other Key Management Personnel:</i>						
Kevin Fine	390,042	193,125	139,579	20,049	-	742,795
	<u>1,501,075</u>	<u>753,125</u>	<u>139,579</u>	<u>63,118</u>	<u>39,324</u>	<u>2,496,221</u>

¹ Stephen T Goddard was appointed as Non-Executive Director on 01 March 2018.

2017

	Salary and fees	Short-term benefits	Share-based payments	Post-employment benefits	Long-term benefits	Total
	\$	Cash Incentive \$	Share Rights \$	Superannuation \$	Long service leave \$	\$
<i>Non-Executive Directors:</i>						
John W Ingram	130,000	-	-	-	-	130,000
Greg R Laurie	94,977	-	-	9,023	-	104,000
Carole A Molyneux	87,671	-	-	8,329	-	96,000
Nick D Scali ¹	28,760	-	-	2,732	-	31,492
<i>Executive Directors:</i>						
Anthony J Scali	680,048	560,000	-	19,615	13,528	1,273,191
<i>Other Key Management Personnel:</i>						
Kevin Fine	398,842	193,125	94,314	19,615	-	705,895
	<u>1,420,298</u>	<u>753,125</u>	<u>94,314</u>	<u>59,314</u>	<u>13,528</u>	<u>2,340,578</u>

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

4.5 Service Agreements

Name	Term of agreement	Base salary including superannuation	Termination Benefit
Anthony Scali <i>Managing Director</i>	Ongoing commencing 24 May 2004	\$750,000	-
Kevin Fine <i>Company Secretary and CFO</i>	Ongoing commencing 5 January 2015	\$410,000	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 2018:

Reference	Grant Date ¹	Vesting and Exercisable Date	Expiry Date	Exercise Price (\$)	Fair value per right at Grant Date (\$)	Vested and exercised 30 June 2018	Vested and exercised 30 June 2017
FY18/20	31 Aug 2017	Aug 2020	30 Jun 2022	0.00	6.40	-	-

30 June 2017:

Reference	Grant Date ¹	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	22 Nov 2016	Aug 2019	30 Jun 2021	0.00	5.66	-	-

30 June 2016:

Reference	Grant Date ¹	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	4 Sep 2015	Aug 2018	30 Jun 2020	0.00	2.78	-	-

¹ The Grant Date is the date at which the performance rights are communicated to the employees. The effective date of the grant, from which the performance hurdles are measured, is the first day of the financial year in which the grant is made.

4.7 Performance rights holding

30 June 2018	Balance 30 June 2017	Granted ¹	Vested and Exercised	Lapsed	Balance 30 June 2018
Anthony Scali	-	-	-	-	-
Kevin Fine	79,045	27,265	-	-	106,310

30 June 2017	Balance 30 June 2016	Granted ¹	Vested and Exercised	Lapsed	Balance 30 June 2017
Anthony Scali	-	-	-	-	-
Kevin Fine	45,876	33,169	-	-	79,045

¹ All performance awards granted during the year are subject to EPS performance hurdles and remaining in employment until date of vesting

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	Balance at the end of the year
<i>Ordinary shares</i>					
John W Ingram	370,399	-	-	60,399	310,000
Greg R Laurie	30,000	-	-	-	30,000
Stephen T Goddard	-	-	6,000	-	6,000
Scali Consolidated Pty Ltd	22,078,947	-	-	11,039,473	11,039,474
	<u>22,479,346</u>	<u>-</u>	<u>6,000</u>	<u>11,099,872</u>	<u>11,385,474</u>

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

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

During the financial year, 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 year, 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's 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 2018. The Corporate Governance Statement of Nick Scali Limited can be found on the Company's website: www.nickscali.com.au/corporate-governance.

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.

Non-audit services

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

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

	\$
Tax review services	17,500
New Zealand legal and tax advice	42,540
Other assurance related services	16,500
	<u>76,540</u>

Auditor's independence declaration

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 17 of the Financial Statements.

Auditor

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

Notification of auditor rotation requirements

On 18 December 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 298(2)(a) of the Corporations Act 2001.

On behalf of the directors



John W Ingram
Chairman

16 August 2018
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 audit of Nick Scali Limited for the financial year ended 30 June 2018, I declare to the best of my knowledge and belief, there have been:

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

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

Ernst & Young

Kathy Parsons
Partner
16 August 2018

	Note	2018 \$'000	2017 \$'000
Revenue from sale of goods	3	250,768	232,908
Cost of goods sold		(93,562)	(87,346)
Gross profit		157,206	145,562
Other income	3	1,948	1,574
Expenses			
Marketing expenses		(19,007)	(19,188)
Employment expenses	4	(36,255)	(34,707)
General and administration expenses		(9,364)	(7,682)
Property expenses	4	(29,935)	(27,683)
Distribution expenses		(1,027)	(1,244)
Depreciation and amortisation	4	(3,780)	(2,814)
Finance costs		(928)	(619)
Profit before income tax expense		58,858	53,199
Income tax expense	5	(17,879)	(15,963)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		40,979	37,236
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(1)	-
Net change in the fair value of cash flow hedges taken to equity, net of tax		1,404	320
Other comprehensive income for the year, net of tax		1,403	320
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		42,382	37,556
		Cents	Cents
Basic earnings per share	6	50.6	46.0
Diluted earnings per share	6	50.6	46.0

	Note	2018 \$'000	2017 \$'000
Assets			
Current assets			
Cash and cash equivalents	9	36,585	39,944
Receivables	10	1,863	196
Inventories	11	36,175	29,204
Other financial assets	12	1,453	-
Prepayments		979	602
Total current assets		<u>77,055</u>	<u>69,946</u>
Non-current assets			
Property, plant and equipment	13	91,888	66,847
Intangibles assets	14	2,378	2,378
Deferred tax	5	-	105
Total non-current assets		<u>94,266</u>	<u>69,330</u>
Total assets		<u>171,321</u>	<u>139,276</u>
Liabilities			
Current liabilities			
Borrowings	15	20,362	-
Payables	16	44,055	40,732
Current tax liabilities	5	1,308	1,057
Provisions	17	2,953	3,125
Total current liabilities		<u>68,678</u>	<u>44,914</u>
Non-current liabilities			
Borrowings	18	13,300	21,162
Provisions	19	4,880	2,816
Deferred tax	5	800	-
Total non-current liabilities		<u>18,980</u>	<u>23,978</u>
Total liabilities		<u>87,658</u>	<u>68,892</u>
Net assets		<u>83,663</u>	<u>70,384</u>
Equity			
Issued capital	20	3,364	3,364
Reserves	21	1,436	(24)
Retained profits		78,863	67,044
Total equity		<u>83,663</u>	<u>70,384</u>

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

	Issued capital \$'000	Equity benefit reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange 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	-	-	-	-	-	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 payment (Note 30)	-	144	-	-	-	-	144
Dividends paid (Note 7)	-	-	-	-	-	(25,110)	(25,110)
Balance at 30 June 2017	3,364	284	78	(386)	-	67,044	70,384

	Issued capital \$'000	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2017	3,364	284	78	(386)	-	67,044	70,384
Profit after income tax expense for the year	-	-	-	-	-	40,979	40,979
Other comprehensive income for the year, net of tax	-	-	-	1,404	(1)	-	1,403
Total comprehensive income for the year	-	-	-	1,404	(1)	40,979	42,382
Share-based payments (Note 30)	-	57	-	-	-	-	57
Dividends paid (Note 7)	-	-	-	-	-	(29,160)	(29,160)
Balance at 30 June 2018	3,364	341	78	1,018	(1)	78,863	83,663

	Note	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		274,178	256,200
Payments to suppliers and employees		(214,555)	(197,612)
		59,623	58,588
Interest received		750	915
Income taxes paid		(17,323)	(16,590)
Net cash from operating activities	8	43,050	42,913
Cash flows from investing activities			
Purchase of property, plant and equipment	13	(28,821)	(14,278)
Net cash used in investing activities		(28,821)	(14,278)
Cash flows from financing activities			
Payment of dividends on ordinary shares	7	(29,160)	(25,110)
Proceeds from borrowings		12,500	-
Interest paid		(928)	(619)
Net cash used in financing activities		(17,588)	(25,729)
Net (decrease)/increase in cash and cash equivalents		(3,359)	2,906
Cash and cash equivalents at the beginning of the financial year		39,944	37,038
Cash and cash equivalents at the end of the financial year	9	36,585	39,944

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

Contents of the notes to the financial statements

Note 1. Basis of preparation	23
Performance for the year	25
Note 2. Segment Information	25
Note 3. Revenue	25
Note 4. Expenses	26
Note 5. Income tax expense	27
Note 6. Earnings per share	28
Note 7. Equity - dividends	28
Note 8. Reconciliation of profit after income tax to net cash from operating activities	29
Operating assets and liabilities	30
Current assets	30
Note 9. Current assets - Cash and cash equivalents	30
Note 10. Current assets - Receivables	30
Note 11. Current assets - Inventories	31
Note 12. Current assets - Other Financial Assets	31
Non-current assets	32
Note 13. Non-current assets - Property, Plant and Equipment	32
Note 14. Non-current assets - Intangibles Assets	33
Current liabilities	34
Note 15. Current liabilities - Borrowings	34
Note 16. Current liabilities - Payables	34
Note 17. Current liabilities - Provisions	35
Non-current liabilities	35
Note 18. Non-current liabilities - Borrowings	35
Note 19. Non-current liabilities - Provisions	36
Capital structure and financial risk management	37
Note 20. Equity - issued capital	37
Note 21. Equity - reserves	37
Note 22. Financial instruments	39
Note 23. Fair value measurement	41
Other Notes	42
Note 24. Key management personnel	43
Note 25. Remuneration of auditors	43
Note 26. Contingent liabilities	43
Note 27. Commitments	44
Note 28. Related party transactions	44
Note 29. Events after the reporting period	45
Note 30. Share-based payments	45
Note 31. Parent entity information	46
Note 32. Controlled Entities	47
Note 33. Summary of other significant accounting policies	48

Basis of preparation

Note 1. Basis of preparation

Corporate information

Nick Scali Limited (the Company or the parent) is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange.

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 16 August 2018.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiary as at 30 June 2018. A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it 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 over the entity.

The financial statements of subsidiary are included in the consolidated financial statements from the date on which control commences until the date on which control ceases. Intercompany transactions, balances and unrealised gains on transactions between the Company and its subsidiary are eliminated. Accounting policies of subsidiary are consistent with the policies adopted by the Company.

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 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 replacement 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 including 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. Judgment is applied in assessing the net realisable value.

Basis of preparation

New Accounting Standards and Interpretations not yet mandatory or early adopted

The consolidated entity 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 year ended 30 June 2018. The Company's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Company, is set out below.

- **AASB 9 Financial Instruments.** This standard brings together all aspects of accounting for financial instruments, and applies to annual reporting periods beginning on or after 1 January 2018.

The Company early adopted the hedge accounting components of the standard in relation to its forward exchange contracts, and has adopted the standard in full on 1 July 2018.

The adoption of the standard in full is not expected to result in changes to the Company's classification or measurement of its financial instruments and the application of the expected credit loss model is not expected to result in a significant impairment of the Company's receivables at 30 June 2018.

- **AASB 15 Revenue from contracts with customers.** This standard includes changes to revenue recognition based on the principle that revenue is recognised when control of a good or service transfers to a customer, and applies to annual reporting periods beginning on or after 1 January 2018.

The standard was adopted by the Company on 1 July 2018 and is not expected to result in changes to the recognition of revenue within the statement of financial performance. The Company's revenue is wholly derived from the sale of goods, and this will continue to be recognized at the point in time when the goods are delivered to the customer.

In adopting the standard, the Company assessed its potential performance obligations under its sales contracts and concluded that all performance obligations are satisfied upon delivery of the goods to the customer.

- **AASB 16 Leases.** This standard includes requirements to improve the recognition, measurement and preparation of leases, and applies to annual reporting periods beginning on or after 1 January 2019.

The standard will be adopted by the Company on 1 July 2019 and is expected to have a material impact on the financial statements. The Company has yet to fully quantify this financial impact.

Performance for the year

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 and New Zealand.

Note 3. Revenue

	2018 \$'000	2017 \$'000
Revenue		
Sales revenue	250,768	232,908
Other income		
Interest income	750	915
Rent received	790	419
Sundry income	408	240
Total other income	1,948	1,574

Recognition and measurement – Revenue and income recognition

Revenue and income 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.

Performance for the year

Note 4. Expenses

	2018 \$'000	2017 \$'000
Profit before income tax includes the following specific expenses:		
<i>Expenses</i>		
Property expenses	29,935	27,683
<i>Other expenses includes:</i>		
<i>Depreciation/amortisation of non-current assets</i>		
Land and buildings	823	771
Leasehold improvements	1,578	1,028
Fixtures and fittings	233	132
Motor vehicles	74	65
Office equipment	1,072	818
	3,780	2,814
<i>Employee benefits expenses</i>		
Salaries and wages	28,604	27,591
Superannuation expense	2,695	2,439
Share-based payments	280	144
Other ¹	4,676	4,533
	36,255	34,707

¹ Other employee benefits include commissions, payroll tax, workers compensation and contract staff.

Recognition and measurement - Expenses

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 of the lease.

	2018	2017
<i>Number of employees</i>		
Number of full-time and part-time employees at balance date	411	370

Performance for the year

Note 5. Income tax expense

	2018 \$'000	2017 \$'000
<i>Income tax expense</i>		
Current income tax charge	17,401	16,275
Adjustments in respect of current income tax of previous years	193	(50)
Relating to origination and reversal of temporary differences	285	(262)
Aggregate income tax expense	<u>17,879</u>	<u>15,963</u>
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>58,858</u>	<u>53,199</u>
Tax at the statutory tax rate of 30%	17,657	15,960
Adjustments in respect of current income tax of previous years	193	(50)
Adjustment for difference in overseas tax rates	1	-
Other items	28	53
Income tax expense	<u>17,879</u>	<u>15,963</u>
Deferred tax recognised comprises temporary differences attributable to:		
Deferred capital gains	(1,612)	(1,612)
Property, plant and equipment	(1,572)	(798)
Inventory	202	449
Employee entitlements	1,092	1,055
Deferred lease incentives	1,101	592
Lease make good provisions	156	135
Cashflow hedge (Note 21)	(436)	165
Other	269	119
Total deferred tax (liabilities)/assets	<u>(800)</u>	<u>105</u>

Recognition and measurement - Income tax

Current tax assets and liabilities for the current and prior years 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.

Performance for the year

Note 6. Earnings per share

	2018 \$'000	2017 \$'000
Profit after income tax attributable to the owners of Nick Scali Limited	40,979	37,236
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	81,000,000	81,000,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,000,000	81,000,000
	Cents	Cents
Basic earnings per share	50.6	46.0
Diluted earnings per share	50.6	46.0

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.

Note 7. Equity - dividends

Dividends

Dividends paid during the financial year were as follows:

	2018 \$'000	2017 \$'000
Final fully franked dividend for 30 June 2017: 20.0 cents (2016: 14.0 cents)	16,200	11,340
Special fully franked dividend for 30 June 2017: Nil (2016: 3.0 cents)	-	2,430
Interim fully franked dividend for 30 June 2018: 16.0 cents (2017: 14.0 cents)	12,960	11,340
	<u>29,160</u>	<u>25,110</u>

In addition to the above dividend, since the end of the financial year directors have declared a final fully franked dividend of 24.0 cents per fully paid ordinary share to be paid on 24 October 2018 out of retained profits at 30 June 2018.

Performance for the year

Note 7. Equity – dividends (continued)

Franking credits

	2018 \$'000	2017 \$'000
Franking credits available at the reporting date based on a tax rate of 30%	30,996	26,169
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%	1,488	1,374
	<u>32,484</u>	<u>27,543</u>
Franking credits available for subsequent financial years based on a tax rate of 30%	<u>24,152</u>	<u>20,600</u>

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 2017: 30%).
Dividends declared and unpaid will be franked at the rate of 30% (30 June 2017: 30%).

Note 8. Reconciliation of profit after income tax to net cash from operating activities

	2018 \$'000	2017 \$'000
Profit after income tax expense for the year	40,979	37,236
Adjustments for:		
Depreciation of property, plant and equipment	3,780	2,814
Net loss on disposal of property, plant and equipment	-	111
Share-based payments	57	144
Interest expense classified as investing cash flows	928	619
Foreign currency translation	(1)	-
Net fair value change on derivatives	1,404	320
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(1,667)	1
Increase in inventories	(6,972)	(3,198)
Decrease in deferred tax assets	105	226
Increase in deferred tax liabilities	800	-
Increase in prepayments	(377)	(363)
Increase in value of other financial asset	(1,453)	(51)
Increase in trade and other payables	3,324	5,530
Increase/(decrease) in provision for income tax	251	(715)
Increase in other provisions	1,892	239
	<u>43,050</u>	<u>42,913</u>
Net cash from operating activities	<u>43,050</u>	<u>42,913</u>

Operating assets and liabilities

Note 9. Current assets - Cash and cash equivalents

	2018 \$'000	2017 \$'000
Cash at bank and on hand	<u>36,585</u>	<u>39,944</u>

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.

Note 10. Current assets – Receivables

	2018 \$'000	2017 \$'000
Trade debtors (i)	379	196
Other debtors (ii)	<u>1,484</u>	<u>-</u>
	<u>1,863</u>	<u>196</u>

(i) 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 \$23,000 as at 30 June 2018 (\$8,000 as at 30 June 2017).

(ii) Other debtors includes contributions from landlords and claims due from suppliers. These are non-interest bearing and have repayment terms of up to 240 days.

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.

Operating assets and liabilities

Note 11. Current assets - Inventories

	2018 \$'000	2017 \$'000
Finished goods - at net realisable value	30,993	25,043
Stock in transit - at cost	5,182	4,161
	<u>36,175</u>	<u>29,204</u>

During the year ended 30 June 2018, \$156,304 (2017: \$1,169,776) was recognised as an expense for inventories carried at net realisable value. This was 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 condition includes purchase price plus freight, cartage and import duties. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

Note 12. Current assets - Other financial assets

	2018 \$'000	2017 \$'000
Derivative hedge receivable (Note 23)	1,453	-
	<u>1,453</u>	<u>-</u>

Operating assets and liabilities

Note 13. Non-current assets - Property, plant and equipment

	2018 \$'000	2017 \$'000
Land and buildings - at cost	80,610	57,367
Less: Accumulated depreciation	<u>(2,978)</u>	<u>(2,155)</u>
	77,632	55,212
Leasehold improvements - at cost	15,229	12,089
Less: Accumulated depreciation	<u>(6,437)</u>	<u>(5,372)</u>
	8,792	6,717
Fixtures and fittings - at cost	2,770	2,639
Less: Accumulated depreciation	<u>(2,241)</u>	<u>(2,146)</u>
	529	493
Motor vehicles - at cost	815	747
Less: Accumulated depreciation	<u>(538)</u>	<u>(464)</u>
	277	283
Office equipment - at cost	10,619	9,048
Less: Accumulated depreciation	<u>(5,961)</u>	<u>(4,906)</u>
	4,658	4,142
	<u>91,888</u>	<u>66,847</u>

Reconciliations

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

Consolidated	Land and buildings \$'000	Leasehold improvements \$'000	Fixtures and fittings \$'000	Motor vehicles \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 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 of assets	(59)	(14)	-	-	-	(73)
Depreciation expense	<u>(712)</u>	<u>(1,014)</u>	<u>(132)</u>	<u>(65)</u>	<u>(818)</u>	<u>(2,741)</u>
Balance at 30 June 2017	55,212	6,717	493	283	4,142	66,847
Additions	23,243	3,654	269	68	1,588	28,821
Impairment of assets	59	14	-	-	-	73
Depreciation expense	<u>(882)</u>	<u>(1,592)</u>	<u>(233)</u>	<u>(74)</u>	<u>(1,072)</u>	<u>(3,853)</u>
Balance at 30 June 2018	<u>77,632</u>	<u>8,792</u>	<u>529</u>	<u>277</u>	<u>4,658</u>	<u>91,888</u>

Land and buildings totalling \$76.5m (2017: \$46.9m) are used to secure bank loans relating to their purchase.

Operating assets and liabilities

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
Leasehold improvements	5 - 15 years
Furniture and fittings	3 - 15 years
Motor vehicles	6 years
Office equipment (including IT)	3 - 12 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.

Note 14. Non-current assets - Intangibles assets

	2018 \$'000	2017 \$'000
Goodwill on acquisition of stores in Adelaide	<u>2,378</u>	<u>2,378</u>

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.

Operating assets and liabilities

Note 15. Current liabilities - Borrowings

	2018 \$'000	2017 \$'000
Commercial bills payable	20,362	-

Recognition and measurement - Interest-bearing loans and borrowings

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowing costs are recognised as an expense when incurred, unless they are directly attributable to the acquisition, construction or production of a qualifying asset whereby they are capitalised.

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

Note 16. Current liabilities - Payables

	2018 \$'000	2017 \$'000
Trade creditors (i)	11,578	7,603
Other creditors and accruals (ii)	6,080	9,235
Derivative hedge payable (iii) (Note 23)	-	551
Customer deposits (iv)	26,397	23,343
	<u>44,055</u>	<u>40,732</u>

Terms and conditions relating to the above financial instruments

- (i) Trade creditors are non-interest bearing financial instruments and are normally settled on 30 day terms.
- (ii) Other creditors are non-interest bearing financial instruments and are normally settled on 30 to 60 day terms.
- (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.

Operating assets and liabilities

Note 17. Current liabilities - Provisions

	2018 \$'000	2017 \$'000
Employee entitlements	2,723	2,634
Deferred lease incentives	230	491
	<u>2,953</u>	<u>3,125</u>

Recognition and measurement - Provisions

Employee entitlements

Liabilities for annual leave and long service leave expected to be settled within 12 months of the reporting date are measured as the amounts to be paid when the liabilities are settled.

Deferred lease incentive

The Company has received financial incentives from the lessor of certain properties. These are recorded as a liability and amortised over the term of the lease.

Note 18. Non-current liabilities - Borrowings

	2018 \$'000	2017 \$'000
Commercial bills payable	<u>13,300</u>	<u>21,162</u>

Financing facilities available

Unrestricted access was available on the following lines of credit at the reporting date:

Total facilities

Bank loans expiring within 12 months	21,262	-
Bank loans expiring in greater 12 months	13,300	23,362
Bank guarantees	2,000	2,000
Interchangeable facilities, including letters of credit	5,000	5,000
	<u>41,562</u>	<u>30,362</u>

Facilities used at reporting date:

Bank loans expiring within 12 months	20,362	-
Bank loans expiring in greater 12 months	13,300	21,162
Bank guarantees	1,477	1,678
Interchangeable facilities, including letters of credit	223	151
	<u>35,362</u>	<u>22,991</u>

Facilities unused at reporting date:

Bank loans expiring within 12 months	900	-
Bank loans expiring in greater 12 months	-	2,200
Bank guarantees	523	322
Interchangeable facilities, including letters of credit	4,777	4,849
	<u>6,200</u>	<u>7,371</u>

Operating assets and liabilities

Note 18. Non-current liabilities - Borrowings (continued)

Recognition and measurement - Interest-bearing loans and borrowings

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

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings. Borrowing costs are recognised as an expense when incurred, unless they are directly attributable to the acquisition, construction or production of a qualifying asset whereby they are capitalised.

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

Note 19. Non-current liabilities - Provisions

	2018 \$'000	2017 \$'000
Employee entitlements	919	885
Deferred lease incentives	3,441	1,481
Lease make good	520	450
	<u>4,880</u>	<u>2,816</u>

Recognition and measurement

Employee entitlements

Liabilities 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.

Lease make good

A provision has been made for the present value of anticipated costs of future restoration of leased properties. 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 lease incentives

The Company has received financial incentives contributions from the lessor of certain properties. These are recorded as a liability and amortised over the term of the lease.

Capital Structure and finance cost

Note 20. Equity - Issued capital

	2018 Shares	2017 Shares	2018 \$'000	2017 \$'000
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 of Directors' 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 year.

The Company may look to raise capital when an opportunity to invest in a business is seen as value adding. 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 investments.

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 21. Equity - Reserves

	2018 \$'000	2017 \$'000
Capital profits reserve	78	78
Cash flow hedge reserve	1,018	(386)
Foreign exchange reserve	(1)	-
Equity benefits reserve	341	284
	<u>1,436</u>	<u>(24)</u>

Capital Structure and finance cost

Note 21. Equity - Reserves (continued)

Movements in reserves

	Equity benefits reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange reserve \$'000	Total \$'000
Balance at 1 July 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)
Amounts recognised for cash flow hedges	-	-	1,430	-	1,430
Income tax on items taken directly to or transferred from equity	-	-	(602)	-	(602)
Amounts transferred to non-financial assets	-	-	576	-	576
Foreign exchange reserve	-	-	-	(1)	(1)
Share-based payment	57	-	-	-	57
Balance at 30 June 2018	341	78	1,018	(1)	1,436

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 30 for further details of these plans.

Capital profits reserve

This reserve is comprised wholly of the surplus on disposal of assets that were acquired prior to the introduction of Capital Gains Tax provisions.

Cash flow hedge reserve

This 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.

Foreign exchange reserve

This reserve is used to recognise where assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Capital Structure and finance cost

Note 22. 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 of Directors 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 is 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 either Australian dollars or New Zealand dollars, whilst the majority of inventory purchases are denominated in currencies other than Australian dollars, primarily US dollars. Where appropriate the Company uses forward currency contracts and options to manage its currency exposures; and where the qualifying criteria are met, these are designated as hedging instruments for the purposes of hedge accounting.

As at 30 June 2018, the Company has trade payables of \$3,557,300 (2017: \$1,210,531) denominated in US dollars and stock in transit of \$3,729,315 (2017: \$3,176,985) denominated in US dollars, all of which are covered by designated cash flow hedge. 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 2018 through to November 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.

During the year, 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 2018 through to November 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 2018, an unrealised gain of \$1,403,000 (30 June 2017: an unrealised gain of \$320,000) 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.

Capital Structure and finance cost

Note 22. Financial instruments (continued)

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

	2018		2017	
	Weighted average interest rate %	Balance \$'000	Weighted average interest rate %	Balance \$'000
Floating rate				
Cash - Assets less than one year	2.19%	36,582	2.41%	39,943
Commercial Bills - Liabilities less than one year	3.28%	(20,362)	-	-
Commercial Bills - Liabilities between one and five years	3.28%	(13,300)	3.94%	(21,162)
Net exposure to cash flow interest rate risk		<u>2,920</u>		<u>18,781</u>

A reasonably possible increase/(decrease) in the interest rate of 100 basis points would result in an increase/(decrease) of profit before income tax expense of \$29,000 (2017: \$188,000).

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 of Directors.

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.

Capital Structure and finance cost

Note 22. Financial instruments (continued)

2018	Less than 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade creditors	11,346	232	-	-	11,578
Other creditors	6,080	-	-	-	6,080
<i>Interest-bearing - variable</i>					
Borrowings	277	21,177	14,988	-	36,442
Total non-derivatives	17,703	21,409	14,988	-	54,100

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.

2017	Less than 3 months \$'000	3 to 12 months \$'000	1 to 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Non-derivatives					
<i>Non-interest bearing</i>					
Trade creditors	7,451	152	-	-	7,603
Other creditors	9,235	-	-	-	9,235
<i>Interest-bearing - variable</i>					
Borrowings	154	465	22,093	-	22,712
Total non-derivatives	16,840	617	22,093	-	39,550

Note 23. Fair value measurement

Fair value hierarchy

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

Level 1: Quoted market prices in an active market (that are unadjusted) for identical assets or liabilities

Level 2: Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable

Level 3: Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

At the reporting date the fair value of derivative financial instrument represented a derivative hedge receivable of \$1,453,000 (2017: derivative hedge payable of \$551,000). 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.

Capital Structure and finance cost

Note 23. Fair value measurement (continued)

Recognition and measurement - Derivative financial instruments

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

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

Recognition and measurement - Fair value measurement

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

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one year 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

Note 24. Key management personnel

The aggregate compensation made to directors and other members of key management personnel of the Company is set out below:

	2018 \$	2017 \$
Short-term employee benefits	2,254,200	2,173,423
Long-term employee benefits	39,324	13,528
Post-employment benefits	63,118	59,314
Share-based payments	139,579	94,314
	<u>2,496,221</u>	<u>2,340,579</u>

Note 25. Remuneration of auditors

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

	2018 \$	2017 \$
<i>Audit services - Ernst & Young</i>		
Audit or review of the financial statements	<u>132,500</u>	<u>110,000</u>
<i>Other services - Ernst & Young</i>		
Tax review services	17,500	16,500
New Zealand legal and tax advice	42,540	-
Other assurance related services	16,500	-
	<u>76,540</u>	<u>16,500</u>
	<u>209,040</u>	<u>126,500</u>

Note 26. Contingent liabilities

There are no contingent liabilities as at 30 June 2018 (2017: Nil).

Other notes

Note 27. Commitments

	2018 \$'000	2017 \$'000
<i>Operating lease commitments</i>		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	22,570	24,748
One to five years	65,305	66,288
More than five years	13,875	16,044
	101,750	107,080
	101,750	107,080

Operating leases are in respect of the Group's 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 Group.

Capital Commitments

At 30 June 2018, the Group had capital commitments of \$945,000 (2017: \$893,000) relating to the fitout of the new premises and showrooms.

Note 28. Related party transactions

Transactions with related parties

The following transaction occurred with related parties:

The Company leased premises at Auburn, in New South Wales, from entities controlled by Mr Anthony J Scali until 4 December 2017. The following details the term and rent paid by the Company in respect of the premises leased. Lease rentals were determined on an arm's length basis. All other material terms of this lease were of a nature that would be typically entered into between unrelated parties.

Location: 242-248 Parramatta Road, Auburn, NSW

Term: 8 years, commencing 1 November 2016.

Rent and Outgoings: \$359,566 (plus GST) during the period

On the 4 December 2017, the Company terminated the lease in accordance with the terms included therein, and purchased the property from entities controlled by Mr Anthony J Scali for \$22,000,000. The purchase price was determined on an arm's length basis.

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.

Other notes

Note 29. 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 2018 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Company's state of affairs in future financial years.

Note 30. 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. 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 year ended 30 June 2018 rights to ordinary shares were issued which include performance hurdles requiring compound annual EPS growth of between 5% and 10%. Under the grant, 50% of the rights are exercisable on the achievement of 5% EPS growth, 100% on the achievement of 10% EPS growth, and for the achievement of between 5% and 10% EPS growth the number of rights exercisable is calculated on a pro-rata basis.

The expense recognised in relation to employee share rights during the year was \$280,480 (2017: \$199,755).

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

	2018	2017
Balance at the start of the year	177,621	122,659
Granted	64,172	64,962
Exercised	(34,418)	(10,000)
Expired	-	-
Balance at the end of the year	<u>207,375</u>	<u>177,621</u>

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 dividends 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:

	2018	2017
Share price at grant date	\$6.40	\$5.66
Dividend Yield	6.0%	6.4%
Franking Rate	30.0%	30.0%
Implied pre-tax effective dividend yield	8.6%	9.0%

Other notes

Note 30. Share-based payments (continued)

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 31. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of comprehensive income

	Parent	
	2018 \$'000	2017 \$'000
Profit after income tax expense	41,010	37,236
Total comprehensive income	42,414	37,556

Statement of financial position

	Parent	
	2018 \$'000	2017 \$'000
Total current assets	77,556	69,946
Total assets	170,297	139,276
Total current liabilities	67,636	44,914
Total liabilities	86,602	68,892
Equity		
Issued capital	3,364	3,364
Capital profits reserve	78	78
Hedging reserve - cash flow hedges	1,017	(386)
Equity benefits reserve	341	284
Retained profits	78,895	67,044
Total equity	83,695	70,384

Other notes

Note 31. Parent entity information (continued)

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 2018 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.

Note 32. Controlled Entities

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	
			2018 %	2017 %
Nick Scali (New Zealand) Limited	New Zealand	Ordinary	100	100

Other notes

Note 33. Summary of other 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 year; 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 year. 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 year; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting year. 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 Goods and Services Tax ('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.

Other notes

Note 33. 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 Group 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.

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 2018 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

16 August 2018
Sydney



Anthony J Scali
Managing Director



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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 2018, 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 2018 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.



Inventory provision for obsolescence

Why significant

The Group held an inventory balance at 30 June 2018 of \$36.2 million with associated provisions for Inventory obsolescence of \$0.7 million.

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.

How our audit addressed the key audit matter

We evaluated the Company's assumptions used in determining the provision for inventory obsolescence by analysing the level of provisioning on a category of inventory basis. We compared the percentage of inventory provided, by category to prior periods, determining if changes in the percentages provided were appropriate based on recent and expected retail selling prices.

We compared the Inventory provision to total inventory amounts written off in the year.

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 2018 Annual Report, but does not include the financial report and our auditor's report thereon. We obtained the Directors' Report that is 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 accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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.



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.

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 15 of the directors' report for the year ended 30 June 2018.

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2018, 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

Kathy Parsons
Partner
Sydney
16 August 2018

Additional information required by the Australian Securities Exchange and not shown elsewhere in this report is as follows.

The information is current as at 27 July 2018.

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	1,380
1,001 to 5,000	1,558
5,001 to 10,000	396
10,001 to 100,000	268
100,001 and Over	20
Total	3,622

Equity security holders

Twenty largest quoted equity security holders

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

	Number Held	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	19,916,034	24.59
Scali Consolidated Pty Limited	11,039,474	13.63
Kuka Investment and Management Co. Limited	11,039,473	13.63
Citicorp Nominees Pty Limited	9,351,235	11.54
J P Morgan Nominees Australia Limited	5,578,200	6.89
National Nominees Limited	3,754,712	4.64
Molvest Pty Ltd	1,300,000	1.60
BNP Paribas Nominees Pty Ltd	1,250,568	1.54
BNP Paribas Nominees Pty Ltd	1,123,727	1.39
Grahger Retail Securities Pty Ltd	1,000,000	1.23
Brispot Nominees Pty Ltd	417,370	0.52
Netwealth Investments Limited	326,080	0.40
UBS Nominees Pty Limited	291,583	0.36
Lan Trading Capital Pty Ltd	289,571	0.36
Bond Street Custodians Limited	225,280	0.28
Mr Yonatan Widjaya & Mrs Mela Widjaya	150,000	0.19
BNP Paribas Nominees Pty Ltd	146,268	0.18
Cashmere Dell Pty Ltd	122,111	0.15
Mrs Susan Humphrey	104,000	0.13
Dunecove Pty Limited	100,000	0.12
	67,525,686	83.37

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	Number Held	% of total shares issued
Scali Consolidated Pty Limited	11,039,474	13.63
Kuka Investment and Management Co. Limited	11,039,473	13.63
Perpetual Limited	10,960,816	13.53
Airlie Funds Management Pty Limited	5,922,920	7.31
	38,962,683	48.10

Voting rights

Ordinary shares

All ordinary shares carry one vote per share without restriction.

There are no other classes of equity securities.

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