

Appendix 4D

Half-Year Financial Report

Name of entity

Nick Scali Limited (NCK)

ABN: 82 000 403 896

Half-year ended ('current period'): **31 DECEMBER 2011**

Results for announcement to the market

Extracts for announcement to the market

				\$A'000
Revenue from ordinary activities	Up	9.1%	to	53,801
Profit (loss) from ordinary activities after tax attributable to members	Up	-10.9%	to	5,259
Profit (loss) from extraordinary items after tax attributable to members		-		-
Net profit (loss) for the period attributable to members	Up	-10.9%	to	5,259
Net tangible asset backing per share (cents per share)	December 2011		30.79	
	December 2010		26.11	
Dividends (distributions)	Amount per security		Franked amount per security	
	4.5 cents		4.5 cents	
Record date for determining entitlements to the dividend		9 March 2012		
Date the dividend is payable		30 March 2012		

Nick Scali Limited

Half - Year Financial Report

31 December 2011

Half-Year Financial Report 31 December 2011

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Directors' report

Your directors submit their report for the half-year ended 31 December 2011.

Directors

The names of the company's directors in office during the half-year and until the date of this report are as below. Directors were in office for the entire period unless otherwise stated.

John W. Ingram	<i>Independent Non-Executive Chairman</i>
Nick D. Scali	<i>Non-Executive Director</i>
Greg R. Laurie	<i>Independent Non-Executive Director</i>
Ian Kennon	<i>Independent Non-Executive Director (appointed 1st October 2011)</i>
Anthony J. Scali	<i>Managing Director</i>
Nicky D. Scali	<i>Alternate Director</i>

Review and results of operations

The Company recorded sales revenue of \$53.8m for the half year to 31 December 2011, a 9% increase on the previous corresponding period. Net profit after tax was \$5.3m, a decrease of 11%.

The result was a solid performance in what remains very tough market conditions. The trading environment throughout the half remained volatile, with some strong months of trading interspersed with periods of weakness. Consumer purchasing activity continues to be focused around promotional opportunities and their behaviour is particularly cautious. Total sales for the first half increased 9%, whilst same store sales were flat. The increase in sales was attributable to the new stores that were opened within the past 12 months.

Profit for the first half was down, impacted by the 'start-up' costs of seven new stores opened since June 2011, and aggressive discounting which resulted in gross margins reducing by 1.7% from the record levels achieved in the previous corresponding period.

Operating Costs remain a close focus for the Company but increased proportionately as a result of the new stores added to the network since December 2010. Whilst the costs associated with these stores are in place, many are yet to fully contribute due to the lag between orders received and invoiced sales.

During the half two Nick Scali stores were opened, the investment in the refurbishment of existing stores has continued, and the Sofas2Go brand was expanded to five stores.

Auditors independence declaration

A copy of the auditor's independence declaration as required under Section 307C of the Corporations Act 2001 is set out on page 14

Rounding

The financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars (\$000) unless otherwise stated under the option available to the Company under ASIC Class Order 98/0100, The company is an entity to which the class order applies.

On behalf of the Board, signed in accordance with a resolution of the directors.



J.W. Ingram Chairman



A.J. Scali Managing Director

Sydney, 9 February 2012

Statement of income

For the half year ended 31 December 2011

	Notes	Half-year Ended 31 Dec 11 \$'000	Half-year Ended 31 Dec 10 \$'000
Revenue from sale of goods	2	53,801	49,308
Cost of goods sold		(20,858)	(18,262)
Gross profit		32,943	31,046
Other income	2	505	387
Distribution expenses		(2,537)	(2,202)
Sales and Marketing expenses		(10,774)	(9,137)
Administrative expenses		(2,414)	(2,517)
Occupancy expenses		(9,783)	(8,651)
Finance Costs		(116)	-
Other expenses		(558)	(493)
Profit before income tax		7,266	8,434
Income tax expense		(2,007)	(2,530)
Profit after tax		5,259	5,904

Earnings per share (cents per share)

Basic for profit for the half-year	6.5	7.3
Diluted for profit for the half-year	6.5	7.3

Statement of comprehensive income

For the half year ended 31 December 2011

	Half-year Ended 31 Dec 11 \$'000	Half-year Ended 31 Dec 10 \$'000
Profit after tax	5,259	5,904
Other comprehensive income		
Cash flow hedges gain/(loss) taken to equity	63	(161)
Other comprehensive income for the period	<u>63</u>	<u>(161)</u>
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	<u><u>5,322</u></u>	<u><u>5,743</u></u>

Statement of financial position

As at 31 December 2011

	As at 31 Dec 11 \$'000	As at 30 Jun 11 \$'000
ASSETS		
Current assets		
Cash and cash equivalents	17,418	17,552
Receivables	854	757
Inventories	13,851	12,247
Prepayments and Other assets	1,026	309
Total current assets	33,149	30,865
Non-current assets		
Deferred tax assets	1,041	1,405
Property, plant and equipment	14,141	13,707
Intangible assets	2,378	2,378
Total non-current assets	17,560	17,490
TOTAL ASSETS	50,709	48,355
LIABILITIES		
Current liabilities		
Payables	18,498	16,939
Current tax liabilities	647	1,640
Provisions	426	408
Total current liabilities	19,571	18,987
Non-current liabilities		
Provisions	320	233
Deferred tax liability	2	-
Borrowings	3,500	3,500
Total non-liabilities	3,822	3,733
TOTAL LIABILITIES	23,393	22,720
NET ASSETS	27,316	25,635
EQUITY		
Contributed equity	3,364	3,364
Reserves	94	27
Retained profits	23,858	22,244
TOTAL EQUITY	27,316	25,635

Statement of cash flows

For the half-year ended 31 December 2011

	Half-year Ended 31 Dec 11 \$'000	Half-year Ended 31 Dec 10 \$'000
Cash flows from operating activities		
Receipts from customers	58,531	53,112
Payments to suppliers and employees	(51,755)	(44,880)
Interest received	505	387
Income tax paid	(2,661)	(3,092)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>4,620</u>	<u>5,527</u>
Cash flows from investing activities		
Purchase of property, plant & equipment	(993)	(9,144)
NET CASH FLOWS (USED) IN INVESTING ACTIVITIES	<u>(993)</u>	<u>(9,144)</u>
Cash flows from financing activities		
Equity dividends paid	(3,645)	(3,645)
Proceeds from borrowings	-	3,500
Interest paid on borrowings	(116)	-
NET CASH (USED) IN FINANCING ACTIVITIES	<u>(3,761)</u>	<u>(145)</u>
NET INCREASE / (DECREASE) IN CASH HELD	(134)	(3,762)
Add opening cash and cash equivalents brought forward	17,552	17,312
Closing cash carried forward	<u>17,418</u>	<u>13,550</u>

Statement of changes in equity

For the half-year ended 31 December 2011

	Contributed equity \$'000	Equity benefits reserve \$'000	Assets revaluation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total \$'000
<u>Half Year Ended 31 December 2011</u>						
As at 1 July 2011	3,364	8	78	(59)	22,244	25,635
Profit for the period	-	-	-	-	5,259	5,259
Other comprehensive income	-	-	-	63	-	63
Total comprehensive income	-	-	-	63	5,259	5,322
Share-based payment	-	4	-	-	-	4
Equity dividends	-	-	-	-	(3,645)	(3,645)
As at 31 December 2011	3,364	12	78	4	23,858	27,316
<u>Half Year Ended 31 December 2010</u>						
As at 1 July 2010	3,364	-	78	62	17,926	21,430
Profit for the period	-	-	-	-	5,904	5,904
Other comprehensive income	-	-	-	(161)	-	(161)
Total comprehensive income	-	-	-	(161)	5,904	5,743
Share-based payment	-	-	-	-	-	-
Equity dividends	-	-	-	0	(3,645)	(3,645)
As at 31 December 2010	3,364	-	78	(99)	20,185	23,528

	Half-year Ended 31 Dec 11	Half-year Ended 31 Dec 10
Dividends per share declared (cents per share)	4.5	4.5

Notes to the financial statements

For the half-year ended 31 December 2011

Note 1: Basis of preparation of the half-year financial report

(a) Corporate information

The financial report of Nick Scali Limited (the Company) for the half-year ended 31 December 2011 was authorised for issue in accordance with a resolution of the directors on 9th February 2012. Nick Scali Limited is a company incorporated in Australia and limited by shares, which are publicly traded on the Australian Stock Exchange.

(b) Statement of significant accounting policies

The half-year financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide as full an understanding of the financial performance, financial position and financing and investing activities of the Company as the full financial report.

The half-year financial report should be read in conjunction with the annual Financial Report of the Company as at 30 June 2011.

It is also recommended that the half-year financial report be considered together with any public announcements made by the Company during the half-year ended 31 December 2011 in accordance with the continuous disclosure obligations arising under the Australian Stock Exchange listing rules.

The half-year financial statements have been prepared using the same accounting policies as used in the annual financial statements for the year ended 30 June 2011.

(c) Basis of preparation

The half-year financial report has been prepared in accordance with AASB 134 Interim Financial Reporting and the Corporations Act 2001.

(d) Changes in accounting policies

Certain Australian Accounting Standards and Interpretations have recently been issued or amended but are not yet effective and have not been adopted by the Company for the interim reporting period.

Notes to the financial statements (cont'd)

For the half-year ended 31 December 2011

	Half-year Ended 31 Dec 11 \$'000	Half-year Ended 31 Dec 10 \$'000
Note 2: Revenue and expenses		
(a) Specific Items		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.		
(i) Revenue		
Sale of goods	53,801	49,308
(ii) Other income		
Interest received	505	387
(b) Seasonality of Operations		
There are no significant seasonal factors for the business.		
(c) Revision of Accounting Estimates		
There was no revision of accounting estimates made during the period.		
Note 3: Dividends paid and proposed		
Equity dividends on ordinary shares		
(a) Dividends paid during the half-year		
Final franked dividend for financial year 30 June 2011 4.5 cents (2010: 4.5 cents)	3,645	3,645
(b) Dividends proposed and not recognised as a liability		
Interim franked dividend for half-year ended 31 Dec 2011 4.5 cents (2010: 4.5 cents)	3,645	3,645

Notes to the financial statements (cont'd)

For the half-year ended 31 December 2011

		As at 31 Dec 11 '000	As at 30 Jun 11 '000
Note 4:	Issued capital		
	Ordinary shares		
	Issued and fully paid	<u>81,000</u>	<u>81,000</u>

Note 5: Segment reporting

The Company has identified its operating segments based on the information regularly reviewed by the Managing Director and the Board of Directors (the chief operating decision makers) in assessing performance and determining the allocation of resources within the Company. Consideration is given to the manner in which the products are sold, the nature of the products supplied, the organisational structure and the country in which the activity is undertaken.

Reportable segments are based on aggregated operating segments determined by the similarity of products sold, the type of customer and methods of distribution to them. The Company's one reportable segment is the retailing of furniture in Australia, the revenue of which is derived from that activity.

The total of the reportable segments' revenue and profit is the same as that of the Company as whole and as disclosed in the statement of income.

Note 6: Contingent assets and liabilities

Since the last annual reporting date, there has been no material change of any contingent assets or contingent liabilities. There are no significant contingent assets or liabilities as at the date of this report.

Note 7: Events after the balance date

There have been no material or significant events that have occurred after the balance date.

Note 8: Additional information

	As at 31 Dec 11 \$'000	As at 30 Jun 11 \$'000
Reconciliation of cash		
For the purposes of the cash flow statement, cash and cash equivalents comprise the following:		
Cash at bank and in hand	<u>17,418</u>	<u>17,552</u>

Directors' declaration

In accordance with a resolution of the directors of Nick Scali Limited, we state that:

In the opinion of the directors :

- (1) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:
 - (i) give a true and fair view of the financial position as at 31 December 2011 and the performance for the half-year ended on that date; and
 - (ii) comply with Accounting Standard AASB 134 "Interim Financial Reporting" and the Corporations Regulations 2001; and
- (2) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



J.W. Ingram Chairman



A.J. Scali Managing Director

Sydney, 9 February 2012

To the members of Nick Scali Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Nick Scali Limited, which comprises the statement of financial position as at 31 December 2011, the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the half-year ended on that date, notes comprising a description of accounting policies and other explanatory information, and the directors' declaration.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of Interim and other Financial Reports Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2011 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Nick Scali Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Independence

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

Conclusion

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

- a) giving a true and fair view of the company's financial position as at 31 December 2011 and of its performance for the half-year ended on that date; and
 - b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.
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A handwritten signature in blue ink that reads 'Ernst & Young'.

Ernst & Young

A handwritten signature in blue ink, appearing to be 'Kathy Parsons'.

Kathy Parsons
Partner
Sydney
9 February 2012

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

In relation to our review of the financial report of Nick Scali Limited for the half-year ended 31 December 2011, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.



Ernst & Young



Kathy Parsons
Partner
9 February 2012