

## 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 2013**

#### **Results for announcement to the market**

*Extracts for announcement to the market*

				\$A'000
<b>Revenue from ordinary activities</b>	Up	13.9%	to	71,691
Profit (loss) from ordinary activities after tax attributable to members	Up	22.1%	to	7,870
Profit (loss) from extraordinary items after tax attributable to members		-		-
Net profit (loss) for the period attributable to members	Up	22.1%	to	7,870
<b>Net tangible asset backing per share</b> (cents per share)	December 2013			45.21
	December 2012			35.43
<b>Dividends (distributions)</b>	Amount per security		Franked amount per security	
	6.0 cents		6.0 cents	
Record date for determining entitlements to the dividend		5 March 2014		
Date the dividend is payable		26 March 2014		

# **Half-Year Financial Report 31 December 2013**

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## Directors' report

Your directors submit their report for the half-year ended 31 December 2013.

### 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>
Anthony J. Scali	<i>Managing Director</i>
Nicky D. Scali	<i>Alternate Director</i>

### Review and results of operations

For the half year to 31 December 2013, the Company reported a record first half NPAT result of \$7.9m, up 22.1% on the prior year first half NPAT result of \$6.4m.

Sales revenue for the half was \$71.7m, up 13.9% on last year and up 8.5% on a comparable store basis. The sales increase is attributable to the strong comparable store growth and the contribution from net 3 additional stores.

The sales increase was supported by a slight improvement in Gross Margin despite a decline in the value of the Australian dollar.

Operating Expenses as a percentage to sales decreased from 44.4% last half to 43.9% this half.

During the half year the Company opened one new store for Nick Scali at Castle Hill in November 2013. The Company has plans to open more stores in the second half of the year subject to negotiations with landlords.


### 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, 12 February 2014

## Statement of income

For the half year ended 31 December 2013

	Notes	Half-year Ended 31 Dec 13 \$'000	Half-year Ended 31 Dec 12 \$'000
<b>Revenue from sale of goods</b>	2	71,691	62,931
Cost of goods sold		<u>(28,441)</u>	<u>(25,325)</u>
<b>Gross profit</b>		<b>43,250</b>	<b>37,606</b>
Other income	2	600	454
Employment expenses		(10,981)	(9,153)
General & Administration expenses		(2,700)	(2,402)
Marketing expenses		(6,216)	(5,322)
Property expenses		(11,275)	(10,792)
Distribution expenses		(316)	(274)
Finance cost		(153)	(90)
Depreciation and Amortisation		(947)	(813)
<b>Profit before income tax</b>		<b>11,262</b>	<b>9,214</b>
Income tax expense		(3,392)	(2,767)
<b>Net profit after tax</b>		<b>7,870</b>	<b>6,447</b>
<b>Earnings per share</b>			
Basic Earnings per share (cents per share)		9.7	8.0
Diluted Earnings per share (cents per share)		9.7	8.0

## Statement of comprehensive income

For the half year ended 31 December 2013

	Half-year Ended 31 Dec 13 \$'000	Half-year Ended 31 Dec 12 \$'000
Net profit after tax	7,870	6,447
<b>Other comprehensive income</b>		
Items that may be reclassified subsequently to profit or loss		
Cash flow hedges gain/(loss) taken to equity	(344)	104
<b>Other comprehensive income for the period</b>	<u>(344)</u>	<u>104</u>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<u><u>7,526</u></u>	<u><u>6,551</u></u>

## Statement of financial position

As at 31 December 2013

	As at 31 Dec 13 \$'000	As at 30 Jun 13 \$'000
<b>ASSETS</b>		
<b>Current assets</b>		
Cash and cash equivalents	27,238	26,441
Receivables	46	6,397
Inventories	18,932	14,569
Other financial assets	358	852
Other assets	345	286
<b>Total current assets</b>	<b>46,919</b>	<b>48,545</b>
<b>Non-current assets</b>		
Deferred tax assets	0	938
Property, plant and equipment	22,417	22,047
Intangible assets	2,378	2,378
<b>Total non-current assets</b>	<b>24,795</b>	<b>25,363</b>
<b>TOTAL ASSETS</b>	<b>71,714</b>	<b>73,908</b>
<b>LIABILITIES</b>		
<b>Current liabilities</b>		
Payables	19,966	23,465
Current tax liabilities	1,636	3,804
Provisions	1,250	1,209
<b>Total current liabilities</b>	<b>22,852</b>	<b>28,478</b>
<b>Non-current liabilities</b>		
Provisions	2,327	2,335
Deferred tax liability	778	0
Borrowings	6,762	6,762
<b>Total non-liabilities</b>	<b>9,867</b>	<b>9,097</b>
<b>TOTAL LIABILITIES</b>	<b>32,719</b>	<b>37,574</b>
<b>NET ASSETS</b>	<b>38,995</b>	<b>36,334</b>
<b>EQUITY</b>		
Contributed equity	3,364	3,364
Reserves	336	685
Retained profits	35,295	32,285
<b>TOTAL EQUITY</b>	<b>38,995</b>	<b>36,334</b>

## Statement of cash flows

For the half-year ended 31 December 2013

	Half-year Ended 31 Dec 13 \$'000	Half-year Ended 31 Dec 12 \$'000
<b>Cash flows from operating activities</b>		
Receipts from customers	82,012	67,263
Payments to suppliers and employees	(71,789)	(59,368)
Interest received	600	454
Income tax paid	(3,696)	(2,780)
NET CASH FLOWS FROM OPERATING ACTIVITIES	<u>7,127</u>	<u>5,569</u>
<b>Cash flows from investing activities</b>		
Purchase of property, plant & equipment	(1,317)	(7,309)
NET CASH FLOWS (USED) IN INVESTING ACTIVITIES	<u>(1,317)</u>	<u>(7,309)</u>
<b>Cash flows from financing activities</b>		
Equity dividends paid	(4,860)	(2,835)
Proceeds from borrowings	-	3,262
Interest paid on borrowings	(153)	(90)
NET CASH (USED) IN FINANCING ACTIVITIES	<u>(5,013)</u>	<u>337</u>
NET INCREASE / (DECREASE) IN CASH HELD	797	(1,403)
Add opening cash and cash equivalents brought forward	26,441	20,691
<b>Closing cash carried forward</b>	<u>27,238</u>	<u>19,288</u>

## Statement of changes in equity

For the half-year ended 31 December 2013

	Contributed equity \$'000	Equity benefits reserve \$'000	Assets revaluation reserve \$'000	Cash flow hedge reserve \$'000	Retained profits \$'000	Total \$'000
<b>Half Year Ended 31 December 2013</b>						
<b>As at 1 July 2013</b>	3,364	13	78	594	32,285	36,334
Profit for the period	-	-	-	-	7,870	7,870
Other comprehensive income	-	-	-	(344)	-	(344)
Total comprehensive income	-	-	-	(344)	7,870	7,526
Share-based payment	-	(5)	-	-	-	(5)
Equity dividends	-	-	-	-	(4,860)	(4,860)
<b>As at 31 December 2013</b>	<b>3,364</b>	<b>8</b>	<b>78</b>	<b>250</b>	<b>35,295</b>	<b>38,995</b>
<b>Half Year Ended 31 December 2012</b>						
<b>As at 1 July 2012</b>	3,364	0	78	(67)	23,978	27,353
Profit for the period	-	-	-	-	6,447	6,447
Other comprehensive income	-	-	-	104	-	104
Total comprehensive income	-	-	-	104	6,447	6,551
Share-based payment	-	5	-	-	-	5
Equity dividends	-	-	-	-	(2,835)	(2,835)
<b>As at 31 December 2012</b>	<b>3,364</b>	<b>5</b>	<b>78</b>	<b>37</b>	<b>27,590</b>	<b>31,074</b>

	Half-year Ended 31 Dec 13	Half-year Ended 31 Dec 12
Dividends per share declared (cents per share)	6.0	6.0



## Notes to the financial statements

For the half-year ended 31 December 2013

### 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 2013 was authorised for issue in accordance with a resolution of the directors on 12th February 2014. Nick Scali Limited, a for profit entity, 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 accounting policies adopted in the preparation of the half-year financial report statements are consistent with those followed in the preparation of the Company's annual financial statements for the year ended 30 June 2013, except for the adoption of new standards and interpretations noted below, there are no significant impacts on adoption.

AASB13	Fair Value Measurement
AASB119	Employee Benefits

It is 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 2013 in accordance with the continuous disclosure obligations arising under the Australian Stock Exchange listing rules.

#### (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 2013

	Half-year Ended 31 Dec 13 \$'000	Half-year Ended 31 Dec 12 \$'000
<b>Note 2: Revenue and expenses</b>		
<b>(a) Specific Items</b>		
Profit before income tax expense includes the following revenues and expenses whose disclosure is relevant in explaining the performance of the entity.		
<b>(i) Revenue</b>		
Sale of goods	<u>71,691</u>	<u>62,931</u>
<b>(ii) Other income</b>		
Interest received	<u>600</u>	<u>454</u>
<b>(b) Seasonality of Operations</b>		
There are no significant seasonal factors for the business.		
<b>(c) Revision of Accounting Estimates</b>		
There was no revision of accounting estimates made during the period.		
<b>Note 3: Dividends paid and proposed</b>		
<b>Equity dividends on ordinary shares</b>		
(a) Dividends paid during the half-year		
Final franked dividend for financial year 30 June 2013 6.0 cents (2012: 3.5 cents)	4,860	2,835
(b) Dividends proposed and not recognised as a liability		
Interim franked dividend for half-year ended 31 Dec 2013 6.0 cents (2012: 6.0 cents)	4,860	4,860
	<b>As at 31 Dec 13 '000</b>	<b>As at 30 Jun 13 '000</b>
<b>Note 4: Issued capital</b>		
<b>Ordinary shares</b>		
Issued and fully paid	<u>81,000</u>	<u>81,000</u>
<b>Note 5: Segment reporting</b>		

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 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.

## Notes to the financial statements (cont'd)

For the half-year ended 31 December 2013

### 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 13 \$'000	As at 30 Jun 13 \$'000
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#### 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>27,238</u>	<u>26,441</u>
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### Note 9: Financial Instruments

#### Fair Values

Assets and liabilities measured at fair value are as follows:

#### Other financial assets - current

Forward Currency Contracts	<u>358</u>	<u>852</u>
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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. The carrying value approximates the fair value of interest bearing liabilities.

All financial instruments for which fair value is recognised or disclosed are categorised within 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)

All foreign currency forward contracts were measured at fair value using the Level 2 method.

#### Valuation techniques

The foreign currency forward contracts are measured based on observable spot exchange rates, the yield curves of the respective currencies as well as the currency basis spreads between the respective currencies. All contracts are fully cash collateralised, thereby eliminating both counterparty and the Company's own credit risk.

#### Risk management activities

During the period, the Company designated foreign currency forward contracts in hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur during January 2014 to March 2014.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated to the contracts (both the counterparty's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2013, an unrealised loss of \$344,000 (31 December 2012: an unrealised gain of \$104,000) is in other comprehensive income.

## 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 for the half year ended 31 December 2013 are in accordance with the Corporations Act 2001, including:
  - (i) give a true and fair view of Company's the financial position as at 31 December 2013 and the performance for the half-year ended on that date; and
  - (ii) comply with Accounting Standards 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, 12 February 2014

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 condensed statement of financial position as at 31 December 2013, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### Directors' Responsibility for the Half-Year Financial Report

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

### Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the company's financial position as at 31 December 2013 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.



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## Conclusion

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

- i giving a true and fair view of the company's financial position as at 31 December 2013 and of its performance for the half-year ended on that date; and
- ii complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Ernst & Young

Kathy Parsons  
Partner  
Sydney  
12 February 2014



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## 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 2013, 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  
12 February 2014