nickscali LIMITED

# ANNUAL REPORT 2014

Nick Scali Limited


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FURNITURE
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# Chairman and Managing Director's Review

### Operating Performance

It is pleasing to report that for the year ended 30 June 2014 your Company achieved another record trading profit with Underlying Net Profit After Tax reaching $14.2 million compared with $12.2 million in the fiscal 2013 year, an increase of 16.3%.

The result was founded on strong sales revenue of $141.4m, up 11% on the previous year and a continuation of several years of growth.

The furniture market remained somewhat subdued and highly competitive throughout the year. Consumer demand remained volatile month by month and the improved and encouraging result confirms the strength of the Nick Scali brand and the appeal of its product range to consumers.

Sales Revenue was assisted by the Company's well established strategy of selectively opening new stores in areas considered to have strong growth potential. It is particularly pleasing however to report that in the year to June 2014, comparable store sales also grew and were 6.3% ahead of the previous year. Given the generally soft market conditions, it points to a stronger relative market position achieved by the Company. Targeted marketing activity and a focus on careful selection of product ranges with compelling price points continue to remain the building blocks of the business and were large contributors to the growth in comparable store sales.

Gross Margin remained solid at 60.4% and whilst slightly lower than last year's 60.8%, was a very satisfactory result given the weaker AUD, pressures from supplier price increases and increased discounting in the highly competitive market.

While operating expenses increased due to the opening of new stores and inflationary pressures, as a percentage to sales they decreased from 46.4% in fiscal 2013 to 45.3% this year, illustrating management's continued focus on controlling costs in line with sales growth and also economies of scale benefits as the Company grows.

During the year, the Company opened 2 new stores both of which were Nick Scali branded stores. These were in Castle Hill (NSW) and Taylors Lakes (VIC). The total number of stores at 30 June 2014 was 39, comprising 34 Nick Scali stores and 5 Sofas2Go stores.

The Company acquired a property at Caringbah (NSW) subsequent to 30 June 2014 and intends to redevelop this site during calendar 2015. A lease on a property for a distribution centre in Western Australia has also been secured and plans are in place to open up to three stores in that State by the end of fiscal 2015. Directors believe that the Company has considerable room for further expansion of its store network, with a number of other sites in existing markets also currently under negotiation for opening in the new financial year.

It has been another positive year for the Company and its people, and the Directors take this opportunity to thank all employees for their efforts towards achieving the strong sales and profit result. The Directors also thank shareholders for their continued support.

## Dividend

The Directors have declared a fully franked Final Dividend of 7.0 cents per share. The record date will be 8 October 2014 with the dividend payable on 30 October 2014. When added to the Interim Dividend of 6.0 cents per share, the Total Dividend for the year is 13.0 cents per share fully franked.

## Outlook

The current year has opened with a strong pipeline of orders to be delivered which should underwrite robust sales revenue and profit in the early months of the 2015 financial year. As the furniture market is closely tied to the housing market and to consumer confidence, further growth in the 2015 financial year will be largely dependent on housing construction and consumer attitudes to spending as well as the rate of new store openings.

The Company has a strong balance sheet, supported by a healthy cash position and minimal debt and thus is in an excellent position to drive its growth strategy further in the period ahead to deliver additional value to shareholders.

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# Corporate Governance Statement

The Board of Nick Scali Limited is responsible for the direction and supervision of the Company's business and for its overall corporate governance. The Board recognises the need to maintain the highest standards of behaviour, ethics and accountability.

The Board is committed to effective corporate governance in order to ensure accountability and transparency to shareholders and other stakeholders, including customers, employees, staff and regulatory bodies. This includes ensuring that internal controls and reporting procedures are adequate and effective. Responsibility for the management of the day to day operations and administration of the Company is delegated to the Managing Director.

Effective corporate governance is achieved through the structure and operation of the Board and its sub-committees. There are two sub-committees – the Audit Committee and the Remuneration Committee. The members of these committees are the three non executive directors. The Board and its sub-committees work with senior management to monitor, review and refine corporate governance standards.

The ASX Limited Corporate Governance Council has established the Corporate Governance Principles and Recommendations (2nd Edition). The Company has applied and followed the ASX Recommendations except to the extent set out below.

## Lay solid foundations for management and oversight

**Role of the Board**

The primary functions of the Board include:

i. formulating and approving the objectives, strategies and long-term plans for the Company's continued development and operation, in conjunction with management;
ii. monitoring the implementation of these objectives, strategies and long-term plans to ensure the Company, to the best of its ability, delivers value to Shareholders;
iii. monitoring the Company's overall performance and financial results, including adopting annual budgets and approving the Company's financial statements;
iv. selecting and reviewing the performance of the Managing Director;
v. ensuring significant business risks are identified and appropriately managed;
vi. ensuring that the Company meets the statutory, regulatory and reporting requirements of the ASX Limited and the Corporations Act;
vii. ensuring that the Company, its directors, officers, employees and Associates are aware of and comply with all relevant laws and regulations;
viii. reporting to Shareholders on performance; and
ix. deciding on the payment of dividends to Shareholders.

Each incoming director receives a letter of appointment setting out the key terms and conditions of his or her appointment and the Company's expectations of them in that role.

The Board has established an Audit Committee and a Remuneration Committee, both of which operate under a formal charter. From time to time the Board may determine to establish specific purpose sub-committees to deal with specific issues.

At least once a year the Remuneration Committee and the Managing Director review the performance of each member of the Company's senior executive team against agreed performance measures, and with consideration to the Managing Director's recommendation, they determine changes in remuneration in respect of each senior executive. This process was followed during the reporting period. For further discussion regarding executive remuneration please refer to the "Remunerate fairly and responsibly" section of the report.

## Structure of the Board to add value

The Board currently consists of the Chairman, the Managing Director and three non-executive directors. The term of a director's appointment is governed by the Company's Constitution. At least one-third of directors, other than the Managing Director must retire and seek re-election at each annual general meeting of the Company.

The background and skills of each of the non-executive directors is complementary. This assists the Board in effectively reviewing and challenging the performance of management and the exercise of independent judgement. The skills, qualifications, experience and relevant expertise of each director, are summarised in the Directors section of the Directors' Report contained within this report.

Three of the non-executive directors, John Ingram (who is Chairman), Greg Laurie and Carole Molyneux are independent. They do not hold a material amount of shares in the Company; they do not receive any financial benefit from the Company, apart form the directors fees disclosed in this report; and they have not previously been directly employed by, professionally engaged with, nor had a material contractual relationship with the Company. These directors provide the Company with relevant information to enable the Company to continually assess this independence.

The current structure of the Board adds value to the Company due to the extensive knowledge, expertise and experience in the retail sector and other relevant functional areas.

The Board has not established a nomination committee; instead the responsibility for these practices rests with the full Board. A formal performance evaluation of the Board is undertaken annually which includes a review of Board activities generally, including its effectiveness, composition and processes. The review seeks written input and comment from each director and the Chairman oversees the compilation and evaluation of the review results, ensures discussion with all directors and directs any outcomes from the review. When considering the size and composition of the Board, the intention of the Directors is to achieve a balance between the need for a mix of skills and diversity of background, whilst ensuring that the size of the board is appropriate and effective given the size of the organisation.

Each director has the right of access to all relevant Company information and to the Company's executives, and, if required, may seek independent professional advice at the Company's expense. The Company Secretary is responsible for ensuring that Board policy and procedures are followed.

## Promote ethical and responsible decision-making

The Company has established its own Code of Ethics embracing high standards of personal and corporate conduct and the Company is committed to ensuring that it conducts its business in accordance with high standards of ethical behaviour. The Code of Ethics, applicable to directors and employees, covers various issues including compliance, confidential information, intellectual property, representation, Company assets, employment issues and conflicts of interest.

The Code of Ethics requires, among other things, that every director, officer, employee, agent, sub-contractor and consultant of the Company must:

- act honestly and fairly in all dealings;
- understand the regulatory compliance requirements applicable to their duties and treat those requirements as essential to the performance of those duties;
- co-operate with relevant regulatory authorities;
- act professionally and with courtesy and integrity; and
- maintain the confidentiality of the Company's affairs other than as required by the Company or law.

The Company also has a Share Trading Policy for directors and employees. Subject at all times to not being in possession of inside information, directors, officers (and their related entities) may deal in Nick Scali Limited securities during the eight (8) week period commencing on the second business day following:

- an announcement of Nick Scali Limited's full year financial results, and
- an announcement of Nick Scali Limited's half year financial results, and
- the Annual General Meeting of Nick Scali Limited, and
- any announcement by the Company indicating expected results, provided that such a trading window does not extend beyond the end of a Nick Scali Limited financial reporting period (half year or full year); in which case the window will instead close at the end of that reporting period.

Approval to trade outside these windows will only be granted in exceptional personal circumstances, upon prior notice to and approval from:

- in the case of directors, the Chairman;
- in the case of the Chairman, the Chairman of the Audit Committee;
- in the case of officers, the Managing Director.

Directors and designated employees are encouraged to give prior notification to the Company Secretary of any proposed dealing in the Company's securities and in any event must advise the Company Secretary as soon as possible after a trade has occurred.

The Board recognises that it is the individual responsibility of each director and employee to ensure he or she complies with the spirit and the letter of insider trading laws and that notification to the Company Secretary in no way implies approval of any transaction.

## Diversity policy

The Company has developed a Diversity Policy which has been approved by the Board. The Board is responsible for the Diversity Policy, and maintains oversight to ensure its objectives are met, with assistance from management.

The Company understands and recognises the value in having a diverse workforce from which to draw on. It aims to ensure that all its employees, regardless of gender, age, ethnicity or cultural background have equal access to any opportunities in the workplace, based on merit.

The Company's objectives in relation to gender diversity are:

1. To recruit from a diverse range of people.
2. To ensure all employees have equal access opportunities in the workplace.
3. To ensure there is equal pay for equal work.
4. To continue to build an environment that is accepting of a diverse range of backgrounds and views.

## Safeguard integrity in financial reporting

**Statement by Managing Director and Chief Financial Officer**

Prior to the Board's adoption of the annual financial statements of the Company, the Managing Director and Chief Financial Officer certify in writing that:

i. The Company's financial results present a true and fair view, in all material respects, of the Company's financial condition and operational results and are in accordance with applicable accounting standards.
ii. With regard to the financial records and systems of risk management and internal compliance and control of the Company: the financial records of the Company have been properly maintained in accordance with Section 286 of the Corporations Act 2001;
iii. The statements made above regarding the integrity of the financial statements are founded on a sound system of risk management and internal compliance and control which, in all material respects, implements the policies adopted by the Board of Directors;
iv. The risk management and internal compliance and control systems of the Company and consolidated entity relating to financial reporting, compliance and operations objectives are operating efficiently and effectively, in all material respects, and
v. Subsequent to balance date, no changes or other matters have arisen that would have a material effect on the operation.

**Audit Committee**

As at the date of this report, the Audit Committee consists of three non-executive directors, being Mr John Ingram, Mr Nick Scali and Mr Greg Laurie (Chairman). The Chairman of the Audit Committee must not be the Chairman of the Board. Audit Committee meetings are held regularly throughout the year. The Audit Committee operates under a Charter approved by the Board. The Audit Committee's responsibilities under the Charter are to:

i. assist the Board to discharge fiduciary responsibilities with regard to the Company's accounting, control and reporting practices by monitoring the internal control environment and management over corporate assets;
ii. review and recommend to the Board the adoption of the Company's annual and half-yearly financial statements,
iii. review internal controls and any changes thereto approved and submitted by the Company's Chief Financial Officer;
iv. provide assurance regarding the quality and reliability of financial information used by the Board;
v. review the Company's risk management policies and internal control processes;
vi. liaise with and review the performance of the external auditor, who is invited to attend Audit Committee meetings to report on audit findings and other financial and control matters; and
vii. ensure that information systems, processes and technology are reviewed periodically for future sustainability and the adequacy of controls.

Four Audit Committee Meetings were held during the year with the Managing Director and Chief Financial Officer also attending. In addition to these meetings the Chairman of the Audit Committee met periodically with management and the external auditors.

## Make timely and balanced disclosure

The Board is aware of its obligation under the Continuous Disclosure requirements of the ASX Limited and the Company maintains a written policy designed to ensure compliance with its disclosure obligations. The Managing Director is responsible for monitoring compliance with Continuous Disclosure, assisted by the senior management team. All notices to the ASX Limited are approved by the Board, or in some circumstances by the Chairman, and other communication from the Company can only be made by the Managing Director or the Chief Financial Officer. Copies of presentation material prepared for analysts are released immediately to the ASX Limited.

## Respect the rights of shareholders

All employees of the Company are required to deal in an ethical and responsible manner towards all stakeholders of the Company. This includes shareholders and non shareholder groups, such as customers and suppliers.

The Company recognises and respects the rights of shareholders as indicated by the following:

– The Company uses the services of a reputable share registry to deal with shareholder matters, including dividend payments and general communication with shareholders.
– The Company's auditor is invited to attend the Annual General Meeting in order to be available to answer shareholder queries.
– As an accompaniment to the Annual Report and Half Year Financial Report, the Company prepares and releases to the market a Results Presentation which provides additional information for shareholders.
– The Annual Report and announcements to the ASX Limited are included on the Company's website.

## Recognise and manage risk

The Audit Committee recommends to the Board the policy and overall direction of risk management for the Company. Responsibility for day to day management of risk rests with Management. The Audit Committee reports to the Board in relation to matters relevant to its responsibilities. During the reporting period, the Audit Committee, and through it the Board, received a number of reports on the operation and effectiveness of the policies, processes and controls within the Company.

The Company's risk management approach is to identify events or circumstances relevant to the Company's objectives (risks and opportunities), assess them in terms of likelihood and magnitude of impact, determine a response strategy, and monitor progress. Management is encouraged to view the management and reporting of risk as a core component of the planning and management practices of the Company, undertaken on a continual basis.

The Board considers its approach to risk oversight and management is appropriate for the Company, given its size and business complexity, and seeks to continually improve the Company's management of risk.

## Work, Health and Safety (WHS)

An important focus for the Board is to ensure the safety and wellbeing of all our employees.

The Company has a WHS committee, made up of representatives from operations, stores, warehouse and Head Office.

The WHS Committee meets regularly to oversee and manage the WHS risk for the Company. During these meetings the WHS Committee will report on, review and follow up any WHS issues or incidents that occurred.

## Remunerate fairly and responsibly

The Company discloses the nature and amount of the fee or salary of each director and each Executive Officer, in accordance with the Corporations Act. For further details see the section of the Directors' Report entitled Remuneration of Directors and named Key Management Personnel, included within the Financial Report.

The Company's executive remuneration packages are currently based on a combination of fixed and performance based remuneration. The performance measures are a combination of financial results achieved by the Company and the achievement of individual targets for each executive.

The Company has adopted an Executive Performance Rights Plan. Subject to Board Approval, key executives and other employees may be granted rights under the plan, as recommended by the Managing Director. The exercise of rights for conversion into Ordinary Shares is subject to a performance hurdle. Subject to achieving that performance hurdle, the relevant number of rights can be exercised between the third and the fifth anniversary of their grant date.

**Remuneration Committee**

The Remuneration Committee currently consists of the non-executive Board members Mr John Ingram (Chairman), Mr Nick Scali and Mr Greg Laurie, and is responsible for:

i. Reviewing remuneration arrangements of senior management, including the Managing Director.
ii. Reviewing and approving any discretionary component of short and long term incentives for the Managing Director and senior executives.
iii. Recommending to the Board any increase in the remuneration of existing senior employees of the Company for which Board approval is required.
iv. Recommending to the Board the remuneration of new senior executives appointed by the Company, for approval by the Board.
v. The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
vi. Reviewing the performance of the Board and its sub. committees.

The Committee has formally met two times in the last twelve months. Discussion on matters relating to remuneration and human resources in general also regularly take place at meetings of the Board.

# Directors' Report

## Directors

Your directors submit their report for the year ended 30 June 2014.

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

## Non-Executive Directors

**John W Ingram**, AM, FCPA,
*Independent Non-Executive Chairman*

**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**
Independent Director of Australian Super

**Former Directorships in the last three years**
Non-Executive Director of United Group Limited, April 2003 to November 2012.

**Special Responsibilities**
Member of the Audit Committee and the Remuneration Committee.

**Nick D Scali,**
*Non-Executive Director*

**Experience and expertise**
Nick founded the business of Nick Scali over 50 years ago and continues to act as a consultant to the Company. He was solely responsible for managing the business until Anthony (his son) joined in 1982. Nick is considered a pioneer and innovator in the importing and retailing of furniture into Australia. Over the years, he has served on a number of public company boards, founded other enterprises, introduced modular kitchens into the Australian market and in doing so founded a new industry, and has made major contributions towards the Australian Italian community, including serving as the President of the Italian Chamber of Commerce for 4 years.

**Other Current Directorships**
Director of the Italian Chamber of Commerce

**Former Directorships in the last three years**
None

**Special Responsibilities**
Member of the Audit Committee and the Remuneration Committee.

**Greg R Laurie**, BCom,
*Independent Non-Executive Director*

**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.

**Other Current Directorships**
Independent Non-Executive Director of Bradken Limited and Big River Group Pty Limited.

**Former Directorships in the last three years**
None

**Special Responsibilities**
Chairman of the Audit Committee and a member of the Remuneration Committee.

**Carole Molyneux,**
*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 Malcolm Webster Holdings and White Ribbon Australia.

**Former Directorships in the last three years**
Independent Non-Executive Director of Paraquad NSW, March 2006 to May 2013.

**Special Responsibilities**
None

## Executive Director

**Anthony J Scali**, BCom,

*Managing Director*

### 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 in the last three 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.

## Alternate Director

**Nicky D Scali**, BCom,

*Marketing Manager and Alternate Director to Nick Scali*

### Experience and expertise

Nicky joined the Company in 1991 after completing a Bachelor of Commerce degree from Bond University. He has gained considerable experience and expertise throughout the business over the years, in particular in relation to marketing, retail operations and IT.

### Other Current Directorships.

None

### Former Directorships in the last three years

None

### Special Responsibilities

Nicky is responsible for the buying of all advertising media and the development and execution of all creative strategies. He also is responsible for the national retail sales teams.

## Company Secretary

**Gary K Jenkins,** Bcom, CPA, AGIA,

*Chief Financial Officer and Company Secretary.*

Gary joined Nick Scali Limited as Chief Financial Officer and Company Secretary in November 2013. He has over 25 years experience in senior financial management positions within a number of industries, including recent retail industry experience with Bras N Things.

## Interests in the Shares of the Company

The beneficial interest of each Director in the contributed equity of the Company are as follows:

| | No. of Ordinary Shares |
|---|---|
| **John W Ingram** | |
| – Non-Executive Chairman | 370,399 |
| **Nick D Scali** | |
| – Non-Executive Director | Nil |
| **Greg R Laurie** | |
| – Non-Executive Director | 30,000 |
| **Carole Molyneux** | |
| – Non-Executive Director | Nil |
| **Anthony J Scali** – Managing Director<br>**Nicky D Scali** – Alternate Director | 40,500,0 00* |

* Shares are held by Scali Consolidated Pty Limited, a Director-related entity of Messrs Anthony and Nicky Scali.

At the date of this report, no Directors held options over ordinary shares.

## Principal Activities

The principal activities of the Company during the period were the sourcing and retailing of household furniture and related accessories. No significant change in the nature of these activities occurred during the period.

## Operating and Financial Review

Nick Scali Limited is a furniture retailer operating primarily on the east coast of Australia. The Company operates two brands; the Nick Scali brand with 34 stores and Sofas2Go with 5 stores. The two brands operate under the same infrastructure provided by the Company but are positioned differently to capture somewhat different customers within the furniture market, which is heavily fragmented.

Key profitability drivers are the ability to continue to grow sales and market share through a store network with appropriate reach and to manage the style, quality and cost of the furniture to maintain margins.

For the financial year ended 30 June 2014 the Company reported a record NPAT result of $14.2m, up 16.3% on the previous year's underlying NPAT. The strong profit resulted from higher sales revenue of $141.4m, which was up 11.0% on last year. The increase in sales revenue was generated by new store openings and by strong comparable store sales growth of 6.3%. These were assisted by focussed marketing activity and careful selection of the product range and price points.

Gross Margin remained solid at 60.4%, slightly lower than last year of 60.8%, with retail price increases offsetting a weaker AUD, price pressures from suppliers and increased discounting flowing from the highly competitive market.

Operating expenses increased due to the opening of new stores and inflationary pressures but as a percentage to sales these expenses decreased from 46.4% last year to 45.3%, reflecting the continued focus on managing costs in line with sales growth.

Cash flow from operating activities during the year was $22.4m, up 13.7% on the previous year. Net cash flow from all activities was $9.5m. The increased cash flow was primarily due to EBITDA growth which was partly offset by higher investment in inventory.

The Company remains ungeared with debt of $6.8m and cash reserves (including customer deposits) of $35.9m. It is therefore soundly positioned for further investment initiatives, including strategic property purchases in key locations to position the business well for the future and act as a hedge against leased property cost increases.

Net Assets were $40.1m as at 30 June 2014, up $3.8m on last year.

**Store network**

During the year, the Company opened 2 new stores both of which were Nick Scali stores. The stores were opened in Castle Hill (NSW) and Taylors Lakes (VIC) with both perfoming within expectations. The total number of stores at 30 June 2014 was 39, comprising 34 Nick Scali stores and 5 Sofas2Go stores.

The Company acquired a property at Caringbah (NSW) after 30 June 2014 and plans to redevelop this site during calendar 2015.

The Company has also secured a lease for a distribution centre in Western Australia, along with two sites for stores in Perth with operations expected to commence in that State in the second half of FY15.

Directors believe that the Company has considerable room for further expansion of its store network, with a number of sites currently under negotiation for opening in the new financial year in existing markets.

**Outlook and Risks**

The furniture market is closely tied to the housing market and consumer confidence, and is largely dependent on these two external factors. While the Company experienced pleasing overall growth during FY14, monthly sales continue to remain volatile and Directors continue to be cautious for the FY15 year. Continuing low interest rates and sustained housing construction should result in favourable market conditions.

Any further decline in the AUD against the USD will bring a risk of gross margin decline and this will continue to be addressed through product range and price point management, which to date has been successful. Directors expect sales and profit to improve over the next few years as the Company continues to expand its store network.

The Company has a strong balance sheet, supported by a healthy cash position and minimal debt which will enable the Company to support its growth strategy.

## Dividends

Dividends paid to members during the year were as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| *Dividends on ordinary shares:* | | |
| Final franked dividend for 30 June 2013: | | |
| 6.0 cents (2012: 3.5 cents) | 4,860 | 2,835 |
| Interim franked dividend for 30 June 2014: | | |
| 6.0 cents (2013: 6.0 cents) | 4,860 | 4,860 |
| | 9,720 | 7,695 |

In addition to the above dividends, since the end of the financial year the directors have declared a fully franked final dividend of $5,670,000 (7.0 cents per fully paid ordinary share) to be paid on 30 October 2014 out of retained profits at 30 June 2014.

## Significant Changes in State of Affairs

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

## Significant Events after Reporting Date

No matters or circumstances have arisen since the end of the financial year which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the Company in future financial years.

## Likely Developments and Expected Results

Refer to the Operating and Financial Review on page 10 and 11.

## Environmental Regulation and Performance

The Company's operations are not regulated by any significant environmental regulation under a law of the Commonwealth or of a State or Territory.

The Directors are not aware of any particular or significant environmental issues which have been raised in relation to the Company's operations during the financial period.

## Directors' Indemnification

During the financial period, the Company has indemnified all the Directors and Executive Officers against certain liabilities incurred as such by a Director or Officer, while acting in that capacity. The premiums have not been determined on an individual Director or Officer basis. The Directors have not included details of the nature of the liabilities covered or the amount of the premium paid in respect of the Directors' and Officers' liability insurance contract, as such disclosure is prohibited under the terms of the contract.

No other agreement to indemnify Directors or Officers have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial period, by the Company.

## Indemnification of Auditors

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.

## Directors' and other Officers' Emoluments

The Company discloses the nature and amount of the fee or salary of each Director and each Executive Officer, in accordance with the Corporations Act.

## Remuneration Report – Audited

This report outlines the remuneration arrangements in place for Directors and Executives of the Company.

### Remuneration Philosophy

The quality of Nick Scali Limited's Directors and Executives is a major factor in the overall performance of the Company. The Company believes it is essential to attract and retain high quality and committed employees. To this end, the Company embraces the following principles in its remuneration framework.

*Executive Remuneration*

The Company should provide appropriate rewards to attract and retain key personnel. Base salaries and short term incentives should be determined at the discretion of the Remuneration Committee having regard to the nature of each role, the experience of the individual employee and the performance of the individual. Market information should be used to benchmark base salaries.

For executives who report directly to the Managing Director, a portion of the remuneration should be at risk by way of short term incentives.

The Company has adopted an Executive Performance Rights Plan. Key executives and other employees may be granted rights under the Plan, as recommended by the Managing Director and approved by the Board.

*Non-Executive Directors Remuneration*

Non-Executive Directors are paid an annual fee, which is periodically reviewed. The review is the responsibility of the Remuneration Committee. The Committee may seek advice from external parties in making a determination.

Non-Executive Directors do not receive bonuses and they are not entitled to participate in the Executive Performance Rights Plan.

### Remuneration Committee

The Remuneration Committee currently consists of the Non-Executive Board members and is responsible for:

i. Reviewing remuneration arrangements of senior management, including the Managing Director.
ii. Reviewing and approving any discretionary component of short and long term incentives for the Managing Director and senior executives.
iii. Recommending to the Board any increase in the remuneration of existing senior employees of the Company for which Board approval is required.
iv. Recommending to the Board the remuneration of new senior executives appointed by the Company.
v. The setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
vi. Reviewing the performance of the Board and its sub-committees, with the advice of external parties if appropriate.

The Committee has met two times in the last twelve months. In addition, matters for consideration by the Committee have been dealt with during various Board meetings, where Remuneration Committee members were in attendance.

The Managing Director and Marketing Manager have a minimum termination notice period of six months.

The Chief Financial Officer has a minimum termination notice period of 3 months.

No such employment contracts exist for the Non-Executive Directors.

## Remuneration Report – Audited (continued)

**Remuneration of Key Management Personnel**

| | | Salary & Fees | Short Term Benefits Cash Incentive | Share Based Payments Share Rights | Post Employment Superannuation | Long Term Benefits Long Service Leave | Total $ |
|---|---|---|---|---|---|---|---|
| **J.W. Ingram** | 2014: | 100,000 | – | – | – | – | 100,000 |
| *Non-Executive Chairman* | 2013: | 91,000 | – | – | – | – | 91,000 |
| **G.R. Laurie** | 2014: | 82,380 | – | – | 7,620 | – | 90,000 |
| *Non-Executive Director* | 2013: | 74,312 | – | – | 6,688 | – | 81,000 |
| **N.D. Scali** | 2014: | 82,380 | – | – | 7,620 | – | 90,000 |
| *Non-Executive Director* | 2013: | 81,000 | – | – | – | – | 81,000 |
| **C.A Molyneux** | 2014: | – | – | – | – | – | – |
| *Non-Executive Director* | 2013: | – | – | – | – | – | – |
| **I. Kennon** | 2014: | – | – | – | – | – | – |
| *Non-Executive Director* | 2013: | 15,000 | – | – | 8,333 | – | 23,333 |
| **A.J. Scali** | 2014: | 582,225 | 81,900 | – | 17,775 | 10,161 | 692,061 |
| *Managing Director* | 2013: | 529,921 | – | – | 16,079 | 12,612 | 558,612 |
| **Nicky D. Scali** | 2014: | 315,225 | 49,950 | – | 17,775 | 6,266 | 389,216 |
| *Marketing Manager* | 2013: | 316,921 | – | – | 16,079 | 7,639 | 340,639 |
| **G.K. Jenkins** | 2014: | 151,998 | – | – | 14,060 | – | 166,058 |
| *Chief Financial Officer & Company Secretary* | 2013: | – | – | – | – | – | – |
| **M.T. Potts** | 2014: | 69,376 | 70,000 | (7,407) | 4,102 | – | 136,071 |
| *Chief Financial Officer & Company Secretary* | 2013: | 236,026 | – | 7,407 | 16,079 | – | 259,512 |
| **B. Daley** | 2014: | 89,936 | – | – | 4,785 | – | 94,721 |
| *Chief Financial Officer & Company Secretary* | 2013: | – | – | – | – | – | – |

- There are no other Directors or Executive Officers of the Company.
- There are no other Short Term, Post Employment, or Long Term Benefits, including non-monetary benefits.
- The elements of emoluments have been determined on the basis of cost to the Company.
- The terms 'Director' and 'Executive Officer' have been treated as mutually exclusive for the purposes of this disclosure.
- Executive Officers are those directly accountable and responsible for operational management & strategic direction.
- The percentage of remuneration which is performance related is the cash bonuses, which are discretionary, and the Executive Performance Rights share-based payments.
- No other Directors or Executives Officers received performance related remuneration during the year (2013: none).
- C.A. Molyneux commenced 26 June 2014.
- I. Kennon passed away 21 October 2012.
- G.K. Jenkins commenced 21 November 2013.
- M.T. Potts employed from 7 March 2012 to 17 September 2013. Salary and Fees includes resignation payments of $14,629 for 2013.
- B.Daley employed as interim CFO from 5 September 2013 to 11 December 2013. Salary and Fees includes termination payments of $35,452 for 2014.

**Share-Based Payments – Long Term Incentives (LTI)**

Long term incentives, in the form of the Executive Performance Rights Plan, are provided to employees in order to align remuneration with the creation of shareholder value over the long term. To achieve this purpose the Board has determined earnings per share growth over a period of time to be the most appropriate measure of performance. The plan operates to grant to employees Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not subject to retesting during the period. Earnings per share is based on the Company's total profit after tax and before non-recurring items, all as determined by the Board.

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.

## Remuneration Report – Audited (continued)

**Share-Based Payments – Long Term Incentives (LTI) continued**

The following table summarises the number and value of Rights granted, exercised or lapsed to Directors and named Executives during the year.

| | Value of Rights granted (i) $ | Value of Rights exercised $ | Value of Rights forfeited $ | Remuneration consisting of Rights % |
|---|---|---|---|---|
| Michael Potts | – | – | (24,029) | 3% |

(i) The value of Rights granted during the period is recognised in remuneration expense over the vesting period of the Right.

The number of Rights on issue to Directors and named Executives as at the reporting date were as follows:

| | Balance at 1 July 2013 No. | Rights granted No. | Rights exercised No. | Rights forteited No. | Balance at 30 June 2014 No. | Balance vested 30 June 2014 No. | Vested during the year No. |
|---|---|---|---|---|---|---|---|
| Michael Potts | 38,462 | – | – | (38,462) | – | – | – |

No Rights were granted during the year to Directors and named Executives.

Performance conditions in relation to Rights:

| Company's average percentage compound EPS growth per annum | Percentage of Rights Exercisable |
|---|---|
| Below 5% pa compound | Nil |
| 5% pa compound | 50% of Rights exercisable |
| 10% pa compound and above | 100% of Rights exercisable |
| Greater than 5% pa compound and less than 10% pa compound | Calculated on a pro rata basis between 50% and 100% depending on Company's EPS performance |

Company's EPS growth over the previous five financial years:

| | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|
| Earnings per share growth | 134% | 3% | -22% | 35% | 17% |

## Meetings

The number of meetings of Directors (including meetings of committees of Directors) held during the year and the number of meetings attended by each Director (including when represented by an alternate) were as follows:

| | Directors' Meetings | Meetings of Committees Audit | Meetings of Committees Remuneration |
|---|---|---|---|
| Number of meetings held: | 10 | 4 | 2 |
| Number of meetings attended: | | | |
| J.W. Ingram | 10 | 4 | 2 |
| G.R. Laurie | 10 | 4 | 2 |
| N.D. Scali | 7 | 3 | – |
| C.A. Molyneux [1] | 1 | n/a | n/a |
| A.J. Scali [2] | 10 | 4 | 2 |
| Nicky D. Scali [3] | 9 | n/a | n/a |

1. C.A. Molyneux was appointed as a Non-Executive Director on 26th June 2014.
2. Mr A J Scali is not a member of the sub-committees, but was invited to attend these meetings and his attendance recorded.
3. Mr Nicky D Scali is an alternate Director and is not a member of the sub-committees.

| Audit Committee | Remuneration Committee |
| --- | --- |
| *The members of this Committee are as follows:* | *The members of this Committee are as follows:* |
| Greg Laurie (Chairman) | John Ingram (Chairman) |
| John Ingram | Greg Laurie |
| Nick Scali | Nick Scali |

## Rounding

The amounts contained in this report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/0100. The Company is an entity to which the Class order applies.

## Auditor's Independence Declaration

The Directors received the declaration from the auditor of Nick Scali Limited and is included on page 45 of the Financial Statements.

## Non-Audit Services

There were no non-audit services provided by the Company's auditor, Ernst & Young during the year.

Signed in accordance with a resolution of the Board of Directors.

J.W. Ingram
Chairman

A.J. Scali
Managing Director

Sydney, 13 August 2014

# Statement of Income
## for the year ended 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Revenue from sale of goods | 2 | 141,442 | 127,431 |
| Cost of goods sold | | (56,019) | (49,925) |
| **Gross Profit** | | **85,423** | **77,506** |
| Other income | 2 | 1,284 | 6,430 |
| Marketing expenses | | (12,543) | (11,404) |
| Employment expenses | | (22,297) | (20,431) |
| General & Administration expenses | | (5,576) | (4,826) |
| Property expenses | | (23,046) | (21,812) |
| Distribution expenses | | (639) | (612) |
| Depreciation and Amortisation | | (1,947) | (1,734) |
| Finance Cost | | (301) | (252) |
| **Profit before Income Tax** | | **20,358** | **22,865** |
| **Income Tax Expense** | 4 | (6,122) | (6,863) |
| **Net Profit after Tax for the Year** | | **14,236** | **16,002** |
| Basic Earnings Per Share (cents per share) | 7 | 17.6 cents | 19.8 cents |
| Diluted Earnings Per Share (cents per share) | 7 | 17.6 cents | 19.8 cents |

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

# Statement of Comprehensive Income

## for the year ended 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| Net profit after tax for the year | | 14,236 | 16,002 |
| **Other comprehensive income** | | | |
| Items that may be reclassified subsequently to profit or loss | | | |
| Cash flow hedges gain/(loss) taken to equity | | (723) | 661 |
| **Other comprehensive income/(loss) for the year** | | **(723)** | **661** |
| **Total Comprehensive Income for the year** | | **13,513** | **16,663** |

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

# Statement of Financial Position
## as at 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Current Assets** | | | |
| Cash assets | 22 | 35,903 | 26,441 |
| Receivables | 8 | 164 | 6,397 |
| Inventories | 9 | 19,013 | 14,569 |
| Other financial assets | 10 | 8 | 852 |
| Other assets | 11 | 92 | 286 |
| **Total Current Assets** | | **55,180** | **48,545** |
| **Non-Current Assets** | | | |
| Deferred tax assets | 4 | – | 939 |
| Property, plant and equipment | 12 | 22,868 | 22,047 |
| Intangible assets | 13 | 2,378 | 2,378 |
| **Total Non-Current Assets** | | **25,246** | **25,364** |
| **Total Assets** | | **80,426** | **73,909** |
| **Current Liabilities** | | | |
| Payables | 14 | 27,407 | 23,465 |
| Current tax liabilities | 4 | 2,367 | 3,804 |
| Provisions | 15 | 1,379 | 1,209 |
| **Total Current Liabilities** | | **31,153** | **28,478** |
| **Non-Current Liabilities** | | | |
| Provisions | 15 | 1,972 | 2,335 |
| Deferred tax liability | 4 | 409 | – |
| Borrowings | 22 (c) | 6,762 | 6,762 |
| **Total Non-Current Liabilities** | | **9,143** | **9,097** |
| **Total Liabilities** | | **40,296** | **37,575** |
| **Net Assets** | | **40,130** | **36,334** |
| **EQUITY** | | | |
| Contributed equity | 16 | 3,364 | 3,364 |
| Reserves | 17 | (35) | 685 |
| Retained profits | | 36,801 | 32,285 |
| **Total Equity** | | **40,130** | **36,334** |

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

# Statement of Changes in Equity
## for the year ended 30 June 2014

| | Notes | Contributed equity $'000 | Equity benefits reserve $'000 | Capital profits reserve $'000 | Cash flow hedge reserve $'000 | Retained profits $'000 | Total $'000 |
|---|---|---|---|---|---|---|---|
| **Year Ended 30 June 2014** | | | | | | | |
| **As at 1 July 2013** | | **3,364** | **13** | **78** | **594** | **32,285** | **36,334** |
| Profit for the period | | – | – | – | – | 14,236 | 14,236 |
| Other comprehensive loss | | – | – | – | (723) | – | (723) |
| Total comprehensive income | | **–** | **–** | **–** | **(723)** | **14,236** | **13,513** |
| Share-based payment | | – | 3 | – | – | – | 3 |
| Equity dividends | 5 | – | – | – | – | (9,720) | (9,720) |
| **As at 30 June 2014** | 16/17 | **3,364** | **16** | **78** | **(129)** | **36,801** | **40,130** |
| **Year Ended 30 June 2013** | | | | | | | |
| **As at 1 July 2012** | | **3,364** | **–** | **78** | **(67)** | **23,978** | **27,353** |
| Profit for the period | | – | – | – | – | 16,002 | 16,002 |
| Other comprehensive income | | – | – | – | 661 | – | 661 |
| Total comprehensive income | | **–** | **–** | **–** | **661** | **16,002** | **16,663** |
| Share-based payment | | – | 13 | – | – | – | 13 |
| Equity dividends | 5 | – | – | – | – | (7,695) | (7,695) |
| **As at 30 June 2013** | 16/17 | **3,364** | **13** | **78** | **594** | **32,285** | **36,334** |

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

# Statement of Cash Flows
## for the year ended 30 June 2014

| | Notes | 2014 $'000 | 2013 $'000 |
|---|---|---|---|
| **Cash Flows from Operating Activities** | | | |
| Receipts from customers | | 166,298 | 135,762 |
| Payments to suppliers and employees | | (139,104) | (112,338) |
| Interest received | | 1,124 | 992 |
| Income tax paid | | (5,902) | (4,713) |
| **Net Cash Flows from Operating Activities** | 22 (a) | **22,416** | **19,703** |
| **Cash Flows from Investing Activities** | | | |
| Purchase of property, plant & equipment | | (2,933) | (9,268) |
| **Net Cash Flows (Used) in Investing Activities** | | **(2,933)** | **(9,268)** |
| **Cash Flows from Financing Activities** | | | |
| Payment of dividends on ordinary shares | 5 | (9,720) | (7,695) |
| Proceeds from borrowings | | – | 3,262 |
| Interest paid | | (301) | (252) |
| **Net Cash (Used) in Financing Activities** | | **(10,021)** | **(4,685)** |
| **Net Increase in Cash Held** | | 9,462 | 5,750 |
| Add opening cash brought forward | | 26,441 | 20,691 |
| **Closing cash carried forward** | 22 (b) | **35,903** | **26,441** |

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

# Notes to the Financial Statements

## for the year ended 30 June 2014

### Note 1: Statement of Significant Accounting Policies

#### (a) Basis of preparation

The financial report is a general purpose financial report, for a for profit entity, which has been prepared in accordance with the requirements of the Corporations Act 2001 and Australian Accounting Standards. The financial report was authorised for issue in accordance with a resolution of the Directors on 13 August 2014.

The financial report has also been prepared on a historical cost basis, except for derivative financial instruments, which have been measured at fair value.

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.

#### (b) Statement of compliance

The financial report complies with Australian Accounting Standards. The financial report also complies with International Financial Reporting Standards as issued by the International Accounting Standards Board.

#### (c) 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:

| | 2014 | 2013 |
|---|---|---|
| Buildings | 20-40 yrs | 20-40 yrs |
| Office equipment | 3-12 yrs | 3-12 yrs |
| Furniture and fittings | 3-15 yrs | 3-15 yrs |
| Leasehold & building improvements | 5-15 yrs | 5-15 yrs |
| Motor vehicles | 6 yrs | 6 yrs |

Leasehold improvements are depreciated at the shorter of the depreciation period or the term of the lease. Land is not depreciated.

The asset's residual values, useful lives and depreciation methods are reviewed and adjusted if appropriate at each reporting date.

**Impairment**

The carrying values of property, plant & 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.

The recoverable amount of property, plant and equipment is the greater of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

**Derecognition and disposal**

An item of property, plant and equipment is derecognised upon disposal or when no further future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the statement of income in the year the asset is derecognised.

#### (d) 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.

**Operating leases**

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 income on a straight-line basis over the lease term.

## Note 1: Statement of Significant Accounting Policies (continued)

The Company has received financial incentive contributions from the lessor's on certain stores. On receipt, these incentive contributions are recorded as a liability in the financial statements. The liability is reduced and amortised over the lease term.

### (e) 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 are accounted for as follows:

Finished Goods: Purchase price plus freight, cartage and import duties are included in the cost of finished goods. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

### (f) Employee entitlements

**Wages, salaries and annual leave**

Liabilities for wages and salaries, including non-monetary benefits of annual leave are recognised in other payables in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled.

**Long service leave**

The liability for long service leave is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date. Consideration is given to 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 currencies that match, as closely as possible, the estimated future cash outflows.

**Share-based payments**

The Company provides benefits to employees in the form of share-based payments through its Executive Performance Rights Plan. These equity settled share-based payments are measured at the fair value of the Rights at grant date. Fair value is determined by valuation. The fair value is 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 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.

### (g) 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 equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts.

### (h) 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.

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 income, except when deferred in equity as qualifying cash flow hedges.

### (i) Derivative financial instruments

The Company enters into a variety of derivative financial instruments to manage its exposure to foreign exchange rate risk including forward foreign exchange contracts and options.

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).

**Cash flow hedge**

The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges is recognised in equity. The gain or loss relating to the ineffective portion is recognised immediately in the statement of income. Amounts accumulated in equity are recycled in the statement of income in the periods when the hedged item will affect profit or loss (for instance when the forecast sale that is hedged takes place). However, when the forecast transaction that is hedged results in the recognition of a non-financial asset (for example, inventory) or a non-financial liability, the gains and losses previously deferred in equity are transferred from equity and included in the initial measurement of the asset or liability.

## Note 1: Statement of Significant Accounting Policies (continued)

The Company tests each of the designated cash flow hedges for effectiveness at each reporting date, prospectively and retrospectively. Prospectively hedge effectiveness is assessed using a Matched Terms approach. Where there is a change in the terms of the forecast transaction or forward foreign exchange contract, prospective effectiveness cannot be assessed using the Matched Terms approach. As such, the hedge is demonstrated to be effective using the Hypothetical Derivative method where effectiveness is measured by comparing the changes in the present value of the cash flow arising from the hedged forecast transaction at the forward rate, with the changes in the fair value of the forward contract or hypothetical hedging instrument. Retrospective effectiveness is tested using the Hypothetical Derivative method. Effectiveness is measured on a cumulative dollar offset basis whereby the changes in the present value of the cash outflows arising from the forecast transaction at the forward rate are compared with changes in the fair value of the forward foreign exchange contract.

When a hedging instrument expires, is sold or terminated, or when a hedge no longer meets the hedge accounting criteria, any cumulative gain or loss existing in equity at that time remains in equity and is recognised in the statement of income when the forecast transaction is ultimately recognised in the statement of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was deferred in equity is immediately transferred to the statement of income.

### (j) Revenue recognition

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised.

#### Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably. Risks and rewards are considered passed to the buyer at the time of delivery of the goods to the customer. Revenue recognised equals the fair value of the consideration received or receivable.

#### Interest income

Revenue is recognised as interest accrues, using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

### (k) 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.

### (l) Trade and other 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. The amounts are unsecured and are usually paid within 30 days of recognition.

### (m) Provisions

Provisions are recognised when the Company has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

When the Company expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

If the effect of the time value of money is material, provisions are discounted using a current pre-tax rate, that reflects the risks specific to the liability. When discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

#### Make good provision

A provision has been made for the present value of anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with restoring the premises to it's condition at the time the Company initially leased the premises, subject to fair wear and tear.

The calculation of this provision requires assumptions such as cost estimates and an assessment of the likelihood the Company will continue to lease the premises at the end of the current lease. These uncertainties may result in future actual expenditure differing from the amounts currently provided. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the statement of financial position by adjusting the expense or asset (if applicable) and provision.

## Note 1: Statement of Significant Accounting Policies (continued)

### (n) 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.

### (o) 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 EPS is calculated as net profit attributable to members, adjusted for:

- costs of servicing equity (other than dividends);
- the after tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and
- other non-discretionary changes in revenues or expenses during the period that would result from the dilution of potential ordinary shares; divided by the weighted average number of ordinary shares and dilutive potential ordinary shares, adjusted for any bonus element.

### (p) Intangibles

**Goodwill**

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 not amortised.

Goodwill is reviewed for impairment at each reporting date, 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 the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised. Impairment losses recognised for goodwill are not subsequently reversed.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to cash-generating units that are expected to benefit from the synergies of the combination. Each unit to which the goodwill is so allocated represents the lowest level within the Company at which the goodwill is monitored for internal management purposes.

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.

### (q) Income tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, except where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry-forward of unused tax assets and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## Note 1: Statement of Significant Accounting Policies (continued)

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.

### (r) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

– when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item as applicable; and
– receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position.

Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

### (s) 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.

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.

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.

### (t) Significant accounting judgements, estimates and assumptions

**Significant accounting judgements**

In the process of applying the Company's accounting policies, management has made the following judgements, apart from those involving estimations, 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.

**Significant accounting estimates and assumptions**

The carrying amounts of certain assets and liabilities are often determined based on estimates and assumptions of future events. The key estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of certain assets and liabilities within the next annual reporting period are:

**Impairment of goodwill**

The Company determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating unit to which the goodwill is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill is discussed in the financial report.

**Estimation of useful lives of assets**

The estimation of the useful lives of assets has been based on historical experience as well as consideration of lease terms (for assets used in or affixed to leased premises) and turnover policies (for motor vehicles). In addition, the condition of the assets is assessed at least once per year and considered against the remaining useful life. Adjustments to useful lives are made when considered necessary.

### (u) Impairment of financial assets

The Company assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Company makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of its fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets and the asset's value in use cannot be estimated to be close to its fair value.

## Note 1: Statement of Significant Accounting Policies (continued)

In such cases the asset is tested for impairment as part of the cash generating unit to which it belongs.

When the carrying amount of an asset or cash generating unit exceeds its recoverable amount the asset or cash generating unit is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Impairment losses relating to continuing operations are recognised in those expense categories consistent with the function of the impaired asset.

### (v) 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.

### (w) New Accounting Standards and Interpretations

In the current year the Company has adopted all of the new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) that are relevant for its operations and effective for the current annual reporting period as below.

| | |
|---|---|
| AASB13 | Fair Value Measurement |
| AASB119 | Employee Benefits |
| Amendments to AASB136 | Recoverable Amount Disclosures for Non-Financial Assets |

The adoption of these new and revised Standards and Interpretations did not have any material impact on the amounts recognised in the financial statements of the Company, however they have impacted the disclosures presented in the financial statements.

Certain new and revised Standards and Interpretations issued by the Australian Accounting Standards Board (AASB) and the International Accounting Standards Board (IASB) are not yet effective for the current financial year as below.

| | |
|---|---|
| AASB9 | Financial Instruments |
| IFRS15 | Revenue From Contracts With Customers |

These standards have not been adopted by the Company for the year ended 30 June 2014. The Directors have assessed the impact of these Standards and Interpretations to the extent relevant to the Company, and noted that there is no significant impact of these changes for the 2014 Financial Year.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 2: Revenue** | | |
| Sales revenue | 141,442 | 127,431 |
| | | |
| Interest income | 1,124 | 992 |
| Sundry income (i) | 160 | 5,438 |
| Total other income | 1,284 | 6,430 |
| | | |
| Total revenue | 142,726 | 133,861 |

**(i) Compensation for lease surrender**

During the 2013 financial year, the NSW Government resumed the land at the Totally Home centre located at Bella Vista in Sydney's North West. As a consequence, the leases on the two stores operated by Nick Scali Limited at the centre were terminated earlier than the lease expiration date. The one off net gain on the surrender of the lease of $5.373m has been included in Sundry Income in the 2013 financial year.

## Note 3: Operating Expenses and Losses / (Gains)

Profit before income tax has been determined after:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **(a) Expenses** | | |
| Property expenses | | |
| Operating lease rental - minimum lease payments | 23,046 | 21,812 |
| | | |
| Other expenses includes: | | |
| Depreciation/Amortisation of non-current assets | | |
| Land & Buildings | 180 | 192 |
| Building improvements | 96 | 24 |
| Office equipment | 573 | 450 |
| Furniture and fittings | 336 | 399 |
| Leasehold improvements | 694 | 604 |
| Motor vehicles | 68 | 65 |
| | 1,947 | 1,734 |
| Employee benefits expenses | | |
| Salaries and wages | 15,591 | 14,346 |
| Superannuation expense | 1,557 | 1,330 |
| Share-based payments / (reversal) | 3 | 13 |
| Other | 5,146 | 4,742 |
| | 22,297 | 20,431 |
| **(b) Losses/(gains)** | | |
| Loss on disposal of property, plant and equipment | 165 | 2 |
| Unrealised foreign currency loss / (gain) (i) | – | 12 |

(i) Realised exchange gains and losses have been included in cost of sales.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 4: Income Tax** | | |
| The major components of income tax expense are: | | |
| **Income Statement** | | |
| *Current income tax* | | |
| Current income tax charge | 6,072 | 6,881 |
| Adjustments in respect of current income tax of previous years | 4 | – |
| *Deferred income tax* | | |
| Relating to origination and reversal of temporary differences | 46 | (18) |
| Income tax expense reported in the income statement | **6,122** | **6,863** |

A reconciliation of income tax expense applicable to accounting profit before income tax at the statutory income tax rate to income tax expense at the Company's effective income tax rate is as follows:

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Accounting profit before income tax | 20,358 | 22,865 |
| At the statutory income tax rate of 30% (2013: 30%) | 6,108 | 6,860 |
| Adjustments in respect of current income tax of previous years | 4 | – |
| Other items (net) | 10 | 3 |
| Income tax expense reported in income statement | **6,122** | **6,863** |
| Effective income tax rate | **30.1%** | **30.0%** |

| | Statement of Financial Position | | Statement of Income | | Statement of Comprehensive Income | |
|---|---|---|---|---|---|---|
| | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 | 2014 $'000 | 2013 $'000 |
| **Deferred income tax** | | | | | | |
| *Deferred income tax assets* | | | | | | |
| Depreciation - tax rate | (472) | (421) | 51 | 162 | – | – |
| Legal fees | (1) | – | 1 | (34) | – | – |
| Compensation for lease surrender | (1,612) | – | – | – | – | – |
| Interest accrued | – | – | – | (41) | – | – |
| Employee entitlements | 797 | 720 | (77) | (70) | – | – |
| Audit fee accrual | 20 | 16 | (4) | 4 | – | – |
| Superannuation accrual | 48 | 52 | 4 | (16) | – | – |
| Deferred rent | 707 | 810 | 103 | (14) | – | – |
| Unallocated Credit Note | 35 | – | (35) | – | – | – |
| Unrealised exchange gain/loss | – | 4 | 4 | (7) | – | – |
| Make good | 14 | 13 | (1) | (2) | – | – |
| Cashflow Hedge (Note 17) | 55 | (255) | – | – | 310 | (283) |
| | (409) | 939 | 46 | (18) | 310 | (283) |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 5: Dividends** | | |
| **Declared and paid during the year** | | |
| Dividends on ordinary shares: | | |
| Final franked dividend for 30 June 2013: 6.0 cents (2012: 3.5 cents) | 4,860 | 2,835 |
| Interim franked dividend for 30 June 2014: 6.0 cents (2013: 6.0 cents) | 4,860 | 4,860 |
| | 9,720 | 7,695 |
| **Declared and unpaid** | | |
| Final franked dividend for 30 June 2014: 7.0 cents (2013: 6.0 cents) (not recognised as a liability as at 30 June) | 5,670 | 4,860 |
| **Franking credit balance** | | |
| The amount of franking credits available for the subsequent financial year are: | | |
| – franking account balance as at the end of the financial year at 30% (30 June 2013: 30%) | 11,369 | 9,633 |
| – franking credits that will arise from the payment of income tax payable as at the end of the financial year | 2,367 | 3,804 |
| | 13,736 | 13,437 |
| The amount of franking credits available for future reporting periods: | | |
| – impact on the franking account of dividends declared before the financial report was authorised for issue but not recognised as a distribution to equity holders during the period | (2,430) | (2,083) |
| | 11,306 | 11,354 |

The tax rate at which paid dividends have been franked is 30% (30 June 2013: 30%).
Dividends declared and unpaid will be franked at the rate of 30% (30 June 2013: 30%).

| | 2014 $ | 2013 $ |
|---|---|---|
| **Note 6: Auditors' Remuneration** | | |
| Amounts received or due and receivable by Ernst & Young for: | | |
| – audit or review of the financial report of the Company | 90,000 | 90,000 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 7: Earnings Per Share** | | |
| (a) Net profit after tax used in calculating basic earnings and diluted earnings per share | 14,236 | 16,002 |
| | **No. of Shares** | **No. of Shares** |
| (b) Weighted number of shares outstanding used to calculate basic and diluted earning per share | 81,000,000 | 81,000,000 |
| | **Cents per Share** | **Cents per Share** |
| Basic earnings per share | 17.6 | 19.8 |
| Diluted earnings per share | 17.6 | 19.8 |

Earnings per Share for 2013 includes a one-off compensation gain for surrender of leases at Bella Vista of $3.8m. Excluding the compensation gain the 2013 Basic and Diluted earnings per share was 15.1 cents.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 8: Receivables** | | |
| **Current** | | |
| Trade debtors (i) | 101 | 549 |
| Sundry debtors (ii) | 63 | 5,848 |
| | 164 | 6,397 |

Terms and conditions relating to the above financial instruments:

(i) Trade debtors are non-interest bearing and generally less than 30 day terms.
Factors considered in determining impairment are in relation to the likelihood of collection.

As at 30 June, trade debtors that were past due but not impaired were as follows:

| | | Not past due and not impaired | | Past due but not impaired | | Past due and impaired |
|---|---|---|---|---|---|---|
| | Total $'000 | Current $'000 | 0-30 days $'000 | 31-60 days $'000 | >60 days $'000 | >60 days $'000 |
| **2014** | 101 | 85 | 12 | – | 4 | – |
| **2013** | 549 | 505 | 20 | 3 | 21 | – |

(ii) Sundry debtors are non-interest bearing and have repayment terms of between 30 and 60 days.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 9: Inventories** | | |
| Finished goods | 15,255 | 11,811 |
| Stock in transit | 3,758 | 2,758 |
| | 19,013 | 14,569 |
| **Note 10: Other Financial Assets** | | |
| Deposits | 8 | 1 |
| Cash flow hedge receivable (Note 14) | – | 851 |
| | 8 | 852 |
| **Note 11: Other Assets** | | |
| Prepaid expenses | 92 | 286 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 12: Property, Plant and Equipment** | | |
| Land & Buildings - at cost | 15,718 | 15,261 |
| Accumulated depreciation | (491) | (311) |
| | 15,227 | 14,950 |
| Building improvements - at cost | 792 | 792 |
| Accumulated depreciation | (181) | (85) |
| | 611 | 707 |
| Office equipment - at cost | 5,960 | 5,177 |
| Accumulated depreciation | (3,779) | (3,308) |
| | 2,181 | 1,869 |
| Furniture & fittings - at cost | 3,333 | 3,264 |
| Accumulated depreciation | (2,267) | (1,952) |
| Impairment | (46) | (36) |
| | 1,020 | 1,276 |
| Leasehold improvements - at cost | 8,064 | 6,854 |
| Accumulated depreciation | (4,414) | (3,796) |
| | 3,650 | 3,058 |
| Motor vehicles - at cost | 705 | 645 |
| Accumulated depreciation | (526) | (458) |
| | 179 | 187 |
| Total - at cost | 34,572 | 31,993 |
| Accumulated depreciation and amortisation | (11,704) | (9,946) |
| **Total property, plant and equipment** | 22,868 | 22,047 |

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

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Land & Buildings | | |
| Carrying amount at beginning | 14,950 | 8,117 |
| Additions | 457 | 6,996 |
| Depreciation charged | (180) | (163) |
| | 15,227 | 14,950 |
| Building improvements | | |
| Carrying amount at beginning | 707 | 191 |
| Additions | – | 569 |
| Depreciation charged | (96) | (53) |
| | 611 | 707 |
| Office Equipment | | |
| Carrying amount at beginning | 1,869 | 1,721 |
| Additions | 886 | 608 |
| Disposals | (1) | (10) |
| Depreciation charged | (573) | (450) |
| | 2,181 | 1,869 |

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 12: Property, Plant and Equipment (continued)** | | |
| **Reconciliation of the carrying amounts of property, plant & equipment at the beginning and end of the current financial year continued:** | | |
| Furniture & fittings | | |
| Carrying amount at beginning | 1,276 | 1,517 |
| Additions | 81 | 170 |
| Disposals | (1) | (12) |
| Depreciation charged | (326) | (363) |
| Impairment | (10) | (36) |
| | 1,020 | 1,276 |
| Leasehold improvements | | |
| Carrying amount at beginning | 3,058 | 2,775 |
| Additions | 1,449 | 929 |
| Disposals | (163) | (42) |
| Depreciation charged | (694) | (604) |
| | 3,650 | 3,058 |
| Motor vehicles | | |
| Carrying amount at beginning | 187 | 252 |
| Additions | 60 | – |
| Disposals | – | – |
| Depreciation charged | (68) | (65) |
| | 179 | 187 |
| Total | | |
| Carrying amount at beginning | 22,047 | 14,573 |
| Additions | 2,933 | 9,272 |
| Disposals | (165) | (64) |
| Depreciation and amortisation charged | (1,947) | (1,734) |
| | 22,868 | 22,047 |

Land & Buildings are subject to a registered first mortgage to secure bank loans relating to their purchase.

## Note 13: Intangible Assets

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Goodwill on acquisition of stores in Adelaide | 2,378 | 2,378 |

No impairment loss was recognised in the current financial year.

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 based on financial budgets approved by senior management covering a five year period.

The pre-tax discount rate applied to cash flow projections is 14.9% (2013: 13.0%), which approximates the Company's cost of capital. The growth rate used to extrapolate cash flow projections is 3.0% (2013: 0.0%) for the five years, which is considered to be a conservative representation of the long term average growth rate of the cash generating unit.

The following describes each key assumption on which management has based its cash flow projection when determining the value in use of the Adelaide stores.

A consistent gross margin of 60% (2013: 60%) has been assumed, based on the Company's profit history of consistent store by store margins.

The continuity of leases on premises for the next five years has been assumed where appropriate.

The value in use calculation is most sensitive to assumptions relating to sales growth, cost of capital and terminal values.

However, it would require a significant adverse change in these assumptions to impact the existing non-impairment assessment. The significant adverse change is not expected.

| | 2014<br>$'000 | 2013<br>$'000 |
|---|---|---|
| **Note 14: Payables** | | |
| Trade creditors (i) | 6,138 | 5,548 |
| Other creditors and accruals (ii) | 4,621 | 4,214 |
| Cash flow hedge payable (iii) | 182 | – |
| Customer deposits | 14,757 | 12,103 |
| Annual leave | 1,709 | 1,600 |
| | 27,407 | 23,465 |

**Terms and conditions relating to the above financial instruments**

(i) Trade creditors are non-interest bearing and are normally settled on 30 day terms.

(ii Other creditors are non-interest bearing and have an average of 30 to 60 days.

(iii) Foreign currency forward contracts are initially recognised in the statement of financial position at cost and subsequently remeasured to their fair value. Accordingly there is no difference between the carrying value and the fair value of derivative financial instruments at reporting date.

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) |

All foreign currency forward contracts were measured at fair value using 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.

**Risk management activities**

During the period, the Company designated foreign currency forward contracts as hedges of highly probable purchases of inventory in US dollars. The forecast purchases are expected to occur during July 2014 to October 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 30 June 2014, an unrealised loss of $723,000 (30 June 2013: an unrealised gain of $661,000) is in other comprehensive income.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 15: Provisions** | | |
| **Current** | | |
| Long service leave | 671 | 544 |
| Deferred Rent | 708 | 665 |
| | 1,379 | 1,209 |
| **Non-Current** | | |
| Long service leave | 277 | 257 |
| Deferred Rent | 1,648 | 2,035 |
| Make good | 47 | 43 |
| | 1,972 | 2,335 |

| | Deferred rent $'000 | Long service leave $'000 | Make good $'000 |
|---|---|---|---|
| **Movement in provisions** | | | |
| **2014** | | | |
| Balance as at 1 July 2013 | 2,700 | 801 | 43 |
| Utilised | (411) | (30) | (6) |
| Amounts provided | 67 | 177 | 10 |
| Balance as at 30 June 2014 | 2,356 | 948 | 47 |

| | 2014 | 2013 |
|---|---|---|
| **Number of employees** | | |
| Number of full-time and part-time employees at balance date | 265 | 246 |

**Superannuation funds**

The Company contributes to a number of superannuation funds which exist to provide benefits for employees and their dependants on retirement, death or disability, subject to the rules of the funds. All of the funds are defined contribution funds and as such the Company has no commitment to fund retirement benefits, other than as specified in the rules of the respective funds and the requirements of the Superannuation Guarantee Charge Act.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 16: Contributed Equity** | | |
| 81,000,000 (2013: 81,000,000) authorised and fully paid ordinary shares | 3,364 | 3,364 |

| | 2014 Number of ord shares | 2014 $'000 | 2013 Number of ord shares | 2013 $'000 |
|---|---|---|---|---|
| **Movement in ordinary shares on issue** | | | | |
| Balance at the beginning of the financial year | 81,000,000 | 3,364 | 81,000,000 | 3,364 |
| Balance at the end of the financial year | 81,000,000 | 3,364 | 81,000,000 | 3,364 |

**Terms and conditions of contributed equity**

Ordinary shares are entitled to receive dividends as declared and, in the event of winding up the Company, to participate in the proceeds from the sale of all surplus assets in proportion to the number of and amounts paid up on shares held. Ordinary shares entitle their holder to one vote, either in person or by proxy, at a meeting of the Company.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 17: Reserves** | | |
| Capital profits reserve | 78 | 78 |
| Cash flow hedge reserve | (129) | 594 |
| Equity benefits reserve | 16 | 13 |
| | (35) | 698 |
| **Capital profits reserve** | | |
| Opening balance | 78 | 78 |
| Closing balance | 78 | 78 |
| **Cash flow hedge reserve** | | |
| Opening balance | 594 | (67) |
| Amounts recognised for cash flow hedges | (484) | 1,382 |
| Income tax on items taken directly to or transferred from equity | 310 | (283) |
| Amounts transferred to non-financial assets | (549) | (438) |
| Closing balance | (129) | 594 |
| **Equity benefits reserve** | | |
| Opening balance | 13 | – |
| Share-based payment | 3 | 13 |
| Closing balance | 16 | 13 |

**Nature and purpose of reserve**

*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 records the portion of the gain or loss on a hedging instrument in a cash flow hedge that is determined to be an effective hedge.

*Equity benefits reserve*

This reserve is used to record the value of share-based payments provided to employees as part of their remuneration. Refer to note 25 for further details of these plans.

## Note 18: Operating Lease commitments

**Operating leasing expenditure commitments**

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| Future minimum lease payments under non cancellable operating leases as at 30 June are as follows: | | |
| – not later than one year | 18,588 | 18,103 |
| – later than one year but not later than five years | 42,344 | 40,082 |
| – later than 5 years | 6,197 | 3,517 |
| Aggregate expenditure contracted for at balance date | 67,129 | 61,702 |

Operating leases are in respect of Nick Scali and Sofas2Go leased premises.
Leases are entered into for varying terms.
Rent reviews are based on CPI increases or fixed increases. In some cases there are market reviews, particularly when exercising renewal options. A number of the leases contain options to renew in favour of the Company.

## Note 19: Capital Commitments

As at 30 June 2014 the Company had committed to acquire a property at Caringbah (NSW) for a purchase price of $5.75m excluding statutory costs, and the Company had paid a deposit of $287,500. The property was funded via a credit facility with ANZ Bank for $3m and the balance from Company funds.

| | 2014 $'000 | 2013 $'000 |
|---|---|---|
| **Note 20: Contingent Liabilities** | | |
| There are no contingent liabilities as at 30 June 2014 (2013:$Nil). | | |
| **Note 21: Events Subsequent to Reporting Date** | | |
| No significant events subsequent to reporting date have occurred that require separate disclosure. | | |
| **Note 22: Statement of Cash Flows** | | |
| **(a) Reconciliation of net profit after tax to net cash flows from operations** | | |
| Net Profit | 14,236 | 16,002 |
| *Adjustments for* | | |
| Depreciation of non-current assets | 1,947 | 1,734 |
| Loss on disposal of property, plant and equipment | 165 | 2 |
| Interest expense classified as investing cash flows | 301 | 252 |
| Share-based payments expense | 3 | 13 |
| Net fair value change on derivatives | (723) | 661 |
| Compensation for lease surrender | – | 58 |
| *Changes in assets & liabilities* | | |
| Decrease / (increase) in value of trade & other receivables | 7,084 | (6,534) |
| Increase in value of inventories | (4,444) | (920) |
| Decrease in value of prepayments and other assets | 194 | 316 |
| Increase in value of deposit | (7) | (1) |
| Increase in value of payables | 3,942 | 5,555 |
| Increase / (decrease) in value of provisions | (193) | 132 |
| Increase / (decrease) in current tax liabilities | (1,437) | 2,168 |
| (Increase) / decrease in deferred tax assets | 939 | 10 |
| Increase in deferred tax liability | 409 | 255 |
| *Net cash flow from operating activities* | 22,416 | 19,703 |
| **(b) Reconciliation of Cash** | | |
| Cash balances comprise: | | |
| – cash at bank | 35,903 | 26,441 |
| **(c) Financing Facilities Available** | | |
| *The following operating lines of credit were available at balance date:* | | |
| – credit facilities | 9,762 | 14,362 |
| – amount utilised | (7,697) | (8,379) |
| Unused credit facilities | 2,065 | 5,983 |

The credit facilities provided are from St. George Bank ($6.8m) and HSBC ($3.0m).

The St George Bank facilities relate to 2 commercial bill facilities totalling $6.8m. This is in relation to the purchase of the property at Alexandria in 2011 and Fyshwick in 2012. The fair values of the properties pledged was $13.5m as at 30 June 2014 (2013: $13.5m). The facility for the Alexandria property is for a 5 year term and expires on July 2015. The facility for the Fyshwick property is for a 3 year term and expires on November 2015. The loans are secured by a first mortgage over the property assets to which the borrowing relates. Otherwise the Company's assets are unencumbered. The HSBC facilities unclude $2.0m for documentary letters of credit in relation to payment of overseas suppliers with $0.4m utilised and $1.0m for bank guarantees with $0.5m utilised.

The carrying value approximates the fair value of interest bearing liabilities. Fair values of the Company's interest-bearing loans are determined by using a disclounted cash flow method using discounted rate that refelcts the issuer's borrowing rate as at the end of the reporting period. The own non-performance risk as at 30 June 2014 was assessed to be insignificant.

## Note 23: Related Party Disclosures

**Related party arrangements: Directors**

The names of the Directors who have held office during the financial year, together with details of Directors' remuneration, are set out in the Director's Report.

No Director has entered into a new material contract with the Company since the end of the previous financial period. Details of existing contracts are disclosed as follows:

*Auburn and Chatswood Leases*

The Company leases premises at Auburn and Chatswood, both in New South Wales, from entities controlled by Messrs Anthony Scali and Nicky Scali.

The following details the term and rent payable by the Company in respect of each of the above premises leased. Lease rentals are determined on an arms length basis.

All other material terms of these leases are of a nature that would be typically entered into between unrelated parties.

| **Location** | 242-248 Parramatta Road, Auburn, NSW | 575 Pacific Highway, Chatswood, NSW |
|---|---|---|
| **Term** | The lease expired on 28 February 2014 and is currently on a month to month tenancy. The owners have agreed to finalise a new lease at commercial rates and on commercial terms in the first quarter of FY15. | The lease expired on 31 March 2014 and is currently on a month to month tenancy. The owners have agreed to finalise a new lease at commercial rates and on commercial terms in the first quarter of FY15. |
| **Rent and Outgoings** | $844,762 (plus GST) per annum | $585,252 (plus GST) per annum |

During the Year Ended 30 June 2014 the Company paid property lease rentals and outgoings to the personally related entities of Messrs Anthony Scali and Nicky Scali totalling $1,430,014 (2013: $1,408,413) in relation to these premises.

*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.

**Related party arrangements: Key Management Personnel**

Key management personnel are those who have authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including all directors (executive and otherwise). The remuneration of key management personnel is as follows:

| | **2014 $** | **2013 $** |
|---|---|---|
| Short-term employee benefits | 1,675,370 | 1,344,180 |
| Share-based payments (i) | (7,407) | 7,407 |
| Post-employment benefits | 73,737 | 63,258 |
| | 1,741,700 | 1,414,845 |

(i) For details of share-based payments to Key Management Personnel see the remuneration report (audited) within the directors' report included on pages 12-14 of this financial report.

## Note 24: Director and Executive Disclosures

**Shareholdings of Specified Directors and Specified Executives**

| Shares held in Nick Scali Limited (number) | Balance 30 June 2013 | Net Change | Balance 30 June 2014 |
|---|---|---|---|
| **Specified Directors** | | | |
| J.W. Ingram | 370,399 | – | 370,399 |
| A.J. Scali & N. D. Scali (Jnr) (i) | 40,500,000 | – | 40,500,000 |
| N.D. Scali | 1,000,000 | (1,000,000) | – |
| G.R. Laurie | 30,000 | – | 30,000 |
| C.A. Molyneux | – | – | – |
| **Specified Executives** | | | |
| G.K. Jenkins | – | – | – |

(i) Shares are held by a personally-related entity of Messrs Anthony Scali and Nicky Scali.

## Note 25: Share-based Payment Plans

The Company has an Executive Performance Rights Plan which is provided for executives and other employees. In accordance with the provisions of the plan, executives and employees are awarded Rights to ordinary shares that will vest after a period of three years subject to the achievement of specific performance hurdles in relation to earnings per share (EPS) growth, which is not retested during the period. There is no exercise price for the shares and the employees are able to exercise the Right for up to two years following vesting, after which time the Right will lapse.

In the 2013-14 financial year Rights were issued which include performance hurdles requiring compound annual EPS growth of between 5% and 10%. Under the grant, 50% of the Rights are exercisable on the achievement of 5% EPS growth, 100% on the achievement of 10% EPS growth, and for the achievement of between 5% and 10% EPS growth the number of Rights exercisable is calculated on a pro-rata basis.

The expense recognised in relation to employee share rights during the year was $2,720 (2013: $12,724).

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

| Balance at start of year No. | Granted during the year No. | Forfeited during the year No. | Excercised during the year No. | Balance at end of year No. | Vested at end of year No. |
|---|---|---|---|---|---|
| 58,462 | 10,000 | 38,462 | – | 30,000 | – |

### Fair Value of Rights Granted

The fair value of Rights at grant date is valued under risk neutral conditions. Under these conditions the value of the Right is equivalent to the share price reduced by the present value of dividends payable on the shares until vesting. The present value of the dividends is deducted from the share price because the Right holder is not entitled to dividend until the Rights are exercised. The valuation assumes that the Rights are exercised as they vest.

The key assumptions used for determining fair value at grant date are as follows:

| | 2014 | 2013 |
|---|---|---|
| Share Price at Grant Date | $2.00 | $1.30 |
| Dividend Yield | 6.0% | 6.0% |
| Franking Rate | 30.0% | 30.0% |
| Imputations credits valuation factor | 65.0% | 65.0% |
| Implied pre-tax effective dividend yield | 7.7% | 7.7% |

## Note 26: Financial Risk Management Objectives and Policies

Details of the significant accounting policies and methods adopted, including the criteria for recognition, the basis of measurement and the basis on which income and expenses are recognised, in respect of each class of financial asset, financial liability and equity instrument are disclosed in note 1 to the financial statements.

Market risk is the risk that changes in market prices, such as interest rates and exchange 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 monitor market risk exposures within acceptable parameters, whilst optimising the return on risk.

The Company has exposure to the following risks from its use of financial instruments:
- Credit risk
- Liquidity risk
- Interest rate risk
- Foreign exchange risk

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital. Further financial quantitative disclosures are included throughout these financial statements.

The Company's financial risk management policies are established to identity 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 consolidated entity's activities.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Board has established an Audit Committee, which is responsible for developing and monitoring the Company's risk management policies. The Committee provides regular reports to the Board of Directors on its activities.

The Company's principal financial instruments comprise bank loans, and cash and short-term deposits. The main purpose of these financial Instruments is to raise finance for and fund the Company's operations. The Company has various other financial instruments such as trade debtors and trade creditors, which arise directly from its operations. It is, and has been throughout the year, the Company's policy that no trading in financial Instruments shall be undertaken.

**Interest rate risk**

Financial instruments utilised that are subject to interest, and therefore interest rate risk, are cash and commercial bills. Management continually monitor the exposure to interest rate risk. The following table sets out the carrying amount by maturity of the financial instruments exposed to interest rate risk at reporting date. The fair value of the cash and commercial bills shown below are based on the face value of those financial instruments.

| | | <1 Year $'000 | <5 Year $'000 | Total $'000 | Weighted Average Effective Interest rate |
|---|---|---|---|---|---|
| **Year ended 30 June 2014** | | | | | |
| *Floating rate* | Cash Assets | 35,903 | – | 35,903 | 3.8% |
| **Year ended 30 June 2013** | | | | | |
| *Floating rate* | Cash Assets | 26,441 | – | 26,441 | 4.4% |
| **Year ended 30 June 2014** | | | | | |
| *Floating rate* | Commercial Bills - Liabilities | – | 6,762 | 6,762 | 4.4% |
| **Year ended 30 June 2013** | | | | | |
| *Floating rate* | Commercial Bills - Liabilities | – | 6,762 | 6,762 | 4.6% |

### Note 26: Financial Risk Management Objectives and Policies (continued)

**Interest rate risk (continued)**

The following table demonstrates the sensitivity to a reasonably possible change in the interest rate.

| | Increase / decrease in interest rates | Effect on profit before tax $'000 | Effect on equity $'000 |
|---|---|---|---|
| **2014** | + 100 basis points | 291 | – |
| | - 100 basis points | (291) | – |
| **2013** | + 100 basis points | 197 | – |
| | - 100 basis points | (197) | – |

**Foreign Currency Risk**

All of the Company's sales are denominated in the functional currency (Australian dollars), whilst the majority of stock purchases are denominated in currencies other than the Company's functional currency, primarily US dollars. Where appropriate the Company has used forward currency contracts and options to manage its currency exposures; and where the qualifying criteria has been met, they have been designated as hedging instruments for the purposes of hedge accounting.

As at 30 June 2014, the Company has Trade Payables of $1,693,601 (2013: $1,869,666) and Stock In Transit of $3,561,420 (2013: $2,295,700) denominated in USD, all of which are covered by designated cash flow hedges (June 2013: all hedged). As a result, the sensitivity to a reasonably possible change in the US dollar exchange rate is minimal. The cash flows relating to cash flow hedge positions held at year end are expected to occur in July through to October 2014, 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.

**Credit Risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the 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.

All amounts past due in excess of 30 days are individually assessed and provided for as doubtful if reasonable doubt as to collectability exists.

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.

Refer to note 8 for receivables past due and not impaired.

## Note 26: Financial Risk Management Objectives and Policies (continued)

**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.

| | Less than 3 months $'000 | 3 to 12 months $'000 | More than 12 months $'000 | Total $'000 |
|---|---|---|---|---|
| **Year Ended 30 June 2014** | | | | |
| Trade creditors | 6,138 | – | – | 6,138 |
| Other creditors | 4,621 | – | – | 4,621 |
| Borrowings | 76 | 227 | 6,826 | 7,129 |
| | 10,835 | 227 | 6,826 | 17,888 |
| **Year Ended 30 June 2013** | | | | |
| Trade creditors | 5,548 | – | – | 5,548 |
| Other creditors | 4,214 | – | – | 4,214 |
| Borrowings | 81 | 243 | 7,155 | 7,479 |
| | 9,843 | 243 | 7,155 | 17,241 |

The Company also has a number of premises under operating lease commitments. The future contracted commitment at year end is disclosed at note 18.

## Note 27: Capital Management

The Board's policy is to maintain a strong capital base so as to maintain investor, creditor and market confidence and to sustain future development of the business. The Board seeks to maintain a balance between the higher returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position.

There were no changes in the Company's approach to capital management during the period.

The Company has established specific borrowing facilities in relation to property purchases, which are secured over those specific properties. The Company uses external equity only when required for specific projects. The Company pays dividends at the discretion of the Board. The dividend amount is based on market conditions and the profitability of the Company.

## Note 28: Segment Information

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 Company as whole and as disclosed in the statement of income.

## Note 29: Corporate Information

Nick Scali Limited is a company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Stock Exchange. The nature of the operations and principal activities of the Company are described in the Directors' Report. Nick Scali Limited has no ultimate Holding Company or Parent Company.

**Registered Office**

B1-B3, 3-29 Birnie Avenue
Lidcombe NSW 2141
Australia

# Directors’ Declaration

### Directors’ Declaration

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

1) In the opinion of the Directors :

   (a) the financial statements and notes of the Company are in accordance with the Corporations Act 2001, including:

      (i) giving a true and fair view of the Company’s financial position as at 30 June 2014 and of the performance for the year ended on that date; and

      (ii) complying with Accounting Standards and Corporations Regulations 2001.

   (b) the financial statements and notes are also complying with International Financial Reporting Standards as disclosed in note 1(b)

   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

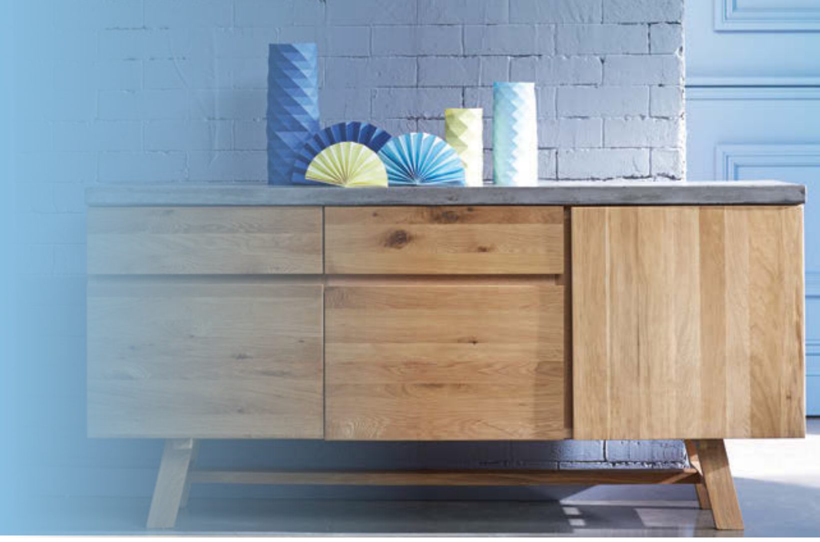
2) This declaration has been made after receiving the declarations required to be made to the Directors in accordance with section 295A of the Corporations Act 2001 for the financial year ended 30 June 2014.

On behalf of the Board

**J.W. Ingram**
Chairman

**A.J. Scali**
Managing Director

Sydney, 13 August 2014



# Independent Auditor's Report

EY
Building a better working world

Ernst & Young
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Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

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## Independent auditor's report to the members of Nick Scali Limited

### Report on the financial report

We have audited the accompanying financial report of Nick Scali Limited, which comprises the statement of financial position as at 30 June 2014, the statement of income, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

### *Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 1, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

### *Auditor's responsibility*

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation of the financial report that gives a true and fair view 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

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

### *Independence*

In conducting our audit 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 by reference in the directors' report.

# Independent Auditor's Report (continued)

### *Opinion*

In our opinion:

a. the financial report of Nick Scali Limited is in accordance with the *Corporations Act 2001*, including:

   i giving a true and fair view of the company's financial position as at 30 June 2014 and of its performance for the year ended on that date; and

   ii complying with Australian Accounting Standards and the *Corporations Act 2001*; and

b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 1.

### Report on the remuneration report

We have audited the Remuneration Report included in pages 12 to 14 of the directors' report for the year ended 30 June 2014. 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.

### *Opinion*

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2014 complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Kathy Parsons
Partner
Sydney
13 August 2014

# Auditor's Independence Declaration

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

In relation to our audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2014, 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
13 August 2014

# Shareholder Information

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

The information is current as at 30 June 2014.

**(a) Distribution of shareholders, by size of holding**

| Shareholders Category | No. Of Ordinary Shareholders |
|---|---|
| 1 to 1,000 | 182 |
| 1,001 to 5,000 | 282 |
| 5,001 to 10,000 | 108 |
| 10,001 to 100,000 | 86 |
| 100,001 and Over | 19 |
| | 677 |

**(b) Twenty largest shareholders**

| Name | No. Of Ordinary Shares held | Percentage of Capital Held |
|---|---|---|
| SCALI CONSOLIDATED PTY LIMITED | 40,500,000 | 50.00% |
| RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD | 9,315,416 | 11.50% |
| CITICORP NOMINEES PTY LTD | 7,213,110 | 8.91% |
| NATIONAL NOMINEES LIMITED | 4,740,927 | 5.85% |
| MOLVEST PTY LTD | 3,000,000 | 3.70% |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD | 2,372,450 | 2.93% |
| JP MORGAN NOMINEES AUSTRALIA LIMITED | 1,921,738 | 2.37% |
| HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED | 1,689,476 | 2.09% |
| BNP PARIBAS NOMS PTY LTD | 1,129,695 | 1.39% |
| RBC DEXIA INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD | 1,125,191 | 1.39% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 900,000 | 1.11% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 600,000 | 0.74% |
| RBC INVESTOR SERVICES AUSTRALIA NOMINEES PTY LTD | 511,420 | 0.63% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 500,000 | 0.62% |
| HSBC CISTODY NOMINEES (AUSTRALIA) LIMITED | 366,423 | 0.45% |
| BOND STREET CUSTODIANS LIMITED | 310,000 | 0.38% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 300,000 | 0.37% |
| CITICORP NOMINEES PTY LTD | 284,337 | 0.35% |
| MR BERNARD CHOON YIN HUI | 150,000 | 0.19% |
| GRAHGER CAPITAL SECURITIES PTY LTD | 100,000 | 0.12% |
| | 77,030,183 | 95.10% |

**(c) Substantial shareholders**

The names of substantial shareholders who have notified the Company in accordance with section 617B of the Corporations Act 2001:

| Shareholder | No. Of Ordinary Shares held | Percentage of Capital Held |
|---|---|---|
| Scali Consolidated Pty Limited | 40,500,000 | 50.00% |
| Perpetual Trustees Australia Limited | 12,484,902 | 15.41% |
| Commonwealth Bank of Australia | 4,968,552 | 6.13% |
| | 57,953,454 | 71.54% |

**(d) Voting Rights**

All ordinary shares carry one vote per share without restriction.

# Corporate Information

## Nick Scali Limited

ABN 82 000 403 896

## Store Locations

nick scali FURNITURE

**New South Wales**
Alexandria
Auburn
Bankstown
Belrose
Campbelltown
Caringbah
Castle Hill
Chatswood
Kotara
Moore Park
Tuggerah
Warrawong

**Australian Capital Territory**
Fyshwick

**Victoria**
Chirnside
Essendon
Frankston
Mildura
Moorabbin
Nunawading
Richmond
Springvale
South Wharf
Taylors Lakes

**South Australia**
Gepps Cross
Marion
Mile End
Glynde

**Queensland**
Aspley
Bundall
Fortitude Valley
Jindalee
Macgregor
Maroochydore
Townsville

sofas2go

**New South Wales**
Moore Park
Prospect
Campbelltown

**Australian Capital Territory**
Fyshwick

**Victoria**
Springvale

## Registered Office

B1-B3, 3-29 Birnie Avenue
Lidcombe, NSW 2141
Telephone: 02 9748 4000
Facsimile: 02 9748 4022
Website: www.nickscali.com.au

## Company Secretary

Gary Jenkins

## Auditors

Ernst & Young
Ernst & Young Building
680 George Street
Sydney NSW 2000

## Solicitors

Dimarco Lawyers
Level 7, 67 Castlereagh Street
Sydney NSW 2000

## Bankers

National Australia Bank Limited

## Share Registry

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Locked Bag A14 Sydney South NSW 1235
Telephone: 02 8280 7100
Facsimile: 02 9287 0303
Email: registrars@linkmarketservices.com.au
Website: www.linkmarketservices.com.au

## Stock Exchange

The Company is listed on the Australian Securities Exchange.
The home exchange in Sydney
ASX code: NCK

## Annual General Meeting

The Annual General Meeting will be held at 12pm
On Thursday 30th October 2014
At Nick Scali Limited Head Office