nickscali LIMITED

Annual Report 2022

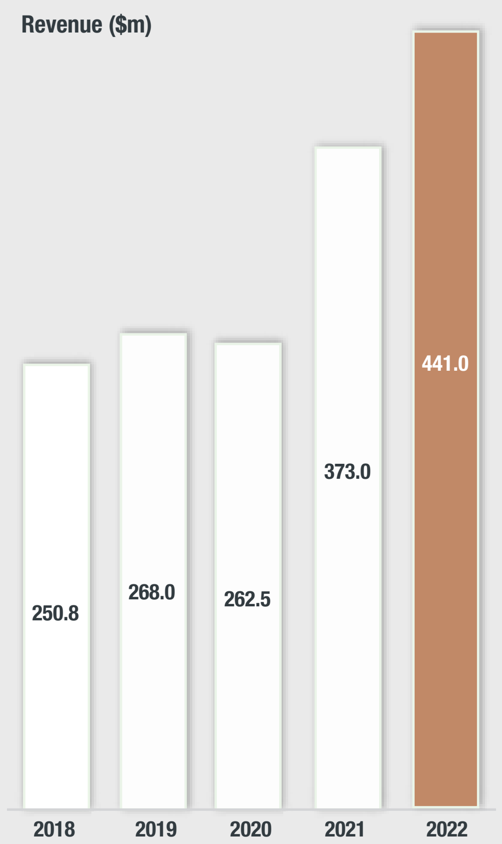
nickscali LIMITED

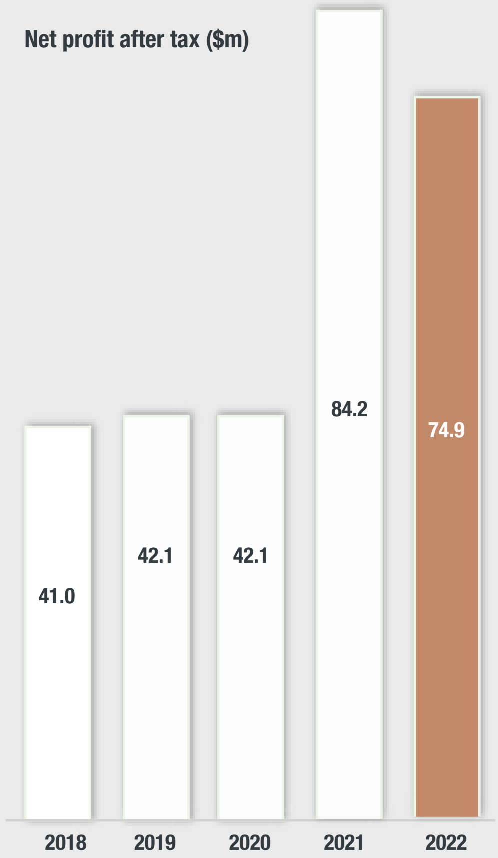
Bliss 3 Seater Lounge with Chaise. Parc Round Coffee Table. Russell Rug.

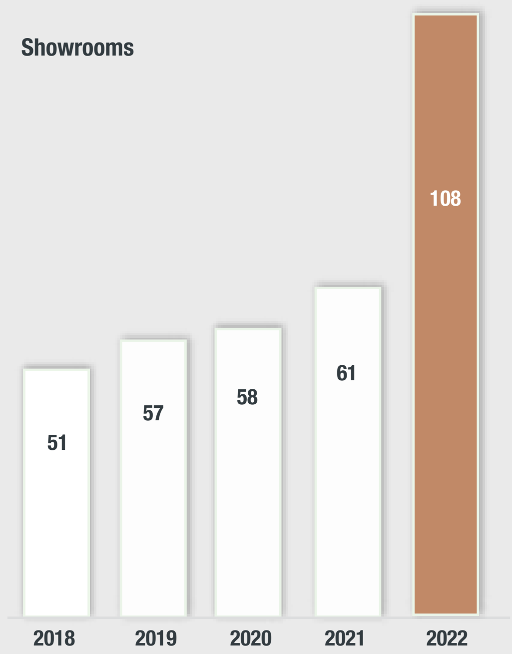
Ceres Round Dining Table. Bobbi Dining Chairs. Francesca Buffet.

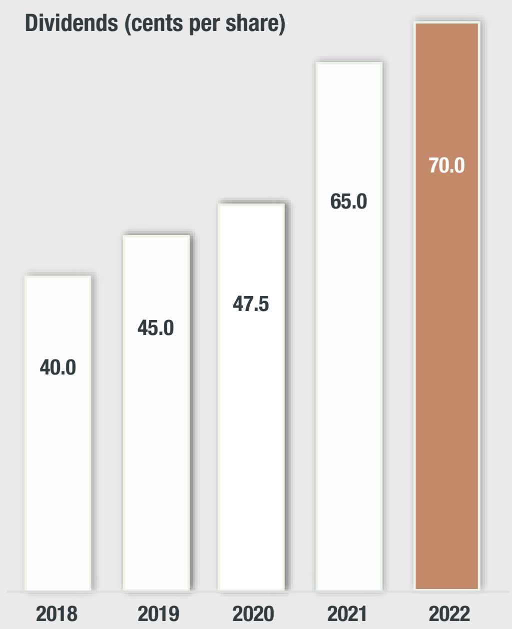
Contents

Historical Performance









Chairman and Managing Director's Review

Overview

Despite the turbulent retail environment of the past 12 months, we are pleased to report that Nick Scali Limited has had another successful year, delivering record sales revenue and maintaining underlying profitability at a similar level to the previous year. Further, the Company successfully completed its first major acquisition, purchasing Plush-Think Sofas Pty Ltd ("Plush") for $103million in November 2021.

Operating Performance

During the year, sales revenue increased by 18.0% to $441million, with the Company benefiting from both the acquisition of Plush, and an environment where consumers continued to invest in items for the home. Sales revenue growth was restricted by lockdowns due to government mandated store closures in the first half of the year and lockdowns in sourcing countries toward the end of the financial year which impacted the Company's ability to recognise revenue from delivered sales to customers.

Gross margin decreased by 250 basis points to 61.0%, due to increased freight costs and the impact of the Plush acquisition, whilst the operating costs of the existing Nick Scali Furniture business remained tightly controlled in the face of inflationary headwinds. As a consequence of the reduction in gross margin and after allowing for the additional operating costs in the Plush business (including significant one-off acquisition and restructuring costs), the Company recorded a statutory net profit after tax of $75million.

During the year, the Group increased its borrowings by $65million to fund the acquisition of Plush, whilst continuing to maintain its strong working capital position. The Group generated an operating cashflow before interest and tax of $163million, and by 30 June 2022, had repaid $10million of the new loan facility and returned $49million to shareholders in dividends during the year.

Plush acquisition

On 1 November 2021, the Company acquired Plush from Greenlit Brands Household Goods Pty Ltd for $103million, through a combination of existing cash reserves and new borrowings.

Founded in 1999, Plush is a specialist Australian sofa retailer with a focus on high quality, hand-crafted "built to last" sofas, and a network of 46 showrooms across Australia. Positioned in the market as a mid-premium sofa retailer with a focus on the aspirational customer demographic, Plush provides the Group with the ability to create Australia's leading sofa retailer with a dual brand strategy targeting a broad customer demographic.

Given the enhanced market positioning and the highly complementary 'made to order' business models of Plush and Nick Scali Furniture, we expect the acquisition to generate material synergies and drive profit growth over the medium term. To date, the Company has reduced operating expenses within the Plush business by $18million per annum, through reductions in property, employment and marketing expenses.

Impact of Covid

The Covid pandemic continued to have a significant impact on the Company during the year, with government mandated store closures resulting in over half of the store network being closed for three months between August and November.

Furthermore, the Company was significantly impacted by Covid-related lockdowns in sourcing countries, most notably in Vietnam and China, where government mandated restrictions resulted in supply delays and extended customer delivery lead-times.

Store network

During the year, one new Nick Scali Furniture store was opened in Hastings, New Zealand – the Company's first regional store in New Zealand. This opening, along with Plush acquisition, resulted in the Company having a combined store network of 108 stores at the end of June 2022.

We believe that there is potential for Plush to operate a long-term store network of between 90 and 100 stores, and that the Nick Scali store network can be expanded to encompass at least 85 stores. In the next financial year we expect to open six new stores across the combined store network.

In addition to its significant lease portfolio, the Company currently has around 40,000m^2 of owned property in Australia, and during the year the Company purchased a multi-purpose showroom and distribution facility in Townsville which replaced the existing Nick Scali Furniture showroom and provides the infrastructure for the growth of both brands in North Queensland.

Alongside the store network, the Company has continued to grow its successful online business, and as customer awareness of this business increased during the periods of government mandated store closures, online sales now represent around 7% of total revenue.

Outlook

The Company's future growth will primarily be driven by the continuation of the new store rollout, as the Company extends the store networks of both brands over the coming years.

In the short-term, the current elevated outstanding order bank will drive material revenue growth in the first half of the new financial year. However, the business expects to face inflationary pressure on operating costs, as the global economic environment becomes less favourable over the next 12-24 months.

Dividends

On 22nd August 2022, the Directors declared a fully franked final dividend of 35.0 cents per share, bringing the total dividend for the year to 70.0 cents per share. This represents a payout ratio of 76%.

The final dividend has a record date of 3rd October 2022 and will be paid on 24th October 2022.

The Board recognises that the success of Nick Scali Limited is the result of the dedication of our many employees and associates across Australia and New Zealand, and this has been particularly so over the last two years. We would like to take this opportunity to thank them for their hard work and commitment to the Company.

Furthermore, the Board also takes this opportunity to thank our customers and suppliers, and shareholders whose continuing support underpins the performance of the Company.

Directors' Report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Nick Scali Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

Directors

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

John Ingram
Carole Molyneux
Stephen Goddard
William Koeck
Anthony Scali

Principal activities

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

Dividends

Dividends paid during the year were as follows:

	2022 $'000	2021 $'000
Final franked dividend for 30 June 2021: 25.0 cents (2020: 22.5 cents)	20,250	18,225
Interim franked dividend for 30 June 2022: 35.0 cents (2021: 40.0 cents)	28,350	32,400
	48,600	50,625

In addition to the above dividend, since the end of the financial year directors have declared a fully franked final dividend of 35.0 cents per fully paid ordinary share to be paid on 24 October 2022 out of retained profits at 30 June 2022.

Operating and financial review

Nick Scali Limited is a furniture retailer operating in Australia and New Zealand.

Acquisition of Plush-Think Sofas Pty Ltd

On 1 November 2021 the Company acquired Plush-Think Sofas Pty Ltd ('Plush') from Greenlit Brands Household Goods Pty Ltd for a consideration of $102,522,000. The acquisition group was funded through a combination of new debt facilities and existing cash reserves. The Group expects the acquisition to enable it to reach a wider customer demographic, and deliver operating synergies across both existing and acquired businesses.

Following the acquisition of Plush, the business operates under two brands, Nick Scali Furniture and Plush-Think Sofas.

Group operating results

	2022 $'000	2021 $'000	% Change
Revenue	440,957	373,040	18.2%
Gross Margin %	61.0	63.5	
Net profit after tax (NPAT)	74,922	84,241	-11.1%
Earnings per share (EPS)(cents)	92.5	104.0	-11.1%

During the year, and despite significant shipping delays in the second half of the year due to the lockdown in Shanghai, the Group saw sales revenue increase by 18.2% to $440,957,000, with Plush contributing $88,832,000 in sales revenue for period post-acquisition.

The Group's overall gross margin was down 250 basis points to 61.0%, due to both the dilutive effect of the acquisition of the lower margin Plush business and increases in the cost of international freight.

Operating expenses within the Nick Scali Furniture business remained at similar levels to previous years, and the Group continued to leverage its fixed cost base to record strong levels of net profitability in the underlying Nick Scali Furniture business. However, due to one-off acquisition and restructuring costs incurred in relation to Plush totalling $7,355,000, and the lower operating leverage in the Plush business, total operating expenses were significantly higher than in the prior financial year, and net profit after tax was down 11.0% to $74,922,000.

On an underlying basis, excluding one-offs, net profit after tax was down 4.9% to $80,154,000.

Reconciliation of underlying net profit after tax

	Reported $'000	One-offs Acquisition Costs $'000	One-offs Restructuring Costs $'000	Underlying $'000
Profit before tax	107,956	3,324	4,031	115,311
Income tax expense	(33,034)	(915)	(1,209)	(35,158)
Net profit after tax	74,922	2,409	2,822	80,153

The Group maintained a strong working capital position throughout the year, and increased its borrowings to fund the acquisition of Plush through a new $65,000,000 loan facility. By 30 June 2022, $10,000,000 of the new loan facility had been repaid and the Group had net assets of $140,928,000 at the end of the financial year.

Showroom network

	Australia	New Zealand
Nick Scali Furniture (No.)	57	5
Plush (No.)	46	–
Total (No.)	103	5

During the year, 46 new stores were acquired as part of the acquisition of Plush, and one new Nick Scali Furniture store was opened in Hastings, New Zealand – the Company's first regional store in New Zealand.

The Company remains focused on its target of at least 85 Nick Scali Furniture stores and between 90 and 100 Plush stores across Australia and New Zealand, and in the next financial year expects to open between four and six new stores across the combined store network.

Covid-19 impact

Throughout the year, the Group continued to be impacted by the issues arising from the Covid-19 pandemic and was required to close various stores under government mandated lockdowns at different times during the year. During the first half of the year, over 50% of the store network was closed for a period of three months, severely restricting trading in NSW, Victoria and New Zealand.

Further, the Group was significantly impacted by lockdowns in sourcing locations, with the extended closures of manufacturing sites in Vietnam and port facilities in China negatively impacting the Group's delivery lead times.

Whilst the possibility of further lockdown remains, the Directors are optimistic that the impact of the Covid-19 pandemic will be much less pronounced in the next financial year.

People

The Group has a strong focus on attracting, engaging, developing, and retaining top talent to ensure it remains an employer of choice and maximises its potential to deliver growth. Investment in training and leadership development ensures employees are equipped to deliver in their varied roles, and best practice short-term and long-term incentives are in place to reward exceptional performance.

To deliver maximum shareholder value, and to maintain investor and consumer confidence, the Group is committed to achieving high levels of integrity and ethical standards across all areas of the business. The Group has a Code of Conduct which sets out the requirement for honesty, care, fair dealing, and integrity in the conduct of all business activities.

The Group promotes workplace diversity and has zero tolerance for discrimination and harassment, and ensures that Workplace Health and Safety is a priority for all employees, along with that of customers and suppliers.

Climate change

The Company has assessed that climate related risks do not currently have a significant impact on the business.

Outlook

At 30 June 2022, the Group had an outstanding order book of $185,284,000. Given this, and the incremental sales revenue from the Plush business, the Company expects sales revenue for the first half of the next financial year to be materially above the previous year.

However, given the current global economic environment, the business will face challenges in respect of potential rising freight costs and inflationary pressure on operating costs over the next 12-24 months.

In the longer term, and following the successful acquisition of Plush, the Company's growth is expected be driven by the continuation of the new store rollout program across both brands.

Significant changes in the state of affairs

Other than the acquisition of Plush-Think Sofas Pty Ltd on 1 November 2021 (and discussed above), there were no significant changes in the state of affairs of the Company during the year.

Matters subsequent to the end of the financial year

Other than the dividend declared on 22 August 2022 (and discussed above), no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

Refer to the Operating and financial review on page 6.

Environmental regulation

The Company is not subject to any significant environmental regulation under Australian Commonwealth or State law. The Directors are not aware of any particular or significant environmental issues which have been raised in relation to the Group's operations during the financial year.

Information on directors

Name: John Ingram
Title: Independent Non-Executive Chairman
Qualifications: AM, FCPA
Experience and expertise:
John was appointed to the Board as non-executive Chairman in April 2004, and was formerly Managing Director of Crane Group Limited.
Other current directorships: Non-executive Chairman of Peter Warren Automotive Holdings Limited (ASX: PWR).
Former directorships (last three years): Non-executive Chairman of Shriro Holdings Limited (ASX: SHM).
Special responsibilities: Member of the Audit and Risk Committee.
Member of the Remuneration and Human Resources Committee.
Interests in shares: 385,000.

Name: Carole Molyneux
Title: Independent Non-Executive Director
Qualifications: BA (Hons)
Experience and expertise:
Carole was appointed to the Board in June 2014. Carole 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: Nil.
Former directorships (last three years): Nil.
Special responsibilities: Chairman of the Remuneration and Human Resources Committee.
Member of the Audit and Risk Committee.
Interests in shares: 20,000.

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

Name: William (Bill) Koeck
Title: Independent Non-Executive Director
Qualifications: LLB, LLM(Hons), Post Graduate Applied Corporate Finance; admitted UK and Australia
Experience and expertise:
Bill was appointed to the Board in August 2020. Bill is an experienced legal adviser with over 40 years of experience in mergers and acquisitions, equity capital markets, private equity, restructuring and corporate governance. Bill is currently a member of the Federal Governments Takeovers Panel.
Other current directorships: Non-Executive Chairman, Member of Audit Risk and Governance Committee and Chairman of Compensation and Nomination Committee for Coronado Global Resources Inc (ASX: CRN).
Non-Executive Director of Poulos Bros.Group.
Former directorships (last three years): Nil.
Special responsibilities: Member of the Remuneration and Human Resources Committee.
Member of the Audit and Risk Committee.
Interests in shares: 16,300.

Name: Anthony Scali
Title: Managing Director
Qualifications: BCom
Experience and expertise:
Anthony is Managing Director of Nick Scali Limited. Anthony joined the Company in 1982 after completing a Bachelor of Commerce degree at the University of New South Wales and has almost 40 years' experience in furniture retailing.
Other current directorships: Nil.
Former directorships (last three years): Nil.
Interests in shares: 11,039,474.

'Other current directorships' included above are current directorships for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' included above are directorships held in the last three years for listed entities only and exclude directorships of all other types of entities, unless otherwise stated.

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

Company Secretary

The Company Secretary and Chief Financial Officer since February 2019 is Christopher Malley. He is a current member of the Institute of Chartered Accountants in England and Wales and began his career in Audit and Advisory with Deloitte in their consumer business practices in London and Sydney. Following ten years with Pepsico International, Christopher's retail career began with MySale PLC before he joined Nick Scali as the General Manager Finance in November 2017.

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Special responsibilities of directors

Audit and Risk Committee

The members of the Audit and Risk Committee are as follows:

- Stephen Goddard (Chairman)
- John Ingram
- William Koeck
- Carole Molyneux

Remuneration and Human Resources Committee

The members of the Remuneration and Human Resources Committee are as follows:

- Carole Molyneux (Chairman)
- Stephen Goddard
- John Ingram
- William Koeck

Meetings of directors

The numbers of meetings of the Board and of each Board sub-committee held during the year ended 30 June 2022, and the numbers of meetings attended by each director or sub-committee member, were:

	Directors' Meetings		Remuneration and Human Resources Committee		Audit and Risk Committee	
	Held	Attended	Held	Attended	Held	Attended
John Ingram	10	10	2	2	4	4
Stephen Goddard	10	10	2	2	4	4
William Koeck	10	10	2	2	4	4
Carole Molyneux	10	10	2	2	4	3
Anthony Scali[1]	10	10	–	–	–	–

[1] Anthony Scali is not a member of the sub-committees, but was invited to attend the meetings of the sub-committees and his attendance was recorded in the minutes.

Remuneration Report – Audited

The remuneration report details the remuneration arrangements for the key management personnel of the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations. For the purposes of the report, key management personnel are defined as those persons having authority and responsibility for planning, directing and controlling the major activities of the business.

1. Details of key management personnel

For the year ended 30 June 2022 the key management personnel (KMPs) of the Group consisted of the following directors:

John Ingram – Non-Executive Chairman
Stephen Goddard – Non-Executive Director
William Koeck – Non-Executive Director
Carole Molyneux – Non-Executive Director
Anthony Scali – Managing Director & Chief Executive Officer

And the following executives:
Christopher Malley – Chief Financial Officer & Company Secretary
John Austin – Chief Operating Officer

2. Remuneration strategy

The quality of Nick Scali Limited's directors and executives is a major factor in the overall performance of the Group. To this end, the Company believes that an appropriately structured remuneration strategy underpins a performance-based culture which in turn drives shareholder returns. The Group's remuneration strategy is therefore designed to attract and retain high quality and committed non-executive directors and employees.

The executive remuneration and reward framework has two components:

- fixed remuneration comprising of salary and superannuation
- variable incentives comprising short-term incentives (STIs) in the form of a cash based reward and long-term incentives (LTIs) in the form of an equity reward.

The variable incentives are designed to deliver value to executives for performance against a combination of Company profitability and achievement against strategic goals. Short-term incentives motivate employees to achieve outstanding performance and are based on current year predetermined key performance indicators (KPIs) such as profit after tax, and non-financial activities that achieve short to medium term objectives, while long-term incentives align employees with shareholder interests and are based on maintaining long-term shareholder value using performance measures such as EPS.

Remuneration Report – Audited (continued)

3. Remuneration and Human Resources Committee

The Remuneration and Human Resources Committee currently consists of the non-executive Board members and is responsible for:

- reviewing remuneration arrangements and succession planning of senior management, including the Managing Director and engaging external compensation consultants if necessary.
- reviewing and approving any discretionary component of short and long-term incentives for the Managing Director and senior executives.
- recommending to the Board any increase in the remuneration of existing senior employees of the Group for which Board approval is required.
- recommending to the Board the remuneration of new senior executives appointed by the Group.
- the setting of overall guidelines for Human Resources policy, within which Senior Management determines specific policies.
- reviewing the performance of the Board and its sub-committees, with the advice of external parties if appropriate.

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

4. Remuneration structure

In accordance with corporate governance best practices, the remuneration structures for non-executive directors and executives are separate.

4.1 Non-executive directors’ remuneration

Non-executive directors are paid a fixed annual fee, which is periodically reviewed. Non-executive directors do not receive any variable renumeration and they are not entitled to participate in the Executive Performance Rights Plan.

Non-executive chairman and directors’ fees in place at 30 June 2022 and 30 June 2021 were as follows:

	2022 $	2021 $
Base fee for Non-Executive Chairman	200,000	200,000
Base fee for Non-Executive Director	100,000	100,000
Additional fee for Audit and Risk Committee Chairman[1]	20,000	17,000
Additional fee for Audit and Risk Committee Member	5,000	5,000
Additional fee for Remuneration and Human Resources Committee Chairman[1]	10,000	7,000
Additional fee for Remuneration and Human Resources Committee Member	3,000	3,000

[1] The additional fees for the Audit and Risk Committee Chairman and the Remuneration and Human Resources Committee Chairman were increased during the year, with effect from 1 December 2021.

The pool for non-executive directors’ fees is capped at $1,000,000 per year as approved by shareholders at the Company’s Annual General Meeting in October 2021.

4.2 Executive remuneration

The Group provides appropriate rewards to attract and retain key personnel. Base salaries, STIs and LTIs are established by the Remuneration and Human Resources Committee for each executive having regard to the nature of each role, the experience of the individual employee and the performance of the individual and are then approved by the Board. External consultants are engaged as appropriate and market information is used to benchmark executive remuneration.

4.2.1 Service agreements

Details of the ongoing service agreements between the Company and executives considered KMPs, are as follows:

Name	Title	Commencement date	Base salary including superannuation	Termination benefit
Anthony Scali	Managing Director	24 May 2004	$750,000	–
Christopher Malley	Chief Financial Officer & Company Secretary	6 February 2019	$300,000	3 months base salary
John Austin	Chief Operating Officer	1 July 2020	$350,000	3 months base salary

Remuneration Report – Audited (continued)

4.2.2 Targeted remuneration mix

The targeted proportions of the total remuneration opportunity for the executives considered to be key management personnel (KMPs) for the 2022 financial year were:

	Fixed Remuneration	Variable Remuneration	
	Base Salary	Short-term Incentive	Long-term Incentive
Managing Director	50%	50%	–
Other KMPs	50%	25%	25%

4.2.3 Fixed remuneration – Base Salary

Fixed compensation is set to provide a base level of compensation which is appropriate to the position and responsibility and is competitive in the market. Fixed compensation is reviewed annually, with effect from 1 September each year, by the Remuneration and Human Resources Committee with reference to the performance of both the business and the individual, the individual's skills and experience, comparative market compensation and where appropriate, external advice.

The Group provides superannuation contributions in line with statutory obligations with benefits being contributed to the employee's chosen superannuation fund.

4.2.4 Variable remuneration – Short-term incentive (STI)

The Company operates annual short-term incentive programs that reward KMPs on the achievement of predetermined KPIs established each financial year, according to the accountabilities of their role and its impact on the Group's performance. KPIs include profit targets and personal performance criteria which are set to incentivise superior performance. Using KPIs which include profit targets ensures that variable rewards are paid only when value is created for shareholders and Group profitability meets or exceeds a level approved by the Board. STIs are linked to KPIs on a sliding scale which is established at the beginning of each financial year. The STIs are paid in the form of cash bonuses and the Remuneration and Human Resources Committee is responsible for assessing whether the KPIs are met and the STIs are payable.

The Managing Director may also recommend to the Board discretionary bonuses in exceptional circumstances to reward contributions from high performing employees. The following table shows the STI cash bonus target and the amount achieved for each KMP in the years ended 30 June 2022 and 30 June 2021:

		Targeted STI Entitlement and KPIs			STI Achieved and KPIs	
	Total $	Financial KPIs %	Non Financial KPIs %	Total $	Financial KPIs %	Non Financial KPIs %
Year ended 30 June 2022						
Anthony Scali	750,000	80%	20%	750,000	80%	20%
Christopher Malley	150,000	100%	–	150,000	100%	–
John Austin	150,000	100%	–	150,000	100%	–
Year ended 30 June 2021						
Anthony Scali	750,000	80%	20%	750,000	80%	20%
Christopher Malley	150,000	100%	–	150,000	100%	–
John Austin	150,000	100%	–	150,000	100%	–

4.2.5 Variable remuneration – Long-term incentive (LTI)

Long-term incentives, in the form of the share rights offered under the Executive Performance Rights Plan (EPRP), are provided to employees to align remuneration with the creation of shareholder value over the long-term. The EPRP is only made available to executives and other employees who have been employed for more than 12 months who are able to influence the generation of shareholder value and who have a direct impact on the Group performance against relevant long-term performance targets.

The Board has determined earnings per share (EPS) growth to be the most appropriate measure of long-term performance. Under the EPRP, employees are granted rights to ordinary shares that will vest after a period of three years subject to the achievement of specific levels of EPS growth. EPS is based on the Group's underlying profit after tax and before non-recurring items, as determined by the Board.

Under the EPRP the number of rights exercisable at the end of the vesting period is dependent on the level of EPS growth achieved by the Company, as follows:

EPS growth (3 year CAGR)	Percentage of rights exercisable
Less than 5%	Nil
5%	50%
5% to 10%	Pro rata between 50% and 100%
More than 10%	100%

Remuneration Report – Audited (continued)

The number of rights granted is calculated by taking the relevant executive's fixed annual remuneration and multiplying it by the relevant predetermined LTI entitlement percentage of fixed remuneration and then dividing this by the Group's volume weighted average share price for the four-week period prior to the date of the release of the Group's full year results.

Rights to ordinary shares may also be granted in accordance with the EPRP as a retention award where the only performance condition is continued employment with the Group at the vesting date. During the year ended 30 June 2022, 60,000 such rights were awarded to John Austin.

If the minimum level of EPS growth is not met or if the participant ceases to be employed by the Group, any unvested rights will immediately lapse unless otherwise determined by the Board.

There is no exercise price for shares granted under the EPRP and the employees are able to exercise their rights up to two years following the vesting date, after which time the rights will lapse. In the event of a takeover offer for the Company, the rights may, at the discretion of the Board, vest in accordance with an assessment of performance with the performance period pro-rated to the date of the takeover offer.

The LTI entitlement of executives considered KMPs is calculated as a percentage of fixed annual remuneration for the years ended 30 June 2022 and 30 June 2021 as follows:

Year ended 30 June 2022	Years of Service	Targeted LTI Entitlement	LTI Awarded
Anthony Scali	41	0%	0%
Christopher Malley	4	50%	50%
John Austin	2	50%	50%

Year ended 30 June 2021	Years of Service	Targeted LTI Entitlement	LTI Awarded
Anthony Scali	40	0%	0%
Christopher Malley	3	50%	50%
John Austin	1	50%	0%

Employees who have been granted rights are prohibited from entering transactions to limit the economic risk of such rights whether through a derivative, hedge, or similar arrangement. In addition, employees are prohibited from entering margin lending arrangements in respect of shares in the Company where those shares are offered as security for the lending arrangement.

4.2.6 Terms of performance and retention rights granted

The terms and conditions of each grant of rights to ordinary shares affecting the remuneration of employees in this financial year or future reporting years are as follows:

Grant reference	Grant date[1]	Vesting and exercisable date	Expiry date	Exercise price ($)	Fair value per right at grant date ($)
FY22/24	20 Sep 2021	Aug 2024[2]	30 Jun 2026	0.00	9.87
FY21/23	14 Sep 2020	Aug 2023[2]	30 Jun 2025	0.00	6.61
FY20/22	13 Sep 2019	22 Aug 2022	30 Jun 2024	0.00	5.17

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

[2] The exact vesting and exercisable date for rights that have not yet vested is currently indeterminate, and depends on the date of meeting at which the Board can confirm the achievement of the long-term performance hurdles. This is typically four to eight weeks following the end of the financial year.

4.2.7 Performance rights holding

The table below sets out the balance of performance rights held by executives considered KMPs.

	Balance 1 July 2021	Granted	Vested and exercised	Forfeited	Balance 30 June 2022
Anthony Scali	–	–	–	–	–
Christopher Malley	45,708	12,669	–	–	58,376
John Austin	–	12,669	–	–	12,669

	Balance 1 July 2020	Granted	Vested and exercised	Forfeited	Balance 30 June 2021
Anthony Scali	–	–	–	–	–
Christopher Malley	23,810	21,898	–	–	45,708
John Austin	–	–	–	–	–

Remuneration Report – Audited (continued)

4.2.8 Retention rights holding

The table below sets out the balance of retention rights held by executives considered KMPs.

	Balance at 1 July 2021	Granted	Vested and exercised	Forfeited	Balance at 30 June 2022
Anthony Scali	–	–	–	–	–
Christopher Malley	–	–	–	–	–
John Austin	–	60,000	–	–	60,000

4.3 Group performance

The table below sets out the financial performance of the Group over the past five years:

	2018	2019	2020	2021	2022	CAGR (%)
Revenue ($m)	250.8	268.0	262.5	373.0	441.0	15.0
Net profit after tax ($m)	41.0	42.1	42.1	84.2	74.9	16.3
Earnings per share (Cents)	50.6	52.0	51.9	104.0	92.5	16.3
Ordinary dividends per share (Cents)	40.0	45.0	47.5	65.0	60.0	10.7
Share price at 30 June ($)	6.73	6.26	6.48	11.72	8.26	5.3

4.4 Remuneration outcomes

4.4.1 Remuneration outcomes for non-executive directors

The tables below set out the remuneration outcomes for the non-executive directors for the years ended 30 June 2022 and 30 June 2021 respectively:

	Short-term benefits	Post-employment benefits	Total
	Fees	Superannuation	
Year ended 30 June 2022			
John Ingram	181,818	18,182	200,000
William Koeck	98,182	9,818	108,000
Carole Molyneux	103,409	10,341	113,750
Stephen Goddard	110,682	11,068	121,750
	494,091	49,409	543,500
Year ended 30 June 2021			
John Ingram	182,648	17,352	200,000
William Koeck[1]	90,411	8,589	99,000
Carole Molyneux	102,283	9,717	112,000
Stephen Goddard	109,589	10,411	120,000
	484,931	46,069	531,000

[1] William Koeck was appointed as a Non-executive Director on 1 August 2020

4.4.2 Remuneration outcomes for executive KMPs

The tables below set out the remuneration outcomes for the executive KMPs for the years ended 30 June 2022 and 30 June 2021 respectively:

	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	Total
	Base Salary $	Cash bonus (STI) $	Superannuation $	Employee entitlements $	Shares rights (LTI) $	$
Year ended 30 June 2022						
Anthony Scali	726,437	750,000	23,567	11,243	–	1,511,247
Christopher Malley	276,423	150,000	23,567	–	145,473	595,462
John Austin	305,548	150,000	23,567	–	238,985	718,100
	1,308,408	1,050,000	70,700	11,243	384,458	2,824,809
Year ended 30 June 2021						
Anthony Scali[1]	803,723	750,000	21,277	11,852	–	1,586,852
Christopher Malley[1]	308,723	150,000	21,277	–	82,938	562,938
John Austin	288,723	150,000	21,277	–	–	460,000
	1,401,169	1,050,000	63,831	11,852	82,938	2,609,790

[1] In response to the Covid-19 crisis, executives accepted a voluntary 30% reduction to remuneration for the period 1 April 2020 to 30 June 2020. This was repaid as an ex-gratia payment in September 2020.

Remuneration Report – Audited (continued)

4.5 Additional disclosures relating to key management personnel

4.5.1 Interest in the Shares of the Company

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

	Balance at 1 July 2021 Ordinary shares	Received as part of remuneration Ordinary shares	Purchases Ordinary shares	Disposals Ordinary shares	Balance at 30 June 2022 Ordinary shares
John Ingram	360,000	–	25,000	–	385,000
William Koeck	5,900	–	10,400	–	16,300
Carole Molyneux	15,500	–	4,500	–	20,000
Stephen Goddard	6,000	–	–	–	6,000
Anthony Scali	11,039,474	–	–	–	11,039,474
	11,426,874	–	39,900	–	11,466,774

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

The Company indemnifies all the directors and executive officers against certain liabilities incurred as such by a director or officer, while acting in their respective capacity, and enters contracts insuring the directors and officers against liabilities of this nature. The premiums paid under the terms of these contracts have not been determined on an individual director or officer basis, and 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 contracts, as such disclosure is prohibited under the terms of the contract.

No other agreements to indemnify directors or officers have been entered into, nor have any payments in relation to indemnification been made, during or since the end of the financial year, by the Company.

Indemnity and insurance of auditor

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia (EY), 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 EY's negligent, wrongful, or wilful acts or omissions. No payment has been made to indemnify EY during or since the financial year.

Proceedings on behalf of the Company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

Officers of the Company who are former partners of Ernst & Young

There are no officers of the Company who are former partners of Ernst & Young.

Corporate Governance Statement

Nick Scali Limited's Corporate Governance Statement discloses how the Company complies with the recommendations of the ASX Corporate Governance Council (4th Edition) and sets out the Group's main corporate governance practices. This statement has been approved by the Board and is current as of 30 June 2022. The Corporate Governance Statement of Nick Scali Limited can be found on the Company's website: www.nickscali.com.au/corporate-governance.

Rounding of amounts

The Company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Directors' Report (continued)

Non-audit services

The Company may decide to employ the Company's auditor, or its network firms, for non-audit services where their skills and expertise are considered relevant.

During the year ended 30 June 2022, Ernst & Young Australia performed due diligence services on a acquisition and provided tax compliance services. Details of the amount paid to the auditor for non-audit services are set out below.

	2022 $'000
Tax compliance services	46
Due diligence	143
	189

The directors are satisfied that the provisions of non-audit services are compatible with the general standard of independence for auditors imposed by the Corporations Act 2001. The nature and scope of all non-audit services provided was approved by the Audit and Risk Committee, and the directors are satisfied that the services provided do not compromise the integrity and objectivity of the Company's auditor for the following reasons:

- none of the services required the auditor to review or audit the auditors own work
- none of the services required the auditor to act in a management or decision-making capacity for the Company
- none of the services required the auditor to act as an advocate for the Company
- none of the services involved the auditor jointly sharing in the economic risks and rewards of the Company
- a declaration required by section 307C of the Corporations Act 2001 confirming their independence has been received from Ernst & Young Australia

Auditor's independence declaration

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

Auditor

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

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors

John Ingram Chairman	Anthony Scali Managing Director

22 August 2022
Sydney


Barrel Swivel Armchair.

Luzzi Queen Bed Frame, 100% Natural Leather. Agoura Dresser. Larry Rug.

Auditor's Independence Declaration

Building a better working world

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

As lead auditor for the audit of the financial report of Nick Scali Limited for the financial year ended 30 June 2022, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the audit.

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

Ernst & Young

Lisa Nijssen-Smith
Partner
22 August 2022

Autograph Right Corner Modular with Chaise and Woodshelf. Autograph Coffee Table Ottoman. Provence Console. Pemba Rug.

Consolidated statement of comprehensive income

For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Revenue from contracts with customers	3	440,957	373,040
Cost of goods sold		(171,980)	(136,285)
Gross profit		**268,977**	**236,755**
Other income	3	1,554	1,582
Expenses			
Marketing expenses		(21,828)	(16,217)
Employment expenses	4	(62,294)	(46,124)
General and administration expenses		(13,032)	(10,417)
Property expenses	4	(7,750)	(5,216)
Distribution expenses		(3,522)	(1,322)
Acquisition expenses	32	(3,324)	–
Depreciation and amortisation		(41,555)	(30,870)
Finance costs		(9,270)	(6,958)
Profit before income tax expense		**107,956**	**121,213**
Income tax expense	5	(33,034)	(36,972)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		**74,922**	**84,241**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		647	4,858
Exchange differences on translation of foreign operations		(201)	13
Other comprehensive income for the year, net of tax		**446**	**4,871**
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		**75,368**	**89,112**
		CENTS	**CENTS**
Basic earnings per share	6	92.5	104.0
Diluted earnings per share	6	92.5	104.0

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

Consolidated statement of financial position

As at 30 June 2022

	Note	2022 $'000	2021 $'000
Assets			
Current assets			
Cash and bank deposits	9	74,620	106,892
Receivables	10	3,550	1,694
Inventories	11	70,525	46,733
Other financial assets	12	3,091	1,565
Prepayments		3,040	2,382
Total current assets		154,826	159,266
Non-current assets			
Land and buildings	13	97,385	83,413
Plant and equipment	13	15,140	15,215
Right-of-use assets	14	215,362	170,904
Deferred tax	5	4,257	5,334
Intangibles	15	129,425	2,691
Total non-current assets		461,569	277,557
Total assets		**616,395**	**436,823**
Liabilities			
Current liabilities			
Borrowings	16	20,100	15,500
Payables	17	34,979	22,075
Lease liabilities	14	36,200	27,309
Deferred revenue	18	85,074	51,895
Current tax liabilities		7,665	15,588
Provisions	19	6,260	3,593
Total current liabilities		190,278	135,960
Non-current liabilities			
Borrowings	16	71,562	18,162
Lease liabilities	14	201,736	166,009
Deferred revenue	18	1,767	1,272
Deferred tax	5	8,130	–
Provisions	19	1,994	1,394
Total non-current liabilities		285,189	186,837
Total liabilities		**475,467**	**322,797**
Net assets		**140,928**	**114,026**
Equity			
Issued capital	20	3,364	3,364
Reserves	21	1,538	958
Retained profits		136,026	109,704
Total equity		**140,928**	**114,026**

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

Consolidated statement of changes in equity

For the year ended 30 June 2022

	Issued capital $'000	Equity benefits reserve $'000	Capital profits reserve $'000	Cash flow hedge reserve $'000	Foreign exchange reserve $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2020	3,364	(352)	78	(3,760)	(4)	76,088	75,414
Profit after income tax expense for the year	–	–	–	–	–	84,241	84,241
Other comprehensive income for the year, net of tax	–	–	–	4,858	13	–	4,871
Total comprehensive income for the year	–	–	–	4,858	13	84,241	89,112
Employee share rights recognised under EPRP (Note 21)	–	125	–	–	–	–	125
Dividends paid during the year (Note 7)	–	–	–	–	–	(50,625)	(50,625)
Balance at 30 June 2021	**3,364**	**(227)**	**78**	**1,098**	**9**	**109,704**	**114,026**
Balance at 1 July 2021	3,364	(227)	78	1,098	9	109,704	114,026
Profit after income tax expense for the year	–	–	–	–	–	74,922	74,922
Other comprehensive income for the year, net of tax	–	–	–	647	(201)	–	446
Total comprehensive income for the year	–	–	–	647	(201)	74,922	75,368
Employee share rights recognised under EPRP (Note 21)	–	134	–	–	–	–	134
Dividends paid during the year (Note 7)	–	–	–	–	–	(48,600)	(48,600)
Balance at 30 June 2022	**3,364**	**(93)**	**78**	**1,745**	**(192)**	**136,026**	**140,928**

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

Consolidated statement of cash flows

For the year ended 30 June 2022

	Note	2022 $'000	2021 $'000
Cash flows from operating activities			
Receipts from customers		500,023	426,170
Payments to suppliers and employees		(336,821)	(258,777)
		163,202	167,393
Interest received		92	367
Income tax payments		(40,955)	(27,332)
Net cash from operating activities	8	**122,339**	**140,428**
Cash flows from investing activities			
Purchase of property, plant and equipment		(18,422)	(15,325)
Purchase of intangible assets		(557)	(312)
Proceeds from the sale of property, plant and equipment		–	22
Acquisition of subsidiary, net of cash acquired	32	(102,522)	–
Net cash from investing activities		**(121,501)**	**(15,615)**
Cash flows from financing activities			
Payment of dividends on ordinary shares	7	(48,600)	(50,625)
Proceeds from borrowings		72,500	–
Repayment of borrowings		(14,500)	–
Investment in term deposits		(40,000)	–
Repayment of lease liabilities	14	(33,274)	(23,594)
Interest payments – lease liabilities	14	(8,124)	(6,208)
Interest payments – borrowings		(1,112)	(531)
Net cash used in financing activities		**(73,110)**	**(80,958)**
Net (decrease)/increase in cash and cash equivalents		(72,272)	43,855
Cash and cash equivalents at the beginning of the financial year		106,892	63,037
Cash and cash equivalents at the end of the financial year	9	**34,620**	**106,892**

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

Notes to the consolidated financial statements

For year ended 30 June 2022

Note 1. Basis of preparation

Corporate information

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

Basis of preparation

These general-purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB'). The financial statements have been prepared under the historical cost convention, except for derivative financial instruments, which have been prepared at fair value. The financial report was authorised for issue in accordance with a resolution of the directors on 22 August 2022.

At the end of the reporting period the Group had a net current liability position of $35,452,000. Within the net current liability position, the Group has recorded deferred revenue of $85,074,000 that is expected to be recognised as revenue within the next 12 months, and accordingly the financial statements continue to be prepared on a going concern basis.

Where necessary because of a change in the presentation of certain expenses during the current year, comparative amounts in the statement of comprehensive income have been reclassified for consistency with presentation in the current year.

Basis of consolidation

The consolidated financial statements comprise the financial statements of the Company and its subsidiaries as of 30 June 2022. A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power over the entity.

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

Changes in accounting policies, accounting standards and interpretations

The accounting policies adopted in the preparation of the annual financial statements are consistent with those followed in the preparation of the annual financial statements for the period 30 June 2021.

In addition, the following accounting policies were adopted in the preparation of the interim financial statements that were not outlined in the annual report for the year ended 30 June 2021.

Business combinations

Acquisitions of subsidiaries and other business combinations are accounted for using the acquisition method with the cost of acquisition allocated to the fair value of the assets acquired and liabilities assumed at the acquisition date. Acquisition costs incurred are expensed during the financial year.

Business combination provisional accounting

The Group has 12 months from the acquisition date to finalise the accounting for any business combination. Provisional accounting is applied by the Group for business combinations where the acquisition accounting is incomplete at the end of the reporting period.

Significant accounting judgements, estimates and assumptions

In the process of applying the Company's accounting policies, management has made judgements, estimates and assumptions. All judgements, estimates and assumptions made are believed to be reasonable, based on the most current information available to management. Actual results may differ from these judgements, estimates and assumptions. Judgements, estimates and assumptions which have the most significant effect on the amounts recognised in the financial statements:

Impairment of goodwill

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

Lease term of contracts with renewable options

The Company determines the lease term to be the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain that the option will be exercised. In assessing the likelihood of a lease option being exercised, the Company considers the costs of termination, the extent of any leasehold improvements, the strategic importance of the lease location and the current market rent for the site.

Estimation of useful lives of assets

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

Net realisable value of inventory

Inventories are valued at the lower of cost and net realisable value. Weighted average cost is used to value inventories. Costs incurred in bringing each product to its present location and condition including freight, cartage and import duties are included in the cost of finished goods.

Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale. Judgment is applied in assessing the net realisable value.

Valuation of brands acquired

Brand names acquired in a business combination are valued at fair value using the relief from royalty method. This method requires the Company to estimate future cashflows arising from the brand, applicable royalty rates and appropriate discount rates.

Note 2. Segment information

The Company has identified the Managing Director and the Board of Directors as the chief operating decision makers. The Company has one reportable segment being the retailing of furniture in Australia and New Zealand.

	2022 $'000	2021 $'000
Note 3. Revenue and other income		
Revenue		
Revenue from contracts with customers	440,957	373,040
Other income		
Net gain on disposal of property, plant and equipment	–	14
Net gain on disposal of right-of-use asset and remeasurement of lease liability	29	–
Rental income	916	783
Interest income	92	367
Sundry income	517	418
	1,554	1,582

Recognition and measurement – Revenue

Revenue from contracts with customers is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. Contracts with customers provide for both the sale of goods and the provision of accidental damage warranties, and the timing of the recognition of revenue of these separate components is as follows:

Sale of goods

When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Group is the delivery of the goods to the customer, and revenue is recognised at the time of delivery of the goods to the customer.

Accidental damage warranties

When recognising revenue in relation to accidental damage warranties, the key performance obligation of the Group extends over the term of the warranty, and consequently revenue is recognised over the term of warranty, weighted according to the expected occurrence of the performance obligations.

	2022 $'000	2021 $'000
Note 4. Expenses		
Profit before income tax includes the following specific expenses:		
Included within employee expenses		
Salaries, wages and fees	41,533	33,805
Government wage subsidies received as a consequence of Covid-19	(67)	(3,565)
Voluntary repayment of government wage subsidies	–	2,471
Superannuation contributions	4,374	3,265
Share-based payments	625	210
Included within property expenses		
Short-term and low value lease payments	1,588	697
Rent concessions received as a consequence of Covid-19	(847)	(624)

	2022 $'000	2021 $'000
Note 5. Current and deferred tax		
Income tax expense		
Current income tax charge	33,138	37,527
Adjustments in respect of current income tax of previous years	(201)	(94)
Relating to origination and reversal of temporary differences	97	(461)
Income tax expense	33,034	36,972
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	107,956	121,213
Income tax at the statutory tax rate of 30%	32,387	36,369
Adjustments in respect of current income tax of previous years	(201)	(94)
Adjustment for difference in overseas tax rates	(103)	(23)
Adjustment for share rights exercised	(106)	(105)
Adjustment for voluntary repayment of government wage subsidies	–	741
Adjustment for acquisition costs	991	–
Other items	66	84
Income tax expense	33,034	36,972
Deferred tax recognised comprises temporary differences attributable to:		
Right-of-use assets	(64,116)	(50,812)
Lease liabilities	70,899	57,480
Brands	(11,400)	–
Deferred capital gains	(1,612)	(1,612)
Property, plant and equipment	(77)	(1,550)
Employee entitlements	2,034	1,153
Cashflow hedge (Note 23)	(927)	(469)
Other	1,326	1,144
	(3,873)	5,334
Reflected in the statement of financial position as follows:		
Deferred tax assets	4,257	5,334
Deferred tax liabilities	(8,130)	–
Deferred tax liabilities, net	(3,873)	5,334

Recognition and measurement – Income tax

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

Recognition and measurement – Deferred tax

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred income tax, assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Income taxes relating to items recognised directly in equity are recognised in equity and not in profit or loss. Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

	2022 $'000	2021 $'000
Note 6. Earnings per share		
Profit after income tax attributable to the owners of Nick Scali Limited	74,922	82,241
	Number	**Number**
Weighted average number of ordinary shares used in calculating basic earnings per share	81,000,000	81,000,000
Weighted average number of ordinary shares used in calculating diluted earnings per share	81,000,000	81,000,000
	Cents	**Cents**
Basic earnings per share	92.5	104.0
Diluted earnings per share	92.5	104.0

Recognition and measurement – Earnings per share

Basic earnings per share

Basic earnings per share (EPS) is calculated as net profit attributable to members, adjusted to exclude costs of servicing equity (other than dividends), divided by the weighted average number of ordinary shares, adjusted for any bonus element.

Diluted earnings per share

Diluted EPS adjusts the basic EPS to take account of the after-tax effect of dividends and interest associated with dilutive potential ordinary shares that have been recognised as expenses; and other costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration.

	2022 $'000	2021 $'000
Note 7. Dividends		
Dividends		
Dividends paid during the financial year were as follows:		
Final fully franked dividend for 30 June 2021: 25.0 cents (2020: 22.5 cents)	20,250	18,225
Interim fully franked dividend for 30 June 2022: 35.0 cents (2021: 40.0 cents)	28,350	32,400
	48,600	50,625

In addition to the above dividend, since the end of the financial year directors have declared a final fully franked dividend of 35.0 cents per fully paid ordinary share to be paid on 24 October 2022 out of retained profits at 30 June 2022.

Franking credits		
Franking credits are available to the Company as follows:		
Franking credits available at the reporting date based on a tax rate of 30%	62,475	36,011
Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30%	3,688	15,457
Franking credits available for subsequent financial years based on a tax rate of 30%	66,163	51,468
Franking credits available for future reporting periods based on a tax rate of 30%	54,013	42,789

	2022 %	2021 %
Tax rate at which paid dividends have been franked	30.0	30.0
Tax rate at which dividends declared and unpaid will be franked	30.0	30.0

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date

	2022 $'000	2021 $'000
Note 8. Reconciliation of profit after income tax to net cash from operating activities		
Profit after income tax expense for the year	74,922	84,241
Investing and financing items included in profit after income tax expense:		
Net loss on disposal of property, plant and equipment	282	145
Interest expense	9,249	6,739
Net gain on disposal of right use asset	(29)	–
Non-cash items included in profit after income tax expense:		
Depreciation and amortisation expense	41,555	30,870
Share-based payments expense	625	210
Cash items not included in profit after income tax expense:		
Purchase of shares under EPRP	(352)	(105)
Change in operating assets and liabilities:		
Trade and other receivables	(1,426)	877
Inventories	(14,034)	(10,460)
Deferred tax	592	1,707
Prepayments	(162)	(291)
Other financial assets	(1,671)	(6,936)
Net fair value change on derivatives	647	4,858
Trade and other payables	6,766	5,813
Deferred revenue	13,596	12,304
Provision for income tax	(7,923)	10,001
Other provisions	(230)	315
Net foreign currency differences	(68)	140
Net cash from operating activities	122,339	140,428

	2022 $'000	2021 $'000
Note 9. Cash and bank deposits		
Cash at bank and on hand	34,620	50,045
Short-term deposits	–	56,847
Cash and cash equivalents	34,620	106,892
Term deposits	40,000	–
	74,620	106,892

Recognition and measurement – Cash and bank deposits

Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with an original maturity of three months or less. Deposits are made for varying periods, depending on the immediate cash requirements of the Group. Deposits with an original maturity of more than three months are recognised as term deposits.

For the purposes of the statement of cash flows, cash and cash equivalents consist of cash and cash equivalents as defined above.

	2022 $'000	2021 $'000
Note 10. Receivables		
Trade debtors	1,823	189
Other debtors	1,727	1,505
	3,550	1,694

During the year ended 30 June 2022, $40,000 (2021: $2,000) was recognised as an expense for expected credit losses.

Recognition and measurement – Trade and other receivables

Trade and other debtors are initially recognised at fair value, less any allowance for expected credit losses. Trade debtors are generally due for settlement within 30 days. Other debtors include receivables from suppliers and GST paid in advance. These are non-interest bearing and are due for settlement between 30 and 90 days.

	2022 $'000	2021 $'000
Note 11. Inventories		
Finished goods – at net realisable value	47,997	34,987
Stock in transit – at cost	22,528	11,746
	70,525	46,733

During the year ended 30 June 2022, $292,000 (2021: $620,000) was recognised as reduction in cost of goods sold for inventories carried at net realisable value.

Recognition and measurement – Inventories

Inventories are valued at the lower of cost and net realisable value. Weighted average cost is used to value inventories. Costs incurred in bringing each product to its present location and condition includes purchase price plus freight, cartage and import duties. Net realisable value is the estimated selling price in the ordinary course of business, less estimated costs necessary to make the sale.

	2022 $'000	2021 $'000
Note 12. Other financial assets		
Derivative hedge receivable	3,091	1,565
	3,091	1,565

Foreign exchange forward contracts

Foreign exchange forward contracts are held as hedging instruments against forecast purchases in USD. The notional amount of foreign exchange forward contracts held on 30 June 2022 totalled $USD32,060,000 which covers between 50% and 100% of highly probable purchases for the six months to 31 December 2022 (30 June 2021: $USD39,760,000). The average rate of foreign exchange forward contracts held on 30 June 2022 was $USD0.74 (30 June 2021: $USD0.77).

Recognition and measurement – Other financial assets

Derivative hedge receivable

The Group uses derivative financial instruments, such as forward currency contracts, interest rate swaps and forward commodity contracts, to hedge its foreign currency risks, interest rate risks and commodity price risks, respectively. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at fair value. Derivatives are carried as financial assets when the fair value is positive and as financial liabilities when the fair value is negative.

Where derivative financial instruments are deemed to be effective hedges against foreign currency, interest rate, or commodity price risks, the net gain or loss on the fair value of the instrument is recognised as other comprehensive. Where derivative financial instruments are deemed to be ineffective hedges, the net gain or loss on the fair value of the instrument is recognised in profit or loss.

Note 13. Property, plant and equipment

	Land & buildings $'000	Leasehold improvements $'000	Fixtures & fittings $'000	Motor vehicles $'000	Office equipment $'000	Total $'000
Year ended 30 June 2022						
At cost	104,824	22,318	2,292	921	14,692	145,047
Less, accumulated depreciation	(7,439)	(13,282)	(1,907)	(584)	(9,310)	(32,522)
	97,385	9,036	385	337	5,382	112,525
Year ended 30 June 2021						
At cost	90,164	21,215	950	747	12,794	125,870
Less, accumulated depreciation	(6,751)	(11,243)	(755)	(419)	(8,074)	(27,242)
	83,413	9,972	195	328	4,720	98,628

Reconciliations

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

	Land & buildings $'000	Leasehold improvements $'000	Fixtures & fittings $'000	Motor vehicles $'000	Office equipment $'000	Total $'000
Balance at 1 July 2020	74,488	9,362	227	303	5,242	89,622
Additions	10,080	2,896	4	126	682	13,788
Disposals	–	–	–	(6)	–	(6)
Foreign currency translation	–	(8)	–	–	(1)	(9)
Depreciation expense	(1,155)	(2,278)	(36)	(95)	(1,203)	(4,767)
Balance at 30 June 2021	83,413	9,972	195	328	4,720	98,628
Acquisitions (Note 32)	–	2,245	286	36	328	2,894
Additions	15,398	1,267	6	85	1,666	18,422
Disposals	(164)	(118)	–	–	–	(282)
Foreign currency translation	–	(64)	(1)	(1)	(11)	(77)
Depreciation expense	(1,262)	(4,266)	(101)	(111)	(1,320)	(7,060)
Balance at 30 June 2022	97,385	9,036	385	337	5,382	112,525

Land and buildings totalling $67.5m (2021: $83.4m) are used to secure bank loans relating to their purchase.

Recognition and measurement – Property, plant and equipment

All classes of property, plant and equipment are measured at cost, less accumulated depreciation and any impairment in value. Depreciation is provided on a straight-line basis based on management's estimate of both the residual value and the useful economic life of the asset. The depreciation methods, residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date.

Management's current estimates of useful economic lives are as follows:

Buildings:	20 to 40 years
Leasehold improvements:	5 to 15 years (leasehold improvements are depreciated at the shorter of the useful life or the term of the lease)
Furniture and fitting:	3 to 15 years
Motor vehicles:	6 years
Office equipment (including IT equipment):	3 to 12 years

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Company. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

The carrying values of property, plant and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which it belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount.

	2022 $'000	2021 $'000
Note 14. Leases		
Lease liabilities		
Current lease liabilities	36,200	27,309
Non-current lease liabilities	201,736	166,009
	237,936	193,318
Reconciliation of lease liabilities		
Opening lease liabilities	193,318	181,203
Lease modifications agreed during the year	6,742	8,934
Additional leases entered during the year	11,484	26,509
Acquisitions (Note 32)	62,172	–
Interest accrued	8,124	6,207
Lease repayments	(41,398)	(29,472)
Disposal	(1,959)	–
Foreign currency translation	(547)	(63)
	237,936	193,318
Right-of-use assets		
Right-of-use assets – at cost	344,184	270,663
Less, accumulated depreciation	(128,822)	(99,759)
	215,362	170,904
Reconciliation of right-of-use assets		
Opening right-of-use asset	170,904	161,734
Lease modifications agreed during the year	6,742	8,934
Additional right-of-use assets relating to leases entered during the year	11,484	26,509
Acquisitions (Note 32)	62,172	–
Acquired make good provision	251	–
Disposal of right-of-use assets relating to leases terminated during the year	(1,929)	(160)
Additional make good asset during the year	18	–
Depreciation	(33,816)	(26,057)
Foreign currency translation	(464)	(56)
	215,362	170,904

Recognition and measurement – Leases

Lease liabilities

The Group enters non-cancellable leases for retail showrooms and warehouse facilities in Australia and New Zealand. Leases are entered into for varying terms and rent reviews are based on CPI increases or fixed increases. A lease liability is recognised at the commencement date of a lease at the present value of the lease payments to be made over the term of the lease.

Lease liabilities include known future payments for which the Group is contractually obliged under the terms of its non-cancellable leases. Estimated future payments in respect of make-good clauses within non-cancellable leases are accounted for as provisions (Note 19).

A number of the leases contain options to renew in favour of the Group. These options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. Management exercises judgement in determining whether these extension options are reasonably certain to be exercised. The present value of the lease payments to be made under options considered reasonably certain to be exercised have been included in the lease liability balance at 30 June 2022. The undiscounted potential future payments under options that are not considered reasonably certain to be exercised is $131,321,000 which includes those that have an exercise date within the next five years of $51,750,000.

Right-of-use assets

Right-of-use assets are measured at cost at commencement of the lease and depreciated on a straight-line basis over the effective life of the asset. The right-of-use assets have an effective life of between three and fourteen years dependent on the term of the lease and the likelihood of the Company exercising any lease extension options in its favour.

Note 15. Intangibles

	Goodwill $'000	Brands $'000	Website costs $'000	Total $'000
Year ended 30 June 2022				
At cost	90,589	38,000	2,367	130,956
Less, accumulated amortisation	–	–	(1,531)	(1,531)
	90,589	38,000	836	129,425
Year ended 30 June 2021				
At cost	2,378	–	1,165	3,543
Less, accumulated amortisation	–	–	(852)	(852)
	2,378	–	313	2,691

Reconciliations

Reconciliation of the carrying amounts of intangibles at the beginning and end of the financial year:

	Goodwill $'000	Brands $'000	Website costs $'000	Total $'000
Balance at 1 July 2020	2,378	–	47	2,425
Additions	–	–	312	312
Amortisation expense	–	–	(46)	(46)
Balance at 30 June 2021	2,378	–	313	2,691
Additions	–	–	557	557
Acquisitions (Note 32)	88,211	38,000	645	126,856
Amortisation expense	–	–	(679)	(679)
Balance at 30 June 2022	90,589	38,000	836	129,425

No impairment losses have been recognised in the year ended 30 June 2022 (2021: $Nil)

Recognition and measurement – Intangibles

Goodwill and brands

Goodwill on acquisition is initially measured at cost, being the excess of the cost of the business combination over the Group'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.

Brand names acquired in a business combination are initially measured at fair value using the relief from royalty method. Following initial recognition, brands are measured at cost less any accumulated impairment losses.

Goodwill and brands are reviewed for impairment annually, or more frequently if events or changes in circumstances indicate that their carrying value may be impaired. Impairment is determined by assessing the recoverable amount of the cash generating unit ("CGU"), or group of CGUs, to which the asset relates. The Group has determined that its CGUs are the individual showrooms, being the smallest grouping of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets.

The Group has determined that the relevant group of CGUs to which all of the Group's goodwill and brands relate is the aggregation of all CGUs within the Nick Scali Group, as it is not considered practicable to allocate these assets to smaller CGUs on a reasonable and consistent basis.

It was previously determined that the relevant group of CGUs to which the Group's goodwill related was the aggregation of all CGUs in South Australia, as the goodwill had arisen on the acquisition of the store network in South Australia. During the year, this asset was reallocated to the aggregated group of all CGUs within the Nick Scali Group, as this more accurately reflects the way in which management monitor the activities of the business

The recoverable amount of the aggregation of all CGUs within the Nick Scali Group is based on their value in use, determined by discounting the future cash flows expected to be generated by their continued use. The key assumptions, to which this determination is most sensitive, relate to the following:

Sales revenue: Revenue for the next five years has been estimated with reference to the Group's budget for the year ending 30 June 2023 and five-year forward-looking plans, adjusted for recent performance trends. Consideration was given to expected retail trading conditions when estimating future revenue.

Gross margin: Gross margins have been estimated with reference to the Group's budget for the year ending 30 June 2023, adjusted where appropriate for expected future changes in the Group's international supply chain.

Note 15. Intangibles continued

Terminal growth rate: Growth beyond the next five years has been estimated with reference to the expected long-term average growth rate for Australia and New Zealand. The terminal growth rate was determined to be 2.0% (2021: 2.0%).

Discount rate: The discount rate is based on the specific circumstances of the Group and its CGUs and was derived from its weighted average cost of capital. Consideration was given to the cost of both debt and equity, and the Group's weighted average cost of capital was determined to be 10.4% (2021: 8.0%).

At 30 June 2022, the recoverable amount of the CGU exceeded its carrying amount, and there are considered to be no reasonably possible changes to any of the key assumptions that would cause the recoverable amount of the CGU to be less than its carrying values, and consequently, no impairment has been recognised.

Website costs

The direct costs of developing the Group's websites are measured at cost, less accumulated amortisation and any impairment in value. The Group determines that the website will generate probable future economic benefits and recognises both internal expenditure and external expenditure on website content as an intangible. The website costs are determined to have a finite life of between 3 and 5 years and amortisation is provided on a straight-line basis over the useful life.

	2022 $'000	2021 $'000
Note 16. Borrowings		
Current bank loans	20,100	15,500
Non-current bank loans	71,562	18,162
	91,662	33,662
Reconciliation of borrowings		
Opening borrowings	33,662	33,662
Additional bank loans drawn during the year	72,500	–
Repayment of bank loans during the year	(14,500)	–
Repayment of bank loans during the year	91,662	33,662

The effective interest rates of the current and non-current bank loans are included at Note 23. The maturities of the non-current loans are between 12 months and 52 months.

Recognition and measurement – Interest-bearing loans and borrowings

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

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

	2022 $'000	2021 $'000
Note 17. Payables		
Trade creditors	17,516	11,542
Other creditors and accruals	17,463	10,533
	34,979	22,075

Trade creditors

Trade creditors are non-interest-bearing financial instruments and are normally settled within 30 days.

Other creditors

Other creditors are non-interest-bearing financial instruments and are normally settled on 30-day to 60-day terms.

Recognition and measurement – Payables

Trade and other payables are carried at amortised cost and due to their short-term nature they are not discounted. They represent liabilities for goods and services provided to the Company prior to the end of the financial year that are unpaid and arise when the Company becomes obliged to make future payments in respect of goods and services received.

	2022 $'000	2021 $'000
Note 18. Deferred revenue		
Customer deposits	84,740	51,418
Current accidental damage warranties	334	477
Current deferred revenue	85,074	51,895
Non-current accidental damage warranties	1,767	1,272
Non-current deferred revenue	1,767	1,272
	86,841	53,167

Recognition and measurement – Deferred revenue

Customer deposits

Customer deposits represent amounts received from customers for orders not yet completed. Deposits received from customers are recognised as revenue at the point of delivery of the goods to the customer. Orders are typically completed within three months and deposits are therefore considered short-term in nature and are not discounted.

Accidental damage warranties

Accidental damage warranties are purchased by customers in conjunction with the purchase of goods and are initially measured based on an allocation of the purchase price between the fair value of the goods and the warranty. Amounts deferred are recognised as revenue over the term of the warranty. Accidental damage warranties classified as current will be recognised as revenue within 12 months of the reporting date.

	2022 $'000	2021 $'000
Note 19. Provisions		
Current employee entitlements	6,088	3,462
Current lease make good	172	131
Current provisions	6,260	3,593
Non-current employee entitlements	698	387
Non-current lease make good	1,296	1,007
Non-current provisions	1,994	1,394
	8,254	4,987

Recognition and measurement – Provisions

Employee entitlements

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

Liabilities for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Lease make good

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

	2022 Shares	2021 Shares	2022 $'000	2021 $'000
Note 20. Issued capital				
Authorised and fully paid ordinary shares	81,000,000	81,000,000	3,364	3,364

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. All ordinary shares carry one vote per share without restriction.

There are no other classes of equity securities.

Recognition and measurement – Issued share capital

Ordinary share capital is recognised at the fair value of the consideration received by the Company.

Any transaction costs arising on the issue of ordinary shares are recognised directly in equity as a reduction of the share proceeds received, net of tax.

	2022 $'000	2021 $'000
Note 21. Reserves		
Capital profits reserve	78	78
Cash flow hedge reserve	1,745	1,098
Foreign exchange reserve	(192)	9
Equity benefits reserve	(93)	(227)
	1,538	958

Movements in reserves

	Equity benefits reserve $'000	Capital profits reserve $'000	Cash flow hedge reserve $'000	Foreign exchange reserve $'000	Total $'000
Balance at 1 July 2020	(352)	78	(3,760)	(4)	(4,038)
Amounts recognised for cash flow hedges	–	–	6,937	–	6,937
Income tax on items taken directly to or transferred from equity	21	–	(2,079)	–	2,058
Purchase of shares under EPRP	(105)	–	–	–	(105)
Share based payments expense	209	–	–	–	209
Foreign currency translation differences	–	–	–	13	13
Balance at 30 June 2021	(227)	78	1,098	9	958
Amounts recognised for cash flow hedges	–	–	647	–	647
Income tax on items taken directly to or transferred from equity	(139)	–	–	–	(139)
Purchase of shares under EPRP	(352)	–	–	–	(352)
Share-based payments	625	–	–	–	625
Foreign currency translation differences	–	–	–	(201)	(201)
Balance at 30 June 2022	(93)	78	1,745	(192)	1,538

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 29 for further details of these plans.

Capital profits reserve

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

Cash flow hedge reserve

This reserve is used to recognise the effective portion of the gain or loss on cash flow hedge instruments that are determined to be effective hedges.

Foreign exchange reserve

This reserve is used to recognise differences arising where assets and liabilities denominated in foreign currencies are translated at the functional currency exchange rate prevailing at the reporting date.

	2022 $'000	2021 $'000
Note 22. Financing facilities		
Unrestricted access was available to the following credit facilities at the reporting date:		
Total facilities		
Bank loans expiring within 12 months	20,100	15,500
Bank loans expiring in greater than 12 months	71,562	18,162
Interchangeable facilities, including letters of credit and bank guarantees	1,000	3,015
Bank guarantee facilities	500	–
	93,162	36,677
Facilities used at reporting date		
Bank loans expiring within 12 months	20,100	15,500
Bank loans expiring in greater than 12 months	71,562	18,162
Interchangeable facilities, including letters of credit and bank guarantees	–	1,312
Bank guarantee facilities	380	–
	92,042	34,974
Facilities unused at reporting date		
Bank loans expiring within 12 months	–	–
Bank loans expiring in greater than 12 months	–	–
Interchangeable facilities, including letters of credit and bank guarantees	1,000	1,703
Bank guarantee facilities	120	–
	1,120	1,703

Note 23. Financial instruments

Financial risk management objectives

The Company has exposure to foreign exchange risk, interest rate risk, credit risk and liquidity risk.

The Company's financial risk management policies are established to identify and analyse the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to limits. Risk management policies and systems are reviewed regularly to reflect changes in market conditions and the Company's activities.

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

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

Market risk

Market risk is the risk that changes in market prices such as foreign exchange rates and interest rates will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control exposure within acceptable parameters while maximising return.

Foreign currency risk

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

As of 30 June 2022, the Company had trade payables of $6,835,000 (2021: $3,318,000) denominated in US dollars and stock in transit of $22,529,000 (2021: $11,746,000) denominated in US dollars, all of which are covered by designated cash flow hedges. 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 2022 through to December 2022, 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.

Note 23. Financial instruments (continued)

During the year, the Company designated foreign currency forward contracts as hedges of highly probable purchases of inventory in US dollars. The forecast purchases of inventory for which designated foreign currency forward contracts were in place at 30 June 2022 are expected to occur during July 2022 through to December 2022.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties of the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated with the contracts (both the counterparty's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As of 30 June 2022, an unrealised gain of $647,000 (30 June 2021: an unrealised gain of $4,858,000) is recorded in other comprehensive income.

Interest rate risk

Financial instruments utilised that are subject to interest, and therefore interest rate risk, are cash and commercial bills. Management continually monitor the exposure to interest rate risk, and the following table sets out the carrying amount by maturity of the financial instruments exposed to interest rate risk at reporting date. All financial instruments exposed to interest rate risk are exposed to a variable interest rate.

The fair value of the cash, deposits and bank loans shown below are based on the face value of those financial instruments.

	2022		2021	
	Weighted average interest rate %	Balance $'000	Weighted average interest rate %	Balance $'000
Assets less than three months – Cash	0.20	34,816	0.20	106,892
Assets between three months and 12 months – Deposits	3.65	40,000	–	–
Liabilities less than one year – Bank loans	2.04	(20,100)	1.54	(15,500)
Liabilities between one and five years – Bank loans	1.26	(71,562)	1.49	(18,162)
		(16,846)		73,230

A reasonably possible decrease (or increase) in the interest rate of 50 basis points would result in a decrease (or increase) of profit of $84,000 (2021: $45,000 on 50 basis points movement).

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company. In most cases, the Company requires full and final payment either prior to, or upon delivery of the goods to the customer. In limited cases where credit is provided, the Company trades on credit terms with recognised, creditworthy third parties. Customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Company's exposure to bad debts is not significant. There are no significant concentrations of credit risk within the Company.

With respect to credit risk arising from financial assets of the Company, which comprise of cash and cash equivalents and receivables, the Company's maximum exposure to credit risk, excluding the value of any collateral or other security, at reporting date to recognised financial assets is in the carrying amount, net of any provisions for doubtful debts, as disclosed in the statement of financial position and notes to the financial statements. Cash and cash equivalents are only invested with corporations which are approved by the Board.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions.

The Company manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

The following tables detail the Company's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Note 23. Financial instruments (continued)

	Less than 3 months $'000	3 to 12 months $'000	1 to 5 years $'000	Over 5 years $'000	Remaining maturities $'000
Year ended 30 June 2022					
Interest bearing					
Bank loans	20,143	–	74,913	–	95,056
Lease liabilities	11,374	31,973	95,076	8,974	147,397
Non–interest bearing					
Trade creditors	17,516	–	–	–	17,516
Other creditors	17,465	–	–	–	17,465
Current tax liabilities	7,665	–	–	–	7,665
	74,163	31,973	169,989	8,974	285,099
Year ended 30 June 2021					
Interest bearing					
Bank loans	–	15,613	18,609	–	34,222
Lease liabilities	8,509	24,928	94,094	16,583	144,114
Non-interest bearing					
Trade creditors	11,542	–	–	–	11,542
Other creditors	10,533	–	–	–	10,533
Current tax liabilities	15,588	–	–	–	15,588
	46,172	40,541	112,703	16,583	215,999

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value hierarchy

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

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

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

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

At the reporting date the fair value of derivative financial instruments represented a derivative hedge receivable of $3,091,000 (2021: receivable of $1,565,000). All foreign currency forward contracts were measured at fair value using the Level 2 method. Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Recognition and measurement – Financial instruments

Derivative financial instruments

Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. Recognition of the resulting gain or loss depends on whether the derivative is designated as a hedging instrument and the nature of the item being hedged. As appropriate, the Company designates derivatives as either hedges of the fair value of recognised assets or liabilities of firm commitments (fair value hedges) or hedges of highly probable forecast transactions (cash flow hedges).

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

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one year to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Note 24. Contingent liabilities

In the ordinary course of business, the Group are subject to various legal actions and inquiries or investigations from regulators and government bodies. Consideration has been given to all such matters at 30 June 2022, and no contingent liabilities were identified at that date (30 June 2021: Nil).

	2022 $'000	2021 $'000
Note 25. Commitments		
Land and buildings	6,729	4,453
Leasehold improvements	43	253
Plant and equipment	1,391	41
Intangibles – Website costs	440	244
	8,603	4,991

	2022 No.	2021 No.
Note 26. Employees		
The total number of employees at the reporting date was as follows:		
Number of full-time and part-time employees at balance date	776	541

	2022 $	2021 $
Note 27. Key management personnel		
The aggregate compensation made to directors and other key management personnel of the Company is set out below:		
Short-term employee benefits	2,852,499	2,936,100
Long-term employee benefits	11,852	11,852
Post-employment benefits	120,265	109,900
Share-based payments	384,458	82,938
	3,369,074	3,140,790

Note 28. Related party transactions

Related party transactions 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 was primarily the reimbursement of personal expenses incurred on Company paid credit cards and the purchase of products for their own use.

Receivables from and payables to related parties

There were no trade receivables from or trade payables to related parties on 30 June 2022 (2021: Nil).

Loans to or from related parties

There were no loans to or from related parties on 30 June 2022 (2021: Nil).

Note 29. Share-based payments

The Company has an Executive Performance Rights Plan (EPRP) 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. There is no exercise price for the shares and the employees can exercise the right for up to two years following vesting, after which time the rights lapse.

In the year ended 30 June 2022 rights to ordinary shares were issued which include performance hurdles requiring compound annual EPS growth of between 5% and 10%. Under the grant, 50% of the rights are exercisable on the achievement of 5% EPS growth, 100% on the achievement of 10% EPS growth, and for the achievement of between 5% and 10% EPS growth the number of rights exercisable is calculated on a pro-rata basis.

The following table reconciles the outstanding employee share rights under the EPRP at the beginning and end of the financial year:

	2022	2021
Outstanding share rights at the start of the year	146,459	114,827
Share rights granted	108,914	56,569
Share rights vested and exercised	(28,382)	(12,469)
Share rights forfeited	–	(12,469)
Outstanding share rights at the end of the year	226,991	146,459

The expense recognised in relation to employee share rights during the year was $624,600 (2021: $209,450).

Recognition and measurement – Share-based payments

Share-based payments are measured at the fair value of the rights at grant date and are expensed on a straight-line basis over the vesting period, with a corresponding increase in equity, based on the Company's estimate of the number of shares that will eventually vest, considering the likelihood of employee turnover and the likelihood of non-market performance conditions being met.

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

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

	2022	2021
Share price at grant date ($)	12.36	8.75
Dividend yield (%)	9.0	6.5
Franking rate (%)	30.0	30.0
Implied pre-tax effective dividend yield (%)	12.9	9.3

Note 30. Parent entity information

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

	2022 $'000	2021 $'000
Statement of financial position		
Current assets	234,965	154,199
Non current assets	258,789	257,504
Total assets	493,754	411,703
Current liabilities	150,509	112,801
Non current liabilities	211,277	185,869
Total liabilities	361,786	298,670
Net assets	131,968	113,033

Note 30. Parent entity information (continued)

	2022 $'000	2021 $'000
Equity		
Issued capital	3,364	3,364
Capital profits reserve	78	78
Cash flow hedge reserve	1,721	1,098
Equity benefits reserve	(93)	(227)
Retained profits	126,898	108,720
Total equity	131,968	113,033
Statement of comprehensive income		
Profit after income tax expense	66,778	83,481
Other comprehensive Income	446	4,858
Total comprehensive income for the year	67,224	88,339

Recognition and measurement – Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Nick Scali Limited ('Company' or 'parent entity') as of 30 June 2022 and the results of all subsidiaries for the year then ended. Nick Scali Limited and its subsidiaries together are referred to in these financial statements as the Group.

Subsidiaries are all those entities over which the Company has control. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and can affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances, and unrealised gains on transactions between entities in the Group are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Note 31. Controlled entities

Subsidiaries

The consolidated financial statements incorporate the assets, liabilities, and results of the following subsidiaries in accordance with the accounting policy described in this financial report

Name of entity	Country of incorporation	Class of shares	2022 %	2021 %
Nick Scali (New Zealand) Limited	New Zealand	Ordinary	100.0	100.0
Nick Scali Employee Share Scheme Pty Limited	Australia	Ordinary	100.0	100.0
Plush-Think Sofas Pty Limited	Australia	Ordinary	100.0	–

Closed Group

Pursuant to ASIC Corporations (Wholly-owned Companies) Instrument 2016/785, Nick Scali Limited, Plush-Think Sofas Pty Limited and Nick Scali Employee Share Scheme Pty Ltd (the "Closed Group") entered into a deed of cross guarantee on 30 June 2022. The effect of the deed is that Nick Scali Limited has guaranteed to pay any deficiency in the event of winding up of any controlled entity or if they do not meet their obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee. The controlled entities within the Closed Group have also given a similar guarantee in the event that Nick Scali Limited is wound up or if it does not meet its obligations under the terms of overdrafts, loans, leases or other liabilities subject to the guarantee.

Note 31. Controlled entities (continued)

The consolidated statement of profit or loss, consolidated statement of comprehensive income, summary of movements in consolidated retained earnings and consolidated statement of financial position of the entities that are members of the Closed Group are as follows:

	Closed Group 2022 $'000
Statement of profit or loss	
Revenue from contracts with customers	426,730
Cost of goods sold	(172,775)
Other income	5,265
Operating expenses	(107,185)
Depreciation and amortisation	(38,078)
Finance costs	(8,623)
Profit before income tax expenses	105,334
Income tax expense	(32,331)
Profit for the year	73,003
Other comprehensive income	
Net change in the fair value of cash flow hedges taken to equity, net of tax	647
Other comprehensive income for the year, net of tax	647
Total comprehensive income for the year, net of tax	73,650
Summary of movements in consolidated retained earnings	
Retained earnings at the beginning of the year	108,870
Profit for the year	73,003
Dividends paid during the year	(48,600)
Retained earnings at the end of the year	133,273
Statement of financial position	
Assets	
Current assets	
Cash and cash equivalents	70,369
Receivables	6,255
Inventories	66,382
Other financial assets	3,091
Prepayments	2,982
Total current assets	149,079
Non-current assets	
Land and buildings	97,385
Plant and equipment	12,502
Right-of-use assets	198,065
Intangibles	129,425
Total non-current assets	437,377
Total assets	586,456

Note 31. Controlled entities continued

	Closed Group 2022 $'000
Liabilities	
Current liabilities	
Borrowings	20,100
Payables	34,107
Lease liabilities	33,028
Deferred revenue	81,685
Current tax liabilities	7,228
Provisions	6,151
Total current liabilities	182,299
Non-current liabilities	
Borrowings	71,562
Lease liabilities	186,385
Deferred revenue	1,767
Deferred tax	4,189
Provisions	1,886
Total non-current liabilities	265,789
Total liabilities	448,088
Net assets	138,368
Equity	
Issued capital	3,364
Reserves	1,731
Retained profits	133,273
Total equity	138,368

Note 32. Business combinations

Acquisition of Plush-Think Sofas Pty Limited

Overview and strategic rationale

On 1 November 2021 the Company acquired 100% of the issued share capital of Plush-Think Sofas Pty Ltd for $102,522,000. The Group expects the acquisition to enable it to expand its store network and leverage its existing distribution facilities.

The cashflow on acquisition was as follows:

	$'000
Net cash acquired with the subsidiary	7,784
Cash paid	(110,306)
Purchase consideration transferred	(102,522)

Identifiable assets and liabilities acquired

The Group measured the value of the identifiable assets and liabilities at the date of acquisition at fair value. The acquired lease liabilities were measured using the present value of the remaining lease payments, whilst the acquired right-of-use assets were measured at an amount equal to the acquired lease liabilities.

Note 32. Business combinations (continued)

The fair values of the identifiable assets and liabilities of Plush-Think Sofas Pty Ltd at the date of acquisition were as follows:

	Value at Acquisition $'000
Assets	
Identifiable current assets	
Cash and cash equivalents	7,784
Receivables	486
Inventories	9,758
Prepayments	498
Total identifiable current assets	18,526
Identifiable non-current assets	
Plant and equipment	2,894
Right-of-use assets	62,422
Intangibles	38,645
Total identifiable non-current assets	103,961
Total identifiable assets	122,487
Liabilities	
Identifiable current liabilities	
Payables	5,884
Lease liabilities	7,750
Deferred revenue	20,078
Other financial liabilities	145
Provisions	3,133
Total identifiable current liabilities	36,990
Identifiable non-current liabilities	
Lease liabilities	54,423
Deferred tax	8,615
Provisions	364
Total identifiable non-current liabilities	63,402
Total identifiable liabilities	100,392
Identifiable net assets	22,095
Cash paid	110,306
Identifiable net assets	(22,095)
Goodwill arising on acquisition	88,211

The goodwill recognised has been attributed to the expected synergies from combining the assets and activities of Plush with those of the other companies in the Group.

There were no contingent liabilities identified within Plush-Think Sofas Pty Ltd at the date of acquisition.

Transaction costs

Transaction costs of $3,324,000 have been expensed and are included as acquisition expenses in the consolidated statement of comprehensive income. These costs were paid before 30 June 2022 and are part of operating cash flows in the consolidated statement of cash flows.

Reported impact of acquisition

Plush-Think Sofas Pty Ltd has contributed $88,832,000 of revenue for the period from 1 November 2021 to 30 June 2022. If the acquisition had taken place on 1 July 2021, revenue for the Group would have increased by $50,350,000 to $491,017,000.

Due to the extensive effects of central group services provided by Greenlit Brands Holdings Limited to Plush-Think Sofas Pty Ltd prior to the acquisition, and the integration of the business in to the Group subsequent to the acquisition, it is impracticable to determine either the impact the acquisition has had on profit after tax for the period from 1 November 2021 to 30 June 2022, or the impact that the acquisition would have had on net profit after tax had the acquisition occurred on 1 July 2021.

Note 33. Significant events after the reporting period

Other than the dividend declared on 22 August 2022 (see Note 7), no other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

	2022 $	2021 $
Note 34. Remuneration of auditors		
During the financial year the following fees were paid or payable for services provided by Ernst & Young, the auditor of the Company, and its network firms:		
Audit services		
Auditing the statutory financial report of the Company and its controlled entities and auditing the statutory financial reports of any controlled entities	363,000	195,315
Other services		
Due diligence services	142,621	145,000
Tax compliance	46,095	30,936
	551,716	371,251

Note 35. Summary of other significant accounting policies

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting year; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting year. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting year; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting year. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Other taxes

Revenues, expenses, and assets are recognised net of the amount of Goods and Services Tax ('GST') except:

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

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the statement of financial position. Cash flows are included in the statement of cash flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to the taxation authority are classified as operating cash flows. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Nick Scali Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions 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 financial year-end exchange rates and recognised in profit or loss.

All exchange differences are recognised in the statement of comprehensive income, except when deferred in equity as qualifying cash flow hedges.

Note 35. Summary of other significant accounting policies (continued)

Foreign operations
The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

Government grants
Government grants are recognised where there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as a reduction of the expense to which it relates.

Rent concessions
The practical expedient to AASB16 Covid-19 Related Rent Concessions has been adopted. This allows for an election to not account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affect payments which fall due before 30 June 2022 and there has been no substantive change in terms and conditions. Where the practical expedient has been applied, rent concessions are accounted for as a reduction in property costs.

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 either:
- the rights to receive cash flows from the asset have expired; or
- the Company retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Company has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset but has transferred control of the asset.

When the Company has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration received that the Company could be required to repay.

Financial liabilities
A financial liability is derecognised when the obligation under the liability is discharged, cancelled, or expires. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognised in profit or loss.

Provisions
Provisions are recognised when the Group has a present obligation (legal or constructive) because 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 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.

Dividends
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

Rounding of amounts
The Company is of a kind referred to in Class Order 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Class Order to the nearest thousand dollars, or in certain cases, the nearest dollar.

Directors' Declaration

In the Directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with the International Financial Reporting Standards as issued by the International Accounting Standards Board as described in Note 1 to the financial statements;
- the attached financial statements and notes five a true and fair view of the Company's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
- as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 31 will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the directors

John Ingram
Chairman

Anthony Scali
Managing Director

22 August 2022
Sydney

Parc TV Entertainment Unit. Parc Console. Links Rug.

Independent Auditor's Report to the Members of Nick Scali Limited

Ernst & Young
200 George Street
Sydney NSW 2000 Australia
GPO Box 2646 Sydney NSW 2001

Tel: +61 2 9248 5555
Fax: +61 2 9248 5959
ey.com/au

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

Report on the audit of the financial report

Opinion

We have audited the financial report of Nick Scali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 30 June 2022 and of its consolidated financial performance for the year ended on that date; and

b. Complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Key audit matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the financial report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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Inventory Valuation

Why significant	How our audit addressed the key audit matter
As at 30 June 2022, the Group held $70.5 million in inventories representing 11% of total assets. All inventory within the Group is managed using consistent processes. As detailed in Note 11 of the financial report, inventories are valued at the lower of cost and net realisable value. There is judgement involved in determining the cost of inventories and in assessing net realisable value. The cost of inventories includes elements relating to the costs of freight and customs duties. Judgements were involved in the process of allocating these costs to inventories. There is judgement in estimating the value of inventory which may be sold below cost and determining the net realisable value of this inventory. Such judgements include expectations for future sales and inventory clearance plans.	Our audit procedures assessed the valuation of inventories and the related financial report disclosures. These procedures included the following: - Assessed the application of inventory costing methodologies, specifically in relation to freight and customs duties, and whether this was consistent with Australian Accounting Standards. - Assessed the effectiveness of relevant controls in relation to the inventory costing process and assessed the accuracy of the Group's inventory valuation model, on a sample basis. - Assessed the basis by which the Group ensures inventory was recorded at the lower of cost and net realisable value, including the rationale for recording specific adjustments to value inventory below cost. In doing so, we examined sales margins achieved, the process for identifying specific slow moving inventories, historical inventory turnover and expected future sales.

Acquisition of Plush-Think Sofas

Why significant	How our audit addressed the key audit matter
On 1 November 2021, the Group completed the acquisition of Plush-Think Sofas Pty Ltd ("Plush") for consideration of $102.5m. The Group completed the acquisition accounting arising from the Plush acquisition and recognised goodwill of $88.2m and an intangible relating to the Plush brand of $38.0m. This goodwill, along with goodwill from a previous acquisition, has been allocated at the segment level being the lowest level at which goodwill is being monitored by management. Accounting for this acquisition was a complex and judgemental exercise, requiring the Group to determine the fair value of acquired assets and liabilities. Disclosures in relation to the acquisition can be found in Note 32 of the financial report.	Our audit procedures included the following: - We considered the terms of the agreement entered into the acquire Plush and assessed whether the accounting treatment was in accordance with Australian Accounting Standards. - Assessed the valuation assumptions used in the determination of the fair value of the acquired assets and liabilities and the amount recognised as goodwill. - Involved valuation specialists in assessing the fair value of the brand acquired. - Assessed the Group's identified CGU and Goodwill allocation with consideration of the Group's reporting segments, operations and strategy. - Assessed the adequacy of the financial report disclosures contained in Note 32.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 annual report other than the financial report and our auditor's report thereon. We obtained the directors' report that is to be included in the annual report, prior to the date of this auditor's report, and we expect to obtain the remaining sections of the annual report after the date of this auditor's report.

Our opinion on the financial report does not cover the other information and we do not and will not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed on the other information obtained prior to the date of this auditor's report, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

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- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in the directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the *Corporations Act 2001*. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst & Young

Lisa Nijssen-Smith
Partner
Sydney
22 August 2022

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 15 July 2022.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

Shareholders Category	Number of holders of ordinary shares
1 to 1,000	2,864
1,001 to 5,000	2,117
5,001 to 10,000	467
10,001 to 100,000	354
100,001 and over	27
Total	5,829

Equity security holders

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

	Number held	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	15,722,394	19.41
Citicorp Nominees Pty Limited	12,986,465	16.03
Scali Consolidated Pty Limited	11,039,474	13.63
J P Morgan Nominees Australia Pty Limited	9,071,910	11.20
National Nominees Limited	4,710,769	5.82
BNP Paribas Nominees Pty Ltd	2,794,201	3.45
Grahger Retail Securities Pty Ltd	2,300,000	2.84
BNP Paribas Nominees Pty Ltd	1,325,039	1.64
Molvest Pty Ltd	1,200,000	1.48
Citicorp Nominees Pty Limited	557,331	0.69
Netwealth Investments Limited	411,944	0.51
BNP Paribas Nominees Pty Ltd	322,272	0.40
BNP Paribas Nominees Pty Ltd	221,588	0.27
28421 Pty Ltd	211,500	0.26
Anacacia Pty Limited	180,500	0.22
NCH Pty Ltd	172,451	0.21
McNiven & Co Pty Ltd	163,500	0.20
UBS Nominees Pty Limited	159,707	0.20
BNP Paribas Nominees (NZ) Ltd	154,222	0.19
Mr William Francis Cannon	116,403	0.14
	63,821,750	78.79

Substantial holders

Substantial holders in the Company are set out below:

	Number held	Ordinary shares % of total shares issued
Scali Consolidated Pty Limited	11,039,474	13.63
Magellan Financial Group Limited	7,024,241	8.67
Perpetual Limited	4,081,577	5.04
	22,145,292	27.34

Voting rights

Ordinary shares

All ordinary shares carry one vote per share without restriction.

There are no other classes of equity securities.

Slab Dining Table. Slab Bench. Slab Buffet. Zeya Rug.

Corporate Information

Nick Scali Limited
ABN 82 000 403 896

Registered Office
Level 7, Triniti 2
39 Delhi Road
North Ryde NSW 2113
Telephone: 02 9748 4000
Website: www.nickscali.com.au

Company Secretary
Christopher Malley

Auditors
Ernst & Young
200 George Street
Sydney NSW 2000

Solicitors
Ashurst
Level 11, 5 Martin Place
Sydney NSW 2000

Share Registry
Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
Telephone: 02 8280 7100

Stock Exchange
Nick Scali Limited shares are listed on the Australian Securities Exchange
ASX code: NCK

Annual General Meeting
The Annual General Meeting will be held at 100 Walker Street, North Sydney at 11H00 on Thursday 24th November 2022

Store Locations

nickscali

New South Wales
Alexandria
Auburn
Bankstown
Belrose
Bennetts Green
Campbelltown
Campbelltown Clearance
Caringbah
Castle Hill
Casula
Erina Clearance
Kotara
Marsden Park
Moore Park
Penrith
Prospect
Prospect Clearance
Rutherford
Tuggerah
Warrawong
West Gosford

Australian Capital Territory
Fyshwick
Fyshwick Clearance

Queensland
Aspley
Bundall
Cairns
Fortitude Valley
Jindalee
Macgregor
Mackay
Maroochydore
Morayfield
North Lakes
Robina
Skygate (Brisbane Airport)
Toowoomba
Townsville
Virginia Clearance

Victoria
Chirnside
Craigieburn
Essendon
Dandenong Clearance
Frankston
Geelong
Maribyrnong
Moorabbin
Nunawading
Nunawading Clearance
Preston
Richmond
South Wharf
Springvale
Taylors Lakes

Tasmania
Hobart

South Australia
Gepps Cross
Glynde
Keswick
Marion

Western Australia
Cannington
Jandakot
Joondalup
Midland
O'Connor
Osborne Park
Osborne Park Clearance

New Zealand
Hamilton
Hastings
Mt Wellington
St Lukes
Wairau Park

Plush think sofas

New South Wales
Albury
Alexandria
Artarmon
Auburn
Belrose
Caringbah
Castle Hill
Crossroads
Newcastle
Prospect
Rutherford
Warrawong
West Gosford

Australian Capital Territory
Fyshwick

Queensland
Aspley
Bundall
Fortitude Valley
Jindalee
Logan
Maroochydore
North Lakes
Toowoomba
Townsville

Victoria
Ballarat
Dandenong
Frankston
Geelong
Highpoint
Knox
Moorabbin
Nunawading
Preston/Northland
Richmond
Shepparton
Springvale
Taylors Lakes

South Australia
Gepps Cross
Marion
Mile End

Western Australia
Joondalup
Midland
Myaree
Osborne Park


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