

1. Company details

Name of entity:	Nick Scali Limited
ABN:	82 000 403 896
Reporting period:	For the half-year ended 31 December 2021
Previous period:	For the half-year ended 31 December 2020

2. Results for announcement to the market

			\$'000
Revenues from ordinary activities	up	5.4% to	180,323
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	down	17.4% to	33,550
Profit for the half-year attributable to the owners of Nick Scali Limited	down	17.4% to	33,550

Dividends

	Amount per security Cents	Franked amount per security Percentage
Final dividend for the year ended 30 June 2021 paid on 25 October 2021	25.0	100.0

On 3 February 2022 the directors declared a fully franked interim dividend of 35.0 cents per ordinary share with a record date of 7 March 2022 to be paid on 28 March 2022.

Comments

The profit for the consolidated entity after providing for income tax amounted to \$33,550,000 (31 December 2020: \$40,619,000).

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Profit after income tax expense	33,550	40,619
Interest income	(68)	(244)
Interest expense	3,941	3,281
Income tax expense	14,795	17,172
Earnings Before Interest and Tax (EBIT)	52,218	60,828
Depreciation and amortisation expense	17,905	15,454
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	<u>70,123</u>	<u>76,282</u>

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	<u>4.53</u>	<u>118.36</u>

4. Entities over which control has been gained or lost during the period

During the period, Nick Scali Limited acquired Plush-Think Sofas Pty Ltd for a total consideration of \$108,383,000. The acquisition was funded through a combination of new debt facilities and existing cash on hand.

Nick Scali Limited

ABN 82 000 403 896

Half-Year Report – 31 December 2021

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The Company's 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 half-year ended 31 December 2021.

Directors

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

John Ingram
 Stephen Goddard
 William Koeck
 Carole Molyneux
 Anthony Scali

Principal activities

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

Dividends

During the interim period a final franked dividend for the year ended 30 June 2021 of 25.0 cents per fully paid ordinary share was paid. Since the end of the interim period the directors have declared a fully franked interim dividend for the year ending 30 June 2022 of 35.0 cents per fully paid ordinary share. The interim dividend will be paid out of retained profits at 31 December 2021, on 28 March 2022.

Operating and financial review

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 \$108,383,000. 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.

Group operating results

	31 Dec 2021 \$'000	31 Dec 2020 \$'000	Change %
Revenue	180,323	171,081	+5.4%
Net profit after tax	33,550	40,619	-17.4%
Earnings per share ('EPS' cents)	41.4	50.1	-17.4%
Dividend per share (cents)	35.0	40.0	-12.5%
Net cash flow	(46,291)	24,611	-288.1%

Despite revenue growing by 5.4%, to \$180,323,000, net profit after tax of \$33,550,000 for the half-year ended 31 December 2021 was down 17.4% on the prior comparative period.

The decline in profitability was due to (a) a reduction of 80 basis points in the gross margin from 64.0% to 63.2%; (b) one-off transaction costs of \$2,914,000 incurred in relation to the acquisition of Plush; (c) the timing of the receipt of the Jobkeeper wage subsidy in the prior comparative period; and (d) the relatively higher cost base of the Plush business. Operating expenses within the continuing business were tightly managed across all areas of the business, with no material increase in underlying operating costs.

Although operating cashflows remained positive during the period, the Group had a net cash outflow during the period due to the acquisition of Plush.

Showroom network

During the half-year, the Group opened a new Nick Scali Furniture showroom in Hastings, New Zealand, whilst the acquisition of Plush-Think Sofas Pty Limited added a further 45 showrooms bringing the combined showroom network to 108 (103 in Australia and 5 in New Zealand).

The Group anticipates opening up to four showrooms in the second half of the current financial year.

Covid-19 impact

Throughout the half-year, the Company continued to address the issues arising from the Covid-19 pandemic, and was required to close showrooms in NSW, Victoria and New Zealand for periods of up to three months.

Furthermore, the Group's supply chain has been severely impacted by the pandemic, with overseas manufacturers operating under government restrictions, constraints in the supply of raw materials and shipping container availability being significantly impaired.

Outlook

Trading in December and early January was impacted by the Omicron variant. However, recently the Group has seen an improvement in traffic and written sales orders as consumers adjusted to managing the pandemic.

Whilst the Group's suppliers have recently reinstated normal lead times, shipping costs and the availability of containers remains uncertain, and therefore supply chain delays may persist for the remainder of the financial year.

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the Company during the half-year other than those set out in the operating and financial review above.

Matters subsequent to the end of the financial year

Apart from the dividend declared as discussed above, no other matter or circumstance has arisen since 31 December 2021 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.

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.

Auditor's independence declaration

The directors received the declaration from the auditor of Nick Scali Limited and is included on page 4 of the Financial Statements.

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

3 February 2022
Sydney



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working world**

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

As lead auditor for the review of the half-year financial report of Nick Scali Limited for the half-year ended 31 December 2021, 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 review.
- b) no contraventions of any applicable code of professional conduct in relation to the review; and
- c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Lisa Nijssen-Smith
Partner
3 February 2022

Nick Scali Limited
Consolidated statement of comprehensive income
For the half-year ended 31 December 2021



	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue from contracts with customers	3	180,323	171,081
Cost of goods sold		(66,372)	(61,580)
Gross profit		113,951	109,501
Other income	3	704	845
Expenses			
Marketing expenses		(7,892)	(6,943)
Employment expenses	4	(24,290)	(18,792)
General and administration expenses		(8,260)	(4,941)
Property expenses	4	(3,184)	(2,398)
Distribution expenses		(867)	(743)
Depreciation and amortisation		(17,905)	(15,454)
Finance costs		(3,912)	(3,284)
Profit before income tax expense		48,345	57,791
Income tax expense		(14,795)	(17,172)
Profit after income tax expense for the half-year attributable to the owners of Nick Scali Limited		33,550	40,619
Other comprehensive income			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Exchange differences on translation of foreign operations		(23)	6
Net change in the fair value of cash flow hedges taken to equity, net of tax		(1,014)	429
Other comprehensive income for the half-year, net of tax		(1,037)	435
Total comprehensive income for the half-year attributable to the owners of Nick Scali Limited		32,513	41,054
		Cents	Cents
Basic earnings per share		41.4	50.1
Diluted earnings per share		41.4	50.1

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

	Note	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Assets			
Current assets			
Cash and cash equivalents		60,601	106,892
Receivables		4,386	1,694
Inventories	6	60,423	46,733
Other financial assets	7	178	1,565
Prepayments		5,835	2,382
Total current assets		131,423	159,266
Non-current assets			
Property	8	91,154	83,413
Plant and equipment	8	20,800	15,215
Right-of-use assets	9	224,214	170,904
Deferred tax		-	5,334
Intangibles	10	122,601	2,691
Total non-current assets		458,769	277,557
Total assets		590,192	436,823
Liabilities			
Current liabilities			
Borrowings	11	24,600	15,500
Payables	12	25,939	22,075
Lease liabilities	9	36,355	27,309
Deferred revenue	13	76,916	51,895
Current tax liabilities		5,266	15,588
Provisions	14	6,713	3,593
Total current liabilities		175,789	135,960
Non-current liabilities			
Borrowings	11	71,562	18,162
Lease liabilities	9	210,559	166,009
Deferred revenue	13	1,333	1,272
Provisions	14	1,974	1,394
Deferred tax		2,703	-
Total non-current liabilities		288,131	186,837
Total liabilities		463,920	322,797
Net assets		126,272	114,026
Equity			
Issued capital		3,364	3,364
Reserves		(96)	958
Retained profits		123,004	109,704
Total equity		126,272	114,026

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

	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 half-year	-	-	-	-	-	40,619	40,619
Other comprehensive income for the half-year, net of tax	-	-	-	429	6	-	435
Total comprehensive income for the half-year	-	-	-	429	6	40,619	41,054
Employee share rights recognised under Executive Performance Rights Plan	-	3	-	-	-	-	3
Dividends paid (Note 5)	-	-	-	-	-	(18,225)	(18,225)
Balance at 31 December 2020	3,364	(349)	78	(3,331)	2	98,482	98,246
	Issued capital \$'000	Equity benefit reserve \$'000	Capital profits reserve \$'000	Cash flow hedge reserve \$'000	Foreign exchange reserve \$'000	Retained profits \$'000	Total equity \$'000
Balance at 1 July 2021	3,364	(227)	78	1,098	9	109,704	114,026
Profit after income tax expense for the half-year	-	-	-	-	-	33,550	33,550
Other comprehensive income for the half-year, net of tax	-	-	-	(1,014)	(23)	-	(1,037)
Total comprehensive income for the half-year	-	-	-	(1,014)	(23)	33,550	32,513
Employee share rights recognised under Executive Performance Rights Plan	-	(17)	-	-	-	-	(17)
Dividends paid (Note 5)	-	-	-	-	-	(20,250)	(20,250)
Balance at 31 December 2021	3,364	(244)	78	84	(14)	123,004	126,272

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

	Note	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Cash flows from operating activities			
Receipts from customers		204,590	200,459
Payments to suppliers and employees		(136,438)	(118,739)
		68,152	81,720
Interest receipts		68	244
Income tax payments		(25,913)	(14,992)
Net cash from operating activities		42,307	66,972
Cash flows from investing activities			
Purchase of property, plant and equipment		(10,943)	(10,387)
Proceeds from the sale of property, plant and equipment		-	11
Acquisition of subsidiary, net of cash acquired		(101,394)	-
Net cash from investing activities		(112,337)	(10,376)
Cash flows from financing activities			
Payment of dividends on ordinary shares	5	(20,250)	(18,225)
Proceeds from borrowings		72,500	-
Repayment of borrowings		(10,000)	-
Repayment of lease liabilities		(14,570)	(10,479)
Interest payments - lease liabilities		(3,531)	(2,996)
Interest payments - borrowings		(410)	(285)
Net cash used in financing activities		23,739	(31,985)
Net (decrease)/increase in cash and cash equivalents		(46,291)	24,611
Cash and cash equivalents at the beginning of the half-year		106,892	63,037
Cash and cash equivalents at the end of the half-year		60,601	87,648

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

Note 1. Basis of preparation

Basis of preparation

These general purpose financial statements for the half-year reporting period ended 31 December 2021 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the Corporations Act 2001, as appropriate for for-profit entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2021 and any public announcements made by the company during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The principal accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, unless otherwise stated.

At the end of the reporting period the company had a net current liability position of \$44,366,000. This has principally occurred due to the Group using available cash to acquire Plush-Think Sofas Pty Ltd and the recognition of current lease liabilities under AASB16 Leases.

Where necessary, and as a result of a change in the classification 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 at 31 December 2021. A subsidiary is an entity that is controlled by the Company. The Company controls an entity when it is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity.

The financial statements of 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 interim financial statements are consistent with those followed in the preparation of the annual financial statements for the year ended 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.

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. Assessment performed at balance date confirmed no indicators of impairment are present.

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 renew the lease if it is reasonably certain that the option will be exercised. In assessing the likelihood of a lease option will be 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 economic lives of assets is 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 economic lives are made when considered necessary.

Net realisable value of inventories

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

Net realisable value is determined based on the estimated selling price less an estimate of any costs necessary to make the sale in the ordinary course of business. Judgment is applied in assessing the net realisable value of inventories.

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.

Note 3. Revenue

	31 Dec 2021 \$'000	31 Dec 2020 \$'000
Revenue		
Revenue from contracts with customers	180,323	171,081
Other income		
Net gain on disposal of property, plant and equipment	-	7
Rental income	455	440
Interest income	68	244
Sundry income	181	154
	<u>704</u>	<u>845</u>

Note 4. Expenses

	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Profit before income tax includes the following specific expenses:		
<i>Included within employment expenses</i>		
Salaries and wages	20,760	19,489
Government wage subsidies received as a consequence of Covid-19	(67)	(3,555)
Superannuation expense	1,799	1,539
Share-based payments	214	46
 <i>Included within property expenses</i>		
Short-term and low value lease payments	857	445
Rent concessions received as a consequence of Covid-19	(720)	(539)

Note 5. Dividends

Dividends paid during the half-year were as follows:

	31 Dec 2021	31 Dec 2020
	\$'000	\$'000
Final fully franked dividend for 30 June 2021: 25.0 cents (2020: 22.5 cents)	20,250	18,225

On 3 February 2022 the directors declared a fully franked interim dividend of 40.0 cents per fully paid ordinary share with a record date of 7 March 2022 to be paid on 28 March 2022.

Note 6. Inventories

	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
Finished goods - at net realisable value	42,699	34,987
Stock in transit - at cost	17,724	11,746
	60,423	46,733

During the half-year ended 31 December 2021, \$40,000 was recorded as a write off in the cost of goods sold due to changes in the net realisable value of finished goods inventories (31 December 2020: \$400,000 reduction in cost of goods sold).

Note 7. Other Financial Assets

	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
Derivative hedge receivable	178	1,565

Note 8. Property, plant and equipment

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Property		
Land and buildings - at cost	98,520	90,164
Less: accumulated depreciation	(7,366)	(6,751)
	<u>91,154</u>	<u>83,413</u>
Plant and equipment		
Leasehold improvements - at cost	25,099	21,215
Less: accumulated depreciation	(12,363)	(11,243)
	<u>12,736</u>	<u>9,972</u>
Fixtures and fittings - at cost	3,257	950
Less: accumulated depreciation	(770)	(755)
	<u>2,487</u>	<u>195</u>
Motor vehicles - at cost	760	747
Less: accumulated depreciation	(468)	(419)
	<u>292</u>	<u>328</u>
Office equipment - at cost	13,891	12,794
Less: accumulated depreciation	(8,606)	(8,074)
	<u>5,285</u>	<u>4,720</u>
	<u>20,800</u>	<u>15,215</u>

Note 9. Leases

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Lease liabilities		
Lease liabilities - current	36,355	27,309
Lease liabilities - non current	210,559	166,009
	<u>246,914</u>	<u>193,318</u>
Right-of-use assets		
Right-of-use assets - at cost	334,943	270,663
Less: Accumulated depreciation	(110,729)	(99,759)
	<u>224,214</u>	<u>170,904</u>

Note 10. Intangibles

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Goodwill – at cost	83,357	2,378
Brand – at cost	38,000	-
Website – at cost	2,147	1,165
Less: accumulated amortisation	(903)	(852)
	<u>1,244</u>	<u>313</u>
	<u>122,601</u>	<u>2,691</u>

Note 11. Borrowings

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Current		
Bank loans	<u>24,600</u>	<u>15,500</u>
Non-current		
Bank loans	<u>71,562</u>	<u>18,162</u>

Note 12. Payables

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Current		
Trade creditors	14,308	11,542
Other creditors and accruals	<u>11,631</u>	<u>10,533</u>
	<u>25,939</u>	<u>22,075</u>

Note 13. Deferred revenue

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Current		
Customer deposits	76,351	51,418
Accidental damage warranties	<u>565</u>	<u>477</u>
	<u>76,916</u>	<u>51,895</u>
Non-current		
Accidental damage warranties	<u>1,333</u>	<u>1,272</u>

Note 14. Provisions

	31 Dec 2021 \$'000	30 Jun 2021 \$'000
Current		
Employee entitlements	6,334	3,462
Lease make good	379	131
	<u>6,713</u>	<u>3,593</u>
Non-current		
Employee entitlements	898	387
Lease make good	1,076	1,007
	<u>1,974</u>	<u>1,394</u>

Note 15. Financial instruments

Foreign currency risk

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

As at 31 December 2021, the Company had trade payables of \$3,050,000 (30 June 2021: \$3,318,000) denominated in US dollars and stock in transit of \$17,724,000 (30 June 2021: \$11,746,000) denominated in US dollars, most 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 31 December 2021 are expected to occur between January 2022 and June 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.

During the half-year, the Company designated foreign currency forward contracts as hedges of highly probable future purchases of inventory in US dollars. The future purchases are expected to occur between January 2022 and June 2022.

The terms of the foreign currency forward contracts have been negotiated to match the terms of the forecasted transactions. Both parties to the contract have fully cash collateralised the foreign currency forward contracts, and therefore, effectively eliminated any credit risk associated with the contracts (both the counter-party's and the Company's own credit risk). Consequently, the hedges were assessed to be highly effective. As at 31 December 2021, an unrealised foreign exchange loss of \$1,014,000 (31 December 2020: unrealised gain of \$429,000) is recorded in other comprehensive income.

Note 16. Fair value measurement

Fair value hierarchy

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

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

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

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

At the reporting date the fair value of derivative financial instrument represented a derivative hedge receivable of \$178,000 (30 June 2021: \$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.

Note 17. Business Combinations

On 1 November 2021 the Company acquired 100% of the issued share capital of Plush-Think Sofas Pty Ltd. The Group expects the acquisition to enable it to expand its store network and leverage its existing distribution facilities. The provisional fair values of the identifiable assets and liabilities of Plush-Think Sofas Pty Ltd at the date of acquisition were:

	Provisional values at acquisition \$'000
Current assets	
Cash and cash equivalents	7,784
Receivables	486
Inventories	12,764
Prepayments	498
Total current assets	<u>21,532</u>
Non-current assets	
Plant and equipment	5,926
Right-of-use assets	62,422
Intangibles	38,758
Total non-current assets	<u>107,106</u>
Total Assets	<u>128,638</u>
Current liabilities	
Payables	5,985
Lease liabilities	7,749
Deferred revenue	20,078
Other financial liabilities	145
Provisions	3,133
Total current liabilities	<u>37,090</u>
Non-current liabilities	
Lease liabilities	54,423
Provisions	364
Deferred tax	9,357
Total non-current liabilities	<u>64,144</u>
Total liabilities	<u>101,234</u>
Total identifiable net assets at fair value	<u>27,404</u>
Goodwill arising on acquisition	<u>80,979</u>
Purchase consideration transferred	108,383
<i>Cashflow on acquisition</i>	
Net cash acquired with the subsidiary	7,784
Cash paid	<u>(109,178)</u>
Cashflow on acquisition	<u>(101,394)</u>

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

Note 17. Business Combinations (cont)

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.

Transactions costs of \$2,913,000 (30 June 2021 \$500,000) have been expensed and are included in general and administration costs in the statement of comprehensive income and were paid before 31 December 2021 are part of operating cash flows in the statement of cash flows.

Plush-Think Sofas Pty Ltd has contributed \$21,700,000 of revenue and \$1,806,000 to profit after tax for the period from 1 November 2021 to 31 December 2021.

Note 18. Contingent liabilities

There are no contingent liabilities at 31 December 2021 (31 December 2020: Nil).

Note 19. Commitments

	31 Dec 2021	30 Jun 2021
	\$'000	\$'000
Land and buildings	2,559	4,453
Leasehold improvements	17	253
Plant and equipment	23	41
Intangibles - Website	122	244
	<hr/>	<hr/>
	2,721	4,991
	<hr/>	<hr/>

Note 20. Related party transactions

Other related party transactions

Dealings between the Company and the directors and personally-related entities were made during the half-year in the ordinary course of business on normal commercial terms and conditions. The nature of these dealings were primarily the reimbursement of personal expenses incurred on Company paid credit cards and the purchase of products for their own use.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to related parties at the current and previous reporting date.

Loans to or from related parties

There were no loans to or from related parties at either the current or previous reporting date.

Note 21. Events after the reporting period

Apart from the dividend declared as disclosed in Note 5, no other matter or circumstance has arisen since 31 December 2021 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Company's state of affairs in future financial years.

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 give a true and fair view of the Company's financial position as at 31 December 2021 and of its performance for the financial half-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.

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

3 February 2022
Sydney



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

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Nick Scali Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2021, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the half-year ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not 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 31 December 2021 and of its consolidated financial performance for the half-year ended on that date; and
- b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half year financial report is not in accordance with the Corporations Act 2001 including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2021 and its consolidated financial performance for the half year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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



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Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

Ernst & Young

Lisa Nijssen-Smith
Partner
Sydney
3 February 2022