Nick Scali Limited
Appendix 4E
Preliminary final report

1. Company details

Name of entity	Nick Scali Limited
ABN	82 000 403 896
Current reporting period	Year ended 30 June 2023
Prior corresponding period	Year ended 30 June 2022

2. Results for announcement to the market

Statutory results compared to the prior corresponding period

	Increase/ decrease	%	$'000
Revenue from ordinary activities	Increase	15.1	507,723
Profit from ordinary activities after tax attributable to the owners of Nick Scali Limited	Increase	34.9	101,082
Profit for the year attributable to the owners of Nick Scali Limited	Increase	34.9	101,082

Dividends

	Amount per security (Cents)	Franked amount per security (%)
Final dividend for the year ended 30 June 2022 paid on 24 October 2022	35.0	100.0
Interim dividend for the year ended 30 June 2023 paid on 28 March 2023	40.0	100.0

On 11 August 2023 the directors declared a fully franked final dividend of 35.0 cents per ordinary share with a record date of 27 September 2023 to be paid on 18 October 2023.

3.-7. Accompanying financial statements

Statements of comprehensive income, financial position, cash flows and changes in equity, together with notes to the statements and details of individual and total dividends are included in the Annual Report which accompanies this report.

8. Dividend reinvestment plans

Nick Scali Limited has not implemented a dividend reinvestment plan.

9. Net tangible assets

	Reporting period	Previous period
Total net assets ($'000)	179,913	140,928
Intangibles ($'000)	(129,773)	(129,425)
Net tangible assets ($'000)	50,140	11,503
Ordinary shares on issue	81,000,000	81,000,000
Net tangible assets per ordinary share	61.90	14.20

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

Nick Scali Limited did not gain or lose control over any entities during the year ended 30 June 2023.

11. Details of associates and joint ventures

Nick Scali Limited has no associates or joint ventures.

12. Other significant information

For further information on the Company's financial performance and financial position, please refer to the Company's Investor Presentation and Results Announcement which accompany this report.

13. Foreign entities

Nick Scali Limited is an Australian entity and has complied with International Financial Reporting Standards in compiling this report.

14. Commentary

For commentary on the Company's results, please refer to the Company's Investor Presentation and Results Announcement which accompany this report.

15-17. Audit opinion

This report is based on the Company's Annual Report for the year ended 30 June 2023 which has been audited and includes an unqualified audit opinion.

Nick Scali Limited

ABN 82 000 403 896

Annual Report

Year ended 30 June 2023

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Corporate Directory

Directors	John Ingram (Independent Non-Executive Chair) Carole Molyneux (Independent Non-Executive Director) Stephen Goddard (Independent Non-Executive Director) William Koeck (Independent Non-Executive Director) Kathy Parsons (Independent Non-Executive Director) Anthony Scali (Managing Director & Chief Executive Officer)
Company Secretary	Sheila Lines
Registered Office	Level 7, Triniti II 39 Delhi Road North Ryde NSW 2113 Telephone: 02 9748 4000
Share Register	Link Market Services Limited Level 12 680 George Street Sydney NSW 2000 Telephone: 02 8280 7100
Auditor	Ernst & Young 200 George Street Sydney NSW 2000
Solicitors	Ashurst Level 11, 5 Martin Place Sydney NSW 2000
Stock Exchange Listing	Nick Scali Limited shares are listed on the Australian Securities Exchange (ASX code: NCK)
Website	www.nickscali.com.au

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 2023.

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
Kathy Parsons (appointed 1 January 2023)
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:

	2023 $'000	2022 $'000
Final franked dividend for 30 June 2022: 35.0 cents (2021: 25.0 cents)	28,350	20,250
Interim franked dividend for 30 June 2023: 40.0 cents (2022: 35.0 cents)	32,400	28,350
	60,750	48,600

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 18 October 2023 out of retained profits at 30 June 2023.

Operating and financial review

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

Group operating results

	2023 $'000	2022 $'000	% change
Revenue	507,723	440,957	15.1%
Gross Margin %	63.5	61.0	
Net profit after tax (NPAT)	101,082	74,922	34.9%
Earnings per share (EPS)(cents)	124.8	92.5	34.9%

Revenue

The Group records revenue on delivery of furniture to the customer. Revenue for the year was favourably impacted by increased deliveries as the aging of the order bank reduced with lead times returning to pre Covid following the resolution of global supply chain delays in the second half of the prior year. The current year also includes twelve months of revenue for Plush-Think Sofas Pty Ltd ('Plush'), which was acquired 1 November 2021.

Group operating results (continued)

Gross margin

Gross margin improved 250 basis points primarily due both to the realisation of supply chain synergies for the acquired Plush business and decreases in the cost of international freight.

Operating expenses

Operating expenses include twelve months of costs for the Plush business acquired in November 2021. Additional logistics expenses of $4m in the current year to support peak volumes and are not expected to recur. Sales commission expense included in employment expenses also increased in line with the higher revenue. Expenses in the prior year included acquisition costs which did not recur in the current year.

Generally operating expenses increased with inflation and due to growth in the store network. Net profit after tax was 19.7% of revenue in the current year versus 17.0% in the prior year. Prior year underlying net profit after tax (after excluding Plush acquisition costs) was 18.2% of prior year revenue.

Net profit after tax of $101,082,000 was 34.9% higher than net profit after tax in the prior year and 26.1% higher than underlying net profit after tax in the prior year after excluding Plush acquisition and restructuring costs.

Cashflow

The Group maintained a strong working capital position throughout the year. Cash and bank deposits increased $14,631,000 in the year to $89,251,000 at 30 June 2023. Total borrowings of $91,687,000 includes $43,687,000 of debt secured on the portfolio of owned properties at lower than 50% loan to value. Ownership of property is a long-term strategy of the Company which secures key locations out of which the Company trades, offsets rent and rent increases which would otherwise be paid on a leased basis and over time provides growth in asset value. Of the $65,000,000 facility taken out in November 2021 to partially fund the Plush acquisition, $48,000,000 remained outstanding at 30 June 2023 and a further $20,000,000 was repaid in August 2023.

Showroom network

	Australia	New Zealand
Nick Scali Furniture (No.)	59	5
Plush (No.)	43	-
Total (No.)	102	5

During the year, Nick Scali Furniture showrooms were opened at Helensvale, Queensland and Shepparton, Victoria. Under the Plush brand a store was opened at Capalaba, Queensland and three stores were closed at Penrith, New South Wales, South Wharf, Victoria and Midland, Western Australia. This is in line with part of the Company's strategy to standardise and optimise the acquired Plush network through closure of certain acquired stores and replacement with new stores with improved locations and format.

The Company is investing to improve the performance of the acquired Plush store network with a new more appealing brand image and improved merchandising layout. The refurbishment of the Plush showrooms commenced with 7 stores complete at 30 June 2023. This program will continue throughout 2024.

People

The Group has a strong focus on attracting, engaging, developing, and retaining top talent to ensure it remains a desirable employer 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- 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 are not likely to have a significant impact on the business. The Group recognises the severity of the potential global impacts of climate change and that expectations of customers, governments, employees, and other stakeholders regarding the Group's ESG profile continue to evolve. The Group will continue to develop policies and procedures reflecting these expectations.

Outlook

The Company's performance is supported by long-term relationships with world leading suppliers and a disciplined focus on operating cost, together with a strong cashflow generation and financial position. This provides the platform to execute long term strategies, including expanding and improving the store networks, for shareholder value creation.

Short term changes in housing turnover and consumer confidence in the higher interest rate environment is likely to adversely impact customer demand. The Company's focus is to maintain and increase market share, continue offering high quality product at good value while maintaining gross margin and drive retail staff closure of sales opportunities.

Trading was volatile during the second half however June was a strong finish to FY23 with group written sales orders of $51.5m up 4.5% on June 2022.

July 2023 orders of $39.7m were down 8.1% cycling off a strong July 2022.

Significant changes in the state of affairs

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

On 1 August 2023 the company made a loan repayment on the corporate debt facility of $20 million reducing the remaining corporate debt to $28 million. This repayment is made in advance of the required payment schedule. The company declared a dividend on 11 August 2023. No other matter or circumstance has arisen since 30 June 2023 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 4.

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 Chair
Qualifications	AM, FAICD
Experience and expertise	John was appointed to the Board as non-executive Chair in April 2004, and was formerly Managing Director of Crane Group Limited.
Other current directorships	Non-executive Chair of Peter Warren Automotive Holdings Limited (ASX: PWR)
Former directorships	Nil
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	Nil
Special responsibilities	Chair of the Remuneration and Human Resources Committee Member of the Audit and Risk Committee
Interests in shares	25,000

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 Chair and Chair of Remuneration and Nomination Committee of JB Hifi Limited (ASX: JBH) Non-Executive Director and Chair of the Audit and Risk Committee of Accent Group Limited (ASX: AX1)
Former directorships	Non-Executive Director and Chair of the Audit and Risk Committee of GWA Group Limited (ASX: GWA)
Special responsibilities	Chair 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. For over 20 years, Bill has been a part time lecturer in corporate and securities law in the Masters of Law course at the University of Sydney. Bill is a Member of the Federal Governments Takeovers Panel.
Other current directorships	Non-Executive Deputy Chair and lead Independent Director, Member of Audit Risk and Governance Committee and Chair of Compensation and Nomination Committee for Coronado Global Resources Inc (ASX: CRN) Non-Executive Director of Poulos Bros.Group
Former directorships	Nil
Special responsibilities	Member of the Remuneration and Human Resources Committee Member of the Audit and Risk Committee

Interests in shares	16,300

Name	Kathy Parsons
Title	Independent Non-Executive Director
Qualifications	BCom, CA
Experience and expertise	Kathy was appointed to the Board on 1 January 2023 and brings a wealth of experience in accounting, finance, governance and risk management. Formerly she was an assurance partner at Ernst & Young with deep international experience working in Australia, the USA and the UK in a broad range of industries including retail and real estate. She was also part of the Oceania assurance leadership team responsible for quality assurance and risk management. Kathy was the signing partner on the audit of Nick Scali Limited from 2012 to 2018. .
Other current directorships	Non-Executive Director and Chair of the Audit Risk and Compliance Committee for McMillan Shakespeare Ltd (ASX: MMS) Non-Executive Director and Chair of the Audit and Risk Committee for Shape Australia Corp Ltd (ASX: SHA)
Former directorships	Non-Executive Director and Chair of the Audit Committee for Tassal Group Limited (ASX: TGR)
Special responsibilities	Member of the Remuneration and Human Resources Committee Member of the Audit and Risk Committee
Interests in shares	13,500

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	Nil
Special responsibilities	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 until 5 October 2022 was Christopher Malley. He is a current member of the Institute of Chartered Accountants in England and Wales.

The Company Secretary and Chief Financial Officer since 6 October 2022 is Sheila Lines. Sheila is currently a fellow of the Institute of Chartered Accountants in England and Wales and a member of the Chartered Accountant Australia & New Zealand. Sheila has over 25 years of experience at an executive level, most recently as Chief Financial Officer at oOh!media Limited.

Meetings of directors

The numbers of meetings of the Board and of each Board sub-committee held during the year ended 30 June 2023, and the numbers of meetings attended by each director or sub-committee member, were:

	Directors' Meetings		Remuneration and Human Resources Committee Meetings		Audit and Risk Committee Meetings	
	Held	Attended	Held	Attended	Held	Attended
John Ingram	10	10	1	1	4	4
Stephen Goddard	10	10	1	1	4	4
William Koeck	10	10	1	1	4	4
Carole Molyneux	10	10	1	1	4	4
Kathy Parsons[2]	5	5	1	1	2	2
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
[2] Kathy Parsons was appointed as a director on 1 January 2023.

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 2023 the key management personnel (KMPs) of the Group consisted of the following directors:

- John Ingram - Non-Executive Chair
- Stephen Goddard - Non-Executive Director
- William Koeck - Non-Executive Director
- Carole Molyneux - Non-Executive Director
- Kathy Parsons - Non-Executive Director (appointed on 1 January 2023)
- Anthony Scali - Managing Director & Chief Executive Officer

And the following executives:

- Sheila Lines - Chief Financial Officer & Company Secretary (appointed on 6 October 2022)
- Christopher Malley - Chief Financial Officer & Company Secretary (resigned on 5 October 2022)

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 rewards.

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 earnings per share (EPS).

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 senior executives reporting to the Managing Directors & Chief Executive Officer.
- recommending to the Board any discretionary component of short and long-term incentives for the Managing Director & Chief Executive Officer.
- 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.

3. Remuneration and Human Resources Committee (continued)

The Committee has met once 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

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 remuneration and they are not entitled to participate in the Executive Performance Rights Plan.

Non-executive Chair and directors' fees in place at 30 June 2023 and 30 June 2022 were as follows:

	2023 $	2022 $
Base fee for Non-Executive Chair	200,000	200,000
Base fee for Non-Executive Director	100,000	100,000
Additional fee for Audit and Risk Committee Chair	20,000	20,000
Additional fee for Audit and Risk Committee Member	5,000	5,000
Additional fee for Remuneration and Human Resources Committee Chair	10,000	10,000
Additional fee for Remuneration and Human Resources Committee Member	3,000	3,000

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 reporting to the Managing Director and Chief Executive Officer having regard to the nature of each role, the experience of the individual employee and the performance of the individual. Remuneration for the Managing Director and Chief Executive Officer is approved by the Board. External consultants are engaged as appropriate and market information is used to benchmark executive remuneration. During the year ended 30 June 2023 no remuneration recommendations (as defined in the Corporations Act 2001 (Cth) were received.

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	Annual base salary including superannuation	Notice of termination by Company	Notice of termination by Employee
Anthony Scali	Managing Director & Chief Executive Officer	7 April 2004	$750,000	12 months	6 months
Sheila Lines	Chief Financial Officer & Company Secretary	6 October 2022	$550,000	6 months	6 months

4. Remuneration structure (continued)

4.2 Executive remuneration (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 2023 financial year were:

	Fixed Remuneration	Variable Remuneration	
	Base Salary	Short-term Incentive	Long-term Incentive
Managing Director & Chief Executive Officer	50%	50%	-
Chief Financial Officer	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, 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 Board approves changes to the fixed remuneration of the Managing Director and Chief Executive Officer.

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 and other senior executives 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.

The maximum available STI for executives for the financial year is determined by financial targets established by the Board at the beginning of each financial year. A sliding scale is applied pro rata from 40% of maximum available STI at 95% of financial target to 100% of maximum available STI at 110% of financial target. Below 95% of financial target set by the Board no STI is awarded for the financial year.

Up to 100% of the maximum available STI determined for the financial year by application of the financial target set by the Board may also be subject to achievement of individual Non-financial KPIs. The Board at its discretion determines the weighting of non-financial KPIs for each financial year for the Managing Director and Chief Executive Officer. The Renumeration and HR committee determines the weighting of non-financial KPIs for each year for executives reporting to the Managing Director and Chief Executive Officer.

STIs awarded 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 following table shows the STI cash bonus target and the amount achieved for each KMP in the years ended 30 June 2023 and 30 June 2022:

Year ended 30 June 2023	Targeted STI Entitlement and KPIs			STI Achieved and KPIs		
	$	*Financial KPIs*	*Non-financial KPIs*	$	*Financial KPIs*	*Non-financial KPIs*
Anthony Scali	750,000	100%	-	750,000	750,000	-
Sheila Lines[1]	202,671	100%	-	202,671	202,671	-

[1] *Target is pro-rated for 2023 year to period of service commencing 6 October 2022. Christopher Malley who resigned as Chief Financial Officer & Company Secretary on 5 October 2022 was not entitled to an STI for the year ended 30 June 2023.*

4. Remuneration structure (continued)

4.2 Executive remuneration (continued)

On final assessment of KPI achievement for the 2022 financial year, STI payments were reduced from STI amounts originally estimated in the 2022 Annual Remuneration Report. Final paid STI outcomes for 2022 are shown below.

Year ended 30 June 2022	Estimated in 2022 report	Final Paid
	$	$
Anthony Scali	750,000	647,250
Christopher Malley[1]	150,000	64,718
John Austin[2]	150,000	129,450

[1] Christopher Malley resigned as the Chief Financial Officer and Company Secretary on 5 October 2022.
[2] The Board determined from 1 July 2022 that the KMP are the Directors, Managing Director & Chief Executive Officer, and the Chief Financial Officer & Company Secretary. John Austin is the Chief Operating Officer.

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. The Board has the discretion to adjust the EPS base year to reflect specific trading conditions which are not expected to re-occur in the measurement period. For performance rights issued in FY22 the Board adjusted the EPS base year to the average of FY20 and FY21 EPS, in recognition of the 100% increase in EPS in FY21 resulting from the unusually high demand for home furniture during the COVID lockdowns. For performance rights issued in FY23 the EPS base year was not adjusted.

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)	Less than 5%	5%	5% to 10%	More than 10%
Percentage of rights exercisable	Nil	50%	Pro-rata between 50% and 100%	100%

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 2023, 12,000 such rights were awarded to Sheila Lines on the commencement of her employment. 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.

4. Remuneration structure (continued)

4.2 Executive remuneration (continued)

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 performance rights entitlement of executives considered KMPs is calculated as a percentage of fixed annual remuneration for the years ended 30 June 2023 and 30 June 2022 as follows:

Year ended 30 June 2023	Years of Service	Targeted LTI Entitlement	LTI Awarded
Anthony Scali[1]	42	0%	0%
Sheila Lines[2]	9 months	0%	0%

[1] *Anthony Scali is aligned to creation of shareholder value over the long term as the beneficial holder of 13.62% of the issued share capital in the Company. Anthony Scali is not invited by the Board to participate in the EPRP.*
[2] *Sheila Lines had not met the employment tenure criteria for EPRP participation in the year ended 30 June 2023.*

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%

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 ($)	Fair value per right at grant date ($)
FY23/25	6 Oct 2022	Oct 2025[3]	31 Aug 2025	0.00	7.73
FY22/24	20 Sep 2021	Aug 2024[2,3]	30 Jun 2026	0.00	9.87
FY21/23	14 Sep 2020	Aug 2023[2]	30 Jun 2025	0.00	6.61

[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 performance 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.*
[3]*The vesting and exercisable date for retention rights issued to Sheila Lines is after completion of continuous service from 6 October 2022 to 31 August 2025. The vesting and exercisable date for retention rights issued to John Austin is after completion of three years continuous service 1 July 2021 to 30 June 2024.*

4. Remuneration structure (continued)

4.2 Executive remuneration (continued)

4.2.7 Performance rights holding

The table below sets out the balance of performance rights held by executives considered KMPs. The vesting of these rights are subject to the achievement of the 3 year EPS target.

	Balance at 1 July 2022	Granted	Vested and exercised	Forfeited	Balance at 30 June 2023
Anthony Scali	-	-	-	-	-
Sheila Lines	-	-	-	-	-
Christopher Malley[1]	58,377	-	23,810	29,093	5,474

[1] *Rights vested had a value of $222,271 when exercised. Performance rights forfeited on cessation of employment were granted: FY21 16,423 and FY22 12,669.*

	Balance at 1 July 2021	Granted	Vested and exercised	Forfeited	Balance at 30 June 2022
Anthony Scali	-	-	-	-	-
Christopher Malley	45,708	12,669	-	-	58,377
John Austin	-	12,669	-	-	12,669

4.2.8 Retention rights holding

The table below sets out the balance of retention rights held by executives considered KMPs. The vesting of these rights are subject to the completion of a service condition only.

	Balance at 1 July 2022	Granted	Vested and exercised	Forfeited	Balance at 30 June 2023
Anthony Scali	-	-	-	-	-
Sheila Lines	-	12,000	-	-	12,000
Christopher Malley	-	-	-	-	-

	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. Remuneration structure (continued)

4.3 Group performance

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

	2019	2020	2021	2022	2023	CAGR (%)
Revenue ($m)	268.0	262.5	373.0	441.0	507.7	17.3
Net profit after tax ($m)	42.1	42.1	84.2	74.9	101.1	24.5
Earnings per share (Cents)	52.0	51.9	104.0	92.5	124.8	24.5
Ordinary dividends paid per share (Cents)	45.0	47.5	65.0	60.0	75.0	13.6
Share price at 30 June ($)	6.26	6.48	11.72	8.26	9.11	9.8

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 2023 and 30 June 2022 respectively:

	Short-term benefit	Post-employment benefits	Total
	Fees	Superannuation	
Year ended 30 June 2023			
John Ingram	180,996	19,004	200,000
William Koeck	97,738	10,262	108,000
Carole Molyneux	104,072	10,928	115,000
Stephen Goddard	111,312	11,688	123,000
Kathy Parsons[1]	48,869	5,131	54,000
	542,987	57,013	600,000
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

[1]*Kathy Parsons was appointed as a Non-executive Director on 1 January 2023*

4. Remuneration structure (continued)

4.4 Remuneration outcomes (continued)

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 2023 and 30 June 2022 respectively:

	Short-term benefits		Post-employment benefits	Long-term benefits	Share-based payments	Total
	Base salary	Cash bonus (STI)	Super-annuation	Employee entitlements	Shares rights (LTI)	
	$	$	$	$	$	$
Year ended 30 June 2023						
Anthony Scali	726,427	750,000	23,567	12,083	-	1,512,077
Sheila Lines[1]	391,875	202,671	20,625	-	24,458	639,629
Christopher Malley[1]	84,525	-	7,782	-	(96,431)	(4,124)
	1,202,827	952,671	51,974	12,083	(71,973)	2,147,582
Year ended 30 June 2022						
Anthony Scali[2]	726,437	647,250	23,567	11,243	-	1,408,497
Christopher Malley[2]	276,423	64,718	23,567	-	145,473	510,181
John Austin[2]	305,548	129,450	23,567	-	238,985	697,550
	1,308,408	841,418	70,701	11,243	384,458	2,616,228

[1]Sheila Lines was appointed on 6 October 2022. Christopher Malley ceased to be a KMP on 5 October 2022. Amounts represent the payments to Chris Malley relating to the period in FY23 that he was KMP. Share based payment outcome for Christopher Malley includes reversal of prior period reported expense for performance rights forfeited on resignation in the current year.
[2]STI reflects reduced final paid amounts. Refer to section 4.2.4 in this report.

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 2022	Received as part of remunerations	Purchases	Disposals	Balance at 30 June 2023
	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares	Ordinary shares
John Ingram	385,000	-	-	-	385,000
William Koeck	16,300	-	-	-	16,300
Carole Molyneux	20,000	-	5,000	-	25,000
Stephen Goddard	6,000	-	-	-	6,000
Kathy Parsons[1]	-	-	-	-	13,500
Anthony Scali	11,039,474	-	-	-	11,039,474
	11,466,774	-	5,000	-	11,485,274

[1]Kathy Parsons had an existing beneficial interest prior to appointment 1 January 2023 of 13,500 Shares of the Company.

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

Kathy Parsons who was appointed as Director on 1 January 2023 is a former partner of Ernst & Young. She was the signing partner on the audit of Nick Scali Limited from 2012 until 2018.

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 2023. 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.

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 2023, Ernst & Young Australia performed tax review services and provided tax compliance services. Details of the amount paid to the auditor for non-audit services are set out below.

	2023 $'000
Tax compliance services	57
Tax review services	47
	104

Non-audit services (continued)

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 auditor's 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 20 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	**Anthony Scali**
Chair	Managing Director

11 August 2023

Sydney

Building a better working world

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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 2023, 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
11 August 2023

Consolidated statement of comprehensive income

	Note	2023 $'000	2022 $'000
Revenue from contracts with customers	3	507,723	440,957
Cost of goods sold		(185,313)	(171,980)
Gross profit		322,410	268,977
Other income	3	4,661	1,554
Expenses			
Marketing expenses		(24,125)	(21,828)
Employment expenses	4	(71,573)	(62,294)
General and administration expenses		(17,248)	(13,032)
Property expenses	4	(8,568)	(7,750)
Logistics expenses		(6,039)	(3,522)
Acquisition expenses	32	-	(3,324)
Depreciation and amortisation		(42,762)	(41,555)
Finance costs		(13,243)	(9,270)
Profit before income tax expenses		143,513	107,956
Income tax expense	5	(42,431)	(33,034)
Profit after income tax expense for the year attributable to the owners of Nick Scali Limited		**101,082**	**74,922**
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		(1,252)	647
Exchange differences on translation of foreign operations		84	(201)
Other comprehensive income for the year, net of tax		(1,168)	446
Total comprehensive income for the year attributable to the owners of Nick Scali Limited		**99,914**	**75,368**

	Note	2023 Cents	2022 Cents
Basic earnings per share	6	124.8	92.5
Diluted earnings per share	6	124.8	92.5

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

Consolidated statement of financial position

	Note	2023 $'000	2022 $'000
Assets			
Current assets			
Cash and bank deposits	9	89,251	74,620
Receivables	10	1,763	3,550
Inventories	11	54,555	70,525
Other financial assets	12	504	3,091
Prepayments		3,303	3,040
Total current assets		149,376	154,826
Non-current assets			
Land and buildings	13	104,482	97,385
Plant and equipment	13	14,836	15,140
Right-of-use assets	14	203,680	215,362
Deferred tax	5	5,493	4,257
Intangibles	15	129,773	129,425
Total non-current assets		458,264	461,569
Total assets		**607,640**	**616,395**
Liabilities			
Current liabilities			
Borrowings	16	2,300	20,100
Payables	17	22,728	34,979
Lease liabilities	14	35,563	36,200
Deferred revenue	18	62,884	85,074
Current tax liabilities		5,560	7,665
Provisions	19	5,325	6,260
Total current liabilities		134,360	190,278
Non-current liabilities			
Borrowings	16	89,387	71,562
Lease liabilities	14	190,915	201,736
Deferred revenue	18	2,274	1,767
Deferred tax	5	9,165	8,130
Provisions	19	1,626	1,994
Total non-current liabilities		293,367	285,189
Total liabilities		**427,727**	**475,467**
Net assets		**179,913**	**140,928**
Equity			
Issued capital	20	3,364	3,364
Reserves	21	191	1,538
Retained profits		176,358	136,026
Total equity		**179,913**	**140,928**

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

Consolidated statement of changes in equity

	Issued capital $'000	Equity benefits reserve $'000	Capital profits reserve $'000	Cashflow hedge reserve $'000	Foreign exchange reserve $'000	Retained profits reserve $'000	Total equity $'000
Balance at 1 July 2021	**3,364**	**(227)**	**78**	**1,098**	**9**	**109,704**	**114,026**
Profit after income tax 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**

	Issued capital $'000	Equity benefits reserve $'000	Capital profits reserve $'000	Cashflow hedge reserve $'000	Foreign exchange reserve $'000	Retained profits reserve $'000	Total equity $'000
Balance at 1 July 2022	**3,364**	**(93)**	**78**	**1,745**	**(192)**	**136,026**	**140,928**
Profit after income tax for the year	-	-	-	-	-	101,082	101,082
Other comprehensive income for the year, net of tax	-	-	-	(1,252)	84	-	(1,168)
Total comprehensive income for the year	-	-	-	(1,252)	84	101,082	99,914
Employee share rights recognised under EPRP (Note 21)	-	(179)	-	-	-	-	(179)
Dividends paid during the year (Note 7)	-	-	-	-	-	(60,750)	(60,750)
Balance at 30 June 2023	**3,364**	**(272)**	**78**	**493**	**(108)**	**176,358**	**179,913**

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

Consolidated statement of cashflows

	Note	2023	2022
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		539,733	500,023
Payments to suppliers and employees		(360,255)	(336,821)
		179,478	163,202
Interest received		2,460	92
Income tax payments		(44,038)	(40,955)
Net cash from operating activities	8	**137,900**	**122,339**
Cash flows from investing activities			
Purchase of property, plant and equipment		(12,280)	(18,422)
Purchase of intangible assets		(608)	(557)
Acquisition of subsidiary, net of cash acquired	32	-	(102,522)
Net cash from investing activities		**(12,888)**	**(121,501)**
Cash flows from financing activities			
Payment of dividends on ordinary shares	7	(60,750)	(48,600)
Proceeds from borrowings		7,025	72,500
Repayment of borrowings		(7,000)	(14,500)
Investment in term deposits		-	(40,000)
Maturity of term deposits		40,000	-
Repayment of lease liabilities	14	(36,435)	(33,274)
Interest payments - lease liabilities	14	(9,242)	(8,124)
Interest payments - borrowings		(3,979)	(1,112)
Net cash used in financing activities		**(70,381)**	**(73,110)**
Net (decrease)/increase in cash and cash equivalents		**54,631**	**(72,272)**
Cash and cash equivalents at the beginning of the financial year		34,620	106,892
Cash and cash equivalents at the end of the financial year	**9**	**89,251**	**34,620**

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

Notes to the consolidated financial statements

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 11 August 2023.

The consolidated financial statements have been prepared on a going concern basis, which contemplates the continuity of normal business activities and realisation of asset and settlement of liabilities in the ordinary course of business.

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 2023. 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 2022.

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 and brands
The Company determines whether goodwill and brands are impaired on an annual basis. This requires determination of CGU's and estimation of the recoverable amount of the cash-generating unit to which the goodwill and brand is allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and brands are discussed at Note 15 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

Note 1. Basis of preparation (continued)

Significant accounting judgements, estimates and assumptions (continued)

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
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.

Note 2. Segment information

The Company has identified the Managing Director & Chief Executive Officer 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 and other income

	2023 $'000	2022 $'000
Revenue		
Revenue from contracts with customers	507,723	440,957
Other income		
Rental income	1,029	916
Interest income	2,460	92
Net gain on disposal of right-of-use asset and remeasurement of lease liability	362	29
Sundry income	810	517
	4,661	1,554

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.

Note 4. Expenses

Profit before income tax includes the following specific expenses:

	2023 $'000	2022 $'000
Included within employee expenses		
Salaries, wages and fees	48,701	41,533
Government wage subsidies received as a consequence of Covid-19	-	(67)
Superannuation contributions	4,716	4,374
Share-based payments	466	625
Included within property expenses		
Short-term and low value lease payments	768	1,588
Rent concessions received as a consequence of Covid-19	(306)	(847)

Note 5. Current and deferred tax

	2023 $'000	2022 $'000
Income tax expense		
Current income tax charge	41,643	33,138
Adjustments in respect of current income tax of previous years	200	(201)
Relating to origination and reversal of temporary differences	588	97
Income tax expense	42,431	33,034
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	143,513	107,956
Income tax at the statutory tax rate of 30%	43,054	32,387
Adjustments in respect of current income tax of previous years	200	(201)
Adjustment for difference in overseas tax rates	(40)	(103)
Adjustment for share rights exercised	(33)	(106)
Adjustment for non assessable items	(574)	-
Adjustment for acquisition costs	-	991
Other items	(176)	66
Income tax expense	42,431	33,034

Note 5. Current and deferred tax (continued)

	2023 $'000	2022 $'000
Deferred tax recognised comprises temporary differences attributable to:		
Right-of-use assets	(60,712)	(64,116)
Lease liabilities	67,534	70,899
Brands	(11,400)	(11,400)
Deferred capital gains	(1,612)	(1,612)
Property, plant and equipment	(1,428)	(77)
Employee entitlements	1,660	2,034
Cashflow hedge (Note 23)	(153)	(927)
Inventory provision	907	215
Other	1,532	1,111
	(3,672)	(3,873)
Reflected in the statement of financial position as follows:		
Deferred tax assets	5,493	4,257
Deferred tax liabilities	(9,165)	(8,130)
Deferred tax liabilities, net	(3,672)	(3,873)

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, reflecting the difference 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.

Note 6. Earnings per share

	2023 $'000	2022 $'000
Profit after income tax attributable to the owners of Nick Scali Limited	101,082	74,922
Weighted average number of ordinary shares used in basic earnings per share	81,000,000	81,000,000
Weighted average number of ordinary shares used in diluted earnings per share	81,000,000	81,000,000

	2023 Cents	2022 Cents
Basic earnings per share	124.8	92.5
Diluted earnings per share	124.8	92.5

Recognition and measurement - Earnings per share

Basic earnings per share

Basic earnings per share (EPS) is calculated as net profit attributable to members, divided by the weighted average number of ordinary shares.

Note 6. Earnings per share (continued)

Recognition and measurement - Earnings per share (continued)

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.

Note 7. Dividends

Dividends

Dividends paid during the financial year were as follows:

	2023	2022
	$'000	$'000
Final fully franked dividend for 30 June 2022: 35.0 cents (2021: 25.0 cents)	28,350	20,250
Interim fully franked dividend for 30 June 2023: 40.0 cents (2022: 35.0 cents)	32,400	28,350
	60,750	48,600

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 18 October 2023 out of retained profits at 30 June 2023.

Franking credit

Franking credits are available to the Company as follows:

	2023	2022
	$'000	$'000
Franking credits available at the reporting date based on a tax rate of 30%	74,576	62,475
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%	(2,419)	3,688
Franking credits available for subsequent financial years based on a tax rate of 30%	72,157	66,163
Impact on franking account of dividends proposed after the reporting date but not recognised as a liability	(12,150)	(12,150)
Franking credits available for future reporting periods based on a tax rate of 30%	60,007	54,013

	2023	2022
	%	%
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

Note 8. Reconciliation of profit after income tax to net cash from operating activities

	2023 $'000	2022 $'000
Profit after income tax expense for the year	101,082	74,922
Investing and financing items included in profit after income tax expense:		
- Net loss on disposal of property, plant and equipment	-	282
- Interest expense	13,221	9,249
- Net gain on disposal of right use asset	(362)	(29)
Non-cash items included in profit after income tax expense:		
- Depreciation and amortisation expense	42,762	41,555
- Share-based payments expense	466	625
Cash items not included in profit after income tax expense:		
- Purchase of shares under EPRP	(577)	(352)
Changes in operating assets and liabilities:		
- Trade and other receivables	1,787	(1,426)
- Inventories	15,970	(14,034)
- Deferred tax	(201)	592
- Prepayments	(263)	(162)
- Other financial assets	2,587	(1,671)
- Net fair value change on derivatives	(1,252)	647
- Trade and other payables	(12,251)	6,766
- Deferred revenue	(21,683)	13,596
- Provision for income tax	(2,105)	(7,923)
- Other provisions	(1,303)	(230)
Net foreign currency differences	22	(68)
Net cash from operating activities	137,900	122,339

Note 9. Cash and bank deposits

	2023 $'000	2022 $'000
Cash at bank and on hand	49,251	34,620
Short-term deposits	40,000	-
Cash and cash equivalents	89,251	34,620
Term deposits	-	40,000
	89,251	74,620

Recognition and measurement - Cash and bank deposits
Cash and cash equivalents comprise cash at bank and on hand and short-term deposits with a maturity of three months or less. Deposits are made for varying periods, depending on the immediate cash requirements of the Group. Deposits with a 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.

Note 10. Receivables

	2023 $'000	2022 $'000
Trade debtors	536	1,823
Other debtors	1,227	1,727
	1,763	3,550

During the year ended 30 June 2023, $287,000 (2022: $40,000) was recognised as an expense for expected credit losses.

Note 10. Receivables (continued)

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.

Note 11. Inventories

	2023 $'000	2022 $'000
Finished goods – at the lower of cost or net realisable value	41,702	47,997
Stock in transit - at cost	12,853	22,528
	54,555	70,525

During the year ended 30 June 2023, $2,320,000 (2022: $292,000 reduction) was recognised as an expense 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.

Note 12. Other financial assets

	2023 $'000	2022 $'000
Derivative hedge receivable	504	3,091
	504	3,091

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 2023 totalled $USD44,848,000 which covers between 50% and 100% of highly probably purchases for the six months to 31 December 2023 (30 June 2022: $USD32,060,000). The average rate of foreign exchange forward contracts held on 30 June 2023 was $USD0.67 (30 June 2022: $USD0.74).

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 income. 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 and Buildings $'000	Leasehold Improvements $'000	Fixtures and Fittings $'000	Motor Vehicles $'000	Office Equipment $'000	Total $'000
Year ended 30 June 2023						
At cost	113,345	24,927	2,300	921	15,888	157,381
Less, accumulated depreciation	(8,863)	(15,475)	(1,995)	(691)	(11,039)	(38,063)
	104,482	9,452	305	230	4,849	119,318
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

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

	Land and Buildings $'000	Leasehold Improvements $'000	Fixtures and Fittings $'000	Motor Vehicles $'000	Office Equipment $'000	Total $'000
Balance at 1 July 2021	83,413	9,972	195	328	4,720	98,628
Acquisitions (Note 32)	-	2,245	286	36	327	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
Additions	8,521	2,575	15	-	1,169	12,280
Disposals	-	(18)	-	-	-	(18)
Foreign currency translation		47	(3)		14	58
Depreciation expense	(1,424)	(2,188)	(92)	(107)	(1,716)	(5,527)
Balance at 30 June 2023	104,482	9,452	305	230	4,849	119,318

Land and buildings totalling $82.1m (2022: $67.5m) 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

Note 13. Property, plant and equipment (continued)

Recognition and measurement – Property, plant and equipment (continued)
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.

Note 14. Leases

	2023 $'000	2022 $'000
Lease liabilities		
Current lease liabilities	35,563	36,200
Non-current lease liabilities	190,915	201,736
	226,478	237,936
Reconciliation of lease liabilities		
Opening lease liabilities	237,936	193,318
Lease modifications agreed during the year	3,489	6,742
Additional leases entered during the year	26,988	11,484
Acquisitions (Note 32)	-	62,172
Interest accrued	9,242	8,124
Lease repayments	(45,677)	(41,398)
Disposal	(5,813)	(1,959)
Foreign currency translation	313	(547)
	226,478	237,936
Right-of-use assets		
Right-of-use assets - at cost	350,295	344,184
Less, accumulated depreciation	(146,615)	(128,822)
	203,680	215,362
Reconciliation of right-of-use assets		
Opening right-of-use asset	215,362	170,904
Lease modifications agreed during the year	3,489	6,742
Additional right-of-use assets relating to leases entered during the year	26,988	11,484
Acquisitions (Note 32)	-	62,172
Acquired make good provision	-	251
Disposal of right-of-use assets relating to leases terminated during the year	(5,450)	(1,929)
Make good asset movement during the year	(21)	18
Depreciation	(36,975)	(33,816)
Foreign currency translation	287	(464)
	203,680	215,362

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).

Note 14. Leases (continued)

Recognition and measurement – Leases (continued)
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 2023. The undiscounted potential future payments under options that are not considered reasonably certain to be exercised is $111,263,000 which includes those that have an exercise date within the next five years of $49,320,000.

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 thirteen 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	Brands	Website costs	Total
	$'000	$'000	$'000	$'000
Year ended 30 June 2023				
At cost	90,589	38,000	2,325	130,914
Less, accumulated amortisation	-	-	(1,141)	(1,141)
	90,589	38,000	1,184	129,773
Year ended 30 June 2022				
At cost	90,589	38,000	1,721	130,310
Less, accumulated amortisation	-	-	(885)	(885)
	90,589	38,000	836	129,425

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

	Goodwill	Brands	Website costs	Total
	$'000	$'000	$'000	$'000
Balance at 1 July 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
Additions	-	-	608	608
Amortisation expense	-	-	(260)	(260)
Balance at 30 June 2023	90,589	38,000	1,184	129,773

No impairment losses have been recognised in the year ended 30 June 2023 (2022: $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.

Note 15. Intangibles (continued)

Recognition and measurement – Intangibles (continued)
Goodwill and brands(continued)
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.

Goodwill arising from business combination is allocated to the Group, being the group of CGUs that are expected to benefit from the synergies of combination. This is the lowest level at which goodwill is monitored for internal management purposes.

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 2024 and four-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 2024, adjusted where appropriate for expected future changes in the Group's international supply chain.

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% (2022: 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 10.9% (2022: 10.4%).

At 30 June 2023, 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.

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.

Note 16. Borrowings

	2023 $'000	2022 $'000
Current bank loans	2,300	20,100
Non-current bank loans	89,387	71,562
	91,687	91,662

Note 16. Borrowings (continued)

Reconciliation of borrowings		
Opening borrowings	91,662	33,662
Additional bank loans drawn during the year	7,025	72,500
Repayment of bank loans during the year	(7,000)	(14,500)
	91,687	91,662

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 40 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.

Note 17. Payables

	2023 $'000	2022 $'000
Trade creditors	10,132	17,516
Other creditors	12,596	17,463
	22,728	34,979

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- 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.

Note 18. Deferred revenue

	2023 $'000	2022 $'000
Customer deposits	62,688	84,740
Current accidental damage warranties	196	334
Current deferred revenue	62,884	85,074
Non-current accidental damage warranties	2,274	1,767
Non-current deferred revenue	2,274	1,767
	65,158	86,841

Note 18. Deferred revenue (continued)

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.

Note 19. Provisions

	2023 $'000	2022 $'000
Current employee entitlements	5,010	6,088
Current lease make good	315	172
Current provisions	5,325	6,260
Non-current employee entitlements	530	698
Non-current lease make good	1,096	1,296
Non-current provisions	1,626	1,994
	6,951	8,254

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.

Note 20. Issued capital

	2023 No. of Shares	2022 No. of Shares
Authorised and fully paid ordinary shares	81,000,000	81,000,000

	2023 $'000	2022 $'000
Authorised and fully paid ordinary shares	3,364	3,364

Note 20. Issued capital (continued)

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.

Note 21. Reserves

	2023 $'000	2022 $'000
Capital profits reserve	78	78
Cash flow hedge reserve	493	1,745
Foreign exchange reserve	(108)	(192)
Equity benefits reserve	(272)	(93)
	191	1,538

Movements in reserves

	Equity benefits reserve $'000	Capital profits reserve $'000	Cashflow hedge reserve $'000	Foreign exchange reserve $'000	Total $'000
Balance at 1 July 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 expense	625	-	-	-	625
Foreign currency translation differences	-	-	-	(201)	(201)
Balance at 30 June 2022	(93)	78	1,745	(192)	1,538
Amounts recognised for cash flow hedges	-	-	(1,252)	-	(1,252)
Income tax on items taken directly to or transferred from equity	(68)	-	-	-	(68)
Purchase of shares under EPRP	(577)	-	-	-	(577)
Share based payments expense	466	-	-	-	466
Foreign currency translation differences	-	-	-	84	84
Balance at 30 June 2023	(272)	78	493	(108)	191

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.

Note 21. Reserves (continued)

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.

Note 22 Financing facilities

Unrestricted access was available to the following credit facilities at the reporting date:

	2023 $'000	2022 $'000
Total facilities		
Bank loans expiring within 12 months	2,300	20,100
Bank loans expiring in greater than 12 months	89,387	71,562
Interchangeable facilities, including letters of credit and bank guarantees	-	1,000
Bank guarantee facilities	500	500
	92,187	93,162
Facilities used at reporting date		
Bank loans expiring within 12 months	2,300	20,100
Bank loans expiring in greater than 12 months	89,387	71,562
Bank guarantee facilities	380	380
	92,067	92,042
Facilities unused at reporting date		
Interchangeable facilities, including letters of credit and bank guarantees	-	1,000
Bank guarantee facilities	120	120
	120	1,120

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.

Note 23. Financial instruments (continued)

Financial risk management objectives (continued)

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 2023, the Company had trade payables of $3,172,000 (2022: $6,835,000) denominated in US dollars and stock in transit of $12,853,000 (2022: $22,529,000) 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 2023 through to December 2023, 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.

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 2023, an unrealised loss of $1,252,000 (30 June 2022: an unrealised gain of $647,000) 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.

	2023		2022	
	Weighted average interest rate	**Balance**	**Weighted average interest rate**	**Balance**
	%	**$'000**	**%**	**$'000**
Assets less than three months - Cash	4.43	89,251	0.20	34,816
Assets between three months and 12 months - Deposits	-	-	3.65	40,000
Liabilities less than one year – Bank loans	4.87	(2,300)	2.04	(20,100)
Liabilities between one and five years – Bank loans	4.66	(89,387)	1.26	(71,562)
		(2,436)		(16,846)

A reasonably possible decrease (or increase) in the interest rate of 50 basis points would result in a decrease (or increase) of profit of $12,000 (2022: $84,000 on 50 basis points movement).

Note 23. Financial instruments (continued)

Financial risk management objectives (continued)

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 credit worthy counterparties that are large Australian banks.

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.

	Less than 3 months	3 to 12 months	1 to 5 years	Over 5 years	Remaining maturities
	$'000	$'000	$'000	$'000	$'000
Year ended 30 June 2023					
Interest bearing					
Bank loans	-	2,359	90,303	-	92,662
Lease liabilities	11,823	32,267	87,913	9,986	141,989
Non-interest bearing					
Trade creditors	10,132	-	-	-	10,132
Other creditors	12,596	-	-	-	12,596
Current tax liabilities	5,560	-	-	-	5,560
	40,111	34,626	178,216	9,986	262,939
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

Of the $65,000,000 facility taken out in November 2021 to partially fund the Plush acquisition, $48,000,000 remained outstanding at 30 June 2023 and a further $20,000,000 was repaid on 1 August 2023 reducing the remaining corporate debt to $28,000,000. This repayment is made in advance of the required payment schedule. No other cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Note 23. Financial instruments (continued)

Financial risk management objectives (continued)
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 $504,000 (2022: receivable of $3,091,000). 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 2023, and no contingent liabilities were identified at that date (30 June 2022: Nil).

Note 25. Commitments

	2023 $'000	2022 $'000
Land and buildings	16,013	6,729
Leasehold improvements	531	43
Plant and equipment	100	1,391
Intangibles – Website costs	50	440
	16,694	8,603

Note 26. Employees

The total number of employees at the reporting date was as follows:

	2023	2022
	No.	No.
Number of full-time and part-time employees at balance date	726	776

Note 27. Key management personnel

The aggregate compensation made to directors and other key management personnel of the Company is set out below:

	2023	2022
Short-term employee benefits	2,155,498	2,852,499
Long-term employee benefits	12,083	11,852
Post-employment benefits	51,974	120,265
Share-based payments	(71,973)	384,458
	2,147,582	3,369,074

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 2023 (2022: Nil).

Loans or from related parties
There were no loans to or from related parties on 30 June 2023 (2022: 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 2023 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:

	2023	2022
Outstanding share rights at the start of the year	226,991	146,459
Share rights granted	49,516	48,914
Retention rights granted	12,000	60,000
Share rights vested and exercised	(61,508)	(28,382)
Share rights forfeited	(29,092)	-
Outstanding share rights at the end of the year	197,907	226,991

Note 29. Share-based payments (continued)

The expense recognised in relation to employee share rights during the year was $466,000 (2022: $624,600).

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:

	2023	2022
Share price at grant date ($)	11.04	12.36
Share price at grant date retention rights ($)	10.23	12.36
Dividend yield (%)	6.3	9.0
Franking rate (%)	30.0	30.0
Implied pre-tax effective dividend yield (%)	9.0	12.9

Note 30. Parent entity information

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

Statement of financial position

	2023 $'000	2022 $'000
Current assets	239,336	234,965
Non current assets	255,298	258,789
Total assets	494,634	493,754
Current liabilities	94,211	150,509
Non current liabilities	220,813	211,277
Total liabilities	315,024	361,786
Net assets	**179,610**	**131,968**
Equity		
Issued capital	3,364	3,364
Capital profits reserve	78	78
Cash flow hedge reserve	372	1,721
Equity benefits reserve	(272)	(93)
Retained profits	176,068	126,898
Total equity	**179,610**	**131,968**

Note 30. Parent entity information (continued)

Statement of comprehensive income

	2023	2022
	$'000	$'000
Profit after income tax expense	74,447	66,778
Other comprehensive Income	(1,252)	446
Total comprehensive income for the year	**73,195**	**67,224**

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 2023 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	2023	2022
			%	%
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	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.

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:

Note 31. Controlled entities (continued)

	Closed Group 2023 $'000	Closed Group 2022 $'000
Statement of profit or loss		
Revenue from contracts with customers	486,056	426,730
Cost of goods sold	(177,330)	(172,775)
Other income	2,172	5,265
Operating expenses	(120,053)	(107,185)
Depreciation and amortisation	(39,021)	(38,078)
Finance costs	(10,285)	(8,623)
Profit before income tax expenses	141,539	105,334
Income tax expense	(41,875)	(32,331)
Profit for the year	**99,664**	**73,003**
Other comprehensive income		
Net change in the fair value of cash flow hedges taken to equity, net of tax	(1,252)	647
Other comprehensive income for the year, net of tax	(1,252)	647
Total comprehensive income for the year, net of tax	**98,412**	**73,650**
Summary of movements in consolidated retained earnings		
Retained earnings at the beginning of the year	133,273	108,870
Profit for the year	99,664	73,003
Dividends paid during the year	(60,750)	(48,600)
Retained earnings at the end of the year	**172,187**	**133,273**

Note 31. Controlled entities (continued)

	Closed Group 2023 $'000	Closed Group 2022 $'000
Statement of financial position		
Assets		
Current assets		
Cash and Bank Deposits	86,890	70,369
Receivables	904	6,255
Inventories	50,612	66,382
Other financial assets	504	3,091
Prepayments	3,240	2,982
Total current assets	142,150	149,079
Non-current assets		
Land and buildings	104,482	97,385
Plant and equipment	12,618	12,502
Right-of-use assets	188,790	198,065
Intangibles	129,773	129,425
Total non-current assets	435,663	437,377
Total assets	**577,813**	**586,456**
Liabilities		
Current liabilities		
Borrowings	2,300	20,100
Payables	21,967	34,107
Lease liabilities	32,157	33,028
Deferred revenue	59,448	81,685
Current tax liabilities	5,458	7,228
Provisions	5,211	6,151
Total current liabilities	126,541	182,299
Non-current liabilities		
Borrowings	89,387	71,562
Lease liabilities	178,270	186,385
Deferred revenue	2,200	1,767
Deferred tax	4,066	4,189
Provisions	1,500	1,886
Total non-current liabilities	275,423	265,789
Total liabilities	**401,964**	**448,088**
Net assets	**175,849**	**138,368**
Equity		
Issued capital	3,364	3,364
Reserves	298	1,731
Retained profits	172,187	133,273
Total equity	**175,849**	**138,368**

Note 32. Business combinations

On 1 November 2021 the Company acquired 100% of the issued share capital of Plush-Think Sofas Pty Ltd for $102,522,000. The acquisition accounting for the Groups acquisition of Plush was finalised at 30 June 2022. This note remains in the annual report for comparative purposes.

The fair values of the identifiable assets and liabilities of Plush at the date of acquisition were as follows:

	Value at Acquisition 30 June 22 $'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 at the date of acquisition.

Note 32. Business combinations (continued)

Transaction costs
Transactions costs of $3,324,000 were 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 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.

Note 33. Significant events after the reporting period

On 1 August 2023 the company made a loan repayment on the corporate debt facility of $20million reducing the remaining corporate debt to $28million. This repayment is made in advance of the required payment schedule. The company declared a dividend on 11 August 2023 (see Note 7). No other matter or circumstance has arisen since 30 June 2023 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.

Note 34. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by EY, the auditor of the Company, and its network firms:

	2023	2022
Audit services		
Auditing the statutory financial report of the Company and its controlled entities and auditing the statutory financial reports of any controlled entities	345,300	363,000
Other services		
Due diligence services	-	142,621
Tax review	46,975	-
Tax compliance	56,689	46,095
	448,964	551,716

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.

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

Current and non-current classification (continued)
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.

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.

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.

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 2023 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.

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

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 2023 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 Chair	Anthony Scali Managing Director

11 August 2023
Sydney

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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 2023, 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 2023 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.

Building a better working world

Inventory Valuation

Why significant	How our audit addressed the key audit matter
At 30 June 2023, the Group held $54.5 million in inventories representing 9% of total assets. 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 also judgement involved 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 included the following: - Assessed the application of the Group's inventory costing methodology, specifically in relation to freight and customs duties, and whether this was consistent with the requirements of Australian Accounting Standards. - 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. - Considered the related financial report disclosures.

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 2023 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.

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.

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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.

- 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 2023.

In our opinion, the Remuneration Report of Nick Scali Limited for the year ended 30 June 2023, 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
11 August 2023

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 14 July 2023.

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

	Holders of ordinary shares No.
Shareholders Category	
1 to 1,000	3,315
1,001 to 5,000	2,347
5,001 to 10,000	534
10,001 to 100,000	423
100,001 and over	28
Total	6,647

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

	Ordinary shares No.	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	13,822,188	17.06
Citicorp Nominees Pty Limited	11,115,813	13.72
Scali Consolidated Pty Limited	11,039,474	13.63
J P Morgan Nominees Australia Pty Limited	8,904,805	10,99
National Nominees Limited	3,398,402	4.20
BNP Paribas Nominees Pty Ltd	2,816,763	3.48
Molvest Pty Ltd	1,200,000	1.48
Grahger Retail Securities Pty Ltd	1,100,000	1.36
Grahger Retails Securities Pty Ltd	900 000	1.11
BNP Paribas Noms Pty Ltd	879 179	1.09
BNP Paribas Nominees Pty Ltd	571,662	0.71
Citicorp Nominees Pty Limited	549,715	0.68
Netwealth Investments Limited	479,446	0.59
BNP Paribas Noms(NZ) Ltd	269,139	0.33
HSBC Custody Nominees (Australia) Limited	268,174	0.33
NCH Pty Ltd	223,642	0.28
GCS Narooma Pty Ltd	220,000	0.27
BNP Paribas Nominees Pty Ltd	217,878	0.27
McNiven & Co Pty Ltd	163,500	0.20
28421 Pty Ltd	150,000	0.19
Anacacia Pty Ltd	150,000	0.19
	58,439,780	72.16

Substantial holders

Substantial holders in the Company are set out below:

	Ordinary shares	
	No.	% of total shares issued
Scali Consolidated Pty Limited	11,039,474	13.63
BlackRock Group	5,424,462	6.69
Magellan Financial Group Limited	4,896,103	6.04
	21,360,039	26.36