ADAIRS LIMITED

ABN 50 147 375 451

INTERIM CONDENSED FINANCIAL REPORT

FOR THE

26 WEEKS ENDED

31 December 2017

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CORPORATE INFORMATION

ABN 50 147 375 451

Directors
Michael Butler
Mark Ronan
David MacLean
Michael Cherubino
Trent Peterson
Kate Spargo
David Briskin

Company Secretary
Mandy Drake

Registered office
2 International Court
Scoresby
Victoria, 3179
Australia

Principal place of business
2 International Court
Scoresby
Victoria, 3179
Australia
Phone: 1800 990 475

Share register
Link Market Services
Locked Bag A14
Sydney South NSW 1235
Phone: 1300 554 474

Auditors
Ernst & Young

Solicitors
Herbert Smith Freehills

Bankers
Commonwealth Bank

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited ("Adairs", "the Company" or "the Group") and its subsidiaries, for the 26 weeks ended 31 December 2017.

DIRECTORS

The names of the Company's directors in office during the 26 weeks ended 31 December 2017 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Michael Butler
Mark Ronan
David Maclean
Michael Cherubino
Trent Peterson
Kate Spargo
David Briskin

Principal Activities

During the 26 weeks ended 31 December 2017 and the comparative period, the principal continuing activities of the Group consisted of the retailing of homewares and home furnishings in Australia and New Zealand.

Dividends

On 26 February 2018 the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 31 December 2017. The total amount of the dividend is $9.1million which represents a fully franked dividend of $0.055 per share. The dividend has not been provided for in the 31 December 2017 interim condensed financial report.

	Cents	$000
Interim dividends recommended:	5.50	9,123

Operating and Financial Review

The Group has delivered a first half net profit after tax ("NPAT") with growth from continued operations of $5.4 million up 62.45% on previous corresponding period ("pcp"). Sales revenue for the first half was $149.0 million, up 19.67% on last year's first half result of $124.5 million. The sales growth is attributed to like for like sales growth of 14.8% and the addition of four new stores across Australia and New Zealand.

The sales increase was supported by a strong gross margin ("GM") rate of 60.6%, up 1.3% on last year representing a 22.3% increase in GM dollars.

A leverage in operational expenditure resulted in Cost of Doing Business ("CODB") decreasing by 3.0% as a percent to sales as compared to last year (44.4% vs 47.4%).

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 370C of the Corporations Act 2001 is set out on page 8.

Significant Events After the Reporting Date

There were no changes in the state of affairs of the business during the 26 weeks ended 31 December 2017.

Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial period.

Rounding

The amounts contained in the Directors' report and in the interim condensed financial report have been rounded to the nearest $1,000 (where rounding is applicable) under the option available to the Company under ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191. The Company is an entity to which the legislative instrument applies.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Michael Butler
Independent Chairman
Non-Executive Director

Mark Ronan
Chief Executive Officer

Melbourne
26 February 2018

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Melbourne VIC 3000 Australia
GPO Box 67 Melbourne VIC 3001

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Independent Auditor's Review Report to the Members of Adairs Limited

Report on the Half-Year Financial Report

Conclusion

We have reviewed the accompanying half-year financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the condensed statement of financial position as at 31 December 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the 26 weeks ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, nothing has come to our attention that causes us to believe that the half-year financial report of the Group is not in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 31 December 2017 and of its consolidated financial performance for the 26 weeks ended on that date; and

b) complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

Directors' Responsibility for the Half-Year Financial Report

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

Auditor's Responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, anything has come to our attention that causes us to believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the Group's consolidated financial position as at 31 December 2017 and its consolidated financial performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

Building a better working world

Independence

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

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner
Melbourne

26 February 2018

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Auditor's Independence Declaration to the Directors of Adairs Limited

As lead auditor for the review of Adairs Limited for the 26 weeks ended 31 December 2017, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner

26 February 2018

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Adairs Limited, we state that:

In the opinion of the directors:

(a) the financial statements and notes of Adairs Limited for the 26 weeks ended 31 December 2017 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2017 and of its performance for the 26 weeks ended on that date; and

(ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;

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

On behalf of the Board

Michael Butler
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and Chief Executive Officer

Melbourne
26 February 2018

INTERIM CONSOLIDATED INCOME STATEMENT

FOR THE 26 WEEKS ENDED 31 DECEMBER 2017

	Note	26 weeks ended 31 December 2017 $'000	26 weeks ended 1 January 2017 $'000
Revenues from sale of goods	4(a)	**149,047**	**124,548**
Cost of sales		(58,712)	(50,672)
Gross profit		**90,335**	**73,876**
Other income	4(a)	80	83
Depreciation and amortisation expenses		(3,300)	(2,751)
Finance expenses	5(a)	(816)	(937)
Salaries and employee benefits expenses	5(b)	(34,816)	(30,732)
Asset, property and maintenance expenses		(297)	(286)
Occupancy expenses		(19,845)	(18,007)
Advertising expenses		(3,371)	(3,172)
Other expenses from ordinary activities	5(c)	(7,888)	(6,963)
Profit before income tax		**20,082**	**11,111**
Income tax expense	5 (d)	(6,142)	(2,530)
Profit for the period		**13,940**	**8,581**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	14	8 cents	5 cents
Diluted earnings per share	14	8 cents	5 cents

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 26 WEEKS ENDED 31 DECEMBER 2017

	Note	26 weeks ended 31 December 2017 $'000	26 weeks ended 1 January 2017 $'000
Profit for the period		**13,940**	**8,581**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net movement of cash flow hedges		114	2,268
Income tax relating to the components of other comprehensive income		(34)	(680)
Exchange differences on translation of foreign operations		12	(5)
Other comprehensive income for the period, net of tax		**92**	**1,583**
Total comprehensive income for the period		**14,032**	**10,164**

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2017

	Note	31 December 2017 $'000	2 July 2017 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	12,978	14,313
Trade and other receivables		7,937	4,488
Inventories	9	32,937	32,992
TOTAL CURRENT ASSETS		**53,852**	**51,793**
NON CURRENT ASSETS			
Property, plant and equipment		20,194	20,188
Intangibles		114,484	114,671
Deferred tax assets		6,117	6,029
TOTAL NON CURRENT ASSETS		**140,795**	**140,888**
TOTAL ASSETS		**194,647**	**192,681**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		33,233	26,393
Interest bearing loans and borrowings	10	(44)	(44)
Current tax liabilities		934	849
Provisions		4,526	4,167
Derivative financial instruments		544	657
TOTAL CURRENT LIABILITIES		**39,193**	**32,022**
NON CURRENT LIABILITIES			
Deferred tax liabilities		12,492	12,559
Interest bearing loans and borrowings	10	29,977	41,955
Provisions		6,014	5,818
Derivative financial instruments		15	15
TOTAL NON CURRENT LIABILITIES		**48,498**	**60,347**
TOTAL LIABILITIES		**87,691**	**92,369**
NET ASSETS		**106,956**	**100,312**
EQUITY			
Contributed equity		68,349	68,349
Share based payment reserve		134	58
Cash flow hedge reserves		(391)	(471)
Foreign currency translation reserves		5	(7)
Retained earnings		38,859	32,383
TOTAL EQUITY		**106,956**	**100,312**

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 26 WEEKS ENDED 31 DECEMBER 2017

	Ordinary shares $'000	Share based payment reserves $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 2 July 2017	**68,349**	**58**	**(471)**	**(7)**	**32,383**	**100,312**
Profit for the period	-	-	-	-	13,940	13,940
Other comprehensive income	-	-	80	12	-	92
Total comprehensive income for the period	**-**	**-**	**80**	**12**	**13,940**	**14,032**
Dividend payment	-	-	-	-	(7,464)	(7,464)
Share based payments	-	76	-	-	-	76
At 31 December 2017	**68,349**	**134**	**(391)**	**5**	**38,859**	**106,956**

	Ordinary shares $'000	Share based payment reserves $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 3 July 2016	**68,349**	**-**	**(713)**	**-**	**27,954**	**95,590**
Profit for the period	-	-	-	-	8,581	8,581
Other comprehensive income	-	-	1,588	(5)	-	1,583
Total comprehensive income for the period	**-**	**-**	**1,588**	**(5)**	**8,581**	**10,164**
Dividend payment	-	-	-	-	(10,782)	(10,782)
Share based payments	-	29	-	-	-	29
At 1 January 2017	**68,349**	**29**	**875**	**(5)**	**25,753**	**95,001**

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 26 WEEKS ENDED 31 DECEMBER 2017

	Note	26 weeks ended 31 December 2017 $'000	26 weeks ended 1 January 2017 $'000
OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		160,564	136,230
Payments to suppliers and employees (inclusive of GST)		(132,307)	(113,063)
Interest received		19	46
Income tax paid		(6,246)	(10,224)
Interest paid		(780)	(860)
Net cash flows from operating activities		21,250	12,129
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(3,132)	(6,465)
Net cash flows used in investing activities		(3,132)	(6,465)
FINANCING ACTIVITIES			
Dividends paid		(7,464)	(10,782)
Repayment of borrowings		(12,000)	-
Net cash flows used in financing activities		(19,464)	(10,782)
Net decrease in cash and cash equivalents		(1,347)	(5,118)
Net foreign exchange difference		12	(5)
Cash and cash equivalents at beginning of the period		14,313	14,676
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	**12,978**	**9,553**

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED 31 DECEMBER 2017

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 31 December 2017 were authorised for issue in accordance with a resolution of the directors on 26 February 2018.

Adairs 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 Securities Exchange ("ASX").

During the 26 weeks ended 31 December 2017 and the comparative period, the principal continuing activities of the Group consisted of the retailing of homewares and home furnishings in Australia and New Zealand. The Group's principal place of business is 2 International Court, Scoresby, Australia.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The interim condensed financial report for the 26 weeks ended 31 December 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim condensed financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim condensed financial report be read in conjunction with the annual report for the 52 weeks ended 2 July 2017 and considered together with any public announcements made by Adairs Limited since that date in accordance with the continuous disclosure obligations of the ASX listing rules.

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

The interim condensed financial report is presented in Australian dollars and all values are rounded to the nearest thousand dollars ($'000) unless otherwise stated.

(b) Significant accounting policies

The accounting policies and methods of computation adopted in the interim condensed financial report are consistent with those followed in the preparation of the Group's annual report for the 52 weeks ended 2 July 2017.

(c) Changes in accounting policy, accounting standards and interpretations

The Group has adopted the applicable changes in accounting standards for the 26 weeks ended 31 December 2017 and are of the view that the adoption of the standards did not have an effect on the financial position or the performance of the Group. In addition, the Group has not elected to adopt any new standards as amendments issued but not yet effective.

The Group continues to finalise the expected impact of these changes on the financial position and performance of the Group. Based on the Group's assessment to date, the expected impact disclosures in the annual financial report for the 52 weeks ended 2 July 2017 remain applicable. In relation to AASB 15 *Revenue from Contracts with Customers*, the focus of the Group's ongoing impact assessment is in relation to the Linen Lovers Club loyalty program.

(d) Basis of consolidation

The interim condensed financial report comprises the consolidated financial statements of Adairs Limited and its subsidiaries for the 26 weeks ended 31 December 2017.

(e) Comparatives

The current reporting period 3 July 2017 to 31 December 2017 represents 26 weeks and the comparative period is 4 July 2016 to 1 January 2017, also representing 26 weeks.

NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its various store formats, however is aggregated as one reportable segment, being home furnishings.

Operating segments are identified on the basis of internal reports to senior management about components of the company that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.
Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered in specific store formats, which when aggregated, forms one reportable operating segment.

The Group's store formats exhibit similar long-term financial performance and economic characteristics, which include:

(a) The nature of the products and services - all store formats provide home furnishings to its customer base;

(b) The nature of the production processes - all store formats utilise common design processes and source from the same or similar suppliers;

(c) The type or class of customer for their products and services - all store formats possess an interchangeable customer base;

(d) The methods used to distribute their products or provide their services - all store formats have product fulfilled from the same two DCs; and

(e) No store format has different regulatory or consumer legislation requirements from another.

On this basis the Group deems there to be one operating segment.

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to store formats.
The company operated in one geographical segment for the 26 weeks ended 31 December 2017 being Australia and New Zealand.

NOTE 4. REVENUES

		26 weeks ended 31 December 2017 $'000	26 weeks ended 1 January 2017 $'000
(a)	**Revenue from sale of goods**		
	Sales revenue		
	Sale of goods	149,047	124,548
	Other income		
	Interest income	19	46
	Other	61	37
		80	83

NOTE 5. EXPENSES

(a)	**Finance expenses**		
	Interest paid/payable and other finance costs	816	937
		816	937
(b)	**Salaries and employee benefits expense**		
	Wages and salaries	30,516	27,615
	Defined contribution superannuation expense	2,496	2,336
	Bonus/incentives	1,728	752
	Share based payment expense	76	29
		34,816	30,732
(c)	**Other expenses from ordinary activities**		
	Bank fees	1,294	939
	Professional fees	660	755
	Postage and stationery	2,547	1,791
	Other	3,387	3,478
		7,888	6,963

(d) The effective income tax rate for the 26 weeks ended 1 January 2017 is lower in comparison to the 26 weeks ended 31 December 2017 due to the utilisation of previously unrecorded carry forward tax losses. During the 26 weeks ended 1 January 2017, the Group formally assessed the recoverability of carry forward tax losses, in accordance with taxation legislation, that were previously thought not to be accessible.

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 31 December 2017 $'000	26 weeks ended 1 January 2016 $'000
Dividends on ordinary shares declared and paid		
Final dividend for 2017: 4.5 cents per share (2016: 6.5 cents per share)	7,464	10,782
Proposed dividend on ordinary shares		
Interim dividend for 2018: 5.50 cents per share (2017: 3.50 cents per share)	9,123	5,806

The proposed interim dividend for 31 December 2017 has not been provided for in the financial results as at 31 December 2017.

NOTE 7. IMPAIRMENT TESTING

Intangible assets – goodwill and brand names

After initial recognition, goodwill and indefinite-life brand names acquired in a business combination are measured at cost less any accumulated impairment losses. Goodwill and brand names are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill and brand names were subject to a full annual impairment test as at 2 July 2017. A review of indicators of impairment relating to goodwill and brand names was performed as at 31 December 2017. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 31 December 2017. The annual financial report for the 52 weeks ended 2 July 2017 detail the most recent annual impairment tests undertaken for both brand names and goodwill. The Group's impairment tests for goodwill and brand names are based on value-in-use calculations. The key assumptions used to determine the recoverable amounts for the cash-generating units to which brand names and goodwill relate, are disclosed in the annual financial report.

Property, plant and equipment

A review of indicators of impairment relating to property, plant and equipment was performed as at 31 December 2017. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 31 December 2017.

NOTE 8. CASH AND CASH EQUIVALENTS

	31 December 2017 $'000	2 July 2017 $'000
Cash at bank	12,861	14,209
Cash on hand	117	104
	12,978	14,313

NOTE 9. INVENTORIES

During the 26 weeks ended 31 December 2017, $44,100 (1 January 2017: $79,000) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

NOTE 10. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	31 December 2017 $'000	2 July 2017 $'000
Current				
Capitalised borrowing costs			(44)	(44)
Total current			(44)	(44)
Non-current				
Bank Loan - Facility A	BBSW +1.85	8 July 2019	30,000	42,000
Capitalised borrowing costs			(23)	(45)
Total non-current			29,977	41,955
Current			(44)	(44)
Non-current			29,977	41,955
Total interest-bearing loans and borrowings			29,933	41,911

NOTE 10. INTEREST-BEARING LOANS AND BORROWINGS (continued)

	31 December 2017 $'000	2 July 2017 $'000
(a) Financing facilities available At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:		
Facilities available at reporting date:	50,000	50,000
Facilities used at reporting date:	(30,000)	(42,000)
Facilities unused at reporting date:	20,000	8,000

NOTE 11. COMMITMENTS AND CONTINGENCIES

	31 December 2017 $'000	2 July 2017 $'000
Non-cancellable operating lease commitments		
- not later than one year	28,494	28,644
- later than one year and not later than five years	65,658	70,909
- later than five years	6,233	6,649
	100,385	106,202

The Group has entered into operating leases for the rental of shop premises and distribution centres. These leases have an average life of between 3 and 7 years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering the lease agreements.

NOTE 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Forward currency contracts - cash flow hedges

The Group buys inventories that are purchased in US Dollars ("USD"). In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward currency contracts to purchase USD. These contracts are hedging highly probable forecasted inventory purchases and they are timed to mature when payments are scheduled to be made. These derivatives have met the requirements to qualify for hedge accounting with movements recorded in other comprehensive income accordingly.

Fair value of financial assets and liabilities

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

- Level 1 - Quoted (unadjusted) market prices in active markets for identical assets or liabilities
- Level 2 - Valuation techniques for which the lowest level input that is significant to the fair value measurement directly or indirectly observable
- Level 3 - Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The fair value of forward currency contracts is measured at fair value using the Level 2 method.

Forward currency contracts are measured based on observable spot exchange rates, the yield curves of the USD as well as the currency basis spread between the currencies.

NOTE 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	31 Dec 2017		1 Jan 2017	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Forward exchange contracts	-	-	-	-
	-	-	-	-
Financial liabilities				
Forward exchange contracts	(559)	(559)	(672)	(672)
Interest bearing liabilities	(30,000)	(30,000)	(42,000)	(42,000)
	(30,559)	(30,559)	(42,672)	(42,672)

NOTE 13. SHARE-BASED PAYMENTS

In addition to those disclosed at 2 July 2017 the following share options are granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP").

Tranche 2

In November 2017, 2,640,000 share options were granted to the participants under the EIP for nil consideration. The share options vest if the Service and Performance conditions are met for an exercise price of $1.75. The service condition requires the participants to be employed on a full time basis by the Group from grant date to 30 June 2021. There are two separate performance conditions, an EPS performance condition and a sales performance condition. If these conditions are not met, the options will lapse immediately. The fair value of the share options at grant date is estimated using the BSM, taking into account the terms and conditions upon which the share options were granted. The contractual life of each option granted is six years. There is no cash settlement of the options. The fair value of the share options was estimated on the grant date using the following assumptions:

Dividend yield (%)	5.00%
Expected volatility (%)	45.00%
Risk-free interest rate (%)	2.23%
Expected life of share options (years)	3.70
Exercise share price ($)	1.75

The weighted average fair value of the share options granted during the 26 weeks ended 31 December 2017 was $0.39 (26 weeks ended 1 January 2017: $0.27).

The weighted average remaining contractual life of share options outstanding as at 31 December 2017 was 6.3 years (1 July 2017: 7.4 years).

For the 26 weeks ended 31 December 2017, the Group has recognised $76,000 of share-based payment expense in the consolidated income statement (26 weeks ended 1 January 2017: $29,000).

NOTE 14. EARNINGS PER SHARE

Basic earnings per share (“EPS”) amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by weighted average number of ordinary shares outstanding during the period, adjusted for dilutive potential ordinary shares.

The following reflects the income and share data used in the basic and diluted EPS computations:

	26 weeks ended 31 December 2017 $’000	26 weeks ended 1 January 2017 $’000
Profit for the year attributable to ordinary equity holders of the Parent	**13,940**	**8,581**

	31 December 2017 ’000	1 January 2017 ’000
Weighted average number of ordinary shares for basic EPS	165,875	165,875
Effect of dilution:		
Share options	856	-
Weighted average number of ordinary shares adjusted for the effect of dilution	**166,731**	**165,875**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of this interim condensed financial report.

NOTE 15. EVENTS AFTER THE BALANCE SHEET DATE

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