

ADAIRES LIMITED
ABN 50 147 375 451

INTERIM CONDENSED FINANCIAL REPORT
FOR THE
26 WEEKS ENDED
30 December 2018

Table of Contents

CORPORATE INFORMATION.....	3
DIRECTORS' REPORT	4
REVIEW CONCLUSION	6
INDEPENDENCE DECLARATION	8
DIRECTORS' DECLARATION	9
INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS	10
INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME.....	11
INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION.....	12
INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	13
INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS	14
NOTES TO THE FINANCIAL STATEMENTS	15

CORPORATE INFORMATION

ABN 50 147 375 451

Directors

Michael Butler

Mark Ronan

David Maclean

Michael Cherubino

Trent Peterson

Kate Spargo

David Briskin (resigned 26 October 2018)

Simon West (appointed 24 January 2019)

Kiera Grant (appointed 24 January 2019)

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 30 December 2018.

DIRECTORS

The names of the Company's directors in office during the 26 weeks ended 30 December 2018 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 (resigned 26 October 2018)
Simon West (appointed 24 January 2019)
Kiera Grant (appointed 24 January 2019)

Principal Activities

During the 26 weeks ended 30 December 2018 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 25 February 2019 the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 30 December 2018. The total amount of the dividend is \$10.8 million which represents a fully franked dividend of \$0.065 per share. The dividend has not been provided for in the 30 December 2018 interim condensed financial report.

The Board reviewed the dividend policy and agreed to move the payout ratio from 55%-70% to 60%-85% of net profit after tax.

	<u>Cents</u>	<u>\$000</u>
Interim dividends recommended:	6.50	10,782

Operating and Financial Review

The Group has delivered a first half profit after income tax from continued operations of \$14.9 million, 6.8% up on previous corresponding period ("pcp"). Revenue for the first half was \$164.4 million, up 10.3% on last year's first half result of \$149.0 million. The sales growth is attributed to like for like sales growth of 7.3% and the addition of four new stores across Australia.

The sales increase was supported by a strong gross margin rate of 60.9%, up 0.3% on last year representing a 10.7% increase in gross margin dollars.

The current and previous periods presented are not comparable due to the impact of the adoption of AASB 15 *Revenue from Contracts with Customers* from 2 July 2018. Refer to Note 2(b)(i) of the financial statements which outlines the impact.

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

An announcement was released to the Australian Securities Exchange on 24 January 2019, appointing Simon West and Kiera Grant as independent Non-Executive Directors to the Adairs Limited Board, effective from 24 January 2019.

There were no other changes in the state of affairs of the business during the 26 weeks ended 30 December 2018.

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.

DIRECTORS' REPORT (continued)

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

Melbourne
25 February 2019



Mark Ronan
Chief Executive Officer

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 30 December 2018, 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 30 December 2018 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.

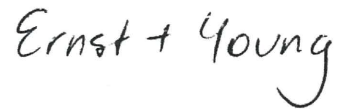
Auditor's Responsibility

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 30 December 2018 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.

Independence

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



Ernst & Young



Joanne Lonergan
Partner
Melbourne

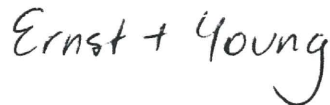
25 February 2019

Auditor's Independence Declaration to the Directors of Adairs Limited

As lead auditor for the review of the half-year financial report of Adairs Limited for the 26 weeks ended 30 December 2018, 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



Joanne Lonergan
Partner

25 February 2019

DIRECTORS' REPORT (continued)

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 30 December 2018 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 30 December 2018 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

Melbourne
25 February 2019



Mark Ronan
Managing Director and Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE 26 WEEKS ENDED 30 DECEMBER 2018

	Note	26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
Revenues from contracts with customers	2(b)(i), 4(a)	164,377	-
Revenues from sale of goods and services	2(b)(i)	-	149,047
Revenues		164,377	149,047
Cost of sales		(64,346)	(58,712)
Gross profit		100,031	90,335
Other income	4(b)	260	80
Depreciation and amortisation expenses		(3,752)	(3,300)
Finance expenses	5(a)	(698)	(816)
Salaries and employee benefits expenses	5(b)	(38,794)	(34,816)
Asset, property and maintenance expenses		(436)	(297)
Occupancy expenses		(21,063)	(19,845)
Advertising expenses		(4,036)	(3,371)
Other expenses from ordinary activities	5(c)	(10,244)	(7,888)
Profit before income tax		21,268	20,082
Income tax expense		(6,375)	(6,142)
Profit for the period		14,893	13,940
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	14	9.0 cents	8.4 cents
Diluted earnings per share	14	8.8 cents	8.4 cents

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 26 WEEKS ENDED 30 DECEMBER 2018

		26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
	Note		
Profit for the period		14,893	13,940
Other comprehensive income			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Net movement on cash flow hedges	2(b)(ii)	1,032	114
Income tax relating to the components of other comprehensive income		(310)	(34)
Exchange differences on translation of foreign operations		(28)	12
Other comprehensive income for the period, net of tax		694	92
Total comprehensive income for the period		15,587	14,032

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 30 DECEMBER 2018

	Note	30 December 2018 \$'000	1 July 2018 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	14,840	12,718
Trade and other receivables		562	780
Inventories	9	43,101	33,568
Other assets	2(b)(i)	6,549	5,602
Derivative financial instruments		2,738	1,783
TOTAL CURRENT ASSETS		67,790	54,451
NON CURRENT ASSETS			
Property, plant and equipment		21,171	20,890
Intangibles		113,784	114,233
Deferred tax assets		7,073	5,419
Derivative financial instruments		77	-
TOTAL NON CURRENT ASSETS		142,105	140,542
TOTAL ASSETS		209,895	194,993
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		30,495	23,856
Other liabilities	2(b)(i)	8,531	3,253
Interest bearing loans and borrowings	10	(48)	(44)
Current tax liabilities		2,953	2,352
Provisions		5,249	4,723
TOTAL CURRENT LIABILITIES		47,180	34,140
NON CURRENT LIABILITIES			
Other liabilities	2(b)(i)	1,026	-
Deferred tax liabilities		13,430	12,996
Interest bearing loans and borrowings	10	25,000	24,999
Provisions		7,615	6,678
TOTAL NON CURRENT LIABILITIES		47,071	44,673
TOTAL LIABILITIES		94,251	78,813
NET ASSETS		115,644	116,180
EQUITY			
Contributed equity		68,349	68,349
Share based payment reserve		355	217
Cash flow hedge reserves		1,970	1,248
Foreign currency translation reserves		(19)	9
Retained earnings		44,989	46,357
TOTAL EQUITY		115,644	116,180

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 26 WEEKS ENDED 30 DECEMBER 2018

	Ordinary shares \$'000	Share based payment reserves \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 1 July 2018	68,349	217	1,248	9	46,357	116,180
Impact of adoption of new accounting standards (i)	-	-	-	-	(2,991)	(2,991)
At 1 July 2018	68,349	217	1,248	9	43,366	113,189
Profit for the period	-	-	-	-	14,893	14,893
Other comprehensive income	-	-	722	(28)	-	694
Total comprehensive income for the period	-	-	722	(28)	14,893	15,587
Dividend payment	-	-	-	-	(13,270)	(13,270)
Share based payments	-	138	-	-	-	138
At 30 December 2018	68,349	355	1,970	(19)	44,989	115,644

- (i) The Group has adopted AASB 15 Revenue from Contracts with Customers on a modified retrospective basis. This resulted in a decrease of \$2,991,000 to retained earnings as at 2 July 2018, being the cumulative effect on initial application of the standard (refer to Note 2(b)(i)). The comparative results for the 26 weeks ended 31 December 2017 are not restated as permitted by the standard.

	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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 26 WEEKS ENDED 30 DECEMBER 2018

		26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
	Note		
OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		180,440	160,564
Payments to suppliers and employees (inclusive of GST)		(154,854)	(132,307)
Interest received		35	19
Income tax paid		(6,022)	(6,246)
Interest paid		(652)	(780)
Net cash flows from operating activities		18,947	21,250
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(3,582)	(3,132)
Acquisition of intangible assets		2	-
Net cash flows used in investing activities		(3,580)	(3,132)
FINANCING ACTIVITIES			
Dividends paid		(13,270)	(7,464)
Repayment of borrowings		-	(12,000)
Net cash flows used in financing activities		(13,270)	(19,464)
Net decrease in cash and cash equivalents		2,097	(1,347)
Net foreign exchange difference		25	12
Cash and cash equivalents at beginning of the period		12,718	14,313
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	14,840	12,978

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED 30 DECEMBER 2018

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 30 December 2018 were authorised for issue in accordance with a resolution of the directors on 25 February 2019.

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 30 December 2018 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 30 December 2018 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 1 July 2018 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.

Certain classifications have been made in the financial report to ensure that prior year comparative information conforms to the current year presentations.

(b) Changes in accounting policies

The accounting policies adopted in the preparation of the interim consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the 52 weeks ended 1 July 2018, except as follows:

(i) AASB 15 *Revenue from Contracts with Customers*

The Group adopted AASB 15 *Revenue from Contracts with Customers* from 2 July 2018.

The Group has applied the modified retrospective method of adoption, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 2 July 2018. The transition adjustment at 2 July 2018 resulted in a decrease to *retained earnings* of \$2,991,000 at 2 July 2018, with corresponding impacts resulting in an increase to *inventories* of \$254,000, increase to *other assets* of \$67,000, increase to the current and non-current portions of *other liabilities* of \$3,614,000 and \$980,000 respectively, and increase to *deferred tax assets* and *deferred tax liabilities* of \$1,378,000 and \$96,000 respectively.

The tables below provide additional information demonstrating the impacts to individual line items had the previous standard, AASB 118 *Revenue*, continued to be applied at 30 December 2018 and for the 26 weeks then ended.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(i) AASB 15 Revenue from Contracts with Customers (continued)

Impact on interim consolidated statement of financial position (increase/(decrease)) had AASB 118 been applied for the 26 weeks ended 30 December 2018:

	As at 30 December 2018 (under AASB 15) \$'000	Adjustment for AASB 118 \$'000	As at 30 December 2018 (under AASB 118) \$'000	As at 1 July 2018 (under AASB 118) \$'000
ASSETS				
CURRENT ASSETS				
Inventories	43,101	(254)	42,847	33,568
Other assets	6,549	(74)	6,475	5,602
TOTAL CURRENT ASSETS	67,790	(328)	67,462	54,451
NON-CURRENT ASSETS				
Deferred tax assets	7,073	(1,474)	5,599	5,419
TOTAL NON-CURRENT ASSETS	142,105	(1,474)	140,631	140,542
TOTAL ASSETS	209,895	(1,802)	208,093	194,993
LIABILITIES				
CURRENT LIABILITIES				
Trade and other payables	30,495	-	30,495	23,856
Other liabilities	8,531	(3,884)	4,647	3,253
TOTAL CURRENT LIABILITIES	47,180	(3,884)	43,296	34,140
NON-CURRENT LIABILITIES				
Other liabilities	1,026	(1,026)	-	-
Deferred tax liabilities	13,430	(99)	13,331	12,996
TOTAL NON-CURRENT LIABILITIES	47,071	(1,125)	45,946	44,673
TOTAL LIABILITIES	94,251	(5,009)	89,242	78,813
NET ASSETS	115,644	3,207	118,851	116,180
EQUITY				
Retained earnings	44,989	3,207	48,196	46,357
TOTAL EQUITY	115,644	3,207	118,851	116,180

Impact on the interim consolidated statement of profit of loss (increase/(decrease)) for the 26 weeks ended 30 December 2018 had AASB 118 been applied:

	26 weeks ended 30 December 2018 (under AASB 15) \$'000	Adjustment for AASB 118 \$'000	26 weeks ended 30 December 2018 (under AASB 118) \$'000	26 weeks ended 31 December 2017 (under AASB 118) \$'000
Revenues	164,377	315	164,692	149,047
Cost of sales	(64,346)	(8)	(64,354)	(58,712)
Profit before income tax	21,268	307	21,575	20,082
Income tax expense	(6,375)	(92)	(6,467)	(6,142)
Profit for the period	14,893	215	15,108	13,940

There is no material impact on the interim consolidated statement of other comprehensive income, consolidated statement of cash flows or basic and diluted earnings per share.

(A) Sale of goods

Revenue from retail sales is recognised when the performance obligation is satisfied which is generally when the customer obtains control of the goods at the point of sale. Prior to the adoption of AASB 15, the group recognised revenue when the significant risk and rewards of ownership of the goods passed to the buyer.

The following outlines specific changes to the Group's accounting policies with respect to revenue arrangements.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(i) AASB 15 Revenue from Contracts with Customers (continued)

➤ *Linen Lover membership program revenue*

The Group operates a membership program, Linen Lover, from which a membership fee is received from the customer upon joining. Membership allows customers to benefit from additional discounts, extended returns periods, VIP shopping events and free shipping when they purchase products from the Group's retail and e-commerce stores. On purchase of a membership, customers are granted a coupon that can be used within 30 days.

The Group has identified two performance obligations with respect to the Linen Lovers membership program, that include:

- (1) Welcome Voucher – satisfied at a point in time upon purchase of membership; and
- (2) Ongoing membership benefits – satisfied over time on a straight-line basis across the two-year membership period as the customer has the right to utilise the benefits of membership.

The Group has estimated the standalone selling price for each performance obligation based on the estimated value attributed to each performance obligation. Revenue is recognised as each performance obligation is fulfilled.

As a result of AASB 15, the cumulative transition adjustment to the statement of financial position as at 2 July 2018 includes a decrease to opening retained earnings of \$3,818,000, with a corresponding increase to the current and non-current portions of *other liabilities* of \$2,838,000 and \$980,000 respectively.

➤ *Lay-by sales*

The Group offers a lay-by service to customers, where control of the goods under the lay-by arrangement passes to the customer when the goods have been paid for in full. It is at this point that revenue is recognised.

No changes to revenue recognition were identified under AASB 15.

➤ *Rights of return*

When a contract provides a customer with a right to return the goods within a specified period (typically 30 days, with extended terms of 60 days for Linen Lover members), under AASB 15 the consideration received from the customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group has deferred revenue for the likelihood of sales to be returned and presents a refund liability and an asset to recover the products from a customer separately in the statement of financial position.

As a result of AASB 15, the cumulative transition adjustment to the statement of financial position as at 2 July 2018 includes a decrease to opening retained earnings of \$100,000, with a corresponding increase to *other assets* of \$67,000 and increase to *other liabilities* of \$167,000.

➤ *Gift card breakage revenue*

The Group sells prepaid gift cards to customers for use in the Group's stores (including online). For any unused balance on the prepaid gift card, the Group recognises a liability and revenue is recognised over time as the funds on the gift card are redeemed by the customer.

Under AASB 15, gift card breakage revenue is recognised in proportion to the pattern of usage by the customer and represents a form of variable consideration. The Group has adjusted the way in which it recognises breakage revenue, taking into consideration the estimated breakage, estimated redemption of gift cards, and the breakage to be recognised at the time of redemption.

Prior to the adoption of AASB 15, the Group calculated the estimated breakage by applying a historical non-redemption rate against the total value of active gift cards.

As a result of AASB 15, the cumulative transition adjustment to the statement of financial position as at 2 July 2018 includes a decrease to opening retained earnings of \$22,000, with a corresponding increase to *other liabilities* of \$22,000.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(i) AASB 15 Revenue from Contracts with Customers (continued)

➤ Online sales

Under AASB 118, online sales revenue was recognised when dispatched from the Group's distribution centres as the risk and rewards passed to the customer. In accordance with AASB 15, the satisfaction of the Group's performance obligation is deemed to occur upon delivery of the customer's order.

As a result of AASB 15, the cumulative transition adjustment to the statement of financial position as at 2 July 2018 includes a decrease to opening retained earnings of \$333,000, with a corresponding increase to *inventories* of \$254,000 and increase to *other liabilities* of \$587,000.

There is no material impact on the statement of profit and loss for the 26 weeks ended 30 December 2018.

➤ Income taxation

The adoption of AASB 15 has resulted in a deferral of revenue and cost of goods sold previously assessed and deducted for income tax purposes from prior periods into future periods. Deferred tax assets and deferred tax liabilities have been recognised to account for temporary differences arising with respect to income and expenses previously assessed and deducted for income taxation purposes.

As a result of AASB 15, the cumulative transition adjustment to the statement of financial position as at 2 July 2018 includes an increase to opening retained earnings of \$1,282,000, with a corresponding increase to *deferred tax assets* of \$1,378,000 and increase to *deferred tax liabilities* of \$96,000.

(ii) AASB 9 Financial Instruments

The Group has adopted AASB 9 Financial Instruments retrospectively from 2 July 2018. AASB 9 introduces new requirements for:

- Classification and measurement of financial assets and financial liabilities
- Impairment of financial assets
- Hedge accounting

➤ Classification and measurement of financial assets and financial liabilities

Under AASB 9, the Group has determined that there is no change to classification and measurement to financial assets and financial liabilities.

The table below outlines the accounting treatment for financial assets and financial liabilities under AASB 139 as compared to AASB 9:

Financial Asset / Liability	Previous AASB 139	Current AASB 9
Cash and cash equivalents	Amortised cost	Amortised cost
Trade and other receivables	Amortised cost	Amortised cost
Foreign currency forward contracts	Fair value through profit or loss (effective cash flow hedge portion through other comprehensive income)	Fair value through profit or loss (effective cash flow hedge portion through other comprehensive income)
Interest bearing loans and borrowings	Amortised cost	Amortised cost

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

(b) Changes in accounting policies (continued)

(ii) AASB 9 *Financial Instruments* (continued)

➤ *Impairment of financial assets*

The adoption of AASB 9 has changed the Group's accounting for impairment losses for trade and other receivables by replacing AASB 139's incurred loss approach with a forward-looking expected credit loss ("ECL") approach. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive.

The Group has applied the simplified approach to trade receivables in AASB 9 and has calculated ECLs based on lifetime expected credit losses. A provision for ECLs is determined based on historic credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position as at 30 December 2018 and statement of profit or loss for the 26 weeks ended 30 December 2018.

➤ *Hedge accounting*

The Group applied hedge accounting prospectively from 2 July 2018. The Group uses derivative financial instruments such as forward currency contracts to hedge its risk associated with foreign currency fluctuations. The Group has applied hedge accounting prospectively under AASB 9. At the date of initial application, all of the Group's existing hedging relationships were eligible to be treated as continuing hedging relationships. Consistent with prior periods, the Group has continued to designate the change in fair value of the entire forward contract in the Group's cash flow hedge relationships.

Based on the assessment undertaken by the Group, there has been no material impact to the statement of financial position as at 30 December 2018 and statement of profit or loss for the 26 weeks ended 30 December 2018.

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:

- The nature of the products and services - all store formats provide home furnishings to its customer base;
- The nature of the production processes - all store formats utilise common design processes and source from the same or similar suppliers;
- The type or class of customer for their products and services - all store formats possess an interchangeable customer base;
- The methods used to distribute their products or provide their services - all store formats have product fulfilled from the same warehouses; and
- 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 Group operated in one geographical segment for the 26 weeks ended 30 December 2018 being Australia and New Zealand.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4. REVENUES

(a) Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	26 weeks ended 30 December 2018 \$'000
Types of goods and services	
Sale of goods and services – stores	140,108
Sale of goods and services - online	24,269
Total revenue from contracts with customers	164,377

	26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
(b) Other Income		
Interest income	35	19
Other	225	61
	260	80

NOTE 5. EXPENSES

	26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
(a) Finance expenses		
Interest paid/payable and other finance costs	698	816
	698	816
(b) Salaries and employee benefits expense		
Wages and salaries	35,967	32,244
Defined contribution superannuation expense	2,689	2,496
Share based payment expense	138	76
	38,794	34,816
(c) Other expenses from ordinary activities		
Bank fees	1,578	1,294
Professional fees	189	660
Postage and stationery	3,881	2,547
Other	4,596	3,387
	10,244	7,888

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
Dividends on ordinary shares declared and paid		
Final dividend for 2018: 8.00 cents per share (2017: 4.50 cents per share)	13,270	7,464
Proposed dividend on ordinary shares		
Interim dividend for 2019: 6.50 cents per share (2018: 5.50 cents per share)	10,782	9,123

The proposed interim dividend for 30 December 2018 has not been provided for in the financial results as at 30 December 2018 as it had not been declared.

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 1 July 2018. A review of indicators of impairment relating to goodwill and brand names was performed as at 30 December 2018. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 30 December 2018. The annual financial report for the 52 weeks ended 1 July 2018 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 30 December 2018. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 30 December 2018.

NOTE 8. CASH AND CASH EQUIVALENTS

	As at 30 December 2018 \$'000	As at 1 July 2018 \$'000
Cash at bank	14,724	12,608
Cash on hand	116	110
	14,840	12,718

NOTE 9. INVENTORIES

During the 26 weeks ended 30 December 2018, \$314,465 (31 December 2017: \$44,100 credited) was debited against inventories carried at net realisable value. This is recognised in cost of sales.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 10. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate	Maturity	As at 30 December 2018 \$'000	As at 1 July 2018 \$'000
	%			
<i>Current</i>				
Capitalised borrowing costs			(48)	(44)
Total current			(48)	(44)
<i>Non-current</i>				
Bank Loan - Facility A	BBSW +1.65	8 July 2020	25,000	25,000
Capitalised borrowing costs			-	(1)
Total non-current			25,000	24,999
Current			(48)	(44)
Non-current			25,000	24,999
Total interest-bearing loans and borrowings			24,952	24,955

In July 2018, the terms of the bank facility were amended to extend the expiry date until 8 July 2020.

	As at 30 December 2018 \$'000	As at 1 July 2018 \$'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:	(25,000)	(25,000)
Facilities unused at reporting date:	25,000	25,000

NOTE 11. COMMITMENTS AND CONTINGENCIES

	As at 30 December 2018 \$'000	As at 1 July 2018 \$'000
Non-cancellable operating lease commitments		
- not later than one year	28,550	26,234
- later than one year and not later than five years	61,736	60,649
- later than five years	7,577	3,945
	97,863	90,828

The Group has entered into operating leases for the rental of shop, office 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.

The non-cancellable operating lease commitments disclosed do not contain amounts for reasonably certain option periods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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.

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:

	As at 30 December 2018		As at 1 July 2018	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<i>Financial assets</i>				
Forward exchange contracts	2,815	2,815	1,783	1,783
	2,815	2,815	1,783	1,783
<i>Financial liabilities</i>				
Forward exchange contracts	-	-	-	-
Bank Loans	(25,000)	(25,000)	(25,000)	(25,000)
	(25,000)	(25,000)	(25,000)	(25,000)

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 13. SHARE-BASED PAYMENTS

In addition to those disclosed at 1 July 2018, the following share options were granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP") during the 26 weeks ended 30 December 2018.

2019 Tranche

On 26 October 2018, 2,250,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from Grant Date to 3 July 2022. 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. There is no cash settlement for the share options. The contractual life of each option granted is six years.

The fair value of each share option tranche is estimated at grant date by taking into account the terms and conditions upon which the options were granted. The fair value of share options granted was estimated on the grant date using the following assumptions:

	<i>2019 Tranche</i>
Share option pricing model	Black Scholes
Dividend yield	5.00%
Expected volatility	45.00%
Risk-free interest rate	2.23%
Expected life of share options	4.80 years
Exercise share price	\$2.40
Fair value of share options at grant date (per share option)	\$0.43

The weighted average fair value of the share options granted during the 26 weeks ended 30 December 2018 was \$0.43 (26 weeks ended 31 December 2017: \$0.39).

The weighted average remaining contractual life of share options outstanding as at 30 December 2018 was 5.5 years (1 July 2018: 5.8 years).

For the 26 weeks ended 30 December 2018, the Group has recognised \$138,000 of share-based payment expense in the consolidated income statement (26 weeks ended 31 December 2017: \$76,000).

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 30 December 2018 \$'000	26 weeks ended 31 December 2017 \$'000
Profit for the year attributable to ordinary equity holders of the Parent	14,893	13,940
	As at 30 December 2018 '000	As at 31 December 2017 '000
Weighted average number of ordinary shares for basic EPS	165,875	165,875
<i>Effect of dilution:</i>		
Share options	2,640	856
Weighted average number of ordinary shares adjusted for the effect of dilution	168,515	166,731

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

An announcement was released to the Australian Securities Exchange on 24 January 2019, appointing Simon West and Kiera Grant as independent Non-Executive Directors to the Adairs Limited Board, effective from 24 January 2019.

No other 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.