

APPENDIX 4D

Half Year Report

For the 26 week period ended 29 December 2019

This information should be read in conjunction with the interim consolidated financial report for the half year ended 30 December 2018.

1. Details of the reporting period and the prior corresponding period

Current Period: 1 July 2019 to 29 December 2019 (26 weeks)

Prior corresponding period: 2 July 2018 to 30 December 2018 (26 weeks)

2. Results for announcement to the market

Comparison to previous corresponding period	Increase/ (Decrease)	Change %	\$'000
Revenue from continuing operations	Increase	9.7%	180,273
Profit after tax from continuing operations attributable to members	Decrease	11.6%	13,158
Net profit attributable to members	Decrease	11.6%	13,158

Dividends	Amount per security	Franked amount per security
2019 Final Dividend - Ordinary (paid)	8.0 cents	8.0 cents
Interim Dividend - Ordinary (resolved, not yet provided for at 29 December 2019)	7.0 cents	7.0 cents

Record date for determining entitlements to the dividend	Ordinary Shares	2nd April 2020
Payment date of interim dividend	Ordinary Shares	16th April 2020

3. Net tangible asset backing per ordinary security as at 29 December 2019

	29 December 2019	30 December 2018
Net tangible asset backing per ordinary security ⁽¹⁾	-38 cents	5 cents

(1) The net tangible asset backing includes the Right-of-use assets as per AASB 16.

For the profit commentary and any other significant information needed by an investor to make an informed assessment of Adairs result please refer to the accompanying Interim Condensed Financial Reports for the 26 week period ended 29 December 2019.

APPENDIX 4D

Half Year Report

For the 26 week period ended 29 December 2019

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

During the period, Adairs acquired all of the shares in Mocka Limited for a total consideration of \$81.8m, consisting of an upfront cash payment of \$46.5m, shares issued to the value of \$5.7m and a deferred consideration of \$29.6m payable between September 2021 and September 2023, subject to earnings between FY21 and FY23.

5. Dividend

An interim dividend of 7.0 cents per share has been declared by the board. The record date for the interim dividend is 2 April 2020, with payment on 16 April 2020.

6. Dividend reinvestment Plan

The company does not have an active dividend reinvestment plan.

7. Details of associate and joint ventures

Please refer to the Annual Financial Report for the 52 weeks ended 30 June 2019, Note 22 of the consolidated financial statements.

8. Foreign Entities

All entities comply with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.



adairs

ABN 50 147 375 451

Interim Condensed Financial Report

For the 26 weeks ended 29 December 2019

The background image shows a minimalist interior. On the right, a large framed artwork with a detailed botanical illustration of pink and red flowers and green leaves is mounted on a white wall. Below it, a thin wooden shelf holds a stack of books. The top book is 'NEW YORK', the middle one 'Living with Plants', and the bottom one 'clay' by Christopher Charles Benninger. In the bottom right corner, a green cushion rests on a light-colored wooden plank floor. A small wooden side table is partially visible on the right edge.

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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 29 December 2019.

DIRECTORS

The names of the Company's directors in office during the 26 weeks ended 29 December 2019 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

Simon West

Kiera Grant

Principal Activities

During the 26 weeks ended 29 December 2019 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 21 February 2020 the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 29 December 2019. The total amount of the dividend is \$11.8 million which represents a fully franked dividend of \$0.070 per share. The dividend has not been provided for in the 29 December 2019 interim condensed financial report.

	Cents	\$000
Interim dividends recommended:	7.00	11,835

Operating and Financial Review

The Group has delivered a first half profit after income tax from continued operations of \$13.2 million (\$15.3 million excluding one off transaction costs of \$2.1 million associated with the acquisition of Mocka). Revenue for the first half was \$180.3 million, up 9.7% on last year's first half result of \$164.4 million. The sales growth is attributed to like for like sales growth of 6.9% and the addition of five new stores across Australia.

During the period, Adairs acquired all of the shares in Mocka Limited for a total consideration of \$81.8 million, consisting of an upfront cash payment of \$46.5 million, shares issued to the value of \$5.7 million and a deferred consideration of \$29.6 million payable between September 2021 and September 2022, subject to earnings between FY21 and FY23.

The current and previous periods presented are not entirely comparable due to the impact of the adoption of AASB 16 *Leases* from 1 July 2019 and the acquisition of Mocka Limited. Refer to Note 2(b)(i) of the financial statements which outlines the impact of AASB 16 *Leases* and Note 3 and Note 11 for details on the Mocka Limited acquisition.

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 6.

Significant Events After the Reporting Date

There were no changes in the state of affairs of the business during the 26 weeks ended 29 December 2019.

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

Melbourne

21 February 2020



Mark Ronan

Chief Executive Officer

INDEPENDENT AUDITOR'S REVIEW CONCLUSION



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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 29 December 2019, the condensed statement of profit or loss and other 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 29 December 2019 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 29 December 2019 and its consolidated financial performance for the 26 weeks ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of the Group, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

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

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Independence

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

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Joanne Lonergan'.

Joanne Lonergan
Partner
Melbourne

21 February 2020

AUDITOR'S INDEPENDENCE DECLARATION



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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 29 December 2019, 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; and
- b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Joanne Lonergan'.

Joanne Lonergan
Partner

21 February 2020

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 29 December 2019 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 29 December 2019 and of its performance for the 26 weeks ended on that date; and
 - (ii) complying with Accounting Standards AASB 134 *Interim Financial Reporting* 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

21 February 2020



Mark Ronan

Chief Executive Officer

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the 26 weeks ended 29 December 2019

	Note	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
Revenues from contracts with customers	4(a)	180,273	164,377
Revenues		180,273	164,377
Cost of sales		(75,056)	(64,346)
Gross profit		105,217	100,031
Other income	4(b)	114	260
Depreciation and amortisation expenses	2(b)(i)	(18,857)	(3,752)
Finance expenses	2(b)(i), 5(a)	(2,572)	(698)
Salaries and employee benefits expenses	5(b)	(42,685)	(38,794)
Asset, property and maintenance expenses		(402)	(436)
Occupancy expenses	2(b)(i)	(4,772)	(21,063)
Advertising expenses		(4,765)	(4,036)
Other expenses from ordinary activities	5(c)	(9,192)	(10,244)
Transaction expenses	11	(2,139)	–
Profit before income tax		19,947	21,268
Income tax expense		(6,789)	(6,375)
Profit for the period		13,158	14,893
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	14	7.9 cents	9.0 cents
Diluted earnings per share	14	7.8 cents	8.8 cents

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 26 weeks ended 29 December 2019

	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
Profit for the period	13,158	14,893
Other comprehensive income		
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>		
Net movement of cash flow hedges	(1,076)	1,032
Income tax relating to the components of other comprehensive income	323	(310)
Exchange differences on translation of foreign operations	110	(28)
Other comprehensive income for the period, net of tax	(643)	694
Total comprehensive income for the period	12,515	15,587

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 29 December 2019

	Note	As at 29 Dec 2019 \$'000	As at 30 June 2019 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	10,886	16,708
Trade and other receivables		1,714	1,894
Inventories	9	53,713	42,782
Other assets		12,449	6,311
Derivative financial instruments		36	1,013
TOTAL CURRENT ASSETS		78,798	68,708
NON-CURRENT ASSETS			
Property, plant and equipment		21,071	20,868
Intangibles	11	193,667	113,525
Right of use asset	2(b)(i)	90,928	–
Deferred tax assets	2(b)(i)	527	381
TOTAL NON-CURRENT ASSETS		306,193	134,774
TOTAL ASSETS		384,991	203,482
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		40,471	29,658
Other liabilities		10,302	7,868
Interest bearing loans and borrowings	10, 2(b)(i)	28,171	(50)
Current tax liabilities		2,103	2,672
Provisions	2(b)(i)	5,469	6,419
TOTAL CURRENT LIABILITIES		86,516	46,567
NON-CURRENT LIABILITIES			
Other liabilities		31,626	1,032
Deferred tax liabilities		12,949	6,102
Interest bearing loans and borrowings	10, 2(b)(i)	134,161	24,999
Provisions	2(b)(i)	2,026	6,465
Derivative financial instruments		100	–
TOTAL NON-CURRENT LIABILITIES		180,862	38,598
TOTAL LIABILITIES		267,378	85,165
NET ASSETS		117,613	118,317
EQUITY			
Contributed equity		74,098	68,349
Share based payment reserve		(251)	329
Cash flow hedge reserves		(44)	709
Foreign currency translation reserves		83	(27)
Retained earnings		43,727	48,957
TOTAL EQUITY		117,613	118,317

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 26 weeks ended 29 December 2019

	Ordinary shares \$'000	Share based payment reserve \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 30 June 2019	68,349	329	709	(27)	48,957	118,317
Impact of adoption of new accounting standards(i)	–	–	–	–	(5,118)	(5,118)
At 30 June 2019	68,349	329	709	(27)	43,839	113,199
Profit for the period	–	–	–	–	13,158	13,158
Other comprehensive income	–	–	(753)	110	–	(643)
Total comprehensive income for the period	–	–	(753)	110	13,158	12,515
Dividend payment	–	–	–	–	(13,270)	(13,270)
Share based payments	–	170	–	–	–	170
Issue of limited recourse loan	–	(750)	–	–	–	(750)
Issued shares	5,749	–	–	–	–	5,749
At 29 Dec 2019	74,098	(251)	(44)	83	43,727	117,613

(i) The Group has adopted AASB 16 Leases on a modified retrospective basis. This resulted in a decrease of \$5,118,000 to retained earnings as at 1 July 2019, being the cumulative effect on initial application of the standard (refer to Note 2(b)(i)). The comparative results for the 26 weeks ended 30 December 2018 are not restated as permitted by the standard.

	Ordinary shares \$'000	Share based payment reserve \$'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	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

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

for the 26 weeks ended 29 December 2019

	Note	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		199,594	180,440
Payments to suppliers and employees (inclusive of GST)		(152,652)	(154,854)
Interest received		36	35
Income tax paid		(7,806)	(6,022)
Interest paid		(2,524)	(652)
Net cash flows from operating activities		36,648	18,947
INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangibles		(3,815)	(3,580)
Acquisition of subsidiary, net of cash acquired	11	(42,509)	–
Net cash flows used in investing activities		(46,324)	(3,580)
FINANCING ACTIVITIES			
Dividends paid		(13,270)	(13,270)
Repayment of borrowings		(15,000)	–
Proceeds from borrowings		48,000	–
Payment of borrowing costs		(865)	–
Payment of principal portion of lease liabilities		(15,021)	–
Net cash flows used in financing activities		3,844	(13,270)
Net decrease in cash and cash equivalents		(5,832)	2,097
Net foreign exchange difference		10	25
Cash and cash equivalents at beginning of the period		16,708	12,718
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	10,886	14,840

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 29 December 2019 were authorised for issue in accordance with a resolution of the directors on 21 February 2020.

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 29 December 2019 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 29 December 2019 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 30 June 2019 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, contingent consideration and share based payments which have been measured at fair value.

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

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) New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed financial report are consistent with those followed in the preparation of the Group's annual consolidated financial report for the year ended 30 June 2019, except for the adoption of new standards effective as of 1 July 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

New and revised standards and amendments thereof and interpretations effective for the Group from 1 July 2019 include:

› AASB 16 *Leases*

The impact of the adoption of AASB16 *Leases* is disclosed below in Note 2(b)(i).

› AASB 2018-1 *Amendments to Australian Accounting Standards - Annual Improvements 2015- 2017 Cycle*

The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

› AASB 2018-2 *Amendments to Australian Accounting Standards - Plan Amendment, Curtailment or Settlement*

The adoption of this amending standard did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

› AASB Interpretation 23 *Uncertainty over Income Tax Treatments*

The adoption of this amending interpretation did not have any impact on the disclosures or the amounts recognised in the Group's interim condensed financial report.

(i) AASB 16 *Leases*

AASB 16 *Leases* ("AASB 16") supersedes AASB 117 *Leases* ("AASB 117"), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. The reclassifications and adjustments arising from the transition to AASB 16 are therefore recognised in the opening statement of financial position at 1 July 2019. As the Group has adopted the modified retrospective method, there was no restatement of comparative information.

(a) Nature of the effect of adoption of AASB 16 Leases

The Group is lessee under lease contracts for retail stores, warehouses and office space.

Before the adoption of AASB 16, the Group classified each of its leases at the inception date as an operating lease (the Group was not lessee to any finance leases). In an operating lease, the leased property was not capitalised and the lease payments were recognised within occupancy expenses in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively, with lease incentives and straight-line lease liabilities recorded in Provisions in the statement of financial position.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. AASB 16 provides specific transition requirements and practical expedients, which have been applied by the Group.

› Leases previously accounted for as operating leases

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application of AASB 16. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

In applying AASB 16 at the initial date of application being at 1 July 2019, the Group has applied the available practical expedients:

- › Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application
- › Relied on its assessment of whether leases are onerous immediately before the date of initial application
- › Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application; and
- › Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

Based on the foregoing, the effect of adopting AASB 16 was as follows at 1 July 2019:

Impact on the statement of financial position (increase/(decrease)) at 1 July 2019	\$'000
Assets	
Non-current assets	
Right-of-use asset	93,010
Deferred tax asset	2,399
Total non-current assets	95,409
Total assets	95,409
Liabilities	
Current liabilities	
Interest-bearing loans and borrowings	27,691
Provisions	(1,532)
Total current liabilities	26,159
Non-current liabilities	
Interest-bearing loans and borrowings	79,421
Provisions	(5,053)
Total non-current liabilities	74,368
Total liabilities	100,527
Net assets	(5,118)
Equity	
Retained earnings	(5,118)
Total equity	(5,118)

There is no impact on the statement of profit or loss and other comprehensive income, statement of cash flows, and basic and diluted earnings per share for the comparative period as the Group elected to adopt the modified retrospective approach to transitioning to AASB 16.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	\$'000
Operating lease commitments as at 30 June 2019 (under AASB 117)	90,739
Weighted average incremental borrowing rate as at 30 June 2019	3.95%
Discounted operating lease commitments at 30 June 2019	86,895
Add:	
Commitments relating to leases previously classified as finance leases	–
Payments in optional extension periods not recognised as at 30 June 2019	20,217
Lease liabilities as at 1 July 2019 (under AASB 16)	107,112

(b) Effect of AASB 16 on the 26 weeks ended 29 December 2019

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the 26 weeks ended 29 December 2019:

	Right-of-use assets (\$'000)	Lease liabilities (\$'000)
As at 1 July 2019	93,010	107,112
Additions	10,592	10,349
Additions - through acquisition of subsidiary	2,347	2,745
Depreciation expense	(15,021)	–
Interest expense	–	1,983
Payments	–	(17,004)
As at 29 December 2019	90,928	105,185

(c) Summary of new accounting policies

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application at 1 July 2019:

› Right-of-use assets

The Group recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, plus an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognised right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

› Lease liabilities

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

› Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to its short-term leases of retail stores, warehouses and head office (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

› Significant judgement and estimates

– *Determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of six months to eight years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e., a change in business strategy).

The Group has included the renewal period as part of the lease term for some of its leases of retail stores, warehouses and office space due to the significance of these assets to its operations.

– *Determining the incremental borrowing rate*

The Group has applied judgement to determine the incremental borrowing rate, which affects the amount of lease liabilities or right-of-use assets recognised. The Group reassesses and applies the incremental borrowing rate on a lease by lease basis at the relevant lease commencement date based on the term of the lease (or the remaining term of the lease at the initial date of application).

(d) Other accounting policies applied by the Group

The following accounting policies were applied in the interim condensed financial report that were not outlined in the annual report for the 52 weeks ended 30 June 2019 as the accounting policies were previously not applicable.

› Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date. Acquisition costs incurred are expensed and included within Transaction expenses in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group's cash generating units that are expected to benefit from the combination.

Refer to Note 11 with respect to the acquisition of Mocka Limited ("Mocka") during the 26 weeks ended 29 December 2019.

- › Significant judgements and estimates
- *Measurement of brand names acquired in a business combination*

The fair value of the brand name acquired in the Mocka business combination was determined using the relief from royalty method. This method requires estimates by management of future income, applicable royalty rates and discount rates.

- *Measurement of contingent consideration*

The fair value of contingent consideration expected to be paid as part of the Mocka business combination is determined with reference to the Sale and Purchase Agreement and an agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The determination of fair value requires estimates by management of future earnings before interest and tax, expected payment periods and discount rates.

- *Business combination provisional accounting*

Provisional accounting is applied by the Group to account for business combinations when the initial accounting is incomplete at the end of the reporting period. The Group has 12 months from the acquisition date to finalise its provisional accounting. By its nature provisional accounting involves estimates and judgements based on the information available to the Group at the end of the reporting period, while it continues to seek information about facts and circumstances that existed as of the acquisition date.

NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units based on its various store (including online) formats, and when aggregated there are two reportable segments, being Adairs and Mocka. Prior to the acquisition of Mocka on 1 December 2019, the Group operated one reportable segment, being Adairs.

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 two reportable operating segments.

The Adairs segment contains several store formats, however each 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.

Group financing (including finance costs and finance income) and other overhead charges are managed and monitored by the Adairs segment and are not allocated to other segments.

The Group operated in one geographical segment for the 26 weeks ended 29 December 2019, being Australia and New Zealand.

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 3. SEGMENT REPORTING (continued)

The following tables present revenue and profit before tax information for the Group's operating segments for the 26 weeks ended 29 December 2019:

26 weeks ended 29 December 2019	Adairs \$'000	Mocka \$'000	Consolidated \$'000
Revenue			
External customer	177,881	2,392	180,273
Inter-segment	–	–	–
Total revenue	177,881	2,392	180,273
Results			
Profit before tax	19,694	253	19,947

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 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
Types of goods and services		
Sale of goods and services - stores	145,994	140,108
Sale of goods and services - online	34,279	24,269
Total revenue from contracts with customers	180,273	164,377

(b) Other Income

	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
Interest income	36	35
Other	78	225
	114	260

NOTE 5. EXPENSES

	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
(a) Finance expenses		
Interest paid/payable and other finance costs	589	698
Interest on lease liability	1,983	–
	2,572	698

	26 weeks ended 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
(b) Salaries and employee benefits expense		
Wages and salaries	39,636	35,967
Defined contribution superannuation expense	2,879	2,689
Share based payment expense	170	138
	42,685	38,794
(c) Other expenses from ordinary activities		
Bank fees	1,849	1,578
Professional fees	776	189
Postage and stationery	1,149	3,881
Other	5,418	4,596
	9,192	10,244

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ending 29 Dec 2019 \$'000	26 weeks ending 30 Dec 2018 \$'000
Dividends on ordinary shares declared and paid:		
Final dividend for 2019: 8.0 cents per share (2018: 8.0 cents)	13,270	13,270
Proposed dividends on ordinary shares:		
Interim cash dividend for 2020: 7.0 cents per share (2019: 6.5 cents)	11,835	10,782

The proposed interim dividend for 29 December 2019 has not been provided for in the financial results as at 29 December 2019 as it has 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 30 June 2019. A review of indicators of impairment relating to goodwill and brand names (including those acquired since 30 June 2019) was performed as at 29 December 2019. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 29 December 2019. The annual financial report for the 52 weeks ended 30 June 2019 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 29 December 2019. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 29 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 8. CASH AND CASH EQUIVALENTS

	As at 29 Dec 2019 \$'000	As at 30 June 2019 \$'000
Cash at bank	10,756	16,594
Cash on hand	130	114
	10,886	16,708

NOTE 9. INVENTORIES

During the 26 weeks ended 29 December 2019, \$31,000 (30 December 2018: \$314,000 debited) was credited against inventories carried at net realisable value. This is recognised in cost of sales.

NOTE 10. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 29 Dec 2019 \$'000	As at 30 June 2019 \$'000
<i>Current</i>				
Lease liabilities	2.85-5.35	2020/2021	28,432	–
Capitalised borrowing costs			(261)	(50)
Total current			28,171	(50)
<i>Non-current</i>				
Lease liabilities	2.85-5.35	2022-2028	76,753	–
Bank Loan – Facility A	BBSW +2.15	31 March 2023	58,000	25,000
Capitalised borrowing costs			(592)	(1)
Total non-current			134,161	24,999
Current			28,171	(50)
Non-current			134,161	24,999
Total interest-bearing loans and borrowings			162,332	24,949

	As at 29 Dec 2019 \$'000	As at 30 June 2019 \$'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:	96,500	50,000
Facilities used at reporting date:	(58,000)	(25,000)
Facilities unused at reporting date:	38,500	25,000

NOTE 11. BUSINESS COMBINATIONS

On 1 December 2019, the Group acquired all of the shares of Mocka Limited ("Mocka"), a pure-play online retailer of home and living products operating in Australia and New Zealand. The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Mocka for the one-month period from the acquisition date.

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

	Provisional fair value recognised on acquisition \$'000
Assets	
Cash	3,939
Trade receivables	237
Inventories	6,644
Other assets	3,751
Property, plant and equipment	613
Right-of-use assets	2,347
Intangibles	33,114
Deferred tax asset	151
Total Assets	50,796
Liabilities	
Trade payables	1,743
Interest-bearing loans and borrowings	2,745
Provisions	109
Current tax liability	420
Deferred tax liability	9,934
Total Liabilities	14,951
Total identifiable net assets at fair value	35,845
Goodwill arising on acquisition	45,917
Purchase consideration transferred	81,762
<i>Purchase consideration</i>	
Cash paid	46,448
Shares issued	5,749
Contingent consideration liability (Note 12)	29,565
Purchase consideration transferred	81,762
<i>Cash flow on acquisition</i>	
Net cash acquired with the subsidiary	3,939
Cash paid	(46,448)
Purchase consideration transferred	(42,509)

The net assets recognised above are based on a provisional assessment of their fair value. The fair valuations had not been completed by the date of the interim condensed financial report for 26 weeks ended 29 December 2019.

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 11. BUSINESS COMBINATIONS (continued)

Transaction costs of \$2,139,000 have been expensed and are included in transaction expenses in the statement of profit or loss and are part of the operating cash flows in the statement of cash flows.

From the date of acquisition, Mocka contributed \$2,392,000 of revenue and \$253,000 to profit before tax from continuing operations of the Group. If the combination had taken place at the beginning of the year, revenue from continuing operations would have been \$197,220,000 and profit before tax from continuing operations for the Group would have been \$23,203,000.

The Group issued 3,203,000 ordinary shares in the Company as part of the purchase consideration for Mocka. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was \$1.80 per share. The fair value of the consideration given was therefore \$5,749,000.

As part of the purchase consideration for Mocka, the Group has agreed to contingent consideration. The Group will make additional cash payments to the vendors of Mocka based on an agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The minimum contingent consideration to be paid is \$18,890,000 (NZD \$20,000,000). As at the acquisition date, the fair value of the contingent consideration (measured using Level 3 techniques) was estimated to be \$29,565,000. There has been no change to the fair value of the contingent consideration at 29 December 2019.

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.

The fair value of the contingent consideration related to the acquisition of Mocka is measured at fair value using the Level 3 method. The contingent consideration is measured based on a discounted cashflow methodology using management’s estimation of future forecast earnings before interest and tax for Mocka and, in accordance with the sale and purchase agreement, an agreed multiple over the 2021, 2022 and 2023 financial years.

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 29 December 2019		As at 30 June 2019	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<i>Financial assets</i>				
Forward exchange contracts	36	36	1,013	1,013
	36	36	1,013	1,013
<i>Financial liabilities</i>				
Forward exchange contracts	(100)	(100)	–	–
Contingent consideration	(29,565)	(29,565)	–	–
Bank Loans	(58,000)	(58,000)	(25,000)	(25,000)
	(87,665)	(87,665)	(25,000)	(25,000)

NOTE 13. SHARE-BASED PAYMENTS

In addition to those disclosed at 30 June 2019, the following share options were granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP") during the 26 weeks ended 29 December 2019.

2020 Tranche

On 18 December 2019, 3,300,000 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 30 June 2023. 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:

	2020 Tranche
Share option pricing model	Black Scholes
Dividend yield	8.00%
Expected volatility	50.00%
Risk-free interest rate	0.82%
Expected life of share options	4.80 years
Exercise share price	\$1.86
Fair value of share options at grant date (per share option)	\$0.38

NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 29 December 2019

NOTE 13. SHARE-BASED PAYMENTS (continued)

The weighted average fair value of the share options granted during the 26 weeks ended 29 December 2019 was \$0.38 (26 weeks ended 30 December 2018: \$0.43).

The weighted average remaining contractual life of share options outstanding as at 29 December 2018 was 5.0 years (30 June 2019: 5.0 years).

For the 26 weeks ended 29 December 2019, the Group has recognised \$170,000 of share-based payment expense in the consolidated income statement (26 weeks ended 30 December 2018: \$138,000).

During the 26 weeks ended 29 December 2019, a key management personnel was extended cash in the form of a loan for \$750,000 to purchase ordinary shares in the Company. The arrangement is a limited recourse loan which may be settled through the return of the ordinary shares in the Company to the Group.

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 29 Dec 2019 \$'000	26 weeks ended 30 Dec 2018 \$'000
Profit for the year attributable to ordinary equity holders of the Parent	13,158	14,893

	As at 29 Dec 2019 '000	As at 30 Dec 2018 '000
Weighted average number of ordinary shares for basic EPS	166,016	165,875
<i>Effect of dilution:</i>		
Share options	1,607	2,640
Weighted average number of ordinary shares adjusted for the effect of dilution	167,623	168,515

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.

CORPORATE INFORMATION

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Trent Peterson
Kate Spargo
Simon West
Kiera Grant

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adairs