

ADAIRES LIMITED
ABN 50 147 375 451

INTERIM CONDENSED FINANCIAL REPORT
FOR THE
26 WEEKS ENDED
1 January 2017

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CORPORATE INFORMATION

ABN 50 147 375 451

Directors

Michael Butler
Mark Ronan (appointed 18 November 2016)
David Maclean
Michael Cherubino
Trent Peterson
Kate Spargo
David Briskin

Company Secretary

Mandy Drake (appointed 18 November 2016)

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 (referred to hereafter as "Adairs", "the Group" "Company") for the 26 weeks ended 1 January 2017.

DIRECTORS

The names of the Company's directors in office during the half year 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 (appointed 18 November 2016)
David Maclean
Michael Cherubino
Trent Peterson
Kate Spargo
David Briskin

Principal Activities

During the period, the principal continuing activities of the Company consisted of the retailing of homewares and home furnishings in Australia and New Zealand.

Dividends

On 27 February 2017 the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of 26 weeks ended 1 January 2017. The total amount of the dividend is \$5.8m which represents a fully franked dividend of \$0.035 per share. The dividend has not been provided for in the 1 January 2017 interim condensed financial report.

	<u>Cents</u>	<u>\$000</u>
Interim dividends recommended:	3.50	5,806

Operating and Financial Review

The company has delivered first half sales revenue growth, with sales for the first half \$124.5 million, up 5.71% on last year's first half result of \$117.8 million. The sales growth is attributed to ten additional new stores across Australia and New Zealand.

Gross profit margin is \$73.4 million, dropping slightly from last half of \$74.3 million.

Operationally the business has delivered three major projects in the period:

- POS rollout completed in October in line with plan. Whilst there have been some initial teething issues, the systems are now largely stable,
- Online re-platform completed over September/October, with the on-line channel delivering improving metrics; and
- Preparation for and opening of the company's New Zealand stores and website.

These projects carried one-off costs for the business over the 26 weeks ended 1 January 2017 of approximately \$720,000.

Auditors Independence Declaration

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

Significant Events After the Reporting Date

There were no changes in the state of affairs of the business during the half year ended 1 January 2017.

Indemnification of Auditors

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

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



Mark Ronan
Chief Executive Officer

Melbourne
27 February, 2017

To the members of Adairs Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Adairs Limited, which comprises the condensed statement of financial position as at 1 January 2017, the condensed statement of comprehensive income, condensed statement of changes in equity and condensed statement of cash flows for the 26 weeks then ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled at the 26 weeks end or from time to time during the half-year.

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 controls as the directors determine are 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, we have become aware of any matter that makes us believe that the financial report is not in accordance with the *Corporations Act 2001* including: giving a true and fair view of the consolidated entity's financial position as at 1 January 2017 and its 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 Adairs Limited and the entities it controlled during the 26 weeks ended, 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.

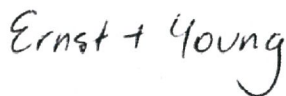
Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the Directors' Report.

Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Adairs Limited is not in accordance with the *Corporations Act 2001*, including:

- a) giving a true and fair view of the consolidated entity's financial position as at 1 January 2017 and of its 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*.



Ernst & Young



Joanne Lonergan
Partner
Melbourne

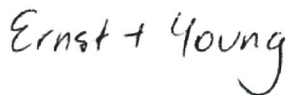
27 February 2017

Auditor's Independence Declaration to the Directors of Adairs Limited

As lead auditor for the review of Adairs Limited for the 26 weeks ended 1 January 2017, I declare to the best of my knowledge and belief, there have been:

- a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and
- b) no contraventions of any applicable code of professional conduct in relation to the review.

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



Ernst & Young



Joanne Lonergan
Partner

27 February 2017

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 1 January 2017 are in accordance with the *Corporations Act 2001*, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 1 January 2017 and of its performance for the 26 weeks ended on that date; and

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

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

On behalf of the Board



Michael Butler
Independent Chairman
Non-Executive Director

Melbourne
27 February, 2017



Mark Ronan
Managing Director and Chief Executive Officer

INTERIM CONSOLIDATED INCOME STATEMENT

FOR THE 26 WEEKS ENDED 1 JANUARY 2017

	Note	26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
Continuing Operations			
Revenues from sale of goods	4(a)	124,548	117,821
Cost of sales		(50,672)	(43,663)
Gross profit		73,876	74,158
Other income	4(a)	83	149
Depreciation and amortisation expenses		(2,751)	(2,593)
Finance expenses	5(a)	(937)	(938)
Salaries and employee benefits expense	5(b)	(30,732)	(28,276)
Asset, property and maintenance expenses		(286)	(173)
Occupancy expenses		(18,007)	(15,726)
Advertising expenses		(3,172)	(2,474)
Other expenses from ordinary activities	5(c)	(6,963)	(5,036)
Transaction expenses		-	(93)
Profit before income tax		11,111	18,998
Income tax expense	5 (d)	(2,530)	(5,744)
Profit for the period		8,581	13,254
Earnings per share			
Basic, profit for the period attributable to ordinary equity holders of the Parent	14	5 cents	8 cents
Earnings per share for continuing operations:			
Basic, profit from continuing operations attributable to ordinary equity attributable to ordinary equity holders of the Parent	14	5 cents	8 cents

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 26 WEEKS ENDED 1 JANUARY 2017

		26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
	Note		
Profit for the period		8,581	13,254
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Other comprehensive income from continuing operations			
Net movement of cash flow hedges		2,268	(361)
Income tax relating to the components of other comprehensive income		(680)	108
Exchange differences on translation of foreign operations		(5)	-
Other comprehensive income for the period, net of tax		(1,583)	(253)
Total comprehensive income for the period		10,164	13,001

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 1 JANUARY 2017

	Note	1 January 2017 \$'000	3 July 2016 \$'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	9,553	14,676
Trade and other receivables		6,862	6,599
Inventories	9	31,086	26,272
Derivative financial instruments		1,250	-
TOTAL CURRENT ASSETS		48,751	47,547
NON CURRENT ASSETS			
Property, plant and equipment		19,814	16,007
Intangibles		100,967	101,004
Deferred tax assets		6,917	6,725
TOTAL NON CURRENT ASSETS		127,698	123,736
TOTAL ASSETS		176,449	171,283
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		28,096	15,391
Interest bearing loans and borrowings	10	(121)	(121)
Current tax liabilities		1,197	8,794
Provisions		3,455	3,496
Derivative financial instruments		-	1,015
TOTAL CURRENT LIABILITIES		32,627	28,575
NON CURRENT LIABILITIES			
Deferred tax liabilities		834	58
Interest bearing loans and borrowings	10	41,981	41,921
Provisions		6,006	5,136
Derivative financial instruments		-	3
TOTAL NON CURRENT LIABILITIES		48,821	47,118
TOTAL LIABILITIES		81,448	75,693
NET ASSETS		95,001	95,590
EQUITY			
Contributed equity		68,349	68,349
Share based payment reserve		29	-
Cash flow hedge reserves		875	(713)
Foreign currency translation reserves		(5)	-
Retained earnings		25,753	27,954
TOTAL EQUITY		95,001	95,590

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 26 WEEKS ENDED 1 JANUARY 2017

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

	Ordinary shares \$'000	Share based payment reserves \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
At 29 June 2015	68,349	-	527	-	9,076	77,952
Profit for the period	-	-	-	-	13,254	13,254
Other comprehensive income	-	-	(253)	-	-	(253)
Total comprehensive income for the period	-	-	(253)	-	13,254	13,001
At 27 December 2015	68,349	-	274	-	22,330	90,953

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 26 WEEKS ENDED 1 JANUARY 2017

		26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
	Note		
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		136,230	128,282
Payments to suppliers and employees (inclusive of GST)		(113,063)	(109,349)
Interest received		46	22
Income tax paid		(10,224)	(6,907)
Interest paid		(860)	(885)
IPO Transaction costs paid		-	(7,205)
Net cash flows from operating activities		12,129	3,958
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment		(6,465)	(5,547)
Net cash flows used in investing activities		(6,465)	(5,547)
CASH FLOWS FROM FINANCING ACTIVITIES			
Dividends (paid)/received		(10,782)	-
Net cash flows used in financing activities		(10,782)	-
Net decrease in cash and cash equivalents		(5,118)	(1,589)
Net foreign exchange difference		(5)	
Cash and cash equivalents at beginning of the period		14,676	9,437
CASH AND CASH EQUIVALENTS AT END OF PERIOD	8	9,553	7,848

NOTES TO THE FINANCIAL STATEMENTS

FOR THE 26 WEEKS ENDED 1 JANUARY 2017

NOTE 1. CORPORATE INFORMATION

The interim condensed consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 26 weeks ended 1 January 2017 were authorised for issue in accordance with a resolution of the directors on 27 February 2017.

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.

The Group is principally engaged in retail operations comprising Manchester, Homewares and Home Décor market segments. 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 1 January 2017 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

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

It is recommended that the interim condensed financial report be read in conjunction with the annual report for the 53 weeks ended 3 July 2016 and considered together with any public announcements made by Adairs Limited since that date in accordance with the continuous disclosure obligations of the ASX listing rules.

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

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

(b) Significant accounting policies

The accounting policies and methods of computation are the same as those adopted in the most recent annual financial report, with the addition of:

(i) *Share based payments*

Employees (including senior executives) of the Group receive remuneration in the form of share-based payments, whereby employees render services as consideration for equity instruments (equity-settled transactions).

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 13.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (share based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the statement of profit or loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Group or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

NOTES TO THE FINANCIAL STATEMENTS (continued)

(b) Significant accounting policies (continued)

(ii) *Foreign currency translation of Group companies*

The Group's consolidated financial statements are presented in Australian dollars, which is also the parent company's functional currency. For each entity, the Group determines the functional currency and items included in the financial statements of each entity are measured using that functional currency.

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in other comprehensive income (OCI).

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

The Group has adopted the applicable changes in accounting standards for the 26 weeks ended 1 January 2017 and are of the view that the adoption of the standards did not have an effect on the financial position or the performance of the Group. In addition, the Group has not elected to adopt any new standards as amendments issued but not yet effective.

(d) Basis of consolidation

The interim condensed consolidated financial reports comprise the financial statements of Adairs Limited and its subsidiaries for the 26 weeks ended 1 January 2017.

(e) Comparatives

The current reporting period 4 July 2016 to 1 January 2017 represents 26 weeks and the comparative period is 29 June 2015 to 27 December 2015, also representing 26 weeks.

NOTE 3. SEGMENT REPORTING

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

Operating segments are identified on the basis of internal reports to senior management about components of the Company that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.

Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered in specific store formats, which when aggregated, forms one reportable operating segment.

The Group also undertakes activity outside Australia through its subsidiaries. The Group does not disclose this as a separate reporting segment on the basis that it represents less than 10% of the Groups operations and the Company's store formats (operating segments) exhibit similar long-term financial performance and economic characteristics, which include:

- (a) The nature of the products and services - all store formats provide home furnishings to its customer base;
- (b) The nature of the production processes - all store formats utilise common design processes and source from the same or similar suppliers;
- (c) The type or class of customer for their products and services - all store formats possess an interchangeable customer base;
- (d) The methods used to distribute their products or provide their services - all store formats have product fulfilled from the same two distributions centres and methodologies; and
- (e) No store format has different regulatory or consumer legislation requirements from another.

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to store formats.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 4. REVENUES

	26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
(a) Revenue from sale of goods		
Sales revenue		
Sale of goods	124,548	117,821
Other income		
Interest income	46	24
Other	37	125
	83	149

NOTE 5. EXPENSES

(a) Finance expenses		
Interest paid/payable to banks and other financial institutions	937	938
	937	938
(b) Salaries and employee benefits expense		
Wages and salaries	27,615	24,450
Defined contribution superannuation expense	2,336	2,044
Bonus/incentives	752	1,782
Share based payments	29	-
	30,732	28,276
(c) Other expenses from ordinary activities		
Bank fees	939	748
Professional fees	755	349
Storage costs	308	190
Postage and stationery	1,791	1,507
Travelling expenses	512	339
IT expenses	627	453
Communication	353	359
Other	1,678	1,091
	6,963	5,036

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

NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
Dividends on ordinary shares declared and paid		
Final dividend for 2016: 5 cents per share (2015: Nil)	10,782	-
Proposed dividend on ordinary shares		
First dividend for 2017: 3.50 cents per share (2016: 5 cents per share)	5,806	8,294

The proposed interim dividend for 1 January 2017 has not been provided for in the financial results as at 1 January 2017.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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 3 July 2016. A review of indicators of impairment relating to goodwill and brand names was performed as at 1 January 2017. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 1 January 2017. The annual financial report for the 53 weeks ended 3 July 2016 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 1 January 2017. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 1 January 2017.

NOTE 8. CASH AND CASH EQUIVALENTS

	1 January 2017 \$'000	3 July 2016 \$'000
Cash at bank	9,446	14,580
Cash on hand	107	96
	<u>9,553</u>	<u>14,676</u>

NOTE 9. INVENTORIES

During 1 January 2017, \$79,000 (3 July 2016: \$288,000) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

NOTE 10. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate	Maturity	1 January 2017 \$'000	3 July 2016 \$'000
	%			
Current				
Capitalised borrowing costs			(121)	(121)
Total current			<u>(121)</u>	<u>(121)</u>
Non-current				
Bank Loan - Facility A	BBSW +1.85	1 July 2018	42,000	42,000
Capitalised borrowing costs			(19)	(79)
Total non-current			<u>41,981</u>	<u>41,921</u>
Current			(121)	(121)
Non-current			41,981	41,921
Total interest-bearing loans and borrowings			<u>41,860</u>	<u>41,800</u>

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

	1 January 2017 \$'000	3 July 2016 \$'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:	(42,000)	(42,000)
Facilities unused at reporting date:	8,000	8,000

NOTE 11. COMMITMENTS AND CONTINGENCIES

	1 January 2017 \$'000	3 July 2016 \$'000
Leases		
Non-cancellable operating lease commitments not provided for in the accounts		
- not later than one year	27,693	24,324
- later than one year and not later than five years	73,641	62,084
- later than five years	5,621	5,181
	106,955	91,589

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

NOTE 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Forward currency contracts - cash flow hedges

The Group buys inventories that are purchased in US Dollars ("USD"). In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward currency contracts to purchase USD. These contracts are hedging committed 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.

NOTES TO THE FINANCIAL STATEMENTS (continued)

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

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

	2017		2016	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<i>Financial assets</i>				
Forward exchange contracts	1,250	1,250	-	-
	1,250	1,250	-	-
<i>Financial liabilities</i>				
Forward exchange contracts	-	-	(1,018)	(1,018)
Interest bearing liabilities	(42,000)	(42,649)	(42,000)	(44,204)
	(42,000)	(42,649)	(43,018)	(45,222)

NOTE 13. SHARE-BASED PAYMENTS

In November 2016, 1,860,000 share options were granted to senior executives under the Equity Incentive Plan (EIP). The exercise price of the options of \$2.00 was above the market price of the shares on the date of grant. 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 the Company from Grant Date to 30 June 2020. There are two separate Performance conditions, an EPS Performance condition and a Sales Performance condition. If these conditions are not met, the options will lapse immediately. The fair value at grant date is estimated using the Black Scholes Option Pricing Model (BSM), taking into account the terms and conditions upon which the options were granted. The contractual life of each option granted is eight years. There is no cash settlement of the options. The fair value of options granted during the 26 weeks ended 1 January 2017 was estimated on the grant date using the following assumptions:

Dividend yield (%)	4.75%
Expected volatility (%)	32.50%
Risk-free interest rate (%)	2.11%
Expected life of share options (years)	5.80
Exercise share price (\$)	2.00

The weighted average fair value of the options granted during the six month period was \$0.27.

For the 26 weeks ended 1 January 2017, the Group has recognised \$29,000 of share-based payment expense in the consolidated income statement.

In accordance with IAS 34.16A(c), the Group has disclosed the number of share options granted to senior executives in the period to 1 January 2017 together with the terms of the options, as this is considered to be a significant event impacting the results for the period and gives an understanding of the impact for future periods.

NOTES TO THE FINANCIAL STATEMENTS (continued)

NOTE 14. EARNINGS PER SHARE

Basic EPS amounts are calculated by dividing the profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

No dilutive equity instruments are on issue as at 1 January 2017 (2015: nil). As a result, dilutive EPS equals basic EPS.

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

	26 weeks ended 1 January 2017 \$'000	26 weeks ended 27 December 2015 \$'000
Profit attributable to ordinary equity holders of the Parent:		
Continuing operations	8,581	13,254
Profit attributable to ordinary equity holders of the Parent for basic earnings	8,581	13,254
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	8,851	13,254
	1 January 2017 '000	27 December 2015 '000
Weighted average number of ordinary shares for basic EPS ⁽¹⁾	165,875	165,875

⁽¹⁾The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

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.