Adairs Limited

Appendix 4D

Half Year Report

For the 27 week period ended 31 December 2023

This information should be read in conjunction with the interim condensed financial report for the 27 weeks ended 31 December 2023 for Adairs Limited (the "Company") and its subsidiaries (the "Group").

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

Current period:	26 June 2023 to 31 December 2023 (27 weeks)
Prior corresponding period:	27 June 2022 to 25 December 2022 (26 weeks)

2. Results for announcement to the market

Statutory results

	27 weeks ended 31 Dec 2023 $'000	26 weeks ended 25 Dec 2022 $'000	Reported change %
Revenue from continuing operations	302,410	324,230	-(6.7)
Profit after tax from continuing operations attributable to members	17,674	21,783	-(18.9)
Net profit attributable to members	17,674	21,783	-(18.9)

Underlying results

The table below present the Group's underlying financial results for sales and earnings before interest and tax ("EBIT"). Underlying EBIT has been calculated to exclude the impact of (i) AASB 16 *Leases* and (ii) National Distribution Centre transition costs. The underlying results have been calculated on a comparable basis for the prior corresponding period.

For better comparative purposes, the underlying results are also presented on a 26 week basis:

	27 weeks ended 31 Dec 2023 $'000	(Unreviewed) 26 weeks ended 24 Dec 2023 $'000	26 weeks ended 25 Dec 2022 $'000	Reported change %	26 week basis change %
Sales	302,410	291,409	324,230	-(6.7)	-(10.1)
Underlying EBIT	30,919	28,624	35,492	-(12.9)	-(19.4)

Refer to the Investor Presentation released to the ASX for a reconciliation between statutory and underlying results.

Dividends

Dividends	Amount per security	Franked amount per security
2023 Final Dividend – Ordinary (paid)	-	-
2024 Interim Dividend – Ordinary (resolved, not yet provided for at 31 December 2023)	5.0 cents	5.0 cents

Record date for determining entitlements to the dividend	Ordinary Shares	12th March 2024
Payment date of interim dividend	Ordinary Shares	8th April 2024

Commentary of results and operations

Refer to the accompanying interim condensed financial report and Investor Presentation released to the ASX.

3. Net tangible assets backing per ordinary security

	31 December 2023	25 December 2022
Net tangible assets backing per ordinary security [1]	-30 cents	-34 cents

[1] The net tangible assets backing includes the Right-of-use assets as per AASB 16.

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

There are no entities over which control has been gained or lost during the period.

5. Dividend

An interim dividend of 5.0 cents per share has been declared by the board. The record date for the interim dividend is 12 March 2024, with payment on 8 April 2024.

6. Dividend reinvestment plan

The Company's dividend reinvestment plan ("DRP") continues to be available to eligible shareholders. The last date for receipt of election notices for participation in the interim dividend under the DRP is 13 March 2024. The Company intends to issue new shares to satisfy its obligations under the DRP.

There is currently a 1.5% DRP discount applied to the dividend and no limit on the number of shares that can participate in the DRP. Shares will be allocated based on the average of the daily volume weighted average market price of ordinary shares of Adairs Limited traded over the period of 5 trading days commencing on 14 March 2024, less the 1.5% discount.

7. Details of associate and joint ventures

There were no associates or joint ventures during the 27 weeks ended 31 December 2023, or during the prior corresponding period.

8. Foreign entities

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

8. Independent review by auditor

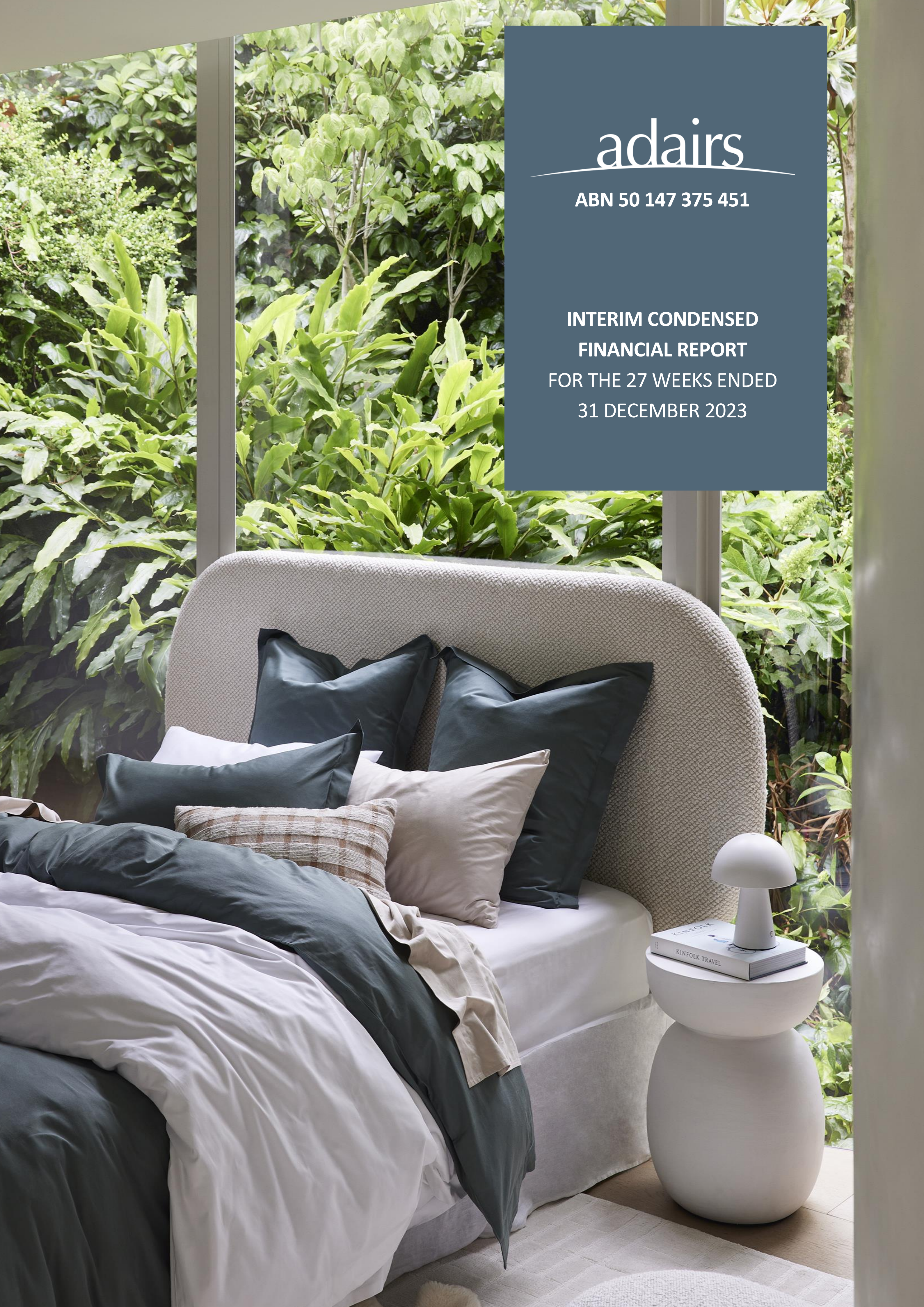
This report is based on an interim condensed financial report that has been subject to auditor review. The review opinion is unqualified.

adairs

ABN 50 147 375 451

INTERIM CONDENSED FINANCIAL REPORT

FOR THE 27 WEEKS ENDED 31 DECEMBER 2023



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DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited (the "Company") and its subsidiaries (the "Group"), for the 27 weeks ended 31 December 2023.

DIRECTORS

The names of the Company's directors in office during the 27 weeks ended 31 December 2023 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

Brett Chenoweth
Michael Cherubino (resigned 18 August 2023)
Kiera Grant
David MacLean
Trent Peterson
Mark Ronan
Kate Spargo

PRINCIPAL ACTIVITIES

For the 27 weeks ended 31 December 2023, and in all referenced corresponding periods, the principal activities of the Group consisted of the retailing of homewares, furniture and home furnishings in Australia and New Zealand, through both retail stores and online channels.

DIVIDENDS

On 26 February 2024, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 27 weeks ended 31 December 2023. The total amount of the dividend is $8.7 million which represents a fully franked dividend of $0.05 per share. The dividend has not been provided for in the 31 December 2023 interim condensed financial report.

OPERATING AND FINANCIAL REVIEW

The current reporting period is a 27 week period ended 31 December 2023. The prior corresponding period was a 26 week period ended 25 December 2022. The results for the 27 week period ended 31 December 2023 are summarised below:

- Total sales of $302.4 million (26 weeks: $291.4 million), representing a decrease of -10.1%[1]. Sales were primarily impacted by a fall in customer traffic, both in stores and online, which reflected the weaker macro trading environment.
- Gross profit of $143.6 million (26 weeks: $137.6 million) declined by -6.8%[1], however gross profit margin % improved by +170bps[1]. This margin improvement was achieved across all brands and reflects improved pricing strategy and an easing of import container rates.
- Whilst strong cost management fully offset inflationary pressures from higher wage rates, rents and general costs of doing business, this was not enough to offset the decline in sales. Underlying EBIT of $30.9 million (26 weeks: $28.6 million) was down -19.4%[1]. The Underlying EBIT impact of week 27 (which included Boxing Day store sales) was $2.3 million.
- Statutory basic earnings per share ("EPS") of 10.2 cents was a decrease of -19.7%[2].
- Net debt[3] of $58.6 million, was a reduction of -$15.5 million since 25 June 2023.

[1] Measured on a comparable 26 weeks basis.

[2] Measured on a statutory reporting period basis.

[3] Net debt is Borrowings less Cash and cash equivalents.

OPERATING AND FINANCIAL REVIEW (continued)

Below is a reconciliation from statutory profit before tax to underlying earnings before interest and tax ("EBIT"), as well as a comparison of both reporting periods on a 26 week basis.

Unreviewed	**Reported**		**Underlying**	**Reported**	**Change**	
	27 weeks ended 31 Dec 2023	**Week 27 impact**	**26 weeks ended 24 Dec 2023**	**26 weeks ended 25 Dec 2022**	**Reported**	**26 week basis**
	$'000	**$'000**	**$'000**	**$'000**		
Sales	302,410	(11,001)	291,409	324,230	(6.7%)	(10.1%)
Gross profit	143,557	(5,933)	137,624	147,639	(2.8%)	(6.8%)
Gross profit margin %	47.5%		47.2%	45.5%	+200bps	+170bps
Underlying EBIT (non-IFRS)	**30,919**	**(2,295)**	**28,624**	**35,492**	**(12.9%)**	**(19.4%)**
Significant items:						
Impact of AASB 16 *Leases*[4]	2,923			1,605		
National Distribution Centre transition costs	(1,607)			(154)		
Statutory EBIT (IFRS)	**32,235**			**36,943**	**(12.7%)**	
Finance expenses	(7,567)			(6,412)		
Finance income	279			118		
Profit before income tax	**24,947**			**30,649**	**(18.6%)**	
Income tax expenses	(7,273)			(8,866)		
Profit after income tax	**17,674**			**21,783**	**(18.9%)**	

[4] The impact of AASB 16 Leases results in an earnings shift in the interim consolidated statement of profit or loss from Occupancy expenses under AASB 117 to Depreciation and amortisation expenses and Finance expenses under AASB 16.

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 4.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

There were no material changes in the state of affairs of the Group during the 27 weeks ended 31 December 2023.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

On 26 February 2024, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2024 financial year. The total amount of the dividend is $8.7 million which represents an interim franked dividend of 5.0 cents per share. The dividend has not been provided for in the 31 December 2023 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting 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 Group.

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

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and
Chief Executive Officer

Melbourne
26 February 2024

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Building a better working world

Auditor's independence declaration to the directors of Adairs Limited

As lead auditor for the review of the interim condensed financial report of Adairs Limited for the 27 week period ended 31 December 2023, I declare to the best of my knowledge and belief, there have been:

a. No contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the review;

b. No contraventions of any applicable code of professional conduct in relation to the review; and

c. No non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner
26 February 2024

Building a better working world

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Independent auditor's review report to the members of Adairs Limited

Conclusion

We have reviewed the accompanying interim condensed financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the statement of financial position as at 31 December 2023, the statement of profit or loss, statement of other comprehensive income, statement of changes in equity and statement of cash flows for the 27 week period ended on that date, notes comprising a summary of material accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the interim condensed financial report of the Group does not comply with the *Corporations Act 2001*, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 31 December 2023 and of its consolidated financial performance for the 27 week period ended on that date; and

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

Basis for conclusion

We conducted our review in accordance with ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity* (ASRE 2410). Our responsibilities are further described in the *Auditor's responsibilities for the review of the half-year financial report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (*including Independence Standards)* (the Code) that are relevant to our audit of the annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the interim condensed 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 interim condensed financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the interim condensed financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the interim financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2023 and its performance for the 27 week period ended on that date, and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

A review of an interim condensed 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.

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner

Melbourne
26 February 2024

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 27 weeks ended 31 December 2023 are in accordance with the *Corporations Act 2001*, including:

  (i) giving a true and fair view of the consolidated entity's financial position as at 31 December 2023 and of its performance for the 27 weeks ended on that date; and

  (ii) complying with Accounting Standard 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

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and
Chief Executive Officer

Melbourne
26 February 2024

INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE 27 WEEKS ENDED 31 DECEMBER 2023

	Note	27 weeks ended 31 December 2023 $'000	Restated 26 weeks ended 25 December 2022 $'000
Revenue from contracts with customers	4	302,410	324,230
Cost of sales		(158,853)	(176,591)
Gross profit		**143,557**	**147,639**
Other income		175	857
Depreciation and amortisation expenses	5(b)	(27,385)	(26,194)
Salaries and employee benefits expenses	5(c)	(57,003)	(56,603)
Occupancy expenses		(7,385)	(5,130)
Advertising expenses		(7,872)	(10,454)
Other expenses	5(d)	(11,852)	(13,172)
Earnings before interest and tax		**32,235**	**36,943**
Finance expenses	5(a)	(7,567)	(6,412)
Finance income		279	118
Profit before income tax		**24,947**	**30,649**
Income tax expenses		(7,273)	(8,866)
Profit after income tax		**17,674**	**21,783**

Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	14	10.2 cents	12.7 cents
Diluted earnings per share	14	10.1 cents	12.6 cents

This interim consolidated statement of profit or loss should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 27 WEEKS ENDED 31 DECEMBER 2023

	Note	27 weeks ended 31 December 2023 $'000	26 weeks ended 25 December 2022 $'000
Profit after tax		**17,674**	**21,783**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss (net of tax):			
Net movement on cash flow hedges		(5,591)	(5,361)
Income tax relating to the components of other comprehensive income		1,676	1,608
Exchange differences on translation of foreign operations		(11)	383
Other comprehensive (loss) for the period, net of tax		**(3,926)**	**(3,370)**
Total comprehensive income for the period		**13,748**	**18,413**

This interim consolidated statement of other comprehensive income should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER 2023

	Note	As at 31 December 2023 $'000	As at 25 June 2023 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	8	21,376	25,898
Trade and other receivables		3,836	4,176
Inventories	9	83,544	87,774
Current tax receivables		-	2,484
Other assets		7,876	8,314
Derivative financial instruments		-	5,326
TOTAL CURRENT ASSETS		**116,632**	**133,972**
NON-CURRENT ASSETS			
Property, plant and equipment		36,974	22,950
Intangibles		285,097	282,269
Right-of-use assets		171,753	157,214
Derivative financial instruments		1	72
TOTAL NON-CURRENT ASSETS		**493,825**	**462,505**
TOTAL ASSETS		**610,457**	**596,477**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		54,785	54,944
Other liabilities	10	25,555	18,819
Earn-out liabilities		261	200
Lease liabilities		53,088	48,677
Current tax liabilities		2,965	-
Provisions		11,006	11,572
Derivative financial instruments		189	-
TOTAL CURRENT LIABILITIES		**147,849**	**134,212**
NON-CURRENT LIABILITIES			
Other liabilities	10	1,231	1,275
Earn-out liabilities		-	261
Deferred tax liabilities		17,446	20,770
Borrowings	11	80,000	100,000
Lease liabilities		142,106	131,718
Provisions		6,041	6,020
TOTAL NON-CURRENT LIABILITIES		**246,824**	**260,044**
TOTAL LIABILITIES		**394,673**	**394,256**
NET ASSETS		**215,784**	**202,221**
EQUITY			
Contributed equity		84,737	84,737
Share-based payment reserve		3,527	3,712
Cash flow hedge reserve		(133)	3,782
Foreign currency translation reserve		(287)	(276)
Retained earnings		127,940	110,266
TOTAL EQUITY		**215,784**	**202,221**

This interim consolidated statement of financial position should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 27 WEEKS ENDED 31 DECEMBER 2023

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 25 June 2023		**84,737**	**3,712**	**3,782**	**(276)**	**110,266**	**202,221**
Profit for the period		-	-	-	-	17,674	17,674
Other comprehensive loss		-	-	(3,915)	(11)	-	(3,926)
Total comprehensive income / (loss) for the period		**-**	**-**	**(3,915)**	**(11)**	**17,674**	**13,748**
Transactions with owners in their capacity as owners:							
Share-based payments	13	-	(185)	-	-	-	(185)
At 31 December 2023		**84,737**	**3,527**	**(133)**	**(287)**	**127,940**	**215,784**

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 26 June 2022		**81,235**	**4,147**	**9,678**	**(503)**	**103,326**	**197,883**
Profit for the period		-	-	-	-	21,783	21,783
Other comprehensive income / (loss)		-	-	(3,753)	383	-	(3,370)
Total comprehensive income / (loss) for the period		**-**	**-**	**(3,753)**	**383**	**21,783**	**18,413**
Transactions with owners in their capacity as owners:							
Dividends declared	6	-	-	-	-	(17,132)	(17,132)
Dividend reinvestment plan		1,710	-	-	-	-	1,710
Share-based payments	13	-	(17)	-	-	-	(17)
Tax effect of share-based payments		-	127	-	-	-	127
At 25 December 2022		**82,945**	**4,257**	**5,925**	**(120)**	**107,977**	**200,984**

This interim consolidated statement of changes in equity should be read in conjunction with the notes to the financial statements.

INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 27 WEEKS ENDED 31 DECEMBER 2023

	Note	27 weeks ended 31 December 2023 $'000	26 weeks ended 25 December 2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		339,343	348,132
Payments to suppliers and employees (inclusive of GST)		(265,623)	(277,004)
Interest received		279	118
Income tax paid		(3,473)	(6,367)
Interest paid		(7,809)	(6,454)
Net cash flows from operating activities		62,717	58,425
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangibles		(22,196)	(6,722)
Net cash flows used in investing activities		(22,196)	(6,722)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawings from borrowings		35,000	12,000
Repayment of borrowings		(55,000)	(22,000)
Payment of borrowing costs		(256)	(388)
Dividends paid		-	(15,422)
Payment of principal portion of lease liabilities		(24,776)	(24,149)
Net cash flows used in financing activities		(45,032)	(49,959)
Net (decrease) / increase in cash and cash equivalents		(4,511)	1,744
Net foreign exchange difference		(11)	382
Cash and cash equivalents at beginning of the period		25,898	26,075
CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD	8	**21,376**	**28,201**

This interim consolidated statement of cash flows should be read in conjunction with the notes to the financial statements.

NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited (the "Company" or "Parent") and its subsidiaries (the "Group") for the 27 weeks ended 31 December 2023 was authorised for issue in accordance with a resolution of the directors on 26 February 2024.

The Company is a for profit company limited by shares incorporated in Australia whose shares are publicly traded on the Australian Securities Exchange.

The Group is an omni-channel specialty retailer of home furnishings, home furniture and home decoration products within Australia and New Zealand. The Group's principal place of business is 2 International Court, Scoresby, Victoria, Australia.

The Group operates on a retail accounting calendar which monitors performance on a weekly basis. The current interim reporting period adopted is a 27 week reporting period which ended 31 December 2023. The prior corresponding interim reporting period was 26 weeks ended 25 December 2022.

NOTE 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES

(a) Basis of Preparation

The interim condensed financial report for the 27 weeks ended 31 December 2023 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 25 June 2023.

The interim condensed financial report has also been prepared on a historical cost basis, except for derivative financial instruments and contingent consideration 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.

The financial report has been prepared on the basis of accounting practices applicable to a going concern. This basis presumes that funds will be available to finance future operations and the realisation of assets and settlement of liabilities will occur in the ordinary course of business. As at 31 December 2023, the Group has a net current asset deficiency of $31,217,000, after the recognition of $53,088,000 in current lease liabilities (25 June 2023: net current asset deficiency of $240,000, after the recognition of $48,677,000 in current lease liabilities). The Group expects to be able to meet its obligations as and when they fall due over the next 12 months and beyond through the generation of operating cash flows and available finance facilities. Unused revolving loan facilities as at 31 December 2023 was $55,000,000 (As at 25 June 2023: $35,000,000).

(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 52 weeks ended 25 June 2023. The Group adopted all relevant new and amended accounting standards and interpretations issued by the Australian Accounting Standards Board that are effective for the annual reporting periods beginning on or after 26 June 2023. None of these new standards or amendments have a material impact on the interim condensed consolidated financial statements of the Group.

The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

NOTE 2. SUMMARY OF MATERIAL ACCOUNTING POLICIES (continued)

(c) Reclassification of prior year financial information

The Group now comprises multiple brands operating across various omni-channel revenue streams. The operational significance of the distribution and handling function of the Group is now greater and the nature of arrangements are diverse. The Group has reclassified such costs in the Consolidated Statement of Profit or Loss to record the costs of distribution and handling activities directly relating to the Group's performance obligation to deliver goods to the customer, within Cost of sales. Prior year comparatives have also been reclassified.

This change in classification has resulted in the below adjustments to the presentation in the Consolidated Statement of Profit or Loss for the 26 weeks ended 25 December 2022:

	26 weeks ended 25 December 2022		
	Reported $'000	**Adjustments $'000**	**Restated $'000**
Revenues	324,230	-	324,230
Cost of sales	(152,565)	(24,026)	(176,591)
Gross profit	171,665	(24,026)	147,639
Other income	857	-	857
Depreciation and amortisation expenses	(28,802)	2,608	(26,194)
Salaries and employee benefits expenses	(60,846)	4,243	(56,603)
Occupancy expenses	(5,516)	386	(5,130)
Advertising expenses	(10,454)	-	(10,454)
Other expenses	(29,579)	16,407	(13,172)
Earnings before interest and tax	37,325	(382)	36,943
Finance expenses	(6,794)	382	(6,412)
Finance income	118	-	118
Profit before income tax	30,649	-	30,649
Income tax expense	(8,866)	-	(8,866)
Profit after income tax	21,783	-	21,783

These reclassifications have not resulted in a change to Net profit after tax, as well as no change to the Interim Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity.

NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units which form three reportable segments, being Adairs, Mocka and Focus.

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

Information reported to senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services, which when aggregated, forms three reportable operating segments.

The following tables present revenue and profit before tax information for the Group's operating segments for the 27 weeks ended 31 December 2023:

	Adairs $'000	Mocka $'000	Focus $'000	Consolidated $'000
27 weeks ended 31 December 2023				
Revenue from contracts with external customers	210,267	25,957	66,186	302,410
Underlying EBIT	16,341	3,564	11,014	30,919
Items not included in the segment result:				
Non-underlying items*				1,316
Finance expenses				(7,567)
Finance income				279
Profit before income tax				**24,947**
Income tax expense				(7,273)
Profit after income tax				**17,674**
As at 31 December 2023				
Total assets	**349,200**	**100,010**	**161,247**	**610,457**
Total liabilities	**308,343**	**8,360**	**77,970**	**394,673**

*Non-underlying items comprise of (i) management's assessment of the EBIT impact of AASB16 Leases; and (ii) costs associated with the National Distribution Centre ("NDC") transition.

	Adairs $'000	Mocka $'000	Focus $'000	Consolidated $'000
26 weeks ended 25 December 2022				
Revenue from contracts with external customers	220,447	25,143	78,640	324,230
Underlying EBIT	18,669	269	16,554	35,492
Items not included in the segment result:				
Non-underlying items*				1,451
Finance expenses				(6,412)
Finance income				118
Profit before income tax				**30,649**
Income tax expense				(8,866)
Profit after income tax				**21,783**
As at 25 December 2022				
Total assets	**355,909**	**107,980**	**169,117**	**633,006**
Total liabilities	**356,430**	**5,050**	**70,542**	**432,022**

*Non-underlying items comprise of (i) management's assessment of the EBIT impact of AASB16 Leases; and (ii) costs associated with the National Distribution Centre ("NDC") transition.

NOTE 4. REVENUE

	27 weeks ended 31 December 2023 $'000	26 weeks ended 25 December 2022 $'000
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Types of goods and services		
Sale of goods and services – stores	217,574	235,581
Sale of goods and services – online	84,836	88,649
Total revenue from contracts with customers	**302,410**	**324,230**

NOTE 5. EXPENSES

		27 weeks ended 31 December 2023 $'000	26 weeks ended 25 December 2022 $'000
(a)	**Finance expenses**		
	Interest on borrowings and other finance costs	3,788	2,888
	Interest on lease liabilities	4,021	3,566
	Amortisation of borrowing costs	180	340
	Total finance expenses	**7,989**	**6,794**
	Included on the consolidated statement of Profit or Loss within:		
	Cost of sales	422	382
	Finance expenses	7,567	6,412
(b)	**Depreciation and amortisation expenses**		
	Depreciation of property, plant and equipment	4,540	3,698
	Depreciation of right-of-use assets	24,964	24,341
	Amortisation of computer software	763	763
	Total depreciation and amortisation expenses	**30,267**	**28,802**
	Included on the consolidated statement of Profit or Loss within:		
	Cost of sales	2,882	2,608
	Depreciation and amortisation expenses	27,385	26,194
(c)	**Salaries and employee benefits expenses**		
	Wages and salaries	61,720	56,019
	Defined contribution superannuation expense	5,257	4,844
	Share-based payment expense	(185)	(17)
	Total salaries and employee benefits expenses	**66,792**	**60,846**
	Included on the consolidated statement of Profit or Loss within:		
	Cost of sales	9,789	4,243
	Salaries and employee benefits expenses	57,003	56,603
(d)	**Other expenses**		
	Credit card and merchant fees	2,921	2,935
	Professional fees	1,503	954
	Third party warehousing related charges	5,784	16,939
	Packaging and consumables	706	463
	IT related costs	2,121	2,093
	Asset, property and maintenance expenses	1,355	1,223
	Other	5,215	4,972
	Total other expenses	**19,605**	**29,579**
	Included on the consolidated statement of Profit or Loss within:		
	Cost of sales	7,753	16,407
	Other expenses	11,852	13,172

NOTE 6. DIVIDENDS

	27 weeks ended 31 December 2023	26 weeks ended 25 December 2022
Dividends on ordinary shares declared and paid:		
Final dividend for 2023: Nil per share (2022: 10.0 cents)	-	17,132
Proposed dividends on ordinary shares:		
Interim dividend for 2024: 5.0 cents per share (2023: 8.0 cents)	8,653	13,771

NOTE 7. IMPAIRMENT TESTING

Intangible assets – goodwill and brand names

Goodwill acquired through business combinations and brand names with indefinite lives have been allocated to the cash generating units ("CGUs") or group of CGUs for the purpose of impairment testing.

Carrying amounts of goodwill and brand names allocated to the CGUs as at 31 December 2023 and 25 June 2023 are as follows:

	Adairs $'000	Mocka $'000	Focus $'000
Goodwill	69,927	48,409	40,959
Brand names	42,711	33,115	36,984

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 previously subject to a full annual impairment test at 25 June 2023.

A review of indicators of impairment relating to all CGUs to which goodwill and brand names are allocated was performed at 31 December 2023. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 31 December 2023. In particular, the performance of the Mocka CGU has improved significantly during the 27 weeks ended 31 December 2023.

The annual financial report for the 52 weeks ended 25 June 2023 details the most recent annual impairment tests undertaken for the brand names and goodwill.

Property, plant and equipment

A review of indicators of impairment relating to property, plant and equipment was performed as at 31 December 2023. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 31 December 2023.

NOTE 8. CASH AND CASH EQUIVALENTS

	As at 31 December 2023 $'000	As at 25 June 2023 $'000
Cash at bank	21,281	25,799
Cash on hand	95	99
Total cash and cash equivalents	**21,376**	**25,898**

NOTE 9. INVENTORIES

	As at 31 December 2023 $'000	As at 25 June 2023 $'000
Stock on hand	66,966	74,686
Stock in transit	16,578	13,088
Total inventories	**83,544**	**87,774**

Inventory is held at lower of cost and net realisable value.

NOTE 10. OTHER LIABILITIES

	As at 31 December 2023 $'000	As at 25 June 2023 $'000
Current other liabilities		
Undelivered customer orders and deposits	16,334	9,482
Other liabilities	9,221	9,337
Total current other liabilities	**25,555**	**18,819**
Non-current other liabilities		
Other liabilities	1,231	1,275
Total non-current other liabilities	**1,231**	**1,275**
Current	25,555	18,819
Non-current	1,231	1,275
Total other liabilities	**26,786**	**20,094**

Undelivered customer orders and deposits represent amounts received from customers for orders not yet completed. Deposits received from customers are recognised as revenue at the point of delivery of the goods to the customer.

Other liabilities include deferred revenue with respect to the Linen Lover membership program, unredeemed gift cards, as well as other revenue from contracts with customers received in advance of recognition.

The remaining performance obligations expected to be recognised in more than one year (non-current other liabilities) relate primarily to the Linen Lover membership program which will be satisfied over a two-year membership period from joining date. The Group applies the practical expedient in AASB 15 and does not disclose information about the remaining performance obligation on contracts that have an original expected duration of one year or less.

NOTE 11. BORROWINGS

	Interest rate %	Maturity	As at 31 December 2023 $'000	As at 25 June 2023 $'000
Non-current				
Revolving loan – Facility A	BBSW + 2.15	2 Jan 2026	80,000	55,000
Revolving loan – Facility D	BBSW + 2.30	3 Jan 2027	-	45,000
Principal outstanding borrowings			80,000	100,000
Total non-current			**80,000**	**100,000**
Current			-	-
Non-current			80,000	100,000
Total borrowings			**80,000**	**100,000**

(a) Financing facilities available

At reporting date, the following non-shareholder financing facilities had been in place with the bank and were available:

	31 December 2023 $'000	25 June 2023 $'000
Revolving loan facilities available at the reporting date:	135,000	135,000
Revolving loan facilities used at the reporting date:	(80,000)	(100,000)
Other multi option facilities available at the reporting date:	9,500	6,500
Other multi option facilities used at the reporting date*:	(6,111)	(3,576)
Facilities unused at the reporting date:	**58,389**	**37,924**

*The amount of used multi option facilities of $6,111,000 (June 2023: $3,576,000) represents bank guarantees, letters of credit and corporate card facilities.

In October 2023, the Group renegotiated the maturity date of Facility D by two years which is now due to expire on 3 January 2027. The multi option facilities were increased from $6,500,000 to $9,500,000 and the maturity date was extended by one year to 13 December 2024. Financial covenant measures were also amended. There were no further material changes to the finance facilities.

The amount of borrowing costs capitalised for the 27 weeks ended 31 December 2023 was $608,000 (25 June 2023: $532,000). The interest rate applicable to the debt facilities is variable and the Group does not hedge the interest rate. The costs associated with the debt facilities are recorded in “Finance expenses” in the interim consolidated statement of profit or loss.

NOTE 12. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

Forward exchange 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 exchange contracts to purchase USD. These contracts are hedging highly probable forecasted inventory purchases and the contract notional value is forecast to total less than the expected level of total purchases of inventory in USD within 18 months.

Forward exchange contracts 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 exchange contracts is measured at fair value using the Level 2 method. Forward exchange 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:

	As at 31 December 2023		As at 25 June 2023	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Forward exchange contracts	1	1	5,398	5,398
	1	1	5,398	5,398
Financial liabilities				
Forward exchange contracts	(189)	(189)	-	-
Earn-out liabilities	(261)	(261)	(461)	(461)
Borrowings	(80,000)	(80,000)	(100,000)	(100,000)
	(80,450)	(80,450)	(100,461)	(100,461)

NOTE 13. SHARE-BASED PAYMENTS

In addition to those disclosed at 25 June 2023, the following performance rights were granted to senior executives ("the participants") under the Equity Incentive Plan ("EIP") during the 27 weeks ended 31 December 2023.

2024 Tranche

In October 2023, 1,975,069 performance rights were granted to participants under the EIP for nil consideration. The performance rights 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 the grant date to 28 June 2026. The performance rights are subject to an earnings per share ("EPS") and earnings before interest and income tax ("EBIT") performance conditions. The EPS performance hurdle is expressed as the absolute EPS for the financial year 2026. The proportion of performance rights that vest will be pro-rated from 0-100% based on achievement with a range for each performance condition.

The effective life of each performance right granted is 2.6 years which reflects the performance period. No dividends or voting rights are attached to performance rights prior to vesting, however shares allocated following the vesting of performance rights will rank equal in all respect with other ordinary shares.

The fair value per performance right granted was estimated at the grant date by taking into account the terms and conditions upon which the performance rights were granted and applying the following assumptions:

	2024 Tranche - Performance Rights
Pricing model	Black-Scholes Model
Dividend yield	9.00%
Risk-free interest rate	4.19%
Expected life	2.6 years
Exercise share price	$Nil
Fair value of performance rights at grant date (per performance right)	**$1.18**

For the 27 weeks ended 31 December 2023, the Group has recognised a credit of $185,000 of share-based payment expense in the interim consolidated statement of profit or loss due to certain service and performance conditions not being met in relation to previously issued tranches of equity instruments (26 weeks ended 25 December 2022 credit: $17,000).

NOTE 14. EARNINGS PER SHARE

Basic earnings per share 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:

	27 weeks ended 31 December 2023 $'000	26 weeks ended 25 December 2022 $'000
Profit for the year attributable to ordinary equity holders of the Parent	17,674	21,783
Profit attributable to ordinary equity holders of the Parent for basic earnings	**17,674**	**21,783**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**17,674**	**21,783**

	As at 31 December 2023 '000	As at 25 December 2022 '000
Weighted average number of ordinary shares for basic EPS	173,051	171,531
Weighted average number of performance rights / share options	1,480	1,498
Weighted average number of ordinary shares adjusted for the effect of dilution	**174,531**	**173,029**

NOTE 15. EVENTS AFTER THE BALANCE SHEET DATE

On 26 February 2024, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2024 financial year. The total amount of the dividend is $8.7 million which represents an interim franked dividend of 5.0 cents per share. The dividend has not been provided for in the 31 December 2023 interim condensed financial report.

Other than the above, no matters or circumstances have arisen since reporting 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.

CORPORATE INFORMATION

ABN 50 147 375 451

Directors
Brett Chenoweth
Michael Cherubino (resigned 18 August 2023)
Kiera Grant
David MacLean
Trent Peterson
Mark Ronan
Kate Spargo

Company secretary
Fay Hatzis (resigned 27 October 2023)
Ashley Gardner (appointed 25 October 2023)
Jamie Adamson (appointed 25 October 2023)

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Solicitors
Herbert Smith Freehills

adairs