Accent Group Limited

ABN 85 108 096 251

Appendix 4D
Half-Year Report

Appendix 4D

29 December 2019

1. COMPANY DETAILS

Name of entity:	Accent Group Limited
ABN:	85 108 096 251
Reporting period:	For the half-year ended 29 December 2019 (26 weeks)
Previous period:	For the half-year ended 30 December 2018 (26 weeks)

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

	Percentage change %		Amount $'000
Revenue from ordinary activities	up 13.6%	to	454,183
Profit after income tax for the period	up 4.4%	to	33,563
Profit for the period attributable to the owners of Accent Group Limited	up 4.4%	to	33,563

Dividends

	Amount per security Cents	Franked amount per security Cents
2019 Final dividend	3.75	3.75
2020 Interim dividend	5.25	5.25

Dividend payment date:

- 2019 Final dividend	26 September 2019
- 2020 Interim dividend	19 March 2020

3. NET TANGIBLE ASSETS PER SECURITY

	29 Dec 2019 Cents[1]	30 Dec 2018 Cents
Net tangible assets per ordinary security	9.60	9.79

1 Net tangible assets are calculated by deducting intangible assets from the net assets of the Group. Following the adoption of AASB 16 *Leases* on 1 July 2019, the net assets at 29 December 2019 include the right-of-use assets and corresponding lease liabilities recognised under the new standard.

4. OTHER INFORMATION

This report is based on the consolidated financial statements which have been reviewed by Deloitte.

For further explanation of the figures above please refer to the ASX Announcement dated 19 February 2020 on the results for the half-year ended 29 December 2019 and the notes to the financial statements.

Accent Group Limited

ABN 85 108 096 251

Interim Report
29 December 2019

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29 December 2019

The directors present their report, together with the financial statements, of the consolidated entity (referred to hereafter as the 'Consolidated Entity' or 'Group') consisting of Accent Group Limited (referred to hereafter as the 'Company' or 'Accent Group') and the entities it controlled at the end of, or during, the half-year ended 29 December 2019.

DIRECTORS

The following persons were directors of Accent Group Limited during the whole of the half-year and up to the date of this report, unless otherwise stated:

David Gordon – Chairman

Daniel Agostinelli – Chief Executive Officer

Brett Blundy

Stephen Goddard

Michael Hapgood

Stephen Kulmar (resigned effective 28 November 2019)

Joshua Lowcock (appointed effective 28 November 2019)

Donna Player

Nico van der Merwe – alternate director for Brett Blundy

PRINCIPAL ACTIVITIES

Accent Group is a regional leader in the retail and distribution sectors of branded performance and lifestyle footwear, with 503 stores and 19 websites across 14 different retail banners and exclusive distribution rights for 12 international brands across Australia and New Zealand.

The combined Group's brands include The Athlete's Foot ('TAF'), Platypus Shoes, Hype DC, Skechers, Merrell, CAT, Vans, Dr Martens, Saucony, Timberland, Sperry, Palladium, Stance, Supra, Subtype, Stylerunner, Cremm and The Trybe.

DIVIDENDS

Dividends paid during the half-year were as follows:

	Consolidated	
	29 Dec 2019 $'000	**30 Dec 2018 $'000**
Final dividend for the year ended 30 June 2019 of 3.75 cents (2018: 3.75 cents) per ordinary share	20,297	20,297
Dividends paid to non-controlling interests	–	44
	20,297	20,341

In respect of the financial year ending 28 June 2020, the directors recommended the payment of an interim fully franked dividend of 5.25 cents per share to be paid on 19 March 2020.

REVIEW OF OPERATIONS

The statutory half-year profit for the Group after providing for income tax amounted to $33,563,000 (30 December 2018: $32,159,000).

The impact of AASB 16 'Leases' has made the comparison with previous years difficult and as such a set of results without the impact of AASB 16 has been provided below.

Whilst AASB 16 has changed the reported results, it has had no cash impact and has not changed the way the Group operates.

		Comparable financial information		
	29 Dec 2019 (As reported) $'000	**29 Dec 2019 (Pre AASB 16) $'000**	**30 Dec 2018 (As reported) $'000**	**Change %**
Revenue	454,183	454,183	399,948	13.6%
Costs	(346,828)	(386,479)	(338,688)	14.1%
EBITDA[1]	**107,355**	**67,704**	**61,260**	**10.5%**
Depreciation and amortisation	(51,807)	(15,062)	(13,883)	8.5%
EBIT[2]	**55,548**	**52,642**	**47,377**	**11.1%**
Net interest expense	(7,148)	(1,787)	(1,588)	12.5%
Profit before tax	**48,400**	**50,855**	**45,789**	**11.1%**
Income tax expense	(14,837)	(15,567)	(13,630)	14.2%
Profit after tax	**33,563**	**35,288**	**32,159**	**9.7%**
	Cents	**Cents**	**Cents**	
Basic earnings per share	6.22	6.54	5.99	
Diluted earnings per share	5.94	6.25	5.69	

Operating results

The Group's pre AASB 16 half-year profit for the 26 weeks ended 29 December 2019 was up 9.7% on the prior year.

	29 Dec 2019 (As reported) $'000	**29 Dec 2019 (Pre AASB 16) $'000**	**30 Dec 2018 (As reported) $'000**
Net Profit After Tax	33,563	35,288	32,159
EBITDA	107,355	67,704	61,260
Sales to customers[3]	444,170	444,170	389,391

1 Earnings before interest, tax, depreciation and amortisation (EBITDA)
2 Earnings before interest and tax (EBIT)
3 Sales to customers is not impacted by the adoption of AASB 16.

The Group ended the half-year in a strong cash position of $44.1 million and Earnings Per Share increased by 9.2% to 6.54 cents per share.

Retail

Company owned retail sales grew to $382 million in H1, an increase of 15.4% on the prior year, with strong performances in Skechers, Vans, Dr Martens, Platypus, Cat and Subtype.

Digital sales grew 33% during H1 FY20, on top of the 94% growth achieved in H1 FY19.

Sustainable margin improvement remains a key focus for the business, including increasing vertical brand and product mix and driving operating efficiencies.

Accent Group opened 51 new stores during the half, including 13 stores in New Zealand. The performance of the new stores continues to be ahead of expectations and the Group now expects to open more than 70 new stores in FY20.

Accent Group acquired and opened a further 17 new TAF stores during the half to bring the total corporate store network to 66 stores, with sales ahead of last year on a like for like and total stores basis for H1.

Wholesale

Wholesale sales for H1 were up 6.7% on prior year to $62.2 million, with strong performances in Skechers, Vans, Merrell and Timberland.

During H1, the Group renewed the exclusive vertical distribution and license agreements with Vans, Dr Martens, Sperry and Merrell.

The Group continues to focus on its vertical product strategy, with new product ranges released across Platypus and Hype during H1, including updated ranges of socks, cleaning products, shoelaces, bags and drink bottles. In December 2019, TAF vertical performance socks and a range of vertical footwear for back to school under the Alpha brand and The Trybe launched a range of accessories.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

The majority of the Group's financing facilities with NAB and HSBC were extended to mature in August 2023 (previously a combination of August 2021 and August 2023 maturity dates). In addition, the Group drew down an additional $20,000,000 in debt relating to the funding of the buy-back of TAF franchise stores.

The Group acquired the assets of the Stylerunner business, a premium digital business in the fast-growing women's athleisure segment, out of administration. The acquisition occurred on 11 November 2019.

ROUNDING OF AMOUNTS

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

AUDITOR'S INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out immediately after this directors' report.

This report is made in accordance with a resolution of directors, pursuant to section 306(3)(a) of the *Corporations Act 2001*.

On behalf of the directors

David Gordon
Chairman

19 February 2020
Melbourne

Deloitte.

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The Board of Directors
Accent Group Limited
2/64 Balmain Street
Richmond VIC 3121

19 February 2020

Dear Directors

Accent Group Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Accent Group Limited.

As lead audit partner for the review of the financial statements of Accent Group Limited for the half-year ended 29 December 2019, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the review; and

(ii) any applicable code of professional conduct in relation to the review.

Yours faithfully

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D R White
David White
Partner
Chartered Accountants

Statement of Profit or Loss and Other Comprehensive Income

for the half-year ended 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	30 Dec 2018 $'000
Revenue	5	454,183	399,948
Interest revenue		631	218
Expenses			
Cost of sales		(192,130)	(166,279)
Distribution		(14,903)	(13,766)
Marketing		(15,580)	(14,201)
Occupancy		(12,219)	(45,004)
Employee expenses		(91,026)	(79,456)
Other		(20,970)	(19,982)
Depreciation and amortisation		(51,807)	(13,883)
Finance costs		(7,779)	(1,806)
Profit before income tax expense		48,400	45,789
Income tax expense		(14,837)	(13,630)
Profit after income tax expense for the period		33,563	32,159
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net change in the fair value of cash flow hedges taken to equity, net of tax		(2,526)	699
Foreign currency translation		1,872	(891)
Other comprehensive income for the period, net of tax		(654)	(192)
Total comprehensive income for the period		32,909	31,967
Profit for the period is attributable to:			
Non-controlling interest		–	13
Owners of Accent Group Limited		33,563	32,146
		33,563	32,159
Total comprehensive income for the period is attributable to:			
Non-controlling interest		–	13
Owners of Accent Group Limited		32,909	31,954
		32,909	31,967
		Cents	Cents
Basic earnings per share	15	6.22	5.99
Diluted earnings per share	15	5.94	5.69

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes

Statement of Financial Position

as at 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	Consolidated 30 Jun 2019 $'000
Assets			
Current assets			
Cash and cash equivalents		44,072	36,698
Trade and other receivables		31,463	29,797
Inventories	6	164,151	131,470
Lease receivable	17	8,928	–
Derivative financial instruments		1,278	3,769
Other current assets		3,865	2,023
Total current assets		253,757	203,757
Non-current assets			
Property, plant and equipment		103,283	86,167
Right of use asset	17	265,693	-
Lease receivable	17	19,728	-
Intangibles	7	358,833	352,893
Net deferred tax assets		21,073	13,236
Total non-current assets		768,610	452,296
Total assets		1,022,367	656,053
Liabilities			
Current liabilities			
Trade and other payables		134,205	99,459
Deferred revenue		5,503	3,633
Provisions		11,652	13,389
Borrowings	8	20,000	30,000
Lease liabilities	17	88,742	–
Derivative financial instruments		2,043	925
Provision for Income tax		6,241	11,808
Deferred lease incentives		–	7,890
Total current liabilities		268,386	167,104
Non-current liabilities			
Provisions		1,113	2,465
Deferred revenue		3,186	2,683
Borrowings	9	71,125	56,125
Lease liabilities	17	267,693	–
Deferred lease incentives		–	24,339
Total non-current liabilities		343,117	85,612
Total liabilities		611,503	252,716
Net assets		410,864	403,337
Equity			
Issued capital	10	389,428	388,756
Reserves		13,953	13,147
Retained earnings		7,483	1,434
Total equity		410,864	403,337

The above statement of financial position should be read in conjunction with the accompanying notes

Statement of Changes in Equity

for the half-year ended 29 December 2019

Consolidated	Issued capital $'000	Foreign currency translation reserve $'000	Hedging reserve – cash flow hedges $'000	Share-based payments reserve $'000	Accumulated losses/ Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 2 July 2018	386,973	2,738	3,399	6,014	(8,184)	973	391,913
Profit after income tax expense for the half-year	–	–	–	–	32,146	13	32,159
Other comprehensive income for the half-year, net of tax	–	(891)	699	–	–	–	(192)
Total comprehensive income for the half-year	–	(891)	699	–	32,146	13	31,967
Transactions with owners in their capacity as owners:							
Share-based payments	–	–	–	2,040	–	–	2,040
Treasury share payments	820	–	–	–	–	–	820
Buy-back of non-controlling interest	–	–	–	–	311	(699)	(388)
Dividends paid (Note 11)	–	–	–	–	(20,297)	(44)	(20,341)
Balance at 30 December 2018	387,793	1,847	4,098	8,054	3,976	243	406,011

Consolidated	Issued capital $'000	Foreign currency translation reserve $'000	Hedging reserve – cash flow hedges $'000	Share-based payments reserve $'000	Retained earnings $'000	Non-controlling interest $'000	Total equity $'000
Balance at 30 June 2019	388,756	2,159	1,991	8,997	1,434	–	403,337
Transition adjustment on adoption of AASB 16 (Note 17)	–	–	–	–	(7,217)	–	(7,217)
Balance at 1 July 2019	388,756	2,159	1,991	8,997	(5,783)	–	396,120
Profit after income tax expense for the half-year	–	–	–	–	33,563	–	33,563
Other comprehensive income for the half-year, net of tax	–	1,872	(2,526)	–	–	–	(654)
Total comprehensive income for the half-year	–	1,872	(2,526)	–	33,563	–	32,909
Transactions with owners in their capacity as owners:							
Share-based payments	–	–	–	1,460	–	–	1,460
Treasury share payments	672	–	–	–	–	–	672
Buy-back of non-controlling interest	–	–	–	–	–	–	–
Dividends paid (Note 11)	–	–	–	–	(20,297)	–	(20,297)
Balance at 29 December 2019	389,428	4,031	(535)	10,457	7,483	–	410,864

The above statement of changes in equity should be read in conjunction with the accompanying notes

Statement of Cash Flows

for the half-year ended 29 December 2019

	Note	Consolidated 29 Dec 2019 $'000	30 Dec 2018 $'000
Cash flows from operating activities			
Receipts from customers and franchisees (inclusive of GST)		501,681	435,074
Payments to suppliers and employees (inclusive of GST)		(384,594)	(364,918)
Net interest and other finance costs paid		(1,900)	(2,261)
Income taxes paid		(24,049)	(18,584)
Net cash from operating activities		91,138	49,311
Cash flows from investing activities			
Payment for purchase of businesses, net of cash acquired	14	(7,927)	(11,387)
Payments for property, plant and equipment		(17,504)	(13,392)
Net cash used in investing activities		(25,431)	(24,779)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs		672	820
Proceeds from borrowings		30,000	15,625
Repayment of borrowings		(25,000)	(18,125)
Payment for lease liabilities, excluding the financing component	17	(43,613)	–
Dividends paid	11	(20,297)	(20,341)
Net cash used in financing activities		(58,238)	(22,021)
Net increase in cash and cash equivalents		7,469	2,511
Cash and cash equivalents at the beginning of the financial half-year		36,698	38,772
Effects of exchange rate changes on cash and cash equivalents		(95)	(1,194)
Cash and cash equivalents at the end of the financial period		44,072	40,089

The above statement of cash flows should be read in conjunction with the accompanying notes

NOTE 1. GENERAL INFORMATION

The financial statements cover Accent Group Limited ('Company', 'parent entity' or 'Accent') as a Group consisting of Accent Group Limited and the entities it controlled at the end of, or during, the half-year ('Group'). The financial statements are presented in Australian dollars, which is Accent's functional and presentation currency.

Accent is a public company limited by shares, listed on the Australian Securities Exchange ('ASX') incorporated and domiciled in Australia. Its registered office and principal place of business is:

2/64 Balmain Street
Richmond VIC 3121

A description of the nature of the Group's operations and its principal activities are included in the Directors' Report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 19 February 2020.

NOTE 2. BASIS OF ACCOUNTING

(a) Net current liabilities

As at 29 December 2019, the Group has net current liabilities of $14,629,000 (30 June 2019: net current assets of $36,653,000). This is primarily due to the adoption of AASB16 Leases from 1 July 2019 onwards which has resulted in the recognition of $356,435,000 of lease liabilities, of which $88,742,000 has been classified within current liabilities based on the timing of future lease payments. If the Group had not adopted AASB16 in the current financial period it would be in a net current asset position of $45,134,000. The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business. The Group's cash position as at 29 December 2019 is $44,072,000. In addition, the Group has undrawn finance facilities of $31,800,000. The Group generated net cash from operating activities of $91,138,000 and net profit after taxation of $33,563,000 for the half-year ended 29 December 2019. Taking into account all of the above factors, the directors are confident that the Group will be able meet its liabilities as they fall due.

(b) Basis of preparation

These general purpose financial statements for the period ended 29 December 2019 have been prepared in accordance with Australian Accounting Standard AASB 134 'Interim Financial Reporting' and the *Corporations Act 2001*, as appropriate for for-profit oriented entities. Compliance with AASB 134 ensures compliance with International Financial Reporting Standard IAS 34 'Interim Financial Reporting'.

These general purpose financial statements do not include all the notes of the type normally included in annual financial statements. Accordingly, these financial statements are to be read in conjunction with the annual report for the year ended 30 June 2019 and any public announcements made by the Company during the interim reporting period in accordance with the continuous disclosure requirements of the *Corporations Act 2001*.

The financial statements have been prepared under the historical cost conversion, except for, where applicable, derivative financial instruments and share-based payments which have been measured at fair value at grant date.

The preparation of the Interim Financial Report requires the Group to make estimates and judgements that affect the application of policies and reported amounts. Uncertainty about these judgements and estimates could result in outcomes that require a material adjustment to the carrying amount of assets or liabilities affected in future periods.

Comparatives have been reclassified where appropriate to ensure consistency and comparability with the current period.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES

Except as described below, the accounting policies applied in these consolidated interim financial statements are the same as those applied in the Group's 2019 Annual Report.

Adoption of new accounting standards

The following new standards and amendments became effective as at 1 January 2019:

- Annual improvements to Australian Accounting Standards 2015-2017 cycle;
- AASB 16 *Leases;*
- AASB Interpretation 23 *Uncertainty over Income Tax Treatment;*
- AASB 9 *Financial Instruments*, on prepayment features with negative compensation;
- AASB 2017-7 *Amendments to Australian Accounting Standards* – long term interests in associates and joint ventures; and
- AASB 119 *Employee Benefits*, plan amendment, curtailment or settlement.

Except for the adoption of AASB 16, the above standards and interpretations have not led to any changes to the Group's accounting policies or had any other material impact on the financial position or performance of the Group.

NOTE 3. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

AASB 16 Leases

AASB 16 'Leases' became applicable for the current reporting period. The Group has changed its accounting policies as a result of adopting AASB 16.

The impact of the adoption of this new accounting standard is disclosed in Note 17: Changes in accounting policies.

New Accounting Standards and Interpretations not yet mandatory or early adopted

A revised Conceptual Framework for Financial Reporting has been issued by the AASB and is applicable for annual reporting periods beginning on or after 1 January 2020. This release impacts for-profit private sector entities that have public accountability that are required by legislation to comply with Australian Accounting Standards and other for-profit entities that voluntarily elect to apply the Conceptual Framework. Phase 2 of the framework is yet to be released which will impact for-profit private sector entities. The application of new definition and recognition criteria as well as new guidance on measurement will result in amendments to several accounting standards. The issue of AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework, also applicable from 1 January 2020, includes such amendments. Where the Group has relied on the conceptual framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under Australian Accounting Standards, the Group may need to revisit such policies. The Group will apply the revised conceptual framework from 1 July 2020 and is yet to assess its impact.

The Group has not early adopted any standards, interpretations or amendments that have been issued but are not yet effective.

Rounding of amounts

The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

NOTE 4. OPERATING SEGMENTS

The Group is required to determine and present its operating segments based on the way in which financial information is organised and reported to the chief operating decision-makers (CODM's). The CODM's have been identified as the Board of Directors on the basis they make the key operating decisions of the Group and are responsible for allocating resources and assessing performance.

Key internal reports received by the CODM's, primarily the management accounts, focus on the performance of the Group as a whole. The performance of the operations is based on EBIT (earnings before interest and tax). The accounting policies adopted for internal reporting to the CODM's are consistent with those adopted in the financial statements.

The Group has considered its internal reporting framework, management and operating structure and the Directors' conclusion is that the Group has one operating segment.

NOTE 5. REVENUE

	Consolidated	
	29 Dec 2019 $'000	**30 Dec 2018 $'000**
Sales revenue		
Sales to customers	444,170	389,391
Royalties and other franchise related income	5,773	6,252
	449,943	395,643
Other revenue		
Marketing levies received from TAF stores	2,981	2,952
Other revenue	1,259	1,353
	4,240	4,305
Revenue	454,183	399,948

NOTE 6. CURRENT ASSETS – INVENTORIES

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Finished goods held at lower of cost and net realisable value	131,082	109,921
Goods in transit	33,069	21,549
	164,151	131,470

Provision for write down of inventories to net realisable value amounted to $5,706,633 (30 June 2019: $5,700,000).

NOTE 7. NON-CURRENT ASSETS – INTANGIBLES

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Goodwill – at cost	311,318	304,154
Brands and trademarks – at cost	44,825	44,825
Less: Accumulated impairment	(9,714)	(9,714)
	35,111	35,111
Licence fees – The Athlete's Foot – at cost	7,832	7,832
Less: Accumulated amortisation	(312)	(296)
	7,520	7,536
Distribution rights – at cost	16,800	16,800
Less: Accumulated amortisation	(12,175)	(11,013)
	4,625	5,787
Re-acquired rights	379	379
Less: Accumulated amortisation	(120)	(74)
	259	305
Other intangible assets – The Athlete's Foot – at cost	–	720
Less: Accumulated amortisation	–	(720)
	–	–
	358,833	352,893

Reconciliations
Reconciliations of the written down values at the beginning and end of the current financial half-year are set out below:

Consolidated	Goodwill $'000	Brands and trademarks $'000	Licence fees $'000	Distribution rights $'000	Re-acquired rights $'000	Total $'000
Balance at 1 July 2019	304,154	35,111	7,536	5,787	305	352,893
Additions through business combinations (Note 14)	7,163	–	–	–	–	7,163
Exchange differences	1	–	–	–	–	1
Amortisation expense	–	–	(16)	(1,162)	(46)	(1,224)
Balance at 29 Dec 2019	311,318	35,111	7,520	4,625	259	358,833

Impairment testing
Goodwill and brand names were subject to a full annual impairment test as at 30 June 2019. 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 details the most recent annual impairment tests undertaken for all three brand names and goodwill. The key assumptions used for the impairment tests are disclosed in the annual financial report.

NOTE 8. CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	10,000	10,000
Trade finance facility	10,000	20,000
	20,000	30,000

NOTE 9. NON-CURRENT LIABILITIES – BORROWINGS

	Consolidated	
	29 Dec 2019 $'000	30 Jun 2019 $'000
Bank loans	71,125	56,125

The majority of the Group's financing facilities with NAB and HSBC were extended to mature in August 2023 (previously a combination of August 2021 and August 2023 maturity dates). In addition, the Group drew down an additional $20,000,000 in debt relating to the funding of the buy-back of TAF franchise stores.

NOTE 10. EQUITY – ISSUED CAPITAL

	Consolidated			
	29 Dec 2019 Shares	30 Jun 2019 Shares	29 Dec 2019 $'000	30 Jun 2019 $'000
Ordinary shares – fully paid	542,166,715	541,241,224	391,338	391,338
Less: Treasury shares	(1,923,336)	(2,756,670)	(1,910)	(2,582)
	540,243,379	538,484,554	389,428	388,756

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	30 June 2019	538,484,554		388,756
Employee Share Scheme – loans repaid	27 August 2019	250,000	$0.730	182
Employee Share Scheme – loans repaid	29 August 2019	100,000	$1.010	101
Employee Share Scheme – loans repaid	05 September 2019	33,333	$1.140	38
Employee Share Scheme – loans repaid	10 September 2019	66,666	$1.140	76
Employee Share Scheme – loans repaid	2 October 2019	50,000	$0.590	30
Employee Share Scheme – loans repaid	3 October 2019	83,334	$0.590	49
Employee Share Scheme – loans repaid	3 October 2019	83,334	$0.590	49
Employee Share Scheme – loans repaid	8 October 2019	50,000	$0.590	30
Shares issued during the period[(i)]	9 October 2019	925,491	–	–
Employee Share Scheme – loans repaid	15 October 2019	66,667	$1.010	67
Employee Share Scheme – loans repaid	24 December 2019	16,667	$0.730	12
Employee Share Scheme – loans repaid	24 December 2019	33,333	$1.140	38
Balance	**29 December 2019**	**540,243,379**		**389,428**

(i) A total of 925,491 ordinary shares were issued in relation to the performance rights plan.

NOTE 11. EQUITY – DIVIDENDS
Dividends paid during the period were as follows:

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Final dividend for the year ended 30 June 2019 of 3.75 cents (2018: 3.75 cents) per ordinary share	20,297	20,297
Dividends paid to non-controlling interests	–	44
	20,297	20,341

In respect of the financial year ended 28 June 2020, the directors recommended the payment of an interim fully franked dividend of 5.25 cents per share to be paid on 19 March 2020.

NOTE 12. FAIR VALUE MEASUREMENT
The only financial assets or financial liabilities carried at fair value are interest rate swaps and foreign currency forward contracts. All these instruments are Level 2 financial instruments because, unlike Level 1 financial instruments, their measurement is derived from inputs other than quoted prices that are observable for the assets or liabilities, either directly or indirectly.

Consolidated – 29 Dec 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts – cash flow hedges	–	1,278	–	1,278
Total assets	–	1,278	–	1,278
Liabilities				
Forward foreign exchange contracts – cash flow hedges	–	1,797	–	1,797
Interest rate swap contracts – cash flow hedges	–	246	–	246
Total liabilities	–	2,043	–	2,043

Consolidated – 30 Jun 2019	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
Assets				
Forward foreign exchange contracts – cash flow hedges	–	3,769	–	3,769
Total assets	–	3,769	–	3,769
Liabilities				
Forward foreign exchange contracts – cash flow hedges	–	417	–	417
Interest rate swap contracts – cash flow hedges	–	508	–	508
Total liabilities	–	925	–	925

There were no transfers between levels during the year.

Valuation techniques for fair value measurements categorised within level 2
The fair values of the above financial assets and financial liabilities are determined using the valuation techniques below. The fair value was obtained from third party valuations.

Forward foreign exchange contracts
Future cash flows are estimated based on forward exchange rates (from observable forward exchange rates at the end of the reporting period) and contract forward rates, discounted at a rate that reflects the credit risk of various counterparties.

Interest rate swap contracts
Future cash flows are estimated based on forward interest rates (from observable yield curves at the end of the reporting period) and contract interest rates, discounted at a rate that reflects the credit risk of various counterparties.

The carrying amount of other financial assets and financial liabilities recorded in the financial statements approximate their fair values.

NOTE 13. CONTINGENT LIABILITIES

The Group has bank guarantees outstanding as at 29 December 2019 of $2,807,569 (30 Jun 2019: $1,393,974). The Group also has open letters of credit of $12,368,762 (30 June 2019: $9,981,463). These guarantees and letters of credit are in favour of international stock suppliers and landlords where parent guarantees cannot be negotiated.

NOTE 14. BUSINESS COMBINATIONS

2020

During the half-year to 29 December 2019, the Group completed the acquisition of 12 TAF stores. In addition to this, the Group acquired the assets of the Stylerunner business, a premium digital business in the fast-growing women's athleisure segment, out of administration. The total consideration transferred for these acquisitions was $7,929,763. Goodwill of $7,162,968 was recognised on acquisition.

Details of the provisional net assets acquired are as follows:

	Fair value 29 Dec 2019 $'000
Cash and cash equivalents	3
Inventories	1,992
Other current assets	9
Property, plant and equipment	104
Deferred tax asset	15
Employee benefits	(154)
Other current liabilities	(828)
Lease liability	(374)
Net assets acquired	767
Goodwill	7,163
Acquisition date fair value of the total consideration transferred	7,930
Representing:	
Cash paid or payable to vendor	7,930

Details of the cash flow movement relating to the acquisition are as follows:

Cash used to acquire business, net of cash acquired:	
Acquisition-date fair value of the total consideration transferred	7,930
Less: cash and cash equivalents	(3)
Net cash used	7,927

NOTE 14. BUSINESS COMBINATIONS (CONTINUED)

2019

During the year to 30 June 2019, the Group completed the acquisition of 30 TAF stores. This included the reacquisition of the New Zealand Master Franchise License, representing 6 Corporate stores, 2 Franchise Stores and 1 Online store. In addition to this, the Group acquired the Subtype business, a sneaker and fashion boutique from Zanerobe Global Holdings Pty Ltd. The total consideration transferred for these acquisitions was $12,124,057. Goodwill of $9,138,571 was recognised on acquisition and represents the expected synergies to be realised from merging this business into the existing Group.

Details of the business combination are as follows:

	Fair value 30 Jun 2019 $'000
Cash and cash equivalents	9
Inventories	4,146
Other current assets	119
Re-acquired right	379
Property, plant and equipment	256
Deferred tax asset	103
Trade and other payables	(21)
Employee benefits	(285)
Other current liabilities	(1,047)
Lease liability	(674)
Net assets acquired	2,985
Goodwill	9,139
Acquisition date fair value of the total consideration transferred	12,124
Representing:	
Cash paid or payable to vendor	11,813
Outstanding debt/loans forgiven	311
	12,124

Details of the cash flow movement relating to the acquisition are as follows:

Cash used to acquire business, net of cash acquired:	
Acquisition date fair value of the total consideration transferred	12,124
Less: cash and cash equivalents	(9)
Less: outstanding debt/loans forgiven	(311)
Net cash used	11,804

The fair value of assets acquired, liabilities and contingent liabilities assumed are initially estimated by the Group taking into consideration all available information at the reporting date. Fair value adjustments on the finalisation of the business combination accounting is retrospective, where applicable, to the period the combination occurred and may have an impact on the assets and liabilities, depreciation and amortisation reported.

NOTE 15. EARNINGS PER SHARE

	Consolidated	
	29 Dec 2019 $'000	30 Dec 2018 $'000
Profit after income tax	33,563	32,159
Non-controlling interest	–	(13)
Profit after income tax attributable to the owners of Accent Group Limited	33,563	32,146

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	539,355,170	536,790,266
Adjustments for calculation of diluted earnings per share:		
Options and loan funded shares	1,923,336	3,646,668
Performance rights	23,800,000	24,876,154
Weighted average number of ordinary shares used in calculating diluted earnings per share	565,078,506	565,313,088

	Cents	Cents
Basic earnings per share	6.22	5.99
Diluted earnings per share	5.94	5.69

NOTE 16. EVENTS AFTER THE REPORTING PERIOD

Apart from the dividend declared as disclosed in Note 11, no other matter or circumstance has arisen since 29 December 2019 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

NOTE 17. CHANGES IN ACCOUNTING POLICIES

The Group applied AASB 16 'Leases' for the first time in the half-year ended 29 December 2019. The nature and effect of the changes as a result of adoption of this new accounting standard is described below.

Adjustments recognised on adoption of AASB 16

The Group adopted AASB 16 using the modified retrospective approach and has not restated comparative amounts.

Prior to the adoption of AASB 16, payments made under operating leases were charged to profit and loss (occupancy) on a straight-line basis over the period of the lease. On adoption of AASB 16, the Group recognised lease liabilities in relation to leases which had previously been classified as operating leases under the principals of AASB 117 'Leases'. These liabilities were measured at the present value of the remaining lease payments, discounted using the lessee's incremental borrowing rate. 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 or a change in the lease payments (e.g. changes' to future payments resulting from a change in an index rate).

The associated right-of-use assets ('ROU') for property leases were measured on a retrospective basis as if the new rules had always been applied. Adjustments to the ROU asset were made for any lease accrual or incentive on the balance sheet as at 1 July 2019.

The ROU asset is depreciated over the lease term on a straight-line basis. In determining the lease term, management considered all facts and circumstances that create an economic incentive to exercise an extension option. Extension options are only included in the lease term if the lease is reasonably certain to be extended. If a significant event or a significant change in circumstance occurs, the lease term is reviewed and adjusted accordingly. Of the Group's total property portfolio, a small portion of the leases include an extension option.

TAF has operating lease commitments with landlords in its capacity as head lessor for stores operated by franchisees. The franchisees have simultaneously undertaken to meet the rental commitments through back-to-back licence agreements. These license agreements are classified as finance leases. Consequently, the ROU assets were derecognised and replaced with a lease receivable. The lease receivable is subsequently measured at amortised cost, with interest income arising in the profit and loss.

NOTE 17. CHANGES IN ACCOUNTING POLICIES (CONTINUED)
The effect of adoption of AASB 16 is as follows:

Impact on statement of financial position (increase/(decrease)):

	29 Dec 2019 $'000	01 July 2019 $'000
Assets		
Right of use assets	265,693	254,218
Lease Receivable	28,656	29,933
Net deferred tax assets	3,824	3,094
Total assets	298,173	287,245
Equity		
Retained Earnings	(8,941)	(7,217)
Total equity	(8,941)	(7,217)
Liabilities		
Lease liabilities	356,435	331,840
Trade and other payables	(8,908)	(8,149)
Provisions	(1,800)	(1,800)
Deferred lease incentives	(38,613)	(27,429)
Total liabilities	307,114	294,462

Impact on statement of profit or loss (increase/(decrease)):

	29 Dec 2019 $'000
Occupancy	(39,652)
Depreciation and amortisation	36,745
Net interest expense	5,361
Profit before income tax expense	2,454
Income tax expense	(730)
Profit after income tax expense	1,724

Impact on statement of cash flows (increase/(decrease)):

	29 Dec 2019 $'000
Payments to suppliers and employees	43,613
Net cash flows from operating activities	43,613
Payment of principal portion of lease liabilities	(43,613)
Net cash flows from financing activities	(43,613)

Practical expedients applied
In applying AASB 16 for the first time, the Group has used the following practical expedients permitted by the standard where applicable:

- The use of a single discount rate to a portfolio of leases with reasonably similar characteristics
- The accounting for operating leases for lease terms of 12 months or less
- The accounting for operating leases for leases that are in holdover
- The use of hindsight in determining the lease term where the contract contains options to extend or terminate the lease

The Group has also elected not to reassess whether a contract is, or contains, a lease at the date of initial application. Instead, for contracts entered into before the transition date, the Group relied on its assessment made applying AASB 117.

Any residual balance remaining in profit and loss (occupancy) represents short term leases, leases in holdover and variable lease payments.

Directors' Declaration

29 December 2019

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, Australian Accounting Standard AASB 134 'Interim Financial Reporting', the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 29 December 2019 and of its performance for the period ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Signed in accordance with a resolution of directors made pursuant to section 303(5)(a) of the *Corporations Act 2001*.

On behalf of the directors

David Gordon
Chairman

19 February 2020
Melbourne

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Independent Auditor's Review Report to the members of Accent Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Accent Group Limited and its controlled entities, which comprises the condensed consolidated statement of financial position as at 29 December 2019, the condensed consolidated statement of profit or loss and other comprehensive income, the condensed consolidated statement of cash flows and the condensed consolidated statement of changes in equity for the half-year 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 end of the half-year 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 control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and 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 half-year 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 29 December 2019 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Accent Group Limited, 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.

Deloitte.

Auditor's Independence Declaration

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*. We confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of Accent Group Limited, would be in the same terms if given to the directors as at the time of this auditor's review 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 Accent Group 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 29 December 2019 and of its performance for the half-year ended on that date; and

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

D R White

David White
Partner
Chartered Accountants
Melbourne, 19 February 2020