adairs

Annual Report
2019

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2019 ANNUAL GENERAL MEETING

11.00am on Friday, 25 October 2019

Adairs Limited (ASX: ADH) hereby provides notice that the 2019 Annual General Meeting will be held in the Paramount Room at the QT Melbourne, 133 Russell Street, Melbourne at 11.00am on Friday, 25 October 2019.

Adairs is a leading specialty retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of store formats and an online format.

Our strategy is to present customers with a differentiated proposition, combining on-trend fashion products, quality staples, strong value and superior in-store customer service.

RESULTS HIGHLIGHTS

TOTAL SALES +9.4%

WITH LIKE FOR LIKE SALES +7.2%

CASH GENERATION AND DIVIDENDS

NET DEBT FURTHER REDUCED AND DIVIDENDS INCREASED 8%

NEW STRATEGIC INITIATIVE

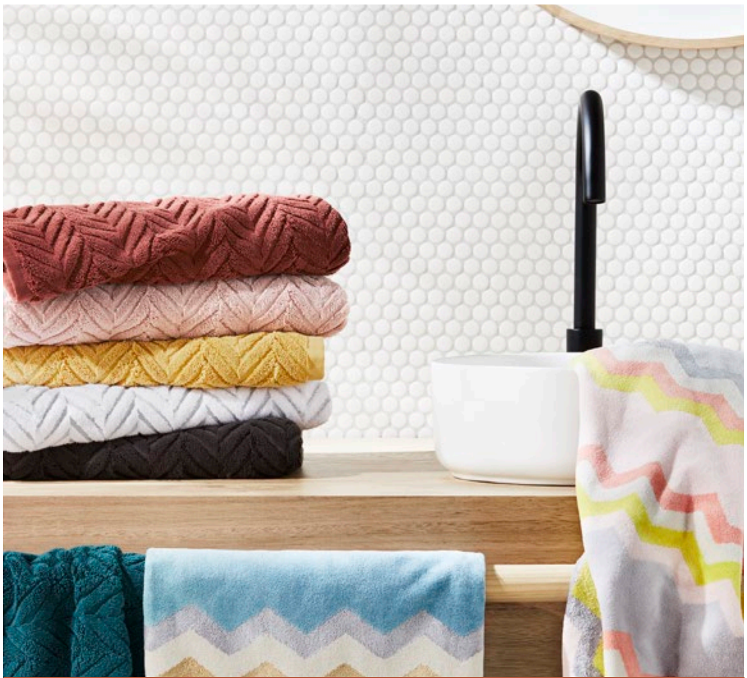
AGILE AND EFFICIENT SUPPLY CHAIN – MOVING TO A SINGLE DISTRIBUTION CENTRE

OPTIMISATION OF STORE PORTFOLIO

5 NEW STORES, 11 REFURBISHED STORES INCLUDING 5 STORES UPSIZED

NEW ZEALAND NOW PROFITABLE

STRONG GROWTH IN SALES
ACROSS ALL NZ STORES



ONLINE SALES GROWTH +41.7%

NOW 17% OF SALES

STRONG BALANCE SHEET

WE ARE WELL PLACED
TO PURSUE OUR
GROWTH STRATEGIES

LINEN LOVER MEMBERSHIP +17%

MEMBERS ACCOUNT FOR
75% OF SALES

CHAIRMAN'S REPORT

Dear Shareholder,

I am pleased to present the 2019 Annual Report of Adairs Limited.

Strong revenue growth

The 2019 financial year has been a challenging year for Adairs, where our team have worked hard and significant progress has been made on our strategic priorities, but we have not converted our revenue growth to commensurate earnings growth. The business continues to deliver above market sales growth driven by the successful execution of our clearly articulated strategies. Our best in class omni-channel capabilities has continued to drive strong growth in online sales while product differentiation, range expansion, the provision of more inspiring and larger store formats, and an unwavering focus on customer service have all played a key role in growing both like for like and total sales strongly. These sales outcomes have been achieved in what has been a challenging macro and competitive environment.

As detailed in our update to shareholders in June, our growth has adversely affected our operating costs and eroded productivity within our distribution network. While these challenges arise from our growth and are therefore a "good problem to have", the issues have been more costly than anticipated. When coupled with a weaker Australian dollar, these matters have offset the benefits of sales growth and adversely impacted our total profitability for the year. The management team are addressing our supply chain issues. The shareholder value to be unlocked by optimising the capacity, productivity and efficiency of this aspect of our business is material and will contribute to building and sustaining our competitive advantage.

Points to note in respect of the FY19 year include:

- Record sales of $344m, up 9.4%
- Online sales up 41.7% to $58.8m, accounting for 17% of total sales
- Like for like sales growth of 7.2% (incl online), led by our Homemaker and Adairs Kids stores
- EBIT down 4.0% to $43.4m
- A strong balance sheet position with a low level of gearing
- Declared dividends totaling 14.5 cents per share, fully franked (up 7.4% on last year)

Strong financial position

Adairs' balance sheet further strengthened over FY19 with net debt reduced to $8.2m. This financial strength means we are well equipped to support the Company's growth strategies and provides the flexibility to respond to opportunities and challenges as they emerge.

The Board has declared a final dividend of 8.0 cents taking the total dividend for the year to 14.5 cents representing a payout ratio of 81%.

Board update

Board renewal is an ongoing and important exercise. It ensures the Board has the right mix of skills and experience to meet the Company's strategic objectives and future challenges and brings fresh perspective to the Board room. In January we announced the appointment of Kiera Grant and Simon West to the Board. Both have extensive board and senior management experience across a range of related industries, and we are delighted that they have accepted the Board's invitation to join Adairs.

Our outstanding team

Critical to our success is our team, whose commitment and excellence underpin the delivery of our performance and growth plans. On behalf of the Board I would like to thank all team members for their continued support and ongoing commitment to our business.

In closing, I highlight that our underlying strategies are delivering strong sales growth, continued gains in market share, and robust cashflows. Our sales growth across both our stores and online channel demonstrate the health of our business. We are confident these strategies can deliver profitable growth for the benefit of all shareholders.

Michael Butler
Chairman


adairs

MANAGING DIRECTOR AND CEO'S REPORT

Dear Shareholder,

Financial and Operational Performance

FY19 was a year of significant progress in delivering on our strategic priorities. These advances drove both revenue and market share growth in our online and store channels, together with another year of strong cash generation and healthy dividends for shareholders. However, our growth also contributed to significant cost increases in our supply chain and contributed to a reduction in our margins. These costs, coupled with a weaker Australian dollar and a softer trading environment late in FY19, collectively contributed to a modest 4.0% decline in our EBIT to $43.4m.

Strong like for like sales growth of 7.2% across the business demonstrates the continued health and appeal of both our retail store formats and online channel, as well as confirming the success of our core strategies. Transaction volumes increased across both online and stores, continuing the trend seen in FY18, as more customers choose Adairs as the place to shop for on trend quality home furnishings.

We continued our transformation to a market leading omni-channel retailer with online sales growing by 41.7% to now represent 17% of total sales. This growth was a function of both an increase in online traffic (up over 40%) and an improved conversion rate.

Our online sales growth continues to be driven by leveraging the investment made in our website platform, enhancing our digital marketing initiatives, further building our social media channels engagement levels, and improving the integration and alignment of our Linen Lovers program with our online channel. When coupled with our social communities, and loyalty program, our online channels are a critical tool for driving our financial performance.

Our store network delivered 1.5% like for like sales growth with Adairs Kids and Homemaker stores outperforming the other formats. Geographically, all States and Territories recorded like for like sales growth other than Western Australia, where the retail sector has weakened notably, particularly in the discretionary categories.

Notwithstanding the strong sales performance and in line with our June trading update, the adverse supply chain impact and weaker Australian dollar meant that our gross margin result ended lower at 59.2% on a like for like basis with FY18 after adjusting for the impact of new accounting standards which in FY19 require the postage costs of our online sales be included in our cost of goods sold and therefore gross margin.

We continue to focus on optimising our store portfolio, opening 5 new stores, closing 7 stores, and refurbishing a further 11 stores with 5 of these being upsized throughout the year. Our store rollout and upsizing strategy delivered healthy profit growth and return on investment, with all stores increasing their profitability following upsizing.

We finished the year with a clean inventory position, a profitable and growing business in New Zealand, a leading online channel, a strong balance sheet and clear plans on how we can improve our management of costs into FY20.

MANAGING DIRECTOR AND CEO'S REPORT

Adairs Strategic Direction

Last year I detailed our five key strategic initiatives for growing our business and with it, shareholder value. I'm pleased to report that we delivered on all of our key strategies in FY19 and they will remain central to our strategic planning and execution going forward.

This year we add a sixth strategic initiative focussing on improving our supply chain productivity. The strong growth in our business requires that we implement a material upgrade to our distribution network to provide a best in class capability that is agile, efficient and provides operational leverage to accommodate future profit growth and enhance our customer service levels and competitive advantage.

The successful execution of each of our strategies lays the foundation for future business growth and also places us on the right footing to address any future challenges. It is worth restating these strategies given their importance.

Product differentiation and range expansion

Great on trend product remains a key driver of growth for the business. Developing a range to meet our broad customer needs, whilst offering design led, differentiated, quality products is critical to our continued success. We will also further expand our product offer to provide a broader range of co-ordinated decorator products to enable our customers to decorate more of their home driving incremental sales. We are focussed on delivering incremental value through design and product composition, to ensure we deliver to our stores and customers the right product at the right price.

Best in class omni channel retail capabilities

Our Linen Lovers loyalty program has had another exceptional year with membership numbers increasing by 17%. Linen Lovers remains the centre piece of both our customer engagement and our marketing efforts across all our channels and store formats. Our omni channel approach to loyalty has shown that our multi-channel customer is more engaged and committed to the Adairs brand, with a higher average spend per transaction than customers utilising just one channel. Linen Lovers members account for over 75% of all sales, highlighting the high and increasing quality of our revenue.

Further, our Linen Lover customer has a greater propensity to shop more broadly across the product categories relative to our other customers. Enhancing our loyalty program to both build the number of members and capture a higher share of spend will remain a continued focus for the business over the coming years.

With online sales now representing 17% of total company sales, our online channel is a significant and growing contributor to our underlying profit and future growth. Shareholders and customers can expect to see our continued investment improving our digital presence and execution to complement and enhance our traditional store experience.

ONLINE IS AN INTEGRAL COMPONENT OF OUR BUSINESS AND A KEY ENGAGEMENT TOOL FOR OUR CUSTOMER

The role of online is much more than online sales generation, it is an integral component of our business and a key engagement point with our customers. Our data demonstrates that many of our customers use the online environment to research, co-ordinate, seek inspiration, compare, communicate and shop with us across both our store and online channels. We remain committed to delivering a seamless and flexible customer experience regardless of how, when and where our customers choose to shop with us.

With new initiatives planned for our online channel, and a fast-moving competitive environment, we will continue to invest in our omni channel capabilities. We expect this investment will deliver continued growth in sales and profitability across all channels.

A more inspiring and, larger store network

Our store rollout and 'upsizing' strategy continues to deliver incremental profit growth. Within all of our stores we aim to provide our customers with a broader and more coordinated product range and differentiated shopping experience, whist improving profitability.

During the past two years we have upsized 10 stores with all these stores delivering improved profitability for the business. Our experience to date has seen the upsized stores on average increase their store contribution by approximately 30-40% (based on before and after analysis of store contribution), whilst maintaining their store contribution margin as a percentage of sales. With the success of this strategy we have identified a further 10 stores that we will actively look to upsize as the opportunities present over the coming years.

We will continue to open new stores in areas where we are geographically under-represented with a preference for larger Homemaker stores. We will also close some smaller less profitable stores where we are unable to provide our customers with our desired shopping experience. We expect that this strategy will see us open approximately net 4 – 6 stores per annum over the next 3 years.

MANAGING DIRECTOR AND CEO'S REPORT

An agile and efficient supply chain

The operations associated with moving inventory from our suppliers to our distribution centres, our store network and direct to customers have become unnecessarily complex and expensive. Modern omni channel retailing requires our distribution network to efficiently move inventory through our distribution centres to stores together with direct to customers. Our systems and processes must also support inventory movements between stores, and "in reverse" for returns, and across Australia and New Zealand. The current complexity and expense of this supply chain is a challenge, but it also presents scope to develop and leverage a sustainable competitive advantage.

As our business continues to grow there is significant shareholder value to be unlocked by optimising the capacity, productivity and efficiency of this aspect of our business.

In FY19 we exceeded capacity in our primary distribution centres and activated overflow capacity in secondary centres. This change caused considerable inefficiencies and contributed to materially higher operating costs. These costs fundamentally stem from additional handling and movement of our inventory, and additional costs associated with the set-up of the secondary facilities.

Significant work has gone into identifying and developing a solution that will see us consolidate our distribution centres into a single facility in Victoria. This will be supported by an upgrade to our Warehouse Management System and the introduction of a range of other technologies to improve capacity, speed, efficiency and productivity.

The restructure of our supply chain will be implemented over the next 2 years, with the new facility expected to be operational by the beginning of FY22. In the meantime we have identified short and medium term initiatives which will improve our capabilities and productivity within the existing facilities to both lower our cost to serve and improve our customer experience. While we can certainly operate our facilities more efficiently than we have in FY19, we acknowledge that a step change in our supply chain costs will only occur once the new facility is operational.

Passionate high performing team members

Our team in store are a key point of difference to the shopping experience at Adairs. We pride ourselves on a history of providing great customer service positioning Adairs as the place to shop for home furnishings. We remain committed to investing in our team through training, product knowledge and incentives to continue to enhance the customer experience and retain this important point of difference in the market. We believe our service level is a genuine point of difference versus a number of our competitors and is a distinct and important competitive advantage that we will further enhance.

International expansion

I'm pleased to report that New Zealand was profitable in FY19 with solid growth in sales across all stores and online. The work undertaken on our supply chain in New Zealand significantly assisted our sales potential over the year. This, combined with the ongoing development of the brand awareness and the store team in New Zealand, has produced a good year with strong like for like sales momentum carried into FY20.

Our experience in launching and refining our offer in New Zealand will assist in the identification and development of further new markets when the right opportunities arise.

In summary, the FY19 year was a very good year for Adairs in terms of revenue growth. The issues that impacted our overall profitability are well understood and largely addressable. Importantly, the strategies we already have in place are appropriate and put us in a strong position to continue to deliver profitable growth over the coming years.

Finally, I would like to thank all the people that have supported the company, in particular our team and our loyal customers. We remain focused on providing our customers with the very best retail experience and it is this focus that will underpin our continued success.

Mark Ronan
Managing Director & CEO

CORPORATE GOVERNANCE STATEMENT

The Board of Adairs Limited is responsible for the corporate governance of the group. It sets out the key features of Adairs' governance framework and reports against the Corporate Governance Principles and Recommendations (3rd Edition) published by the ASX Corporate Governance Council (ASX Principles and Recommendations).

The Board is committed to maximising performance, generating appropriate levels of Shareholder value and financial return, and sustaining the growth and success of Adairs. In conducting business with these objectives, the Board seeks to ensure Adairs is properly managed to protect and enhance Shareholder interests, and that Adairs, its Directors, officers and personnel operate in an appropriate environment of corporate governance.

The Company's constitution, charters and policies referred to in this statement are available on the Adairs Investor Centre website within the Corporate Governance section investors.adairs.com.au

Principle 1

Lay solid foundations for management and oversight

The Board has adopted a Charter which sets out the Board's role and responsibilities, the relationship and interaction between the Board and Management and the authority delegated by the Board to Management and Board committees.

The Board is responsible for the overall governance of Adairs including monitoring the operational and financial position and performance of Adairs and overseeing its business strategy, including approving the strategic objectives, plans and budgets of the Company. The Board delegates to the Chief Executive Officer and Senior Management matters involving the implementation of corporate strategy and management of Adairs' day-to-day activities.

The Board's key responsibilities as set out in the Board Charter include:

- selecting, appointing, removing and evaluating from time to time the performance of, determining the remuneration of, and planning succession of, the Chief Executive Officer (CEO);
- contributing to and approving Management's development of corporate strategy, including setting performance objectives and approving operating budgets;
- reviewing, ratifying and monitoring systems of risk management and internal control and ethical and legal compliance;
- monitoring corporate performance and implementation of strategy and policy;
- approving major capital expenditure, acquisitions and divestitures, and monitoring capital management;
- monitoring and reviewing management processes aimed at ensuring the integrity of financial and other reporting;
- conducting performance evaluations of the Board, its Committees and individual Directors; and
- developing and reviewing corporate governance principles and policies.

The Board has established a Remuneration Committee Charter which is responsible for the annual review of the remuneration arrangements of the executive directors, chairman and non-executive directors to ensure they remain equitable and assess performance processes to ensure capability of management to realise the business strategy. In the FY18 year an evaluation of the Board composition and processes was conducted.

The Board has adopted a diversity policy which aims to, among other matters, address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure.

As at 1 July 2019, the proportion of women employed by Adairs was as follows:

Non-executive Directors	33%
Senior Executive positions	56%
Senior Management	68%
Total Adairs workforce	**91%**

Given the overall majority representation of women in senior executive and management positions, the Board has not set specific diversity targets at this time. In supporting gender diversity, at each change of senior executive or Board composition the Company will seek to increase female representation. An annual review of gender diversity is conducted and reported to ensure the business seeks a fair and balanced representation of men and women.

Principle 2

Structure the Board to add value

The Board has established a Nomination Committee comprising all Directors and is chaired by Michael Butler. The Nomination Committee is responsible for identifying qualified individuals for appointment to the Board. In identifying candidates, the Nomination Committee will have regard to the selection criteria set out in the Board appointment process (refer to the Nomination Committee Charter), which includes:

- skills, expertise and background that add to and complement the range of skills, expertise and background of the existing Directors;
- diversity; and
- the extent to which the candidate would fill a present need on the Board.

The Nomination Committee is also responsible for ensuring an effective Director induction process is in place (and continues to be effective) and for providing appropriate professional development opportunities for Directors. The Nomination Committee will assist the Board as required in relation to the ongoing performance evaluation of the Board, its committees and individual Directors.

The Remuneration and Nomination Committee is satisfied the Board currently comprises Directors with a broad range of skills, knowledge, experience and has a proper understanding of the current and emerging issues facing the Company and can effectively review and challenge Management's decisions.

The skills, experience and expertise of each Director, including current and former directorships, are set out in more detail in the biographies on pages 22–25 of the Annual Report.

The Board should comprise a majority of independent non-executive directors and the Board has adopted guidelines, as set out in the Board Charter, which are used to guide independence assessments based on the definition of independence listed in Box 2.3 of the ASX Principles and Recommendations.

Having regard to these criteria, the Board considers Michael Butler, Kate Spargo, Kiera Grant and Simon West are free from any business or any other relationship that could materially interfere with the independent exercise of their judgement and are able to fulfil the role of an independent Director for the purposes of the ASX Recommendations.

The Board considers Trent Peterson, David MacLean, Mark Ronan and Michael Cherubino are not independent on the basis that:

- Trent Peterson is a director of Catalyst Investment Managers (Catalyst), a substantial shareholder in the Company.
- David MacLean is the former-CEO of the Company (a position held until November 2016)
- Mark Ronan is the current CEO of the Company and Michael Cherubino is the Executive Director of Property and Business Development of the Company.

While the Board currently has an equal number of independent and non-independent Directors, the Company is satisfied the Board operates independently of Management and is highly effective in promoting the best interests of shareholders as a whole. In particular, the Board considers Trent Peterson, David MacLean, Mark Ronan and Michael Cherubino add significant value to the Board given their considerable experience and skills and bring objective and independent judgment to the Board's deliberations.

The Board collectively, and each Director individually, has the right to seek independent professional advice, subject to the approval of the Chairman or the Board as a whole. The Company Secretary, who is accountable to the Board through the Chairman, provides advice and support to the Board and is responsible for all matters to do with the proper functioning of the Board.

Principle 3

Act ethically and responsibly

The Board recognises the need to observe the highest standards of ethics, integrity and behaviour. Accordingly, the Board has adopted a formal Code of Conduct which outlines how the Company expects its employees and Directors to behave during the course of their employment in dealing with internal and external clients and customers of the business.

The Code of Conduct requires (amongst other things) employees and Directors to:

- comply with all Company policies, procedures, rules and regulations;
- be honest and fair in dealings with customers, clients, co-workers, Company Management and the general public;
- maintain the confidentiality of any information, records or other materials acquired during the course of employment with Adairs; and
- respect Adairs' ownership of resources and property.

Adairs has also adopted a formal Whistle-blower Policy along with 'Issue Resolution and Complaint Procedures' that contain procedures for employees and Directors to report any situations or behaviours that breach or potentially breach the Code of Conduct.

Principle 4

Safeguard integrity in corporate reporting

Under the Audit and Risk Committee Charter, the Committee should consist of:

- at least three members of the Board;
- only non-executive directors;
- a majority of independent directors; and
- an independent chair who is not chairman of the Board.

The current members of the Audit and Risk Committee are:

Chairperson	Kate Spargo
Members	Trent Peterson
	Michael Butler

The Audit and Risk Committee assists the Board in carrying out its accounting, auditing and financial reporting responsibilities including:

- overseeing the Company's relationship with the external auditor and the external audit function generally;
- overseeing the preparation of the financial statements and reports;
- overseeing the Company's financial controls and systems; and
- managing the process of identification and management of financial risk.

CORPORATE GOVERNANCE STATEMENT

Non-Committee members, including members of Management and the external auditor, may attend meetings of the Committee by invitation of the Committee chair. Minutes of meetings of the Committee are kept by the Company Secretary and, after approval by the Committee chair, are presented at the next Board meeting.

The Committee has rights of access to Management and auditors (external and internal) without Management present, and rights to seek explanations and additional information from both Management and auditors.

The Audit and Risk Committee met on four occasions during the year with all three members of the Committee in attendance. Further information relating to attendance at Board and Committee meetings is set out in the Directors' Report on page 26 of the Annual Report.

Adairs' external auditor is Ernst & Young who will be requested to attend the company's Annual General Meeting to answer any questions from shareholders. The Audit and Risk Committee provides a link between the external auditor, the Board and Management. It also has the responsibility (subject to *Corporations Act* requirements) for the appointment and remuneration of the external auditor, as well as for evaluating its effectiveness and independence.

The Board has approved a policy on non-audit services provided by the external auditor which clearly sets out the type of non-audit services which are prohibited because they would create a real or perceived threat to the independence of the external auditor.

The Board requires the CEO and the Audit and Risk Committee provide written assurance that the financial reports give a true and fair view, in all material respects, of the group's financial position and of their financial performance and are in accordance with Australian Accounting Standards.

Principle 5

Make timely and balanced disclosure

Adairs is committed to complying with its disclosure obligations under the Corporations Act and the ASX Listing Rules to keep the market reasonably informed of information which may have a material effect on the price or value of Adairs' securities.

The Company adopted a Continuous Disclosure Policy on Listing which established procedures aimed at ensuring the Company fulfills its obligations in relation to the timely disclosure of material price-sensitive information.

Principle 6

Respect the rights of security holders

Adairs aims to communicate all important information relating to the Company to its shareholders. Additionally, the Company recognises potential investors and other interested stakeholders may wish to obtain information about the Company from time to time.

To achieve this, the Company communicates information regularly to Shareholders and other stakeholders through a range of forums and publications, including:

- **Adairs website:** important information about Adairs can be found under the section marked 'Corporate Governance' in the investors section on its website. The website also contains a facility for shareholders to direct inquiries to Adairs.
- **Annual General Meeting:** the Company will encourage full participation of shareholders at its AGM and for those shareholders who are unable to attend in person, shareholders will be able to lodge proxies. The Company's external auditor, Ernst & Young, will attend the AGM and be available to answer shareholder questions about the conduct of the audit and the preparation and content of the auditor's report.
- **Annual Report:** Adairs' Annual Report will be available on the website and contains important information about the Company's activities and results for the previous financial year.
- **ASX announcements:** all ASX announcements, including annual and half year financial results, are posted on the Company's website as soon as they have been released by ASX.
- **Investor relations:** to encourage two-way communication, Adairs employs a Head of Investor Relations and provides a telephone helpline facility together with an online email inquiry service to assist shareholders with any queries. Information is also communicated to shareholders via periodic mail outs, or by email to shareholders who have provided their email address.

Principle 7

Recognise and manage risk

The Board has established an Audit and Risk Committee comprising of three members:

Chairperson	Kate Spargo
Members	Trent Peterson
	Michael Butler

The responsibilities of the Audit and Risk Committee are outlined in our Audit and Risk Committee Charter. The Committee reviews the risk matrix at regular intervals throughout the year to ensure the Company is not being exposed to any new risks and all existing risks are being monitored with adequate policies and processes implemented to manage identified risks.

A Risk and Compliance Manager is employed to provide a direct reporting line to the Chair of the Committee and, therefore, to the Board.

This role also has the responsibility for the management of the internal audit plan. The Committee reviews the internal audit plan regularly to test the adequacy and compliance with prescribed policies and processes and sufficient remedial action is undertaken to redress any areas of weakness.

The Committee also reviews Management recommendations on policies and strategies relating to employee culture and behaviour and make recommendations to the Board where appropriate. This includes policies and recommendations on bullying and harassment.

Refer to the page 21 of the Annual Report for Adairs' key material business risks.

Principle 8

Renumerate fairly and responsibly

The Board has established a Remuneration Committee comprising of four members:

Chairman	Trent Peterson
Members	Michael Butler
	Kate Spargo
	David MacLean

Trent Peterson is not considered an independent director however the Board feels that Trent's skills and experience make him a suitable Chair of the Remuneration Committee and that he will bring objective and independent judgement to the Committee deliberations.

The responsibilities of the committee are outlined in our Remuneration Committee Charter.

The Company's remuneration strategy for non-executive directors is designed to attract and retain experienced, qualified non-executive directors and to remunerate appropriately to reflect the demands which are made on them and the responsibilities of the position.

The level of fees are reviewed annually by the Remuneration Committee and are based on the fees paid for comparative non-executive director roles in similarly sized publicly listed companies operating in the retail industry.

Non-executive directors do not receive any variable or "at-risk" remuneration or other performance related incentives.

The principles that guide Adairs' executive remuneration policy are:

- to provide competitive total remuneration arrangements that enable the Company to attract and retain high performing leaders and to reward them for their contribution to the success of the Company;
- to align remuneration arrangements with the delivery of the outcomes which (in the opinion of the Board) drive sustainable value creation for the Company's shareholders;
- to maintain a pay for performance environment for executives through linking incentive pay opportunities to the achievement of specific, measurable business goals;
- to position base salaries at competitive levels, subject to individual performance;
- to provide arrangements with the flexibility to recognise individuals based on consistent performance, experience and qualifications; and
- to provide equitable pay arrangements across the Company.

These principles seek to ensure the level and composition of remuneration is appropriate, and also that there is a clear link between pay and performance.

Further information relating to the remuneration of the non-executive directors and senior executives is set out in the Remuneration Report on page 36 of the Annual Report. The number of meetings held and attendance by members of the Remuneration and Nomination Committee are outlined in the Directors' Report on page 26 of the Annual Report.

Financial Report
2019

DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited and its subsidiaries (referred to hereafter as "Adairs", "the Group" or "the Company") for the 52 weeks ended 30 June 2019 ("FY2019" or "FY19").

DIRECTORS

The following persons were directors of Adairs Limited during the period and up to the date of this report unless otherwise stated.

Michael Butler
Mark Ronan
Michael Cherubino
David MacLean
Trent Peterson
Kate Spargo
Kiera Grant (appointed 24 January 2019)
Simon West (appointed 24 January 2019)
David Briskin (resigned 26 October 2018)

Information on qualifications and experience of directors is included on pages 22–25 of this report.

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, through both retail stores and online channels.

Dividends

In respect of the financial year ended 30 June 2019, an interim dividend of 6.5 cents per share was paid to the holders of fully paid ordinary shares on 17 April 2019 and the directors have declared the payment of a final dividend of 8.0 cents per share, to be paid to the holders of fully paid ordinary shares on 25 September 2019. Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the full year of 14.5 cents per share represents a payout ratio of 81% of the full year earnings, in line with Adairs dividend policy.

2019 Operating and Financial Review

The profit from ordinary activities after income tax for FY2019 amounted to $29.6 million (2018: $30.6 million).

The Directors' Report includes references to non-IFRS financial measures such as Earnings Before Interest and Tax ("EBIT"), EBIT margin, EBITDA (EBIT excluding depreciation and amortisation) and like-for-like sales growth ("LFL"). EBIT, EBIT margin, EBITDA and LFL are unaudited measures.

The EBIT of the Company for FY2019 was $43.4 million (2018: EBIT $45.3 million).

Continuing Operations	**FY19[2] $'000**	**FY18 $'000**
Statutory profit after income tax for continuing operations	29,643	30,561
Add back:		
Finance expenses	1,237	1,489
Interest income	(77)	(44)
Income tax (benefit)/expense	12,643	13,255
EBIT[1]	**43,446**	**45,261**

1. Earnings Before Interest and Tax (EBIT) is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to all financial aspects of the operations of the group. EBIT is not a measure of operating income, operating performance or liquidity under IFRS. Other companies may calculate EBIT in a different manner to Adairs.
2. Due to adoption of AASB 15 in FY2019 the prior periods are not comparative (refer Note 2(c)(i)(a) of the financial statements).

DIRECTORS' REPORT

The table below sets out the operating results for FY2019 compared to the operating results for FY2018.

Continuing Operations	2019[1] $'000	2018 $'000	Change %
Revenue	344,430	314,769	9.4%
Gross Profit	197,124	189,650	3.9%
Gross Margin	57.2%	60.3%	−3.1%
EBIT	43,446	45,261	−4.0%
EBIT Margin	12.6%	14.4%	−1.8%

1. Due to adoption of AASB 15 in FY2019 the prior periods are not comparative (refer Note 2(c)(i)(a) of the financial statements).

Results Summary

The Company had a record sales year in FY2019 with revenue up $29.7 million to $344.4 million, a rise of 9.4%. This growth was largely driven by our online channel where sales rose 41.8% while like for like sales in our stores finished up 1.5%. Overall like for like sales across the company rose 7.2%, with each of the first and second halves of the year delivering virtually equivalent like for like growth.

The business continued to focus on delivering an improved top line result by ensuring we executed on our strategic priorities. The product team delivered a range across the year that led on design and quality and ensured that our product met our broad customer expectations. We complemented our product range by continuing to react to the greater emphasis customers are placing on value to ensure that we delivered on trend products at the right price point. This strong execution across the core range of product categories, combined with continued growth from our expansion categories of home décor and home furnishings, supported the revenue growth.

Against this growth in revenue our store numbers declined by 2 to 165, however underlying this number was our store optimisation program which saw 5 new stores open and 7 stores, which were not meeting our profitability requirements, close. Importantly, we upsized 5 of our existing stores and refurbished a further 6 with the result that our total retail floor space, as measured by gross lettable area (GLA), increased by 4.6% over the year to 58,839 square metres. Adairs will maintain its focus on upsizing selected stores over the coming years as we look to enhance the customer experience in locations where Adairs is already well known.

The like for like sales result was achieved across most of the company with Adairs Kids being the strongest performing format with customers responding well to the broadened product offering, especially a number of licensed products such as Harry Potter and Warner Brothers branded items. Homemaker stores again delivered solid sales growth due to their ability to range all of the growing expansion categories together with the enhanced shopping experience provided in these larger format stores.

The Adairs online business continues to be our fastest growing channel and now accounts for 17% of total company sales. The success of this channel reflects a significant focus and investment in our digital strategy. As the online business becomes a more material component of both our sales and profitability we continue to invest in key areas to further drive this business over the coming years.

Adairs recorded a gross profit of $197.1m in FY2019, up 3.9% on FY2018, resulting in a gross margin rate of 57.2%, down from 60.3% in the prior year. Of this 310 basis point fall, approximately 200 basis points was due to the impact of new accounting standards (AASB 15) which resulted in a re-classification of postage costs associated with online sales (with no impact on the business) while 110 basis points was due to a deterioration in profitability reflecting higher supply chain costs, a weaker Australian dollar and a softer trading environment in the last few weeks of FY2019. The higher supply chain costs are a direct result of our primary distribution capabilities failing to match our business growth. This required the activation of secondary distribution centres and resulted in a sharp decline in warehouse productivity and efficiency, and an increase in handling and shipping costs. Significant work has gone into identifying and developing a solution to these supply chain issues which we expect to have implemented by the beginning of FY2022.

In New Zealand strong growth in sales (up over 25%) together with an improvement in supply chain and inventory management saw the Company record a small EBIT profit in FY2019. Growth in brand awareness, store presence and local website sales should underpin further growth in profitability in New Zealand.

The Company's EBIT margin of 12.6% was down 180 basis points on FY2018 (14.4%) which resulted in a 3.0% lower Net Profit After Tax (NPAT) to $29.6 million and Earnings per Share (EPS) to 17.9 cents per share.

Capital Management

There was no significant change in the capital structure of Adairs through FY2019. The total debt facility remains at $50 million in aggregate and represents a $48.75 million revolving cash advance term facility drawn to $25 million at year end, and a multi option revolving working capital facility of $1.25 million, which had no funds drawn against it at year end. Total net debt is $8.2 million.

The company's debt facility has three key financial covenants, the debt to capital ratio, fixed cover charge ratio and the leverage ratio, all with significant headroom existing as at June 2019. We have no current plans to materially increase or decrease our available debt facility.

Adairs Strategic Update

The Company believes its existing underlying strategies remain appropriate, particularly given their contribution to the earnings growth achieved by the business over the past five years.

This year we added an additional strategic initiative focussing on improving our supply chain productivity. The strong growth in our business requires that we implement a material upgrade to our distribution network to provide a best in class capability that is agile, efficient and provides operational leverage to accommodate future profit growth and enhance our customer service levels and competitive advantage.

The execution and key focus areas continue to evolve to reflect changes in the market and its competitive dynamics to enable the Company to deliver sustainable profit growth.

Product differentiation and range expansion

The FY2019 results demonstrated that revenue growth can be delivered from strong execution of the product and range differentiation strategy. By developing a well-balanced, on trend range that met the needs of our customers the FY2019 year delivered record sales and continued growth in both our online and store channels. A key driver of our sales growth over the coming years will remain the ongoing development of the two key components of our product strategy:

- Product differentiation: Offer customers a range of on trend products at value-for-money prices that are designed by and exclusive to Adairs.
- Category range expansion: Offer customers a broader range of co-ordinated decorator products relative to our competitors. Adairs will continue to expand its range to cover new product areas based on management's assessment of customer demand, balanced with the physical floor space available in our stores. A critical aspect of this strategy is to ensure that any range extension is complementary to the existing product categories and range and has similar attributes such as value, quality, styling and fashionability. This inspires customers to develop a co-ordinated look across product categories and enables store teams to deliver superior service. Our objective remains to furnish more of our customers living, entertaining and functional spaces in their homes.

Best in class omni retail capabilities

The success of our omni channel approach in FY2019 supports Adairs continued investment in the online channel and Linen Lover (loyalty) program. Adairs strategy of operating both physical store locations and delivering a strong online customer experience remains a focus to ensure we deliver a seamless and flexible customer experience.

The Online sales drivers include:

- Broader product range availability, including additional online lines
- Provide customers an excellent research and planning tool around product information
- Increase the personalised shopping experience
- Continue to enhance the customer user experience
- Growing international territories
- Marketplace opportunities

The role of our online store is much more than just sales generation and execution, it is an integral component of our business and together with our Linen Lover program is a key engagement point for customers.

The continued focus and investment in online is expected to result in online sales of circa 19% to 20% of total sales in FY2020.

DIRECTORS' REPORT

Larger more inspiring stores

Adairs will continue its' store roll-out in Australia, maintaining the objective to open approximately 6 net new stores per annum over the next 3 years. This target reflects the current store profile of the business and the work done on identifying new profitable store opportunities. Adairs expects the majority of new stores to be shopping centre and Homemaker stores with an ongoing preference to open more Homemaker stores and larger shopping centre stores.

The success of the upsized stores and the ongoing work on product differentiation and category expansion supports the opportunity to up-size a further 15 – 20 selected stores over the next 5 years. Adairs believes there is significant opportunity in providing our customers an enhanced shopping experience and wider range of product via these larger store formats, and our current experience with this strategy indicates an attractive incremental ROCE, subject to negotiating suitable rental terms.

Consistent with the above upsizing strategy for existing stores, Adairs strategy of seeking to selectively open moderately larger stores (in square metres) in new locations in our core stores formats will continue. Our experience to date is that these larger stores give us a better opportunity to merchandise a wider product range and deliver the customer a superior shopping experience. We note for completeness that ultimately the size of each store is determined on a site by site basis and is a function of a range of commercial and practical factors.

An agile and efficient supply chain

In FY2019 our strong growth saw us exceed capacity in our primary distribution centre and required the activation of overflow capacity in secondary centres. This change caused considerable inefficiencies and contributed to materially higher operating costs. These costs fundamentally stem from additional handling and movement of our inventory, and additional costs associated with the set up of the secondary facilities.

There is significant shareholder value to be unlocked by optimising the capacity, productivity and efficiency of with moving inventory from our suppliers to our distribution centres, and to our store network and direct to customers

Significant work has gone into identifying and developing a solution that will see us consolidate our distribution centres into a single facility in Victoria. This will then be supported by an upgrade to our Warehouse Management System and the introduction of a range of other technologies to improve capacity, speed, efficiency and productivity.

The restructure of our supply chain will be implemented over the next 2 years, with the new facility expected to be operational by the beginning of FY2022. In the meantime we have identified short and medium term initiatives which will improve our capabilities and productivity within the existing facilities to both lower our cost to serve and improve our customer experience. While we can certainly operate our facilities more efficiently than we have in FY2019, we acknowledge that a step change in our supply chain costs will only occur once the new facility is operational.

International expansion

In FY2019 the New Zealand business became EBIT profitable as a result of strong sales growth and a continued focus on store costs. Our approach to New Zealand in FY2020 will see us continue the work that has been ongoing on product in the New Zealand market to increase our GM rate and continue to manage our cost of doing business. We will look to open additional stores to support our long term goal of between 12 to 15 stores in New Zealand.

The international expansion strategy will be further complemented over the coming years with the roll out of an international website to enable Adairs to sell online into a variety of new countries and assess the underlying demand from other countries.

Material Business Risks

There are a number of risk factors both specific to Adairs and of a general nature which may impact the future operating and financial performance of the Company. The performance of the Company is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets and government policies.

The specific material business risks that are likely to have an effect on the financial prospects of Adairs include:

- **Customers buying habits or seasonal trading patterns may change**

  Many of Adairs' products are considered to be discretionary goods, particularly products in Adairs' fashion item lines where consumer preferences and tastes can change quickly. Consumer demand for these products is sensitive to Adairs' fashion and design selections and product range. A broad-based or series of significant misjudgements in interpreting product and fashion trends and over estimation of the quantum of demand for these products could adversely affect Adairs' financial performance.

- **The retail environment and general economic conditions may worsen**

  Consumers may consider many of Adairs' products to be discretionary goods, and sales levels are sensitive to consumer and retail sentiment as a result. If consumer and retail sentiment were to decline, this may reduce the demand for Adairs' products, thereby reducing product sales. This would have a flow on affect with regard to like for like sales and have a materially adverse effect on Adairs' financial performance.

- **Competition may increase and change**

  The competitive environment in which Adairs operates in is relatively stable, however there is a risk that Adairs may lose market share to new or existing competitors. Adairs' competitive position may deteriorate as a result of increased competition, and Adairs customers may choose to purchase products from its competitors rather than from Adairs which could lead to downward pressure on margins and subsequently have an adverse impact on Adairs' financial performance.

- **Management may be unable to achieve its growth objectives**

  Adairs' management has developed a number of growth strategies for the business. The success of growth strategies is key to Adairs' future financial performance, however there is a risk that Adairs' growth strategies are ineffective or are not executed effectively.

- **Adairs may be unable to retain or secure suitable store sites**

  Adairs' store footprint and lease portfolio is frequently assessed and revised in order to optimise financial and operational performance. Adairs' financial performance and future growth is dependent on its ability to both retain existing store sites and secure new store sites in suitable locations and on acceptable terms. Adairs' ability to achieve this may be impacted by a range of factors including availability of new store sites, profitability of new sites, landlord disputes, potential cannibalisation of existing stores by new store openings as examples.

- **Adairs may make material execution errors in its operations or in the implementation of its strategy**

  Our ongoing operations and the successful implementation of our strategy is highly reliant on the skills and judgements of our management team and the teams of marketers, product designers and inventory planners in Adairs. While there is an intrinsic and normal level of mistakes or errors that are made in development and delivery of a product range, there is also a risk that the error rate or severity and scale of the mistakes exceeds normal levels, and this can adversely affect the appeal of our range to our customers and therefore materially impact sales and margins.

- **Exchange Rate Volatility**

  Adairs import the majority of its purchases in USD. As a result, Adairs is exposed to fluctuations in the exchange rate in the markets it operates in. Adairs foreign exchange policy is aimed at mitigating foreign exchange exposure by entering into forward exchange contracts. However, adverse movements in the exchange rates could have an adverse impact on Adairs gross profit margin.

- **International expansion may not be successful**

  The introduction of international business operations into the Company adds complexity and requires management to consider additional factors impacting a different economy and varied regulatory requirements. Adairs have mitigated this risk by seeking advice and expertise from people who have previously operated in the market and have specific expertise related to the market. Despite this, Adairs strategies in relation to international expansion may be ineffective or not well executed adversely impacting the future financial performance.

DIRECTORS' REPORT

Outlook

After a strong year for revenue growth in FY2019, Adairs expects to continue to grow revenue and return to growth in profit by remaining focussed on the execution of our strategies, including our new supply chain initiative. We expect to deliver continuing like for like sales growth across all store formats, continued store roll out in Australia and New Zealand, and ongoing product expansion and differentiation. Our online channel is a significant and growing contributor to our underlying profit and we will continue to invest in improving our digital presence and execution to complement and enhance our traditional store experience. These ongoing strategies are forecast to deliver sales in FY2020 in the range of $360 million to $375 million.

Significant changes in the state of affairs

There have been no significant changes in the state of affairs of Adairs during the financial year ended 30 June 2019.

Matters subsequent to the end of the financial year

On 26 August 2019, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is $13.27 million which represents a fully franked final dividend of 8.0 cents per share. The dividend has not been provided for in the 30 June 2019 financial statements.

An announcement was released to the Australian Securities Exchange on 14 August 2019, appointing Ashley Gardner as Chief Financial Officer of Adairs Limited, effective from 14 August 2019.

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

Environmental regulation

The Company's operations are not subject to any significant environmental obligations or regulations. No environmental breaches have been notified to the Company during the 52 weeks ended 30 June 2019.

Directors and Directors' Interests

The Directors of Adairs Limited in office at the date of this report are listed below together with details of their relevant interests in the securities of the Company at this date.

Michael Butler

Independent Chair Non-Executive

Michael has extensive experience in finance and investments in both executive and board roles. He has over 20 years' experience as a non-executive director of ASX listed companies across a broad range of industries including financial services, tourism, logistics, property, resources, and retailing.

Other Current Directorships

Non-executive director of Fruit Master Holdings Pty Ltd

Former Listed Directorships in the last 3 years

Non-executive director of Metcash Limited

Special Responsibilities

Chair of the Board
Chair of the Nomination Committee
Member of the Audit and Risk Committee
Member of the Remuneration Committee

Interest in Shares and options

449,724 ordinary shares in Adairs Limited

Mark Ronan

Managing Director and Chief Executive Officer

Mark was appointed Chief Executive Officer and Managing Director in November 2016, following roles at Adairs in Finance, Merchandise Planning, Store Operations and as Chief Operating Officer. Mark is a Chartered Accountant with prior experience in operating businesses, funds management and accounting.

Other Current Directorships

None

Former Listed Directorships in the last 3 years
None

Special Responsibilities
Managing Director and Chief Executive Officer

Interest in Shares and options
681,668 ordinary shares in Adairs Limited
2,091,000 options in Adairs Limited

Kate Spargo
Independent Non-Executive Director
Kate has broad commercial and organisational experience, as well as a focus on risk, audit and governance, supported by her legal background in both government law and private practice. Kate has been an independent company director for 20 years, covering listed and unlisted companies in a variety of sectors including infrastructure, construction and engineering, energy, financial services, building product manufacture and distribution, and health services.

Other Current Directorships
Non-executive director of Sonic Healthcare Ltd
Non-executive director of ColnvestLtd
Non-executive director of Sigma Healthcare Ltd
Non-executive director of Geelong Football Club
Non-executive director of Xenith IP Ltd
Non-executive director CIMIC Group Ltd

Former Listed Directorships in the last 3 years
Chair of UGL Ltd
Non-executive director of Fletcher Building Ltd

Special Responsibilities
Chair of the Audit and Risk Committee
Member of the Remuneration Committee
Member of the Nomination Committee

Interest in Shares and options
41,667 ordinary shares in Adairs Limited

Kiera Grant
Independent Non-Executive Director – appointed 24 January 2019
Kiera has extensive board and senior management experience, having spent 15 years working in investment banking. Kiera has extensive financial and strategic assessment knowledge combined with mergers and acquisitions, capital market and corporate governance experience.

Other Current Directorships
Chair of the Art Gallery of New South Wales Foundation
Non-Executive Director of Future Generation Global Investment Company Ltd
Non-Executive Director of Samuel Smith and Sons Pty Ltd (incorporating Yalumba Wine Co and Negociants Fine Wine Distributors)
Non-Executive Director of Sydney Dance Company
Non-executive director of the Ascham Foundation

Former Listed Directorships in the last 3 years
None

Special Responsibilities
Member of the Remuneration Committee
Member of the Nomination Committee

Interest in Shares and options
Nil

DIRECTORS' REPORT

Simon West

Independent Non-Executive Director – appointed 24 January 2019

Simon has extensive experience in retail and technology businesses, with almost 20 years' experience as a CEO and Non-Executive Director. Simon recently held CEO roles at clothing retailer Max Fashions, EziBuy and the Australian ecommerce website DealsDirect.com.au. In addition to the Director positions outlined below, Simon provides advisory services to retail businesses in the direct to consumer space.

Other Current Directorships

Non-Executive Director of trademe Group Limited
Non-Executive Director of Onceit Limited

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Member of the Nomination Committee

Interest in Shares and options

Nil

David MacLean

Non-Executive Director

David was formerly the Chief Executive Officer and Managing Director of Adairs for 14 years from 2002-2016, previously holding the role of General Manager from 1989-2002. David now runs his family investment office and holds minority interests in a number of private retail businesses.

Other Current Directorships

Non-executive director of dusk Retail Holdings Group Pty Ltd
Non-executive director Universal Store Pty Ltd

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Member of the Nomination Committee
Member of Remuneration Committee

Interest in Shares and options

2,993,486 ordinary shares in Adairs Limited

Trent Peterson

Non-Executive Director

Trent has over 20 years investment and private equity experience, focused primarily on businesses operating in consumer, retail and media sectors. Trent is Managing Director of Catalyst Investment Managers and the founder and Managing Director of both Catalyst Direct Capital Management and IPMB Capital Partners. Trent was non-executive Chairman of Adairs from 2010 until the IPO in 2015, being the period of Catalyst's majority ownership.

Other Current Directorships

Chair and Non-executive director of Cirrus Media Pty Ltd
Non-executive director of dusk Retail Holdings Group Pty Ltd
Non-executive director of The Shaver Shop Group Limited
Non-executive director of Australian Pure Health Pty Ltd (trading as Mr Vitamins)
Non-executive director of Universal Store Pty Ltd
Non-executive director of the Ascham Foundation

Former Listed Directorships in the last 3 years

None

Special Responsibilities
Chair of the Remuneration Committee
Member of the Audit and Risk Committee
Member of the Nomination Committee

Interest in Shares and options
1,440,019 ordinary shares in Adairs Limited
Trent also has an indirect interest in approximately 569,312 shares in Adairs Limited as a result of his minority interests in funds managed or advised by Catalyst Investment Managers. Trent also has a further indirect economic interest in all Adairs shares held by the Catalyst funds subject to certain conditions including the performance of those funds taken as a whole.

Michael Cherubino
Executive Director Property and Business Development and prior CFO of Adairs
Michael has over 22 years' experience in the retail sector. Michael's previous roles were with National Australia Bank and Bankwest.

Other Current Directorships
None

Former Listed Directorships in the last 3 years
None

Special Responsibilities
Member of the Nomination Committee

Interest in Shares and options
2,058,135 ordinary shares in Adairs Limited
1,197,000 options in Adairs Limited

David Briskin
Non-Executive Director (resigned 26 October 2018)
David has extensive experience in the fashion and retail sector as a former shareholder and Managing Director of Mimco and a former shareholder and Chief Executive Officer of sass & bide. David began his professional career as a commercial lawyer at Corrs Chambers Westgarth.

Other Current Directorships
Chair and Non-executive director of Virgin Australia Melbourne Fashion Festival
Chair and Non-executive director of MJ Bale Pty Ltd

Former Listed Directorships in the last 3 years
None

Special Responsibilities
Member of the Remuneration Committee
Member of the Nomination Committee

Interest in Shares and options (at resignation)
208,334 ordinary shares in Adairs Limited

Company Secretary
Mandy Drake was Company Secretary and Chief Financial Officer until 6 June 2019. Fay Hatzis was appointed Company Secretary on 6 June 2019.

DIRECTORS' REPORT

Meetings of Directors

The following table sets out the number of meetings of the Company's Board of Directors and each Board Committee held during the 2019 financial year and the number of meetings attended by the members of the Board or the relevant Committee.

			Meetings of Committees					
	Board		Audit		Nomination		Remuneration	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
M Butler	10	9	4	4	3	3	4	3
D MacLean	10	10	n/a	n/a	3	3	3	3
T Peterson	10	10	4	4	3	3	4	4
M Cherubino	10	10	n/a	n/a	3	3	n/a	n/a
K Spargo	10	10	4	4	3	3	4	3
M Ronan	10	10	n/a	n/a	3	3	n/a	n/a
K Grant	5	5	n/a	n/a	3	3	2	2
S West	5	5	n/a	n/a	3	3	n/a	n/a
D Briskin	4	4	n/a	n/a	3	3	2	2

Held: number of meetings held while a Director was a member

Attended: number of meetings attended

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company are important.

Details of the amount paid to the auditor Ernst & Young Australia for audit and non-audit services provided during the year are set out in Note 26 of the financial statements.

The directors are satisfied that the provision of non-audit services is compatible with the general standards of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services provided did not compromise the external auditor independence for the following reasons:

› all non-audit services are reviewed and approved by the Audit and Risk Committee prior to commencement to ensure that they do not impact the integrity and objectivity of the auditor; and

› the nature of the services provided does not compromise the general principles relating to auditor independence as set out in APES110 – Code of Ethics for Professional Accountants.

Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 41.

Proceedings on behalf of the Company

There are currently no proceedings on behalf of the Company.

Indemnification and insurance of officers

The Company has agreed to indemnify all the directors and executive officers against loss, cost, damage, expense or other liability suffered or incurred by the directors as officers of the Company. The indemnity does not extend to indemnify the director:

(a) in bringing or prosecuting any claim, unless the claim is a claim in the nature of a cross-claim or third-party claim for contribution or indemnity in, and results directly from, any proceedings in respect of which the directors have made a claim under the indemnity;

(b) in connection with any proceedings between the directors and the director's appointee or any related body corporate of the appointer (within the meaning of section 50 of the *Corporations Act 2001)* or their respective insurers; or

(c) to the extent that the amount of the claim under the indemnity is increased as a result of failure of the director to comply with their obligations under the indemnity agreement.

During or since the financial year, the Company has paid premiums in respect of a contract insuring all the directors of Adairs Limited against legal costs incurred in defending proceedings for conduct other than:

(a) A wilful breach of duty

(b) A contravention of sections 182 or 183 of the *Corporations Act 2001*, as permitted by section 199B of the *Corporations Act 2001*

Under the terms of the policy, the total amount of insurance contract premiums paid cannot be disclosed.

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.

Rounding

The amounts contained in the Directors' Report and in the financial report have been rounded to the nearest $1,000 (where rounding is applicable) where noted ($000) 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 this legislative instrument applies.

REMUNERATION REPORT (AUDITED)

The directors of Adairs Limited present the Remuneration Report for the Company for the 52 week period from 2 July 2018 to 30 June 2019. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

This Report sets out the remuneration arrangements for Adairs' key management personnel (KMP) (listed in the table below) who have been KMP during the reporting period. Throughout this Remuneration Report, the KMP are referred to as either Non-executive Directors or Senior Executives (being Executive Directors and Other KMP).

All Non-executive Directors and Senior Executives have held their positions for the entire duration of the reporting period unless indicated otherwise.

Name	Position
Non-executive Directors	
Michael Butler	Independent, Non-executive Chairman
Kate Spargo	Independent, Non-executive Director
Simon West	Independent, Non-Executive Director – appointed 24 January 2019
Kiera Grant	Independent, Non-Executive Director – appointed 24 January 2019
David MacLean	Non-executive Director
Trent Peterson	Non-executive Director
David Briskin	Independent, Non-executive Director – resigned 26 October 2018
Executive Directors	
Mark Ronan	Chief Executive Officer (CEO) and Managing Director
Michael Cherubino	Executive Director Property and Business Development
Other Key Management Personnel	
Mandy Drake	Chief Financial Officer (CFO) – resigned 6 June 2019

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DIRECTORS' REPORT

Section 1: Remuneration overview

The Board continues to focus on building and delivering value to shareholders, progressing its growth plans and selectively pursuing opportunities which we expect will add value having regard to the appropriate associated risks. Having a robust remuneration and reward framework that supports and encourages sustainable growth, risk management, and retains our people, is critical to the successful execution of our strategy.

The remuneration outcomes outlined in this Remuneration Report reflect the Company's approach to rewarding Non-executive Directors and Senior Executives for delivering strong performance and holding executive team members accountable to ensure value for shareholders.

For the purpose of this report, Key Management Personnel (KMP) include all Directors of the Board (executive and non-executive) as well as Mark Ronan (Chief Executive Officer), Michael Cherubino (Executive Director Property and Business Development) and Mandy Drake (Chief Financial Officer and Company Secretary – resigned 6 June 2019).

The financial results for FY2019 reflect a year where solid revenue growth of 9.4% was offset by increased costs in particular across supply chain and logistics that resulted in earnings before interest and tax (EBIT) decreasing 4% over the result reported for FY2018. Net profit after tax was $29.6 million, a decrease of 3.0% on FY2018.

FY2019 Remuneration

Remuneration packages: During the 2019 financial year the Board considered the remuneration levels for Company executives. As the Company's executives had received no review during the 2018 financial year the Board considered industry peers as well as the skills, experience and responsibilities of the relevant executive roles when considering their salaries. This review resulted in the Company increasing executives fixed remuneration by up to 6.5%, except for the Chief Executive Officer, whose fixed remuneration was increased by 20% to bring this more into line with market. There were no significant changes made to the remuneration packages of the executives in relation to their short term or long term incentive.

Short term incentive: The Company's short term incentive plan rewards performance against financial measures. For the 2019 financial year these financial measures were not achieved and as such no short term incentives will be paid to the executives.

Long term incentive: All long term incentives ("LTI") issued to executives in FY2019 are in the form of share options. Each share option entitles the executive to acquire an ordinary share in the Company subject to meeting specific performance and service conditions and payment of an exercise price. No share options issued in previous years vested during FY2019.

Fees for Non-Executive Directors: During the year the Board reviewed the fees for non-executive directors in order to ensure that the Board could attract and retain quality directors. This review highlighted the fact that there had been no change in the fees for the past three years and as a result the company increased fees for the Chairman to $145,000, fees for non-executive directors to $80,000 per annum and awarded an additional $10,000 to the Chair of the Audit and Risk Committee.

The Board believes the FY2019 remuneration outcomes were fair and appropriate and reflect the alignment between shareholders' interests and the Company's remuneration policies and practices and is expected to remain substantially the same for FY2020.

Section 2: Remuneration strategy and policy

A core belief of the Adairs Board is that the attraction, engagement and retention of skilled and culturally aligned leaders and team members provides a competitive advantage which is fundamental to the long term success of the Company. The maintenance and development of our leaders and fostering a workplace culture that supports this belief are priorities for the Company.

Adairs is committed to creating a focused and high performance culture which encompasses our philosophy to provide simple and competitive market based total remuneration arrangements. The Company's remuneration approach is linked in material part to measures of financial performance that we believe best represent the outcomes relevant to the value creation strategy of the Company.

Remuneration can include a number of different elements such as fixed pay, superannuation, short term incentives, long term incentives and other benefits such as tools of trade, study and relocation assistance and car lease arrangements. The elements of the total remuneration package may vary according to the job role, team members experience and performance. The Remuneration Committee also has regard for the equity ownership position of the KMPs when setting remuneration packages.

In considering the remuneration arrangements of KMP, the Remuneration Committee makes recommendations based on seven important concepts;

1. **Simplicity:** We seek to ensure remuneration arrangements are simple and can be easily understood by both the KMP and other key stakeholders.
2. **Alignment:** We seek to ensure material components of the KMP's remuneration arrangements (including their shareholding as appropriate) contribute to alignment of the interests of the KMP with those of the shareholders.
3. **Sustainability:** We seek to ensure the material aspects of a KMP's remuneration arrangements are sustainable and could withstand tests of precedent and transparency within the organisation and market place.
4. **Competitive:** We seek to ensure our KMP are remunerated such that (when taken as a whole, and having regard to their particular circumstances, including any risks and opportunities) their individual remuneration arrangements are competitive with relevant comparable positions.
5. **Risk aware:** In considering remuneration arrangements, the Company seeks to manage certain key risk exposures, including the risk of loss of an individual, retention of intellectual property and skills, issues associated with replacement of the individuals, risk of poaching, and the presence and quality of our succession planning.
6. **Company first:** The Company develops systems, policies, processes and team depth to manage its reliance on any given individual within its leadership team (which includes the KMP). This extends to remuneration, where we seek to ensure the remuneration architecture and individual arrangements are orderly and considered. Finally, we seek to respond to changes in an individual's circumstance or market conditions in a measured and sustainable manner.
7. **Reward for outcomes and performance:** We back ourselves to identify the outcomes that drive sustainable value creation (or value protection) and seek to reward executives who influence those outcomes most significantly and directly.

Section 3: Role of the Remuneration Committee and external advisers

The primary objective of the Remuneration Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy including remuneration components, performance measurements and accountability frameworks, recruitment, engagement, retention, talent management and succession planning.

The Remuneration Committee also works with the CEO in considering specific situations pertaining to employment terms for individuals, or groups of individuals as needed.

The Remuneration Committee undertakes an annual review of the Company's remuneration strategy and remuneration policy to facilitate understanding of the overall approach to remuneration and to confirm alignment with the Company's business strategy, high standards of governance and compliance with regulatory standards.

The Remuneration Committee reviews and recommends to the Board for approval, remuneration arrangements for the CEO and other Senior Executives. The Remuneration Committee also establishes the policy for the remuneration arrangements for non-executive directors. The Committee reviews KMP arrangements on an annual basis against the remuneration policy, external remuneration practices, market expectations and regulatory standards. The Remuneration Committee also reviews relevant individual's remuneration arrangements in the event that significant circumstances change (e.g. a role or company restructure or change of role). The Committee obtains independent external remuneration advice where appropriate.

The Remuneration Committee exercises caution in interpreting remuneration surveys. While we seek independent data from time to time, we believe benchmarking of salaries requires an intimate knowledge of the details and role and circumstances of the components of reference data set, and this is rarely possible, complex and prone to error. We therefore regard such information as only one component of the balanced consideration of base salaries and other remuneration terms and do not have a stated position regarding a target benchmark. Market information is sourced from internal and external sources.

No remuneration consultants or external advisors provided a remuneration recommendation during the 52 weeks ended 30 June 2019.

DIRECTORS' REPORT

Section 4: Company Performance – relationship between financial performance and remuneration

The Company's Senior Executive remuneration is directly linked to the performance of the Company.

The FY2019 short term incentive (STI) scheme for Senior Executives is based on achieving pre-determined performance criteria and targets. The primary performance condition was the EBIT of the business. The FY2019 long term incentive (LTI) plan offered Senior Executives options over the ordinary shares of Adairs Limited. The share options issued for nil consideration, are subject to the satisfaction of both performance and service conditions, with the performance and service conditions ending on 3 July 2022. Key details of the LTI plan are summarised in Section 5. Shareholder approval for the 2019 LTI scheme for issue to Directors was obtained at the Annual General Meeting on 26 October 2018.

The following table shows the Company's financial performance for FY2015 to FY2019.

Continuing Operations	FY2019[3] Performance	FY2018 Performance	FY2017 Performance	Pro-forma[1] FY2016 Performance	Pro-forma[2] FY2015 Performance
Sales ($'000)	$344,430	$314,769	$264,964	$247,426	$210,878
Like for like sales (%)	7.2%	14.3%	-1.4%	11.7%	21.6%
EBIT ($'000)[1]	$43,446	$45,261	$30,812	$39,231	$33,137
Net profit before tax ($'000)	$42,286	$43,816	$28,921	$37,353	$31,409
Net profit after tax ($'000)	$29,643	$30,561	$21,017	$26,143	21,986
Share price at end of year	$1.42	$2.23	$0.86	$2.49	$2.78[(2)]
Dividends paid per shares	14.5 cents	13.5 cents	8.0 cents	11.5 cents	N/A
Earnings per share	18 cents	18 cents	13 cents	16 cents	15 cents

1. Pro-forma and earnings before interest and tax (EBIT) results are non-IFRS financial measures removing the impact of the 53rd week of trade.
2. Pro-forma and EBIT results are non-IFRS financial measures removing the impact of IPO transactions.
3. Due to adoption of AASB 15 in FY2019 the prior periods are not comparative (refer Note 2(c)(i)(a) of the financial statements).

Section 5: Senior Executive remuneration structure

Senior Executives are remunerated under a total reward structure which currently consists of three elements:

- fixed remuneration comprising base salary package (inclusive of superannuation contributions, car allowances and other benefits);
- short term incentives (STI); and
- long term incentives (LTI).

The mix of remuneration between fixed and variable (i.e. at risk) components for a Senior Executive is determined having regard to the seniority of the role, the responsibilities of the role for driving business performance and responsibilities for developing and implementing business strategy.

The mix of fixed remuneration, STI and LTI elements as a percentage of total target remuneration for FY2019 was as follows:

Figure 1:

	% of total target remuneration for FY2019		
Senior Executive	Fixed remuneration	At risk remuneration STI maximum opportunity	At risk remuneration LTI maximum opportunity[1]
Mark Ronan	52%	27%	21%
Michael Cherubino	57%	26%	17%
Mandy Drake	55%	27%	18%

1. LTI Options are eligible to vest on 3 July 2022, subject to service and performance conditions.

Fixed remuneration

The remuneration for Senior Executives includes a fixed component comprised of base salary and employer superannuation contributions that are in line with statutory obligations.

The remuneration policy provides Senior Executives a base salary package that reflects the base salary for a comparable role in similarly sized companies operating in the retail industry, having regard to the experience and expertise of the Senior Executive, their performance and history with the Company, and other relevant factors. Senior Executives and the Board acknowledge that this requires both quantitative and subjective assessment.

Fixed remuneration is reviewed annually by the Remuneration Committee and recommendations are made to the Board. Any change is usually effective from the commencement of the new financial year. There is no guaranteed salary increase in any Senior Executive's service contract.

STI arrangements for FY2019

Adairs Senior Executives are eligible to participate in an annual STI based on the achievement of annual performance conditions.

The STI scheme aligns Senior Executive reward with the achievement of performance targets that are aligned to delivering and protecting sustainable value to shareholders.

The STI scheme is primarily based upon the Company's EBIT result for the financial year. Each year the Board will determine the EBIT benchmarks with reference to the annual forecast and prior year results. On achievement of the EBIT benchmark, the Senior Executive will be entitled to an initial incentive and will share in any amount achieved in excess of the EBIT benchmark subject to predefined steps or hurdles.

The amount of any STI paid in a year is dependent upon:

Performance conditions:

- The level of performance achieved against the Company's EBIT benchmarks for the year; and
- The assessment of individual value adding performance, measured by achievement of individual KPI's, subject to a minimum level of performance achieved by the Company relative to the EBIT benchmarks for the year.

Continuing service condition:

- There is an additional requirement that on the STI payment date (anticipated to be in September each year), the Senior Executive must be employed by Adairs (and not have given notice or be suspended from employment) otherwise no STI will be paid subject to director's discretion.

Following the end of the financial year, the Remuneration Committee assesses achievement against performance targets, and determines the STI awards to be made to Senior Executives (if any).

Figure 2: Percentage of FY2019 STI paid and forfeited for Senior Executives

The FY2019 STI was assessed following completion of the performance period from 2 July 2018 to 30 June 2019. The following STI was awarded:

Senior Executives	Target STI ($)	Actual STI awarded ($)	Actual STI awarded as % of maximum STI	% of maximum STI award forfeited
Mark Ronan	300,000	nil	0%	100%
Michael Cherubino	200,000	nil	0%	100%
Mandy Drake	200,000	nil	0%	100%

DIRECTORS' REPORT

STI arrangements for FY2020

Set out in Figure 3 (below) is the maximum STI opportunity for each Senior Executive for FY2020. The maximum STI opportunity for Mark Ronan as a percentage of fixed remuneration has been increased to 70% to bring this into line with the market. The maximum STI opportunity as a percentage of fixed term remuneration remains materially unchanged for Michael Cherubino.

The FY2020 STI will be based on similar performance and service conditions as the FY2019 STI (as set out above). The Board has reviewed and reset the EBIT targets for FY2020. Details of the FY2020 STI and any amount awarded to Senior Executives will be disclosed in the FY2020 Remuneration Report.

Figure 3: FY2020 remuneration opportunities

Senior Executive	Fixed remuneration (at 30 June 2020)	Maximum STI opportunity for FY2020[1]	% of fixed remuneration available as base STI
Mark Ronan	$600,000	$420,000	70.0%
Michael Cherubino	$450,000	$200,000	44.4%

1. This is based on the maximum STI opportunity. The actual reward is dependent on the achievement of performance conditions in FY2020. The board also reserves the right to pay participants a discretionary amount where we believe circumstances demand, though this discretion is exercised sparingly.

LTI arrangements for FY2019

The LTI plan has been offered to Senior Executives since FY2017. The plan assists in the motivation, retention and reward of Senior Executives. The Board believe that equity ownership is an important component of aligning the interests of KMP with shareholder and focusing performance on the achievement of long term metrics including sustainable shareholder value creation (and value protection). The Board continues to reassess the plan and its structure to best support and facilitate the long term growth in shareholder value. There has been no material change to the structure of the LTI plan from last year.

On 26 October 2018, Mark Ronan, Michael Cherubino and Mandy Drake received grants of share options as their FY2019 LTI award. Each share option entitles the Senior Executive to acquire an ordinary share in the Company subject to meeting specific performance and service conditions (set out below) and payment of an exercise price (**LTI Options**). The LTI Options were granted at no cost to the Senior Executives as they form part of the Senior Executive's remuneration for FY2019.

The performance period is from 2 July 2018 to 27 June 2021. The LTI Options will vest and become exercisable if the relevant performance and service conditions have been met. The Senior Executive may then exercise any vested LTI Options from 3 July 2022, being 3.7 years from the LTI Options grant date. The FY2019 share options have a six year expiry period (until 26 October 2024). After 26 October 2024, any unexercised LTI Options will lapse. On vesting, an exercise price of $2.40 per share option will be payable by the Senior Executive to receive their share allocation. LTI Options do not carry any voting or dividend entitlements prior to exercise.

Performance conditions

The LTI Options are subject to two performance conditions:

- **EPS performance condition** – 60% of the LTI Options are subject to an earnings per share (EPS) performance condition. This is based on the compound annual growth rate (CAGR) of the Company's EPS over a 3 year period ending 27 June 2021.

The percentage of LTI Options that vest against the EPS performance condition will be determined in accordance with the following vesting schedule:

EPS CAGR for performance period	% of EPS LTI Options vest
Less than or equal to 5%	0%
Between 5% and 15%	pro-rata between 0% and 100%
Equal to, or greater than, 15%	100%

The EPS performance condition was selected because of its expected correlation with long term shareholder return and its lower susceptibility to short term share price volatility which is beyond the control of KMP in many circumstances. This measure also provides a greater 'line of sight' between Senior Executives' actions and outcomes, and the way in which their performance is measured. Consequently, this component was more heavily weighted in order to drive performance and provide an appropriate retention incentive.

For the purpose of testing the achievement of the EPS performance condition, financial results are extracted by reference to the Company's audited financial statements. The use of audited financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company.

Assessment of achievement of the EPS performance condition will be determined by the Board.

- **Sales performance condition** – 40% of the LTI Options are subject to a like-for-like sales growth performance condition. This is based on the compound annual like-for-like sales growth of the Company over a 3 year period ending 27 June 2021.

The percentage of LTI Options that vest against the Sales performance condition will be determined in accordance with the following vesting schedule:

Like for like sales growth for performance period	% of sales growth LTI Options that vest
Less than or equal to 2.5%	0%
Between 2.5% and 7.5%	pro-rata between 0% and 100%
Equal to, or greater than 7.5%	100%

The sales performance condition will be measured by reference to the Company's like-for-like sales growth over FY2019 to FY2021. Like-for-like sales growth measures the sales generated from stores (including online) in a relevant period compared to the total aggregated sales from the same set of stores in the relevant corresponding period. For purposes of the calculation the like-for like sales result will be the compounded annual growth rate achieved over the period.

Like for like sales growth was selected as a performance measure as the Board believe it is a well understood fair measure of the long term health of the company's customer proposition. The Board also regard this measure as one which (when measured over a long period) provides a meaningful indication of management's success in delivering a retail offering which is compelling to our customers, and therefore is a strong indicator of the health of the business.

Service condition

The LTI Options are also subject to a service condition where participants must remain employed on a full time basis by, and must not have given notice of resignation from, the Company at the vesting date (being 3 July 2022).

Treatment on cessation of employment

Where a Senior Executive ceases employment for cause or due to resignation, all unvested LTI Options lapse. In all other circumstances, a pro rata portion (based on the portion of the performance period that has elapsed) of a Senior Executive's unvested LTI Options will remain on foot and subject to the original performance conditions, as if the participant had not ceased employment.

Where a Senior Executive ceases employment with the Company for cause or due to resignation, all vested but unexercised LTI Options will lapse. In all other circumstances, vested but unexercised LTI Options will remain on foot and exercisable for a period of 3 months after which time they will lapse (if not exercised).

However, pursuant to the Plan Rules, the Board retains absolute discretion to determine to vest or lapse some or all LTI Options in all circumstances.

Treatment on change of control

In the event of a likely change in control of the Company, the Board has the discretion to determine that some or all of the LTI Options will vest. If an actual change of control occurs before the Board exercises its discretion, a pro-rata portion of the Options (equal to the portion of the relevant performance period that has elapsed up to the change of control) will vest. The Board retains a discretion to determine whether the remaining unvested LTI Options will vest and become exercisable or lapse.

On a change of control, vested LTI Options will remain exercisable for a period of 3 months after the actual change of control and will lapse after the end of that period (if not exercised).

DIRECTORS' REPORT

Service Agreements

Adairs Holding Australia Pty Ltd (ACN 128 275 838) (a wholly owned subsidiary of the Company) (Adairs Holding) has entered into service agreements with Mark Ronan, Michael Cherubino and Mandy Drake to formalise the remuneration and terms of their employment with Adairs. Each of these agreements provides for the provision of fixed remuneration, performance related cash bonuses and other benefits.

The term of the service agreements with the Senior Executives are ongoing until terminated by either Adairs Holding or the relevant Senior Executive. The service agreements with the Senior Executives may be terminated early by either party with six months' notice. In either event, Adairs Holding may make payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Adairs Holding may terminate the Senior Executive's employment contract immediately without notice.

The Corporations Act restricts the termination benefits that can be provided to KMP on cessation of their employment, unless shareholder approval is obtained. The shareholders of the Company and Adairs Holding approved termination arrangements for Michael Cherubino at a general meeting of the Company on 1 June 2015.

After cessation of employment for any reason, for a period of 6 months, the Senior Executive must not compete with the Company (including direct or indirect involvement as a principal, agent, partner, employee, shareholder, unit holder, director, trustee, beneficiary, manager, contractor, adviser or financier), without first obtaining the consent of the Company in writing, subject to certain carve outs and exemptions.

In addition, in the case of Mark Ronan and Michael Cherubino, where the Senior Executive has resigned from the Company, the Board may elect to extend this restraint period for further period of up to 6 months by notifying the employee and paying the employee a further amount for each month (up to a maximum of 6 months) on a monthly basis.

No contracted retirement benefits are in place with any of the Company's Senior Executives.

Section 6: Non-executive Directors Remuneration Structure

Overview

The Company's remuneration strategy is designed to attract and retain experienced, qualified non-executive directors and to remunerate appropriately to reflect the demands which are made on them and the responsibilities of the position.

The level of fees are reviewed annually by the Remuneration Committee and are based on the fees paid for comparative non-executive director roles in similarly sized publicly listed companies operating in the retail industry.

Non-executive Directors' fees

Non-executive Director fees are determined within an aggregate Non-executive Directors' fee pool approved by shareholders. The current approved fee pool of up to $600,000 per annum was approved by shareholders at a general meeting of the Company on 26 October 2018.

Currently, annual base Non-executive Directors' fees are $145,000 for the Chairman and $80,000 for each other Non-executive Director. All Non-executive Director fees include superannuation with the exception of the fees paid in relation to Trent Peterson. In FY2019, an additional $10,000 per annum was paid to the Chair of the Audit and Risk Committee. No additional fees were paid to directors for their roles on the Nomination or Remuneration Committees. In FY2019, the Director fees for Trent Peterson are paid to Catalyst Investment Managers Pty Ltd.

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs. Directors may be paid additional or special remuneration where a Director performs services outside the ordinary duties of a Non-executive Director. There are no retirement benefit schemes for Non-executive Directors other than statutory superannuation contributions, and Non-executive Directors do not currently receive shares, performance rights or options as part of their remuneration.

Section 7: KMP Disclosures

Material Contracts with the Company

No director or other KMP (including their related parties) has entered into a material contract with the Company or a subsidiary during the reporting period.

Loans with the Company

No director or other KMP (including their related parties) has entered into a loan made, guaranteed or secured, directly or indirectly, by the Company or a subsidiary during the reporting period.

DIRECTORS' REPORT

Section 8: Details of Remuneration

Details of the remuneration of the Directors and KMP of the Company are set out below.

52 weeks ended 30 June 2019	Short term employee benefits			Post-employment benefits		Other long term benefits	Termination benefits	Share-based payments	Total
In AUD	**Cash salary and fees**	**Short Term Incentive Cash bonuses**	**Non-monetary benefits**	**Superannuation**	**Other**			**Long Term Incentive Share options**	
Non-Executive Directors									
Michael Butler	$129,328	–	–	$12,286	–	–	–	–	$141,614
Trent Peterson[1]	$75,833	–	–	–	–	–	–	–	$75,833
Kate Spargo	$74,582	–	–	$7,085	–	–	–	–	$81,667
David Briskin	$21,309	–	–	$2,024	–	–	–	–	$23,333
David MacLean	$57,083	–	–	$18,750	–	–	–	–	$75,833
Keira Grant	$32,127	–	–	$3,052	–	–	–	–	$35,179
Simon West	$32,127	–	–	$3,052	–	–	–	–	$35,179
Total non-executive Directors	**$422,389**	**–**	**–**	**$46,249**	**–**	**–**	**–**	**–**	**$468,638**
Executive Directors									
Mark Ronan	$554,468	–	–	$20,531	–	–	–	$45,141	$620,140
Michael Cherubino	$420,750	–	–	$25,000	–	–	–	$25,918	$471,668
Other Senior Executives									
Mandy Drake	$305,942	–	–	$26,442	–	–	$84,795	($15,842)	$401,337
Total executive	**$1,281,160**	**–**	**–**	**$71,973**	**–**	**–**	**$84,795**	**$55,217**	**$1,493,145**
Total 2019	**$1,703,549**	**–**	**–**	**$118,222**	**–**	**–**	**$84,795**	**$55,217**	**$1,961,783**

1. The Director fees for Trent Peterson are paid to Catalyst Investment Managers Pty Ltd.

52 weeks ended 1 July 2018	Short term employee benefits			Post-employment benefits		Other long term benefits	Termination benefits	Share-based payments	Total
In AUD	**Cash salary and fees**	**Short Term Incentive Cash bonuses**	**Non-monetary benefits**	**Superan-nuation**	**Other**			**Long Term Incentive Share options**	
Non-Executive Directors									
Michael Butler	$125,000	–	–	$11,875	–	–	–	–	$136,875
Trent Peterson[1]	$70,000	–	–	–	–	–	–	–	$70,000
Kate Spargo	$63,927	–	–	$6,073	–	–	–	–	$70,000
David Briskin	$63,927	–	–	$6,073	–	–	–	–	$70,000
David MacLean	$63,927	–	–	$6,073	–	–	–	–	$70,000
Total non-executive Directors	**$386,781**	**–**	**–**	**$30,094**	**–**	**–**	**–**	**–**	**$416,875**
Executive Directors									
Mark Ronan	$479,951	$250,000	–	$20,049	–	–	–	$59,730	$809,730
Michael Cherubino	$408,000	$175,000	–	$25,000	–	–	–	$33,943	$641,943
Other Senior Executives									
Mandy Drake	$315,000	$175,000	–	$25,000	–	–	–	$15,842	$530,842
Total executive	**$1,202,951**	**$600,000**	**–**	**$70,049**	**–**	**–**	**–**	**$109,515**	**$1,982,515**
Total 2018	**$1,589,732**	**$600,000**	**–**	**$100,143**	**–**	**–**	**–**	**$109,515**	**$2,399,390**

1. The Director fees for Trent Peterson are paid to Catalyst Investment Managers Pty Ltd.

DIRECTORS' REPORT

Shareholdings of Key Management Personnel

The following table details the ordinary shareholdings and the movements in the shareholdings of KMP (including their related entities) for FY2019.

No. of Shares	Balance at 2 July 2018	Granted as Remuneration	Received on exercise of options	Other net change[2]	Held at 30 June 2019
Non-executive Directors					
Michael Butler	338,858	–	–	110,866	449,724
Trent Peterson[1]	1,204,646	–	–	235,373	1,440,019
Kate Spargo	41,667	–	–	–	41,667
David Briskin[3]	208,334	–	–	(280,334)	–
David MacLean	2,993,486	–	–	–	2,993,486
Kiera Grant	–				
Simon West	–				
Executive Directors					
Mark Ronan	681,668	–	–	–	681,668
Michael Cherubino	2,208,135	–	–	(150,000)	2,058,135
Other Senior Executives					
Mandy Drake	–	–	–	–	–

1. This excludes the economic interest held by Trent Peterson in ordinary shares held by Catalyst Funds as a result of his role at Catalyst Investment Managers Pty Ltd. Trent Peterson has an economic interest in all Adairs Limited shares held by Catalyst Funds subject to certain conditions including the performance of those funds taken as a whole.
2. Reflects on market ordinary share purchases and sales made by KMP over the course of FY2019. The net change in shareholding by Trent Peterson reflects his indirect interest in the shares sold by Funds managed or advised by Catalyst Investment Managers Pty Ltd in the period.
3. The movement for David Briskin reflects his cessation as a KMP.

Options issued to Key Management Personnel

The following table discloses the details of option schemes awarded to KMP in FY2019 and prior reporting periods.

No. of Share Options	Grant date	Quantity Granted	Fair value per option at Grant Date	Vesting date	Exercise price ($)	Expiry date	Vested in the period %	Vested and exercisable as at 30 June 2019
Non-executive Directors								
Michael Butler	–	–			–		–	–
Trent Peterson	–	–			–		–	–
Kate Spargo	–	–			–		–	–
David Briskin	–	–			–		–	–
David MacLean	–	–			–		–	–
Kiera Grant	–	–			–		–	–
Simon West	–	–			–		–	–
Executive Directors								
Mark Ronan	18 Nov 2016	651,000	$0.27	30 Jun 2020	$2.00	18 Nov 2022	–	–
	2 Nov 2017	900,000	$0.39	30 Jun 2021	$1.75	2 Nov 2023	–	–
	26 Oct 2018	540,000	$0.43	3 Jul 2022	$2.40	26 Oct 2024	–	–
Michael Cherubino	18 Nov 2016	372,000	$0.27	30 Jun 2020	$2.00	18 Nov 2022	–	–
	2 Nov 2017	510,000	$0.39	30 Jun 2021	$1.75	2 Nov 2023	–	–
	26 Oct 2018	315,000	$0.43	3 Jul 2022	$2.40	26 Oct 2024	–	–
Other Senior Executives								
Mandy Drake	2 Nov 2017	360,000	$0.39	30 Jun 2021	$1.75	2 Nov 2023	–	–
	26 Oct 2018	315,000	$0.43	3 Jul 2022	$2.40	26 Oct 2024	–	–

DIRECTORS' REPORT

Option holdings of Key Management Personnel

The following table details the share option holdings and the movements in the share options of KMP (including their personally related entities) for FY2019. This was the third year options were granted to Senior Executives as LTI remuneration.

No. of Share Options	Held at 2 July 2018	Quantity Granted	Exercised	Forfeited	Lapsed[1]	Held at 30 June 2019	Vest %	Vested and exercisable as at 30 June 2019
Non-executive Directors								
Michael Butler	–	–	–	–	–	–	–	–
Trent Peterson	–	–	–	–	–	–	–	–
Kate Spargo	–	–	–	–	–	–	–	–
David Briskin	–	–	–	–	–	–	–	–
David MacLean	–	–	–	–	–	–	–	–
Executive Directors								
Mark Ronan	1,551,000	540,000	–	–	(547,621)	1,543,379	–	–
Michael Cherubino	882,000	315,000	–	–	(312,926)	884,074	–	–
Other Senior Executives								
Mandy Drake	360,000	315,000	–	675,000	–	–	–	–

1. The lapsed options relate to the 2017 LTI tranche granted on 18 November 2016.

For details on the valuation of the options, including models and assumptions used, please refer to Note 24.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Michael Butler
Chairman

Mark Ronan
Chief Executive Officer and Managing Director

Melbourne
26 August 2019

AUDITOR'S INDEPENDENCE DECLARATION

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Auditor's Independence Declaration to the Directors of Adairs Limited

As lead auditor for the audit of the financial report of Adairs Limited for the 52 weeks ended 30 June 2019, I declare to the best of my knowledge and belief, there have been:

a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

b) no contraventions of any applicable code of professional conduct in relation to the audit.

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

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner

26 August 2019

INDEPENDENT AUDITOR'S REPORT

to the members of Adairs Limited

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Building a better working world

Independent Auditor's Report to the Members of Adairs Limited

Report on the Audit of the Financial Report

Opinion

We have audited the financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the consolidated statement of financial position as at 30 June 2019, the consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 52 weeks then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the *Corporations Act 2001*, including:

a) giving a true and fair view of the consolidated financial position of the Group as at 30 June 2019 and of its consolidated financial performance for the 52 weeks ended on that date; and

b) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the 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* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Key Audit Matters

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the financial report of the current year. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, but we do not provide a separate opinion on these matters. For each matter below, our description of how our audit addressed the matter is provided in that context.

We have fulfilled the responsibilities described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the financial report. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying financial report.

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1. Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 30 June 2019, the Group held $42.782 million in inventories representing 20% of total assets. As detailed in Note 2(m) and Note 7 of the financial report, inventories are valued at the lower of cost and net realisable value. There is judgment involved in determining the cost of inventories and in assessing net realisable value. In determining the cost of inventories, the Group considers elements relating to the costs to operate the Group's warehouses, as well as freight, duty, exchange rates and relevant insurance costs. Judgments were involved in the process of allocating these costs to inventories. The Group sells homeware and home furnishing products which are subject to changing consumer demands and fashion trends, increasing the level of judgment involved in estimating the value of inventory which may be sold below cost and determining the net realisable value of this inventory. Such judgments include expectations for future sales and inventory liquidation plans.	Our audit procedures assessed the valuation of inventories and the related financial report disclosures. These procedures included the following: ▶ Assessed the application of inventory costing methodologies, and whether this was consistent with Australian Accounting Standards. ▶ Assessed the effectiveness of relevant controls in relation to the inventory costing process and assessed the accuracy of the Group's inventory valuation model, on a sample basis. ▶ Assessed the basis for inventory provisions recorded by the Group to determine whether inventory was recorded at the lower of cost and net realisable value. In doing so, we examined the ageing profile of inventories, the process for identifying specific slow-moving inventories and historical inventory turnover. ▶ Considered the impact on inventory provisions of retail promotional sales at or subsequent to 30 June 2019 and compared the selling prices with the carrying value of inventories.

EY

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2. Carrying value of intangible assets

Why significant	How our audit addressed the key audit matter
As at 30 June 2019, 53% of total assets was represented by goodwill and indefinite life brand names recognised from historical business combinations. As explained in Note 2(q) and Note 9 of the financial report, the goodwill and brand names are tested by the Group for impairment annually. The recoverable amount of these assets has been determined based on a value-in-use model referencing discounted cash flow forecasts. This model contains estimates and significant judgments regarding future projections and the achievement of those forecasts which are critical to the assessment of impairment, particularly planned growth rates and gross margins. The Group has disclosed in Note 9, the assessment method, including the key underlying assumptions, the results of the assessment as well as the impact of considering the sensitivities associated with reasonably possible changes in those assumptions.	Our audit procedures assessed the carrying value of intangible assets and the related disclosures. We involved our valuation specialists where necessary. Our audit procedures included the following: ► Assessed the application of the Group's valuation methodology. ► Assessed the key inputs and assumptions, including forecasted cash flows, gross margins, discount rates and growth rates adopted in the valuation. We agreed the cashflows to the Board approved 2020 budget. ► Compared the data used in the valuation to the actual and budgeted financial performance of the underlying cash generating unit. ► Performed sensitivity analysis on key inputs, assumptions and budgeted financial performance to determine whether any reasonably possible change could result in impairment. ► Compared earnings multiples derived from the Group's value in use model to those observable from external market data of comparable listed entities. ► Assessed the adequacy of the related disclosures made in the financial report.

EY
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Information Other than the Financial Report and Auditor's Report Thereon

The directors are responsible for the other information. The other information comprises the information included in the Group's 2019 Annual Report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the Directors for the Financial Report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial report, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

INDEPENDENT AUDITOR'S REPORT

to the members of Adairs Limited

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current year and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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Report on the Audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 27 to 40 of the directors' report for the 52 weeks ended 30 June 2019.

In our opinion, the Remuneration Report of Adairs Limited for the 52 weeks ended 30 June 2019, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

The directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with section 300A of the Corporations Act 2001. Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with Australian Auditing Standards.

Ernst + Young

Ernst & Young

Joanne Lonergan
Partner

Melbourne

26 August 2019

DIRECTORS' DECLARATION

In accordance with a resolution of the directors of Adairs Limited, we state that:

1. In the opinion of the directors:
   (a) the financial statements and notes of Adairs Limited for the 52 weeks ended 30 June 2019 are in accordance with the *Corporations Act 2001*, including:
      (i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2019 and of its performance for the 52 weeks ended on that date; and
      (ii) complying with Accounting Standards (including the Australian Accounting Interpretations) and the *Corporations Regulations 2001*;
   (b) the financial statements and notes also comply with International Financial Reporting Standards as disclosed in Note 2; and
   (c) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.
2. This declaration has been made after receiving the declarations required to be made to the directors by the chief executive officer and chief financial officer in accordance with section 295A of the *Corporations Act 2001* for the 52 weeks ended 30 June 2019.

On behalf of the Board

Michael Butler
Non-Executive Director

Mark Ronan
Managing Director and Chief Executive Officer

Melbourne
26 August 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the 52 weeks ending 30 June 2019

	Note	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Revenue from contracts with customers	3(a), 2(c)(i)(a)	344,430	–
Revenue from sale of goods and services		–	314,769
Revenues		**344,430**	**314,769**
Cost of sales	2(c)(i)(a)	(147,306)	(125,119)
Gross profit		**197,124**	**189,650**
Other income	3(a)	347	44
Depreciation and amortisation expenses	3(b)	(7,689)	(6,831)
Finance expenses	3(c)	(1,237)	(1,489)
Salaries and employee benefits expense	3(d)	(78,488)	(71,917)
Asset, property and maintenance expenses		(759)	(617)
Occupancy expenses		(42,742)	(39,880)
Advertising expenses		(8,472)	(7,606)
Other expenses from ordinary activities	3(e), 2(c)(i)(a)	(15,798)	(17,538)
Profit before income tax		**42,286**	**43,816**
Income tax expense	4, 2(c)(i)(a)	(12,643)	(13,255)
Profit for the period		**29,643**	**30,561**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	21	17.9 cents	18.4 cents
Diluted earnings per share	21	17.9 cents	18.3 cents

This Consolidated Statement of Profit or Loss should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 52 weeks ended 30 June 2019

	Note	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Profit for the period		**29,643**	**30,561**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net movement of cash flow hedges		(771)	2,455
Income tax relating to the components of other comprehensive income	4	232	(736)
Exchange differences on translation of foreign operations		(36)	16
Other comprehensive income for the period, net of tax		(575)	1,735
Total comprehensive income for the period		**29,068**	**32,296**

This Consolidated Statement of Other Comprehensive Income should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 30 June 2019

	Note	As at 30 June 2019 $'000	As at 1 July 2018 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	16,708	12,718
Trade and other receivables	6	1,894	780
Inventories	7, 2(c)(i)(a)	42,782	33,568
Other assets	6, 2(c)(i)(a)	6,311	5,602
Derivative financial instruments	16	1,013	1,783
TOTAL CURRENT ASSETS		**68,708**	**54,451**
NON-CURRENT ASSETS			
Property, plant and equipment	8	20,868	20,890
Intangibles	9	113,525	114,233
Deferred tax assets	4, 2(c)(i)(a)	7,173	5,419
TOTAL NON-CURRENT ASSETS		**141,566**	**140,542**
TOTAL ASSETS		**210,274**	**194,993**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	29,658	23,856
Other liabilities	11, 2(c)(i)(a)	7,868	3,253
Interest bearing liabilities	12	(50)	(44)
Current tax liabilities		2,672	2,352
Provisions	13	6,419	4,723
TOTAL CURRENT LIABILITIES		**46,567**	**34,140**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4, 2(c)(i)(a)	12,894	12,996
Other liabilities	11, 2(c)(i)(a)	1,032	–
Interest bearing liabilities	12	24,999	24,999
Provisions	13	6,465	6,678
TOTAL NON-CURRENT LIABILITIES		**45,390**	**44,673**
TOTAL LIABILITIES		**91,957**	**78,813**
NET ASSETS		**118,317**	**116,180**
EQUITY			
Contributed equity		68,349	68,349
Share based payment reserve	14(b)	329	217
Foreign currency translation reserve	14(c)	(27)	9
Cash flow hedge reserve	14(d)	709	1,248
Retained earnings	14(e), 2(c)(i)(a)	48,957	46,357
TOTAL EQUITY		**118,317**	**116,180**

This Consolidated Statement of Financial Position should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 52 weeks ended 30 June 2019

	Note	Ordinary shares $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total $'000
At 1 July 2018		**68,349**	**217**	**9**	**1,248**	**46,357**	**116,180**
Impact of adoption of new accounting standards(i)		–	–	–	–	(2,991)	(2,991)
At 1 July 2018		**68,349**	**217**	**9**	**1,248**	**43,366**	**113,189**
Profit for the period		–	–	–	–	29,643	29,643
Other comprehensive income for the period		–	–	(36)	(539)	–	(575)
Total comprehensive income for the period		**–**	**–**	**(36)**	**(539)**	**29,643**	**29,068**
Transactions with owners in their capacity as owners:							
Dividend payment	23	–	–	–	–	(24,052)	(24,052)
Share-based payments	24	–	112	–	–	–	112
At 30 June 2019		**68,349**	**329**	**(27)**	**709**	**48,957**	**118,317**

(i) The Group has adopted AASB 15 Revenue from Contracts with Customers on a modified retrospective basis. This resulted in a decrease of $2,991,000 to retained earnings as at 2 July 2018, being the cumulative effect on initial application of the standard. The comparative results for the 52 weeks ended 1 July 2018 are not restated as required by the standard. Refer to Note 2(c)(i)(a).

	Note	Ordinary shares $'000	Share based payment reserve $'000	Foreign currency translation reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total $'000
At 2 July 2017		**68,349**	**58**	**(7)**	**(471)**	**32,383**	**100,312**
Profit for the period		–	–	–	–	30,561	30,561
Other comprehensive income for the period		–	–	16	1,719	–	1,735
Total comprehensive income for the period		**–**	**–**	**16**	**1,719**	**30,561**	**32,296**
Transactions with owners in their capacity as owners:							
Dividend payment	23	–	–	–	–	(16,587)	(16,587)
Share-based payments	24	–	159	–	–	–	159
At 1 July 2018		**68,349**	**217**	**9**	**1,248**	**46,357**	**116,180**

This Consolidated Statement of Changes in Equity should be read in conjunction with the notes to the financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

for the 52 weeks ended 30 June 2019

	Note	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		379,236	347,195
Payments to suppliers and employees (inclusive of GST)		(330,437)	(295,312)
Interest received		77	44
Income tax paid		(12,666)	(11,449)
Interest paid		(1,193)	(1,387)
Net cash flows from operating activities	5	35,017	39,091
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant, equipment and intangibles		(6,959)	(7,095)
Net cash flows used in investing activities		(6,959)	(7,095)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawings of borrowings		19,000	–
Repayment of borrowings		(19,000)	(17,000)
Payment of borrowing costs		(50)	–
Dividends paid	23	(24,052)	(16,587)
Net cash flows used in financing activities		(24,102)	(33,587)
Net increase in cash and cash equivalents		3,956	(1,591)
Net foreign exchange differences		34	(4)
Cash and cash equivalents at beginning of the period		12,718	14,313
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**5**	**16,708**	**12,718**

This Consolidated Statement of Cash Flows should be read in conjunction with the notes to the financial statements.

NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 30 June 2019

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ending 30 June 2019 were authorised for issue in accordance with a resolution of the directors on 26 August 2019.

Adairs operates on a retail accounting calendar which consists of four 13 weeks quarters based on weekly financial and operating performance, equating to an annual 52 week reporting period with a 53 week reporting period every five to six years. In FY2019, there was a 52 week reporting period (the comparative 2018 period was also a 52 week reporting period).

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 in the manchester and homewares market segments within Australia and New Zealand. The Group's principal place of business is International Court, Scoresby, Victoria, Australia. Further information on the nature of the operations and principal activities of the Group is provided in the Directors' Report. The Group's structure consists of two operational entities and information on other related party relationships is provided in Note 22.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of Preparation

The financial report is a general purpose financial report, which has been prepared in accordance with the requirements of the *Corporations Act 2001*, Australian Accounting Standards and other authoritative pronouncements of the Australian Accounting Standards Board. The financial report has also been prepared on a historical cost basis, except for derivative financial instruments which have been measured at fair value.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

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

The consolidated financial statements provide comparative information in respect of the previous period where there is a retrospective application of an accounting policy, a retrospective restatement, or a reclassification of items in financial statements. With respect to the adoption of AASB 15 Revenue from Contracts with Customers, the comparative results for the 52 weeks ended 1 July 2018 are not restated as required by the standard (refer to Note 2(c)(i)(a)).

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.

(b) Compliance with International Financial Reporting Standards (IFRS)

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

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

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

(i) New and amended standards and interpretations

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

The Group adopted AASB 15 *Revenue from Contracts with Customers* from 2 July 2018. The Group has applied the modified retrospective method of adoption, recognising the cumulative effect of initially applying the standard as an adjustment to the opening balance of retained earnings at 2 July 2018.

The tables presented below illustrate the adjustments recognised for each individual line item of the financial statements. Line items that were not affected by the changes have not been included. The adjustments are explained in more detail in the following pages.

Impact on the Consolidated Statement of Financial Position (increase/(decrease)) for the 52 weeks ended 30 June 2019:

Impact on the Consolidated Statement of Financial Position (increase/(decrease)) had AASB 118 been applied for the 52 weeks ended 30 June 2019:

	As at 30 Jun 2019 (under AASB 15) $'000	Adjustment for AASB 118 $'000	As at 30 Jun 2019 (under AASB 118) $'000	As at opening 2 July 2018 (under AASB 118) $'000
ASSETS				
CURRENT ASSETS				
Inventories	42,782	(215)	42,567	33,568
Other assets	6,311	(85)	6,226	5,602
TOTAL CURRENT ASSETS	**68,708**	**(300)**	**68,408**	**54,451**
NON-CURRENT ASSETS				
Deferred tax assets	7,173	(1,490)	5,683	5,419
TOTAL NON-CURRENT ASSETS	**141,566**	**(1,490)**	**140,076**	**140,542**
TOTAL ASSETS	**210,274**	**(1,790)**	**208,484**	**194,993**
LIABILITIES				
CURRENT LIABILITIES				
Other liabilities	7,868	(3,935)	3,933	3,253
TOTAL CURRENT LIABILITIES	**46,567**	**(3,935)**	**42,632**	**34,140**
NON-CURRENT LIABILITIES				
Other liabilities	1,032	(1,032)	–	–
Deferred tax liabilities	12,894	(89)	12,805	12,996
TOTAL NON-CURRENT LIABILITIES	**45,390**	**(1,121)**	**44,269**	**44,673**
TOTAL LIABILITIES	**91,957**	**(5,056)**	**86,701**	**78,813**
NET ASSETS	**118,317**	**3,264**	**121,581**	**116,180**
EQUITY				
Retained earnings	48,957	3,264	52,221	46,357
TOTAL EQUITY	**118,317**	**3,264**	**121,581**	**116,180**

Impact on the Consolidated Statement of Profit or Loss (increase/(decrease)) for the 52 weeks ended 30 June 2019:

Impact on the Consolidated Statement of Profit or Loss (increase/(decrease)) had AASB 118 been applied for the 52 weeks ended 30 June 2019:

	52 weeks ended 30 June 2019 (under AASB 15) $'000	Adjustment for AASB 118 $'000	52 weeks ended 30 June 2019 (under AASB 118) $'000	52 weeks ended 1 July 2018 (under AASB 118) $'000
Revenues	344,430	369	344,799	314,769
Cost of sales	(147,306)	(6,751)	(140,555)	(125,119)
Other expenses from ordinary activities	(15,798)	6,730	(22,528)	(17,538)
Profit before income tax	**42,286**	**390**	**42,676**	**43,816**
Income tax expense	(12,643)	117	(12,526)	(13,255)
Profit for the period	**29,643**	**273**	**29,916**	**30,561**

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

There is no material impact on the Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Cash Flows or basic and diluted earnings per share.

Sale of goods

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

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

Linen Lover membership program revenue

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

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

(1) Welcome Voucher – satisfied at a point in time upon purchase of membership; and

(2) Ongoing membership benefits – satisfied over time on a straight-line basis across the two-year membership period as the customer has the right to utilise the benefits of membership.

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

The Statement of Financial Position as at 1 July 2018 is not restated under the modified retrospective method. However, a cumulative adjustment was made to decrease opening retained earnings as at 2 July 2018 by $3,819,000, resulting in an increase in current and non-current portions of *other liabilities* of $2,839,000 and $980,000 respectively. The impact to the Statement of Profit or Loss for the 52 weeks ended 30 June 2019 was a decrease in *revenues* of $424,000.

Lay-by sales

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

No changes to revenue recognition were identified under AASB 15.

Rights of return

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

The Statement of Financial Position as at 1 July 2018 is not restated under the modified retrospective method. However, a cumulative adjustment was made to decrease opening retained earnings as at 2 July 2018 by $100,000, resulting in an increase in *other assets* of $67,000 and an increase in *other liabilities* of $167,000. The impact to the Statement of Profit or Loss for the 52 weeks ended 30 June 2019 was a decrease in *revenues* of $37,000 and a decrease in *cost of sales* of $18,000.

Gift card breakage revenue

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

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

The Statement of Financial Position as at 1 July 2018 is not restated under the modified retrospective method. However, a cumulative adjustment was made to decrease opening retained earnings as at 2 July 2018 by $22,000, resulting in an increase in *other liabilities* of $22,000. The impact to the Statement of Profit or Loss for the 52 weeks ended 30 June 2019 was a decrease in *revenues* of $3,000.

Online sales

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

Furthermore, postage costs incurred to deliver online sales to the customer are classified as a *cost of sales* in the Statement of Profit or Loss under AASB 15, being a cost incurred to fulfil the Group's performance obligation. Under AASB 118, postage costs were treated as selling costs and disclosed within *other expenses* in the Statement of Profit or Loss.

The Statement of Financial Position as at 1 July 2018 is not restated under the modified retrospective method. However, a cumulative adjustment was made to decrease opening retained earnings as at 2 July 2018 by $332,000, resulting in an increase in *other liabilities* of $587,000 and an increase in *inventories* of $255,000. The impact to the Statement of Profit or Loss for the 52 weeks ended 30 June 2019 was an increase in *revenues* of $97,000 and an increase in *cost of sales* of $39,000, as well as a reclassification of postage costs resulting in an increase in *cost of sales* of $6,730,000 and a decrease in *other expenses* of $6,730,000.

Income taxation

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

The Statement of Financial Position as at 1 July 2018 is not restated under the modified retrospective method. However, a cumulative adjustment was made to decrease opening retained earnings as at 2 July 2018 by $1,282,000, resulting in an increase in *deferred tax assets* and *deferred tax liabilities* of $1,378,000 and $96,000 respectively. The impact to the Statement of Profit or Loss for the 52 weeks ended 30 June 2019 was a decrease in *income tax expense* of $117,000.

(b) AASB 9 *Financial Instruments*

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

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

Classification and measurement of financial assets and financial liabilities

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

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

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

Impairment of financial assets

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

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

Based on the assessment undertaken by the Group, there has been no material impact to the Statement of Financial Position as at 30 June 2019 and Statement of Profit or Loss for the 52 weeks ended 30 June 2019.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Hedge accounting

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

Based on the assessment undertaken by the Group, there has been no material impact to the Statement of Financial Position as at 30 June 2019 and Statement of Profit or Loss for the 52 weeks ended 30 June 2019.

(ii) Accounting standards and interpretations issued but not yet effective

(a) AASB 16 *Leases* – Effective date: 1 January 2019 (Application date: 1 July 2019)

AASB 16 replaces existing lease requirements in Australian Accounting Standards (AASB 117 *Leases*, Interpretation 4 *Determining whether an Arrangement contains a Lease*, Interpretation 115 *Operating Leases – Incentives*, Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*).

AASB 16 requires lessees to account for all leases under a single on-balance sheet model in a similar way to finance leases under AASB 117. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset).

Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will be required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

The Group will apply AASB 16 with effect from 1 July 2019 using the modified retrospective approach. Under this approach, the Group will recognise a lease asset calculated as if AASB 16 had always applied and the lease liability will represent the outstanding liability under the lease arrangement using the incremental borrowing rate at date of transition. The difference between the asset and liability, adjusted for deferred tax, is recognised as an adjustment to opening retained earnings on 1 July 2019 with no restatement of comparative information.

The application of the modified retrospective approach allows the group to elect on a lease by lease basis whether to apply a number of practical expedients on transition. The Group is assessing the potential impact of using these practical expedients.

The Group has assessed the estimated impact that AASB 16 would have had on its Consolidated Financial Statements as at 30 June 2019 and provide the following estimates:

Estimated impact on Consolidated Financial Statement of Financial Position as at 30 June 2019	$'000
Recognition of lease assets	88,000 – 98,000
Recognition of lease liabilities	98,000 – 108,000

The adoption of AASB 16 is also expected to result in an increase in assets and liabilities, change in the timing in which lease expenses are recognised, a classification shift in earnings categories from operating expenses to depreciation and interest expenses, and an increase in gearing levels and change in operating and financing cash flows.

The net effect of the new lease liabilities and right of use assets, adjusted for deferred tax and the reversal of the existing straight-line lease and incentive liabilities will be recognised in retained earnings upon transition to AASB 16. As at 30 June 2019, the Group's operating lease commitments are detailed in Note 15 and other lease related liabilities (calculated under AASB 117) are detailed in Note 13.

The actual impact of applying AASB 16 on the financial statements in the period of initial application will depend on the composition of the Group's lease portfolio (including resolution of any leases in holdover), the extent to which the Group chooses to use practical expedients and recognition exemptions, the Group's borrowing rate and the application of new accounting policies which are subject to change until the Group presents its financial statements that include the date of initial application.

(b) AASB Interpretation 23 *Uncertainty over Income Tax Treatments* – Effective date: 1 January 2019 (Application date: 1 July 2019)

The Interpretation clarifies the application of the recognition and measurement criteria in AASB 112 *Income Taxes* when there is uncertainty over income tax treatments. The Interpretation specifically addresses the following:

- Whether an entity considers uncertain tax treatments separately.
- The assumptions an entity makes about the examination of tax treatments by taxation authorities.
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates.
- How an entity considers changes in facts and circumstances.

The Group is currently assessing the impact of the application of the new interpretation.

(c) Conceptual Framework AASB 2019-1 *Conceptual Framework for Financial Reporting Amendments to Australian Accounting Standards – Reference to the Conceptual Framework* – Effective date: 1 January 2020 (Application date: 1 July 2020)

The revised Conceptual Framework includes some new concepts, provides updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. It is arranged in eight chapters, as follows.

- Chapter 1 — The objective of financial reporting
- Chapter 2 — Qualitative characteristics of useful financial information
- Chapter 3 — Financial statements and the reporting entity
- Chapter 4 — The elements of financial statements
- Chapter 5 — Recognition and derecognition
- Chapter 6 — Measurement
- Chapter 7 — Presentation and disclosure
- Chapter 8 — Concepts of capital and capital maintenance

AASB 2019-1 sets out the amendments to Australian Accounting Standards, Interpretations and other pronouncements in order to update references to the revised Conceptual Framework. The changes to the Conceptual Framework may affect the application of accounting standards in situations where no standard applies to a particular transaction or event. In addition, relief has been provided in applying AASB 3 and developing accounting policies for regulatory account balances using AASB 108, such that entities must continue to apply the definitions of an asset and a liability (and supporting concepts) in the Framework for the Preparation and Presentation of Financial Statements (July 2004), and not the definitions in the revised Conceptual Framework.

The Group is currently assessing the impact of the application of the new Conceptual Framework.

(d) Segment reporting

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

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

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

The Group's store formats exhibit similar long-term financial performance and economic characteristics, which include:

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

On this basis the Group deems there to be one operating segment.

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

The company operated in one geographical segment for the 52 weeks ended 30 June 2019 being Australia and New Zealand.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Current versus non-current classification

The Group presents assets and liabilities in the Statement of Financial Position based on current and non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Group's normal operating cycle;
- Held primarily for the purpose of trading;
- Expected to be realised within twelve months after the reporting period; or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least twelve months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

- It is expected to be settled in the Group's normal operating cycle;
- It is held primarily for the purpose of trading;
- It is due to be settled within twelve months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

Deferred tax assets and liabilities are classified as non-current assets and liabilities.

(f) Trade and other receivables

Other receivables from lessors and supplies comprise the majority of the trade and other receivables balance. Trade and other receivables are initially recognised at fair value and subsequently measured at amortised cost less an allowance for any expected credit losses.

(g) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 30 June 2019. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e. existing rights that give it the current ability to direct the relevant activities of the investee)
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

All intercompany balances and transactions, including unrealised profits arising from intra-group transactions have been eliminated in full. Unrealised losses are eliminated unless costs cannot be recovered.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

Investments in subsidiaries held by the Group are accounted for at cost in the separate financial statements of the parent entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. The acquisition method of accounting involves allocating the cost of the business combination to the fair value of the assets acquired and the liabilities and contingent liabilities assumed at the date of acquisition (see Note (h) below).

(h) Goodwill

Goodwill on acquisition is initially measured at cost, being the excess of the consideration for the business combination over the Group's interest in the net fair value of the acquiree's identifiable assets, liabilities and contingent liabilities.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances dictate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management; and
- is not larger than a segment based on the Group's primary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

(i) Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when taxable temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference associated with investments in subsidiaries, associates and interests in joint ventures, in which case deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

Tax consolidation legislation

Adairs Limited and its wholly-owned Australian controlled entities implemented the tax consolidation legislation as of 1 November 2010.

The head entity, Adairs Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The Tax Consolidated Group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

In addition to its own current and deferred tax amounts, the legal entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated group are recognised as amounts receivable from or payable to other entities in the tax consolidated group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

(j) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item; or
- receivables and payables, which are stated with the amount of GST included.

The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables in the Statement of Financial Position. Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

Cash flows are included in the Statement of Cash Flows on a gross basis and the GST component of cash flows arising from investing and financing activities, which is recoverable from, or payable to, the taxation authority, are classified as operating cash flows.

(k) Foreign currencies

The Group's consolidated financial statements are presented in Australian dollars, which is also the Parent 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. The Group uses the direct method of consolidation and on disposal of a foreign operation, the gain or loss that is reclassified to profit or loss reflects the amount that arises from using this method.

(i) Transactions and balances

Transactions in foreign currencies are initially recorded by the Group's entities at their respective functional currency spot rates at the date the transaction first qualifies for recognition.

Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency spot rates of exchange at the reporting date.

Differences arising on settlement or translation of monetary items are recognised in profit or loss.

(ii) Group companies

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 OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on the acquisition are treated as assets and liabilities of the foreign operation and translated at the spot rate of exchange at the reporting date.

(l) Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the profit and loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss on a straight-line basis over the lease term.

Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Lease incentives are capitalised when received and credited to revenue over the term of the store lease to which they relate.

Operating lease expenses are recognised on a straight-line basis over the lease term, which includes the impact of annual fixed rate percentage increases.

(m) Inventories

Inventories are valued at the lower of cost and net realisable value.

- Finished goods — purchase cost plus a proportion of the freight, handling and warehouse costs incurred to deliver the goods to the point of sale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated direct costs necessary to make the sale.

Inventories held by the Group are finished goods.

(n) Cash dividend and non-cash distribution to equity holders of the Parent

The Parent recognises a liability to pay cash or make non-cash distributions to equity holders of the parent when the distribution is authorised and the distribution is no longer at the discretion of the Parent. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the Statement of Profit or Loss.

(o) Property, plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on a straight-line basis over the estimated useful life of the asset as follows:

Class	Method	Period
Computer hardware	Straight Line	2-3 years
Plant and other equipment	Straight Line	5 years
Leaseholder improvements	Straight Line	Over initial lease term
Shop fixtures and fitting	Straight Line	Over initial lease term

The assets' residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

(i) Derecognition and disposal

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from its use or disposal.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the Statement of Profit or Loss in the year the asset is derecognised.

(p) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss as the expense category that is consistent with the function of the intangible assets.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets with indefinite useful lives are not amortised, but are tested for impairment annually, either individually or at the cash-generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis.

Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Profit or Loss when the asset is derecognised.

(i) Computer software

The Group record direct costs associated with the development of computer software for external direct costs of materials and services consumed. Computer software has been determined to have a finite life, and is amortised on a straight line basis over its useful life.

(ii) Brand names

Brand Names have been determined to have an indefinite life, are not amortised, are acquired and are subject to impairment testing annually or where an indicator of impairment exists. The indefinite-useful life reflects management's intention to continue to operate these brands to generate net cash inflows into the foreseeable future.

At each reporting date or where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amounts.

The recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs of disposal and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

(q) Impairment

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the Statement of Profit or Loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually at reporting date and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each CGU (or group of CGUs) to which the goodwill relates. When the recoverable amount of the CGU is less than its carrying amount, an impairment loss is recognised in the Statement of Profit or Loss. Impairment losses relating to goodwill cannot be reversed in future periods.

Intangible assets with indefinite useful lives are tested for impairment annually at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

(r) Borrowing costs

Borrowing costs are recognised as an expense when incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

(s) Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

(t) Employee benefits

(i) Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

(ii) Long service leave

The liability for long service leave is recognised and measured in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds (Australian employees) and government bond rate (New Zealand employees) with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

(u) Interest bearing loans and borrowings

All loans and borrowings are initially recognised at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortised cost using the effective interest method. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

Gains and losses are recognised in profit or loss when the liabilities are derecognised.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

(v) Trade and other payables

Trade and other payables are carried at amortised cost and represent liabilities for goods and services provided to the Group prior to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. The amounts are unsecured and are usually paid within 30-120 days of recognition.

(w) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

(x) Contributed equity

Ordinary shares are classified as equity. Incremental costs directly attributable to the issue of new shares are shown in equity as a deduction net of tax from the proceeds.

(y) Derivative financial instruments

The Group uses derivative financial instruments such as forward currency contracts to hedge its risks associated with foreign currency fluctuations. Such derivative financial instruments are initially recognised at fair value on the date on which a derivative contract is entered into and are subsequently re-measured to fair value. Derivatives are carried as assets when their fair value is positive and as liabilities when their fair value is negative.

Any gain or losses arising from the changes in the fair value of derivatives, except for those that qualify as cash flow hedges, are taken directly to net profit or loss for the year. The fair value of forward currency contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles.

For the purposes of hedge accounting, hedges are classified as:

- fair value hedges when they hedge the exposure to changes in the fair value of a recognised asset or liability;
- cash flow hedges when they hedge exposure to variability in cash flows that is attributable either to a particular risk associated with a recognised asset or liability or to a forecast transaction; or
- hedges of a net investment in a foreign operation.

A hedge of the foreign currency risk of a firm commitment or highly probable forecast transaction is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

(i) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the Statement of Profit or Loss when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Statement of Profit or Loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the Statement of Profit or Loss.

(z) Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised in the following notes:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- 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 in the financial statements 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.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

(aa) 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 in Note 24.

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.

(bb) Significant accounting judgments, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions. Significant judgments, estimates and assumptions made by management in the preparation of these financial statements:

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) Significant accounting judgments

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular assets that may lead to impairment. These include product, manufacturing and retail performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the assets is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

(ii) Significant accounting estimates and assumptions

Impairment of goodwill and intangibles with indefinite useful lives

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in Note 9.

Share-based payments

Estimating fair value for share-based payment transactions requires determination of the most appropriate valuation model, which depends on the terms and conditions of the grant. This estimate also requires determination of the most appropriate inputs to the valuation model including the expected life of the share option or appreciation right, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 24.

Long service leave provision

As discussed in Note 2(t), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Make good provisions

Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling and removal of shop fittings and cleaning. These future cost estimates are discounted to their present value. The calculation of this provision requires assumptions such as store closure dates and removal cost estimates.

Estimation of useful lives of assets

The estimation of the useful lives of assets has been based on historical experience as well as manufacturers' warranties (for plant and equipment) and lease terms (for shop fittings). In addition, the condition of the assets is assessed at least annually and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in Note 8.

Net realisable value of inventories

Inventories are valued at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business. Management has assessed the value of inventory that is likely to be sold below cost using past experience and judgement on the likely sell through rates of various items of inventory, and recorded a provision for this amount.

Revenue from contracts with customers

The recognition of revenue from contract with customers is subject to significant estimates in the following areas:

- Linen Lover membership program – identification of two performance obligations (Welcome Voucher and other ongoing membership benefits) and estimation of the standalone selling price for each performance obligation based on the estimated value attributed to each performance obligation.
- Right of returns provision – estimate of the quantity and value of goods that will be returned based on the expected value method, being the best method to predict the amount of variable consideration entitled to by the Group.

Refer to Note 2(c)(i)(a) for further details in relation to the accounting policy for revenue from contracts with customers.

NOTE 3. REVENUES AND EXPENSES

	52 weeks ended 30 June 2019 $'000
(a) Revenue from contracts with customers	
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	285,413
Sale of goods and services – online	59,017
Total revenue from contracts with customers	**344,430**

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Other Income		
Interest income	77	44
Net currency gains/(losses)	179	(150)
Other	91	150
	347	**44**
(b) Depreciation and amortisation expenses included in the Statement of Profit or Loss		
Depreciation of property, plant and equipment	6,394	5,719
Amortisation of computer software	1,295	1,112
	7,689	**6,831**
(c) Finance costs		
Interest paid/payable and other finance costs	1,237	1,489
	1,237	**1,489**
(d) Salary and employee benefits expense		
Wages and salaries	73,013	66,741
Defined contribution superannuation expense	5,363	5,017
Share-based payment expense	112	159
	78,488	**71,917**
(e) Other expenses		
Bank fees	3,420	2,907
Professional fees	643	1,150
Storage costs	2,617	1,317
Postage and stationery	2,062	5,643
Other	7,056	6,521
	15,798	**17,538**

NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 30 June 2019

NOTE 4. INCOME TAX

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
The major components of income tax expense are:		
Statement of Profit or Loss		
Current income tax		
Current income tax charge	12,969	12,914
Adjustments in respect of current income tax of previous years	1	34
Deferred income tax		
Relating to origination and reversal of temporary differences	(326)	382
Adjustments in respect of deferred income tax of previous years	(1)	(75)
Income tax expense reported in the Statement of Profit or Loss	**12,643**	**13,255**
Statement of Other Comprehensive Income		
Deferred income tax		
Relating to origination and reversal of temporary differences	(232)	736
Income tax expense/(benefit) reported in the Statement of Other Comprehensive Income	**(232)**	**736**
A reconciliation of income tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows:		
Accounting profit before income tax	42,286	43,816
At the statutory income tax rate of 30% (2018: 30%)	12,588	13,226
Adjustments in respect of current income tax of previous years	1	34
Adjustments in respect of deferred income tax of previous years	(1)	(75)
Non-deductible expenses	45	60
Effect of foreign tax rates	10	10
Income tax expense reported in the Statement of Profit or Loss	**12,643**	**13,255**

	Statement of Financial Position		Statement of Profit or Loss and Other Comprehensive Income	
	As at 30 June 2019 $'000	As at 1 July 2018 $'000	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Deferred income tax				
Deferred income tax relates to the following:				
Deferred tax assets				
Inventory	169	176		
Property, plant and equipment	15	36		
Other liabilities	1,891	–		
Provisions	4,838	3,911		
Unrealised foreign exchange	–	43		
Transaction costs	2	1,063		
Losses available for offsetting against future taxable income	258	190		
Total deferred tax assets	**7,173**	**5,419**		
Deferred tax liabilities				
Trade and other receivables	(2)	–		
Other assets	(91)	–		
Property, plant and equipment	(49)	(55)		
Brand name	(12,395)	(12,395)		
Unrealised foreign exchange	(46)	–		
Financial instruments	(303)	(535)		
Other payables	(8)	(11)		
Total deferred tax liabilities	**(12,894)**	**(12,996)**		
Amounts (charged) or credited directly to profit and loss			326	(307)
Amounts (charged) or credited directly to other comprehensive income			232	(736)
Deferred tax expense			**558**	**(1,043)**

NOTE 5. CASH AND CASH EQUIVALENTS

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Cash at bank	16,594	12,608
Cash on hand	114	110
Total cash and cash equivalents	**16,708**	**12,718**
Reconciliation of the Statement of Cash Flows		
For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at period end:		
Cash at bank	16,594	12,608
Cash on hand	114	110
Total cash and cash equivalents	**16,708**	**12,718**

STATEMENT OF CASH FLOWS RECONCILIATION

(a) Reconciliation of net profit after tax to net cash flows from operating activities

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Net profit/(loss) after tax	29,643	30,561
Adjustments and non-cash items		
Depreciation and amortisation expenses	7,689	6,831
Capitalised borrowing costs charged as finance expenses	44	44
Share-based payments expense	112	159
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	(1,114)	(1,895)
(Increase)/Decrease in other assets	(643)	–
(Increase)/Decrease in inventories	(8,960)	(576)
Increase/(Decrease) in payables	5,717	740
Increase/(Decrease) in other liabilities	1,052	–
(Increase)/Decrease in deferred tax assets	(326)	307
Increase/(Decrease) in provisions	1,483	1,416
Increase/(Decrease) in current tax liabilities	320	1,504
Net cash flow from operating activities	**35,017**	**39,091**

(b) Reconciliation of liabilities arising from financing activities

52 weeks ended 30 June 2019	As at 2 July 2018 $'000	Cash Flows $'000	Non-Cash Changes Borrowing Costs Amortised $'000	As at 30 June 2019 $'000
Interest bearing liabilities (Note 12)	24,955	(50)	44	24,949
Total liabilities from financing activities	**24,955**	**(50)**	**44**	**24,949**

52 weeks ended 1 July 2018	As at 3 July 2017 $'000	Cash Flows $'000	Non-Cash Changes Borrowing Costs Amortised $'000	As at 1 July 2018 $'000
Interest bearing liabilities (Note 12)	41,911	(17,000)	44	24,955
Total liabilities from financing activities	**41,911**	**(17,000)**	**44**	**24,955**

NOTE 6. TRADE AND OTHER RECEIVABLES AND OTHER ASSETS

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Trade and other receivables		
Other receivables	1,894	780
Trade and other receivables	**1,894**	**780**
Other assets		
Prepaid expenses	4,667	4,490
Deposits	1,559	1,112
Other assets	85	–
Other assets	**6,311**	**5,602**
Current	8,205	6,382
Non-current	–	–
Total trade receivables and other assets	**8,205**	**6,382**

Other receivables are non-interest bearing and no material provision for impairment (based on expected credit losses) has been recorded as at 30 June 2019 (2018: nil) as the amount is considered to be not material.

NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 30 June 2019

NOTE 7. INVENTORIES

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Finished goods at net realisable value	42,782	33,568
Total inventories at lower of cost and net realisable value	**42,782**	**33,568**

During the 52 weeks ended 30 June 2019, $89,000 was debited against inventories carried at net realisable value (2018: $261,000 debited). This is recognised in cost of sales.

NOTE 8. PROPERTY, PLANT AND EQUIPMENT

	Shop Fixtures and Fittings $'000	Leasehold Improvements $'000	Computer Hardware $'000	Plant and Other Equipment $'000	Total $'000
Cost					
As at 2 July 2017	47,363	598	3,352	4,690	56,003
Additions	5,329	2	556	601	6,488
Disposals	–	–	–	–	–
Exchange differences	(70)	–	–	(1)	(71)
As at 1 July 2018	**52,622**	**600**	**3,908**	**5,290**	**62,420**
Additions	5,031	68	417	765	6,281
Disposals	(4,972)	–	(7)	(14)	(4,993)
Exchange differences	112	–	2	3	117
As at 30 June 2019	**52,793**	**668**	**4,320**	**6,044**	**63,825**
Depreciation and impairment					
As at 2 July 2017	29,733	494	2,079	3,509	35,815
Depreciation charge for the year	4,812	3	500	404	5,719
Disposals	–	–	–	–	–
Exchange differences	(3)	–	–	(1)	(4)
As at 1 July 2018	**34,542**	**497**	**2,579**	**3,912**	**41,530**
Depreciation charge for the year	5,233	3	609	549	6,394
Disposals	(4,972)	–	(7)	(14)	(4,993)
Exchange differences	24	–	1	1	26
As at 30 June 2019	**34,827**	**500**	**3,182**	**4,448**	**42,957**
Net book value					
As at 1 July 2018	**18,080**	**103**	**1,329**	**1,378**	**20,890**
As at 30 June 2019	**17,966**	**168**	**1,138**	**1,596**	**20,868**

Impairment testing of property, plant and equipment

The carrying values of property, plant and equipment are reviewed for impairment annually. If an indication of impairment exists and where the carrying value of the asset exceeds the estimated recoverable amount, the assets or cash generating units (CGU) are written down to their recoverable amount. The recoverable amount is the greater of fair value less costs of disposal and value-in-use. Value-in-use refers to an asset's value based on the expected future cash flows arising from its continued use discounted to present value using a pre-tax discount rate that reflect current market assessments of the risks specific to the asset.

Nil impairment loss was recognised during the 52 weeks ended 30 June 2019 (2018: nil impairment loss was recognised).

NOTE 9. INTANGIBLE ASSETS

	Software $'000	Brand Names and Trademarks $'000	Goodwill $'000	Total $'000
Cost or fair value				
As at 2 July 2017	5,382	41,317	89,837	136,536
Additions	678	–	–	678
Disposals	–	–	–	–
Exchange differences	(4)	–	–	(4)
As at 1 July 2018	**6,056**	**41,317**	**89,837**	**137,210**
Additions	582	–	–	582
Disposals	–	–	–	–
Exchange differences	5	–	–	5
As at 30 June 2019	**6,643**	**41,317**	**89,837**	**137,797**
Amortisation and impairment				
As at 2 July 2017	1,955	–	19,910	21,865
Amortisation	1,112	–	–	1,112
Disposals	–	–	–	–
Exchange differences	–	–	–	–
As at 1 July 2018	**3,067**	**–**	**19,910**	**22,977**
Amortisation	1,295	–	–	1,295
Disposals	–	–	–	–
Exchange differences	–	–	–	–
As at 30 June 2019	**4,362**	**–**	**19,910**	**24,272**
Net book value				
As at 1 July 2018	**2,989**	**41,317**	**69,927**	**114,233**
As at 30 June 2019	**2,281**	**41,317**	**69,927**	**113,525**

Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and brand names with indefinite lives have been allocated to the CGUs for impairment testing.

Carrying amount of goodwill and brands allocated to the CGUs:

	Adairs $'000
Goodwill	57,532*
Brand	41,317

* The allocation of goodwill to the Adairs CGU excludes $12,395,000 arising from a deferred tax liability on indefinite life intangibles (brand names) acquired as part of a business combination.

NOTE 9. INTANGIBLE ASSETS (continued)

Adairs CGU

The Group performed its annual impairment test as at 26 May 2019. The Group considers the relationship between its enterprise value and its carrying value, among other factors, when reviewing for indicators for impairment. The recoverable amount of the Adairs CGU has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five-year period. The pre-tax discount rate applied to cash flow projections is 10.85% (2018: 11.61%) and cash flows beyond the five-year period are extrapolated using a 3% growth assumption (2018: 3.0%). As a result of the analysis, no impairment has been recognised for the period.

Key assumptions used in value in use calculations

The calculation of value in use for the Adairs CGU is most sensitive to the following assumptions:

- Gross margin
- Discount rate
- Growth rate

Gross margins – Gross margins are based on average values achieved in the past.

Discount rate – Discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service. CGU specific risk is incorporated by applying individual risk factors into the WACC.

Growth rate – Rates are based on management's best estimate of anticipated growth in revenue and expenses in the short to medium term.

Sensitivity to changes in assumptions

There are no reasonable possible changes in key assumptions that could cause the carrying value of the CGU to exceed its recoverable amount.

NOTE 10. TRADE AND OTHER PAYABLES

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Trade creditors	19,469	14,202
Accrued expenses	7,751	7,067
Other payables	2,438	2,587
Total current trade and other payables	**29,658**	**23,856**
Current	29,658	23,856
Non-current	–	–
Total trade and other payables	**29,658**	**23,856**

Terms and conditions of the above trade and other liabilities:

- Trade payables are non-interest bearing and are normally settled on 30 to 120 day terms.
- Other payables are non-interest bearing and do not have settlement terms.

NOTE 11. OTHER LIABILITIES

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Current other liabilities		
Other liabilities	7,868	3,253
Total current other liabilities	**7,868**	**3,253**
Non-current other liabilities		
Other liabilities	1,032	–
Total non-current other liabilities	**1,032**	**–**
Current	7,868	3,253
Non-current	1,032	–
Total trade and other payables	**8,900**	**3,253**

Other liabilities relate to contract liabilities for to deferred revenue with respect to the Linen Lover membership program, unredeemed gift cards, undelivered customer orders, as well as other revenue from contracts with customers received in advance of recognition that have arisen from the Group's transition to AASB 15 *Revenue from Contracts with Customers* at 2 July 2018.

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 12. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Current				
Capitalised borrowing costs			(50)	(44)
Total current			(50)	(44)
Non-current				
Bank Loan – Facility A	BBSW + 1.65	8 July 2020	25,000	25,000
Capitalised borrowing costs			(1)	(1)
Total non-current			24,999	24,999
Current			(50)	(44)
Non-current			24,999	24,999
Total interest-bearing loans and borrowings			**24,949**	**24,955**
(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 the reporting date:			50,000	50,000
Facilities used at the reporting date:			(25,000)	(25,000)
Facilities unused at the reporting date:			**25,000**	**25,000**

NOTES TO THE FINANCIAL STATEMENTS
for the 52 weeks ended 30 June 2019

NOTE 13. PROVISIONS

(a) Lease provisions

	Lease incentives $'000	Straight-line lease $'000	Make good $'000	Total $'000
As at 1 July 2018	**2,301**	**3,096**	**849**	**6,246**
Arising during the year	1,606	643	17	2,266
Utilised	(1,008)	(576)	(23)	(1,607)
Unwinding of discount rate and changes in the discount rate	–	–	26	26
Exchange differences	8	7	–	15
As at 30 June 2019	**2,907**	**3,170**	**869**	**6,946**
Current	865	668	44	1,577
Non-current	2,042	2,502	825	5,369
Total lease provisions	**2,907**	**3,170**	**869**	**6,946**

(b) Employee entitlements

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Current		
Annual Leave	3,019	2,700
Long service leave	1,823	826
Total current	**4,842**	**3,526**
Non-current		
Long service leave	1,096	1,629
Total non-current	**1,096**	**1,629**
Total employee entitlements	**5,937**	**5,155**
Total current	6,419	4,723
Total non-current	6,465	6,678
Total provisions	**12,884**	**11,401**

Nature and timing of provisions

Refer to note 2(t) and 2(bb) for the relevant accounting policy and details of significant estimations and assumptions applied in the measurement of these provisions.

NOTE 14. ISSUED CAPITAL AND RESERVES

(a) Authorised Shares

	As at 30 June 2019 Thousands	As at 1 July 2018 Thousands
Ordinary Shares	165,875	165,875

Ordinary shares are fully-paid and have no par value. They carry one vote per share and the right to dividends. They bear no special terms or conditions affecting income or capital entitlements of the shareholders and are classified as equity.

(b) Share-based payment reserve

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Balance at the beginning of the period	217	58
Share based payment expense	112	159
Balance at the end of the period	**329**	**217**

(c) Foreign currency translation reserve

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Balance at the beginning of the period	9	(7)
Foreign currency translation of foreign subsidiary	(36)	16
Balance at the end of the period	**(27)**	**9**

(d) Cash flow hedge reserve

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Balance at the beginning of the period	1,248	(471)
Transferred to Statement of Profit or Loss		
Net (gain)/loss on cash flow hedges	(1,782)	672
Income tax related to (gain)/loss on cash flow hedges	534	(201)
Recognised in Statement of Other Comprehensive Income		
Net gain/(loss) on cash flow hedges	1,012	1,782
Income tax related to gain/(loss) on cash flow hedges	(303)	(534)
Balance at the end of the period	**709**	**1,248**

NOTE 14. ISSUED CAPITAL AND RESERVES (continued)

(e) Retaining earnings

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Balance at the beginning of the period	46,357	32,383
Impact of adoption of new accounting standards (Note 2(c)(i)(a))	(2,991)	–
Net profit for the period	29,643	30,561
Dividends declared	(24,052)	(16,587)
Balance at the end of the period	**48,957**	**46,357**

NOTE 15. COMMITMENTS AND CONTINGENCIES

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Operating lease commitments – Group as a lessee		
Non-cancellable operating lease commitments		
› not later than one year	27,293	26,234
› later than one year and not later than five years	56,662	60,649
› later than five years	6,784	3,945
	90,739	90,828

The Group has entered into operating leases for the rental of shops, office premises and distribution centres. There are no restrictions placed upon the lessee by entering lease agreements.

These leases have an average life of between 3 and 7 years with renewal options included in the contracts that have not been included in the disclosure of future operating leases commitments in Note 15.

During the 52 weeks ended 30 June 2019, the minimum lease expense incurred was $35,655,000 (2018: $32,724,000).

NOTE 16. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Current assets		
Forward currency contracts – cash flow hedges	1,013	1,783
	1,013	**1,783**

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 exchange contracts to purchase USD. Outstanding 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 12 months.

Forward currency 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.

The Group is holding the following foreign currency contracts:

	Maturity					
	< 1 month	**1-3 months**	**3-6 months**	**6-9 months**	**9-12 months**	**Total**
As at 30 June 2019						
Forward currency contracts						
(highly probable forecast inventory purchases)						
› Notional amount ($'000)	6,322	12,162	13,019	6,672	7,605	45,780
› Average forward rate (USD/AUD)	0.7238	0.7218	0.7247	0.7271	0.7099	–
As at 1 July 2018						
Forward currency contracts						
(highly probable forecast inventory purchases)						
› Notional amount ($'000)	5,869	9,458	10,219	6,079	4,386	36,011
› Average forward rate (USD/AUD)	0.7660	0.7735	0.7708	0.7877	0.7674	–

	Notional amount $'000	**Carrying amount $'000**	**Line item in the statement of financial position**
As at 30 June 2019			
Forward currency contracts	45,780	1,013	Derivative financial instruments – assets
As at 1 July 2018			
Forward currency contracts	36,011	1,783	Derivative financial instruments – assets

	Total hedging gain/(loss) recognised in OCI ($'000)	**Total amount reclassified from OCI to profit or loss ($'000)**	**Line item in the statement of profit or loss**
52 weeks ended 30 June 2019			
Highly probable forecast inventory purchases	1,013	1,783	Cost of sales
52 weeks ended 1 July 2018			
Highly probable forecast inventory purchases	1,783	672	Cost of sales

There was no hedge ineffectiveness arising from the Group's forward currency contract hedging strategy during the 52 weeks ended 30 June 2019 (2018: nil). This is due to inventory purchases in USD exceeding the notional amount of forward currency contracts taken out and maturing when payments are scheduled.

NOTE 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise receivables, payables, bank loans and overdrafts, cash and short-term deposits and derivatives.

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

With respect to credit risk, the overwhelming majority of the Group's sales are on cash or cash equivalent terms with settlement within 24 hours. As such, the Group's exposure to credit risk is minimal. The Group trades only with recognised, creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis with the result that the Group's exposure to bad debts is not significant.

The Group enters into derivative transactions, principally forward currency contracts. The purpose is to manage the currency risks arising from the Group's operations. The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk and liquidity risk.

(i) Interest rate risk

The Group's exposure to market interest rates relates primarily to the Group's long-term unhedged debt obligations.

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Financial instruments		
Cash and cash equivalents	16,708	12,718
Interest-bearing loans and borrowings	(24,949)	(24,955)
Net exposure	**(8,241)**	**(12,237)**

The following sensitivity analysis is based on the interest rate risk exposures in existence at the reporting date:

As at 30 June 2019, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax would have been affected as follows due to the higher/lower interest rate costs from variable debt and cash balances:

Judgments of reasonably possible movements:

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
	Profit after tax higher/(lower)	
+1% (100 basis points)	(58)	(86)
-0.5% (50 basis points)	29	43

Significant assumptions used in the interest rate sensitivity analysis include:

- Reasonably possible movements in interest rates were determined based on the Group's current credit rating, relationships with finance institutions, the level of debt that is expected to be renewed as well as a review of the last two years' historical movements and economic forecaster's expectations.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next 12 months from the reporting date.

(ii) Foreign currency risk

As a result of large purchases of inventory denominated in USD, the Group's Statement of Financial Position and Statement of Profit or Loss can be affected significantly by movements in the USD/AUD exchange rates. The Group attempts to mitigate this risk by entering into forward foreign exchange contracts, as detailed below.

At reporting date, the Group had the following exposure to USD foreign currency that is not covered by a designated cash flow hedge.

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Financial liabilities		
Payables	6,012	6,242

The following sensitivity is based on the foreign currency risk exposures in existence at the reporting date:

As at 30 June 2019, had the AUD moved, as illustrated in the table below, with all other variables held constant, profit after tax would have been affected as follows:

Judgments of reasonably possible movements:

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
	Profit after tax higher/(lower)	
AUD to USD +15%	549	570
AUD to USD -15%	(743)	(771)

Significant assumptions used in the foreign currency exposure sensitivity analysis include:

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements and economic forecaster's expectations.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next 12 months from reporting date.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

(iii) Liquidity risk

Liquidity risk arises from the financial liabilities of the Group and the Group's subsequent ability to meet their obligations to repay their financial liabilities as and when they fall due.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of bank overdrafts, bank loans, preference shares and committed available credit lines.

NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 30 June 2019

NOTE 17. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

A. Non-derivative financial assets and liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities as of 30 June 2019. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for assets/liabilities is based on the contractual terms of the underlying contract.

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 30 June 2019					
Liquid financial assets					
Cash and cash equivalents	16,708	–	–	–	16,708
Trade and other receivables	1,894	–	–	–	1,894
Financial liabilities					
Trade and other payables	(29,658)	–	–	–	(29,658)
Bank loans	–	–	(25,000)	–	(25,000)
Net outflow	**(11,056)**	**–**	**(25,000)**	**–**	**(36,056)**

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 1 July 2018					
Liquid financial assets					
Cash and cash equivalents	12,718	–	–	–	12,718
Trade and other receivables	780	–	–	–	780
Financial liabilities					
Trade and other payables	(23,856)	–	–	–	(23,856)
Bank loans	–	–	(25,000)	–	(25,000)
Net outflow	**(10,358)**	**–**	**(25,000)**	**–**	**(35,358)**

B. Derivative financial liabilities

Due to the unique characteristics and risks inherent to derivative instruments the Group separately monitors the liquidity risk arising from transacting in derivative instruments.

The table below details the liquidity risk arising from the derivative liabilities held by the Group at the reporting date:

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 30 June 2019					
Derivatives – forward currency contracts	770	243	–	–	1,013
Net outflow	**770**	**243**	**–**	**–**	**1,013**

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 1 July 2018					
Derivatives – forward currency contracts	1,145	638	–	–	1,783
Net outflow	**1,145**	**638**	**–**	**–**	**1,783**

(iv) Fair value

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

Quoted market price represents the fair value determined based on quoted prices on active markets as at the reporting date without any deduction for transaction costs.

For financial instruments not quoted in active markets, the Group uses valuation techniques such as present value techniques, comparison to similar instruments for which market observable prices exist and other relevant models used by market participants. These valuation techniques use both observable and unobservable market inputs.

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

	As at 30 June 2019		As at 1 July 2018	
	Valuation Level 2 $'000	Total $'000	Valuation Level 2 $'000	Total $'000
Financial assets				
Forward exchange contracts	1,013	1,013	1,783	1,783
	1,013	**1,013**	**1,783**	**1,783**

NOTE 17. 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:

	As at 30 June 2019		As at 1 July 2018	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial liabilities				
Forward exchange contracts	1,013	1,013	1,783	1,783
Bank loans	(25,000)	(25,000)	(25,000)	(25,000)
	(23,987)	**(23,987)**	**(23,217)**	**(23,217)**

NOTE 18. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and makes adjustments in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Group's policy is to keep the gearing ratio between 20% and 50%. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

	As at 30 June 2019 $'000	**As at 1 July 2018 $'000**
Interest-bearing loans and borrowings	24,949	24,955
Trade and other payables	29,658	23,856
Less: cash and cash equivalents	(16,708)	(12,718)
Net debt	**37,899**	**36,093**
Equity	118,317	116,180
Capital and net debt	**156,216**	**152,273**
Gearing ratio	24%	24%

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

No changes were made in the objectives, policies or processes for managing capital during the 52 weeks ended 30 June 2019 and 52 weeks ended 1 July 2018.

NOTE 19. INFORMATION RELATING TO ADAIRS LIMITED ('the Parent entity')

	As at 30 June 2019 $'000	As at 1 July 2018 $'000
Current assets	360	30
Total assets	99,360	93,907
Current liabilities	(2,772)	(2,458)
Total liabilities	(3,341)	(3,031)
Net assets	**96,019**	**90,876**
Issued capital	68,349	68,349
Retained earnings	27,341	22,310
Share-based payment reserve	329	217
Net equity	**96,019**	**90,876**
Profit of the parent entity	918	854
Total comprehensive profit of the Parent entity	**918**	**854**

NOTE 20. RELATED PARTY DISCLOSURES

Terms and conditions of transactions with related parties other than KMP

There are no outstanding balances as at the 52 weeks ended 30 June 2019. There have been no guarantees provided or received for any related party receivables or payables.

Compensation of key management personnel of the Group:

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Short-term employee benefit	1,704	1,590
Short-term incentives	–	600
Post-employment benefits	118	100
Termination benefits	85	–
Share-based payments	55	109
Total compensation to key management personnel	**1,962**	**2,399**

The amounts disclosed in the table are the amounts recognised as an expense during the reporting period related to key management personnel.

NOTE 21. EARNINGS PER SHARE

Basic earnings per share (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 year.

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

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Profit for the year attributable to ordinary equity holders of the Parent	29,643	30,561
Profit attributable to ordinary equity holders of the Parent for basic earnings	**29,643**	**30,561**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**29,643**	**30,561**

	As at 30 June 2019 '000	As at 1 July 2018 '000
Weighted average number of ordinary shares for basic EPS	165,875	165,875
Share options	–	1,232
Weighted average number of ordinary shares for the effect of dilution	**165,875**	**167,107**

There have been no other transactions involving ordinary shares or potential ordinary shares between the reporting date and the date of authorisation of these financial statements.

NOTE 22. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

		Equity Holding	
Name of Entity	**Country of incorporation**	**As at 30 June 2019 %**	**As at 1 July 2018 %**
Home & Décor Pty Limited	Australia	100	100
Adairs Holdings Australia Pty Limited	Australia	100	100
Adairs Retail Group Pty Limited	Australia	100	100
Wilder Days Pty Limited	Australia	100	100
Adairs New Zealand Limited	New Zealand	100	100

NOTE 23. DIVIDEND

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2019: 6.5 cents per share (2018: 5.5 cents)	10,782	9,123
Proposed dividends on ordinary shares:		
Final cash dividend for 2019: 8.0 cents per share (2018: 8.0 cents)	13,270	13,270

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 30 June 2019.

Franking credit balance

The amount of franking credits available for the subsequent financial year are:

	52 weeks ended 30 June 2019 $'000
Franking account balance as at the end of the period at 30%	19,892
Franking credits that will arise from the payment of income tax payable as at the end of the period	1,601
Franking debits that will arise from the payment of dividends as at the end of the period	(5,687)
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–
	15,806

NOTE 24. SHARE-BASED PAYMENTS

Employees of the Group (the "participants") have been granted share options in the Company under the Equity Incentive Plan ("EIP"). The grants of share options occur in tranches at different time periods.

2017 Tranche

In November 2016, 1,860,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from Grant Date to 30 June 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. There is no cash settlement for the share options. The contractual life of each option granted is eight years.

2018 Tranche

In November 2017, 2,640,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from Grant Date to 30 June 2021. There are two separate Performance conditions – an EPS Performance condition and a Sales Performance condition. If these conditions are not met, the options will lapse immediately. There is no cash settlement for the share options. The contractual life of each option granted is six years.

2019 Tranche

In October 2018, 2,250,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from Grant Date to 3 July 2022. There are two separate Performance conditions – an EPS Performance condition and a Sales Performance condition. If these conditions are not met, the options will lapse immediately. There is no cash settlement for the share options. The contractual life of each option granted is six years.

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

	2019 Tranche	***2018 Tranche***	***2017 Tranche***
Share option pricing model	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield	5.00%	5.00%	4.75%
Expected volatility	45.00%	45.00%	32.50%
Risk-free interest rate	2.23%	2.23%	2.11%
Expected life of share options	4.8 years	4.8 years	5.8 years
Exercise share price	$2.40	$1.75	$2.00
Fair value of share options at grant date (per share option)	**$0.43**	**$0.39**	**$0.27**

NOTE 24. SHARE-BASED PAYMENTS (continued)

Information with respect to the number of share options granted is as follows:

	As at 30 June 2019 Number	As at 1 July 2018 Number
Outstanding balance at beginning of the period	4,267,500	1,860,000
› Granted	2,250,000	2,640,000
› Forfeited	(675,000)	(232,500)
› Lapsed	(1,369,053)	–
› Exercised	–	–
› Expired	–	–
Outstanding balance at end of the period	**4,473,447**	**4,267,500**

The weighted average fair value of the share options granted during the 52 weeks ended 30 June 2019 was $0.43 (2018: $0.39).

The weighted average remaining contractual life of share options outstanding as at 30 June 2019 was 5.0 years (2018: 5.8 years).

For the 52 weeks ended 30 June 2019, the Group has recognised $112,000 of share-based payment expense in the Statement of Profit or Loss (2018: $159,000).

NOTE 25. EVENTS AFTER THE BALANCE SHEET DATE

On 26 August 2019, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2019 financial year. The total amount of the dividend is $13.3 million which represents a fully franked dividend of 8.0 cents per share. The dividend has not been provided for in the 30 June 2019 financial statements.

An announcement was released to the Australian Securities Exchange on 14 August 2019, appointing Ashley Gardner as Chief Financial Officer of Adairs Limited, effective from 14 August 2019.

Other than the above matter, 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.

NOTE 26. AUDITORS' REMUNERATION

The auditor of Adairs Limited is Ernst & Young Australia.

	52 weeks ended 30 June 2019 $'000	52 weeks ended 1 July 2018 $'000
Amounts received or due and receivable by Ernst & Young Australia for:		
› An audit or review of the financial report of the Company and any other entity in the consolidated group – continuing operations	215	215
› Other services in relation to the Company and any other entity in the consolidated group:		
– Tax compliance	66	85
– Other assurance	30	18
– Other tax	–	–
	311	**318**

SHAREHOLDER INFORMATION
for the 52 weeks ending 30 June 2019

The shareholder information set out below was applicable as at 5 August 2019.

Number of shareholders

There were 3,213 shareholders, holding 165,874,785 fully paid ordinary shares.

A. Distribution of equity securities

Analysis of numbers of equity holders by size of holding:

Range	Ordinary Securities	No. of Security holders
1-1,000	416,727	804
1,001-5,000	3,406,048	1,167
5,001-10,000	4,199,401	547
10,001-100,000	17,290,905	629
100,001 and over	140,561,704	66
Total	**165,874,785**	**3,213**

There were no holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

The names of the twenty largest holders of quoted equity securities are listed below:

	OrdinaryShares	
Name	Number held	Percentage of issued shares
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	28,157,275	16.98%
CITICORP NOMINEES PTY LIMITED	20,428,727	12.32%
BB RETAIL CAPITAL PTY LTD	15,186,331	9.16%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	14,705,345	8.87%
CATALYST BUYOUT FUND 2B	9,202,794	5.55%
CATALYST BUYOUT FUND 2A	9,202,794	5.55%
BNP PARIBAS NOMINEES PTY LTD	8,204,159	4.95%
BBRC INTERNATIONAL PTE LTD	7,393,149	4.46%
NATIONAL NOMINEES LIMITED	3,868,146	2.33%
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	2,106,063	1.27%
MICHAEL CHERUBINO INVESTMENTS PTY LTD	1,996,135	1.20%
NEWECONOMY COM AU NOMINEES PTY LIMITED	1,910,686	1.15%
DAVID MACLEAN INVESTMENTS P/L	1,826,986	1.10%
BNP PARIBAS NOMS PTY LTD	1,609,888	0.97%
CATALYST GENERAL PARTNER 2 LIMITED	1,598,500	0.96%
DM & LM HOLDINGS PTY LTD	1,166,500	0.70%
UBS NOMINEES PTY LTD	728,775	0.44%
MR TRENT PETERSON	610,000	0.37%
CITICORP NOMINEES PTY LIMITED	551,232	0.33%
LAZY INVESTMENTS PTY LTD	545,334	0.33%
	131,456,517	**79.25%**

SHAREHOLDER INFORMATION
for the 52 weeks ending 30 June 2019

C. Substantial Shareholdings

As at 5 August 2019, there are five substantial shareholders that the Company is aware of:

	Ordinary Shares		
Name	**Number held**	**Percentage of issued shares**	**Date of most recent notice**
BB Retail Capital Pty Ltd	23,315,399	14.06%	08/02/2019
Catalyst Buyout Fund (Combined)*	18,405,588	11.10%	30/08/2018
Carol Australia Holdings Pty Limited	10,798,189	6.51%	02/08/2019
Commonwealth Bank of Australia	10,725,699	6.47%	20/06/2019
Challenger Limited	10,240,866	6.17%	15/05/2019
Lennox Capital Partners Pty Limited	10,180,432	6.14%	15/05/2019

* Catalyst Buyout Fund (Combined) comprises Catalyst Buyout Fund 2A Pty Ltd and Catalyst Buyout Fund 2B Pty Ltd with equal shareholdings

D. Voting Rights

The voting rights relating to each class of equity securities is as follows:

a) Ordinary Shares

On a show of hands at a General Meeting of the Company, every member present in person or by proxy shall have one vote and upon poll each person present in person or by proxy shall have one vote for each ordinary share held.

E. Market buy-back

There is currently no on market buy-back.

CORPORATE DIRECTORY

ABN 50 147 375 451

Directors

Michael Butler
Mark Ronan
Michael Cherubino
Kiera Grant
David MacLean
Trent Peterson
Kate Spargo
Simon West

Company Secretary

Fay Hatzis

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Auditors

Ernst & Young

Solicitors

Herbert Smith Freehills

Bankers

Commonwealth Bank of Australia

adairs