adairs

ANNUAL REPORT 2020

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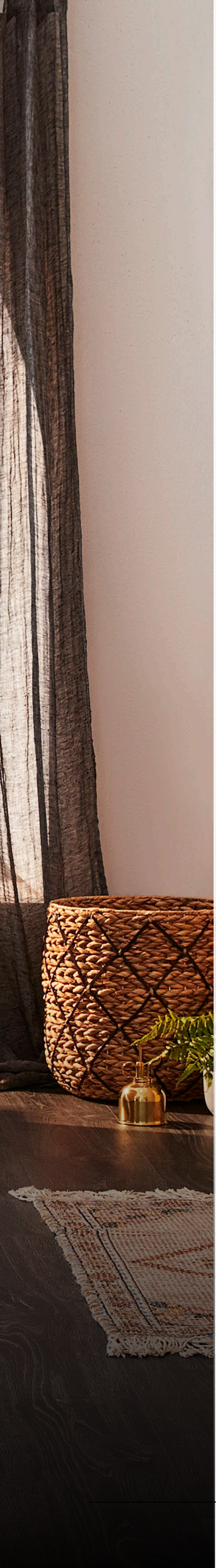

About Adairs Limited

Adairs Limited is Australia's largest omni channel specialty retailer of home furnishings and home decoration products. We own and operate two businesses in the category, Adairs and Mocka. Both businesses are design led, customer focused, and sell quality in-house designed product direct to customers in Australia and New Zealand. Adairs head office is in Melbourne, Australia.

For further information visit our investor relations website www.investors.adairs.com.au

About Adairs

Adairs is a leading specialty retailer of home furnishings in Australia and New Zealand with a national footprint of stores across a number of formats and a large and growing online channel. Our strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service.

For further information visit www.adairs.com.au

About Mocka

Mocka, a wholly owned subsidiary of Adairs, is a vertically integrated pure-play online home and living products designer and retailer operating in Australia and New Zealand. Mocka sells its own exclusive, well designed, functional and stylish products in the Home Furniture & Décor, Kids and Baby categories. Delivering great product and compelling everyday value-for-money is core to the Mocka customer proposition.

For further information visit www.mocka.com.au

2020 ANNUAL GENERAL MEETING

11.00am on Friday, 23 October 2020

Due to continuing developments in relation to COVID-19, this year's AGM will be held as a virtual meeting, using technology to facilitate shareholder participation. Full details will be provided to all shareholders in the Notice of Meeting.

PERFORMANCE HIGHLIGHTS

GROUP SALES +12.9% with

Online Sales +111%,
To $124.2m

ONLINE NOW 32% of Total Sales

Up from 17%
a year ago

UNDERLYING GROSS MARGIN +226 bps

GM Initiatives more than compensated for the weaker A$

GROUP EBIT of $60.7M

Up 39.7%,
Pre AASB16

MOCKA ACQUIRED AND GROWING STRONGLY

Exceeding our sales and profitability expectations

NATIONAL DISTRIBUTION CENTRE

DHL appointed as 3PL operator/ operational from July 2021

LINEN LOVER MEMBERSHIP OVER 800,000

Members account for 75% of Adairs sales

OPTIMISATION OF STORE PORTFOLIO

4 new stores, 4 stores upsized and 3 closed

CASH GENERATION AND STRONG BALANCE SHEET

Net debt reduced to $1.0m, even after debt funding of Mocka acquisition

CHAIRMAN'S REPORT

Dear Shareholder,

I am pleased to present the 2020 Annual Report of Adairs Limited.

Excellent outcome in a challenging year

In many ways FY20 was a watershed year for Adairs. The strength and resilience of our business at an operational and financial level was tested and proven through one of the most challenging retailing periods on record. While COVID-19 uncertainties remain there is comfort to be had in our demonstrated ability to navigate a rapidly changing environment. The homewares and home decoration category have proven to be attractive segments to operate in at this uncertain time.

Despite the challenging environment our financial results for FY20 were excellent:

- Group sales up 12.9% to $388.9 million
- Group online sales of $124.2 million and now representing 32% of group sales
- Mocka trading well ahead of expectations in both sales and profitability
- Group underlying EBIT[1] up 39.7% to $60.7 million
- Strong cash flow resulted in closing net debt of $1.0 million
- Declared final dividend of 11.0 cents per share fully franked

We qualified for each of the Australian and New Zealand government wage subsidy packages, which have been material and welcome measures that have mitigated the financial impact of our store closures on our team, as well as aided in team retention.

Major strategic initiatives

During the year we undertook two major strategic initiatives.

In December 2019 we announced the acquisition of Mocka, a highly efficient, vertically integrated and profitable pure-play online retailer of home and living products operating in Australia and New Zealand. For our shareholders this acquisition creates a larger more diversified business with increased exposure to the fast-growing online channel. Since the acquisition Mocka has performed above expectations in terms of both sales and profitability and we continue to see opportunities for Adairs to add value to an already successful and efficient business. Our emphasis with Mocka is very much one of supporting and investing in further growth.

As shareholders will recall, our FY19 results were adversely affected by higher costs and inefficiencies within our distribution network which was unable to satisfactorily support the growth in volumes, particularly in our fast-growing online business. To address this, we announced in February the appointment of DHL as our 3PL partner to operate a new purpose-built National Distribution Centre (NDC). The NDC is a key component of our integrated omni-channel strategy to enable customers to shop Adairs how, where and when they choose, with the capacity and flexibility to support our business growth for the next 10 years. The NDC is expected to be fully operational by July 2021. We are pleased with the way our existing distribution facilities and teams have managed the challenges posed by COVID-19, however we look forward to accessing to the opportunities presented by the new facility.

Strong financial position and dividends resumed

Adairs' balance sheet remains strong. The Mocka acquisition took our net debt to $46.3 million at December 2019 however our strong trading result in the second half of 2020 has seen this reduce to $1.0 million by year end. Uncertainties around the impact COVID-19 may have had on our business and an emphasis on protecting shareholder value saw the Board make the difficult but prudent decision in March to cancel the proposed interim dividend. I would like to note that our dividend policy to pay out 65-80% of our net profit after tax (NPAT) each year has not changed. Given the underlying[2] NPAT achieved in FY20 and the strong start to FY21, I am pleased to advise that the Board have declared a final fully franked dividend of 11.0 cents per share which represents a payout ratio of 72% of the underlying NPAT in H2 of FY20.

Our outstanding team

On behalf of the Board I would like to thank all team members for their commitment to our business and understanding, particularly during the period of store closures which saw the majority of our team stood down. The success we have enjoyed in a year of unprecedented challenges is due in no small part to their passion and talent.

Finally, as has already been communicated to shareholders, I have decided to retire from the Board of Adairs after having served five years as its Chair. I am very proud of what we have achieved in that time and would like to thank you, our shareholders, for the support you have provided. I remain confident that Adairs has the right strategies, team and product offering to continue to deliver growing returns for the benefit of all shareholders.

Michael Butler
Chairman

1. After removing the impact of AASB 16 (Leases) and costs associated with the acquisition of Mocka Limited. Underlying EBIT is an unaudited non-IFRS measure.

2. After removing the impact of AASB 16 (Leases) and costs associated with the acquisition of Mocka Limited. Underlying NPAT is an unaudited non-IFRS measure.

MANAGING DIRECTOR AND CEO'S REPORT

MARK RONAN

MANAGING DIRECTOR AND CEO

Dear Shareholder,

Despite the challenges and uncertainties placed on our industry and the broader economy by the COVID-19 pandemic I am pleased to report that FY20 was a good year for Adairs. We delivered an excellent set of financial and operational results and announced two major strategic initiatives to deliver continued profitable future growth.

Adairs financial and operational performance (excluding Mocka)

Strong like-for-like sales growth of 15.9% was driven by our omni-channel model, high engagement from our Linen Lovers members, the continued success of our core strategies and the increasing focus of customers on their home, particularly during the COVID-19 restrictions.

Our online sales grew by 61.4% to $95.2 million. While this channel clearly benefitted from store closures in April/May, our online business performed strongly across the entire year. Adairs online sales accounted for 26.5% of total sales (up from 17.1% in FY19).

Store like-for-like sales were up 3.9% after adjusting for the period where our stores were closed due to COVID-19. Store like-for-like sales in June once all stores re-opened was 18.4%, whilst online continued to trade very strongly with sales in June up 65.5%.

Throughout the year we continued to optimise our store portfolio, opening 5 new stores, closing 3 stores, upsizing 4 and refurbishing 2 stores. Our store rollout and upsizing strategy is delivering healthy profit growth and return on investment, with all stores increasing their sales and profitability following upsizing.

Importantly, this strong sales growth was supported by an improving Gross Margin rate, which increased by 226bps to 61.4%. This was achieved through a coordinated program of sourcing and retail pricing initiatives combined with a focus on reduced depth and length of promotional activity, which collectively more than offset the impact of a weaker Australian dollar. Managing our Gross Margin rate will continue to be a key focus in FY21.

Strong like-for-like sales growth and improved gross margins more than outpaced the 1.8% absolute increase in our cost of doing business (CODB), such that our underlying EBIT[1] rose by 24.3% to $54.0 million.

The increased CODB reflected our investment in initiatives to support future growth across key areas of our business including our online platform, supply chain capability and the executive leadership team.

The investment in these areas enabled Adairs to effectively manage the impact COVID-19 had on the business and will reward shareholders as we continue to build upon our omni channel capabilities.

Our CODB benefitted from the receipt of Government subsidies, including JobKeeper, which have contributed materially to maintaining the employment of many of our team members. Of the $11.3 million of wage subsidies received during Q4, more than half was passed through to team members who had been stood down or whose hours were less than the value of the subsidies to support their income. The company's net CODB was reduced by $5.3 million as a result of wage subsidies received for team that continued to actively work in the business.

While the Government subsidies were helpful to our results, it was clear that the company was performing well leading into this difficult period, and would have delivered strong results had Adairs not been eligible for the subsidies.

We finished the year with a lean inventory position, 18% lower than FY19, as a result of deferring and cancelling inventory orders throughout March and April in response to the COVID-19 pandemic, and the strong sales experienced throughout the fourth quarter. Inventory will return to more normal levels by early October, with inventory management remaining a focus throughout FY21 given uncertainties around the trading environment.

1. After removing the impact of AASB 16 (Leases) and costs associated with the Mocka acquisition . Underlying EBIT is an unaudited non-IFRS measure.

Mocka financial and operational performance

In December we announced the acquisition of Mocka, a vertically integrated pure-play online retailer of home and living products operating in Australia and New Zealand. Mocka was an attractive complementary acquisition for Adairs. Our shared passion for design-centric in-house product development allows us to offer our customers high quality "design led, value for money" differentiated product. Importantly this means we have significant control of the vertical supply chain and the pricing and promotion of our products in market. Both businesses also have an emphasis on efficient and effective marketing activities and strong customer service, and delivering sustainable growth are core to the way we do business.

For our shareholders this acquisition created a larger more diversified business with increased exposure to the fast-growing online channel. Mocka has continued to operate as an independent business with the same successful management team continuing to lead their operations.

Since acquisition, Mocka has performed above our expectations in terms of both sales and profitability. The COVID-19 pandemic resulted in the Mocka New Zealand business being unable to trade for 7 weeks during Stage 4 restrictions in New Zealand, whilst the Australian business traded throughout the period. Sales over the 30 weeks of Adairs ownership in FY20 were up 50.2% over the prior corresponding period to $29.0 million.

Across the whole FY20 year, part of which was not under Adairs ownership, Mocka delivered total sales of $45.9 million, representing total growth of 30.4% over FY19. Assuming a full year of ownership of Mocka in FY20, the group's total online sales would have represented 34.8% of total group sales.

Managing Director and CEO's Report

During the 30 week ownership period Mocka's strong sales growth has been achieved at the same time as an improving Gross Margin rate, which increased by 250bps over the prior year. The strong sales growth and improving gross margin rate delivered an EBIT of $6.7 million for Adairs during its period of ownership.

We are pleased with the transition Mocka management have made to life with Adairs, where they continue to lead a highly efficient and customer focused organisation, achieving impressive sustainable growth.

Strong balance sheet

The acquisition of Mocka in December included an upfront cash consideration component ($42.5 million) which was funded through an increase in Adairs group term debt facility. The excellent work undertaken by the business to actively manage cash during the fourth quarter, the support of our major suppliers and business partners, the cancellation of the interim dividend and the strong sales results delivered a very strong cash flow result for 2H FY20. This strong cash flow has seen our net debt[2] reduce significantly, from $46.3 million at December 2019 to $1.0 million at year end.

We expect that Adairs and Mocka will collectively re-invest circa $15 million into working capital through the 1H of FY21 to reset inventory positions and drive continued sales growth which will be partially funded by an increase in net debt.

Dividends

The Board's decision to cancel the 1H FY20 dividend was made as a precaution to protect shareholder's long-term interests having regard to the extreme uncertainties presented by the COVID-19 pandemic. I am pleased to advise that given the underlying NPAT[3] achieved in FY20 and the strong start to FY21, the Board has declared a final fully franked dividend of 11.0 cents per share which represents a payout ratio of 72% of the underlying NPAT in H2 of FY20. The Record Date for the dividend will be 10 September 2020 with payment on 24 September 2020.

National Distribution Centre

In February we announced the completion of the review of our domestic supply chain. We have appointed DHL as our 3PL partner to operate a new purpose-built National Distribution Centre (NDC). DHL are a global leader in the design, implementation, and operation of flexible warehousing and distribution solutions.

The NDC is a key component of our integrated omni-channel strategy to better enable customers to shop Adairs how, where and when they choose. The new facility will have the capacity and flexibility to support our business growth for the next 10 years across all channels. Consolidating our multiple DC operations into a single NDC will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods.

2. Net debt is calculated as total borrowings less cash and cash equivalents. Net debt excludes Mocka contingent consideration.
3. After removing the impact of AASB 16 (Leases) and costs associated with the acquisition of Mocka Limited. Underlying NPAT is an unaudited non-IFRS measure.

Construction of the Melbourne-based NDC is well underway with annual savings of c.$3.5 million per annum anticipated over existing operations from FY22.

Our culture and values

Having the right values and culture embedded in our business is critical to our long-term success in providing our customers with the retail experience they desire, growing shareholder value, and in attracting and retaining team talent. This year we undertook an internal re-launch of our "Culture Commitments" and significantly enhanced our Corporate Governance Statement.

The Corporate Governance Statement sets out our governance framework which ensures that shareholder interests are protected at all times and also details the high standard of ethics, integrity and behaviour we require and expect from the Adairs team.

Our Community

Adairs is committed to supporting the community that supports us. We are proud to announce our partnership with Orange Sky, an outreach organisation providing free laundry and shower services to people experiencing homelessness across Australia and New Zealand with a mission to positively connect communities.

We are also excited to announce that we have extended our sponsorship of the Melbourne Boomers, a women's basketball team in the WNBL for a further two years. Our ongoing partnership with the Melbourne Boomers is aimed at providing women with the opportunity to play professional sport in Australia.

Adairs also sought to assist those impacted by the bushfires across Australia last summer though a direct donation to the Australian Red Cross as well as an instore campaign which saw our customers and store teams give generously.

Our Team

Our success can be traced back to our team, whether they be in our stores, designing and selecting products, managing our warehouses or working in our customer support office. Our team are passionate about our business and this has never been more evident than in FY20. During the period Adairs stores were closed most of our team were asked to stand down, with a smaller group tasked with managing Adairs as an online only retailer. In both cases they did this with unwavering professionalism and understanding, ensuring that we successfully navigated the store closure period and emerged well placed to deal with the new and evolving retailing environment.

As an extension of our team I would like to also acknowledge the support of our suppliers, landlords and other business partners who worked closely with us to share the impact of COVID-19. Their professionalism and spirit of co-operation was greatly appreciated, and we look forward to continuing to work with them well into the future as we build Adairs as the leading omni channel retailer of home furnishings in Australia and New Zealand.

I also wanted to specifically acknowledge the significant contribution of our Chair, Michael Butler, who recently advised the Board that he would not be seeking re-election at this year's AGM. Since joining the Board as its Independent Non-Executive Chairman in 2015, Michael has overseen the company's listing on the ASX, a successful transition of CEOs, the acquisition of Mocka and more recently the successful navigation of the business through the many challenges posed by the COVID-19 pandemic. Michael leaves the business in a strong position, and with the sincere thanks and best wishes of the Board and management.

Finally, I would like to thank our customers, many of whom shopped with us for the first time this year. We exist to serve our customer's home needs and in doing that well we can help them create a home they love and ensure that shareholders benefit through profitable growth.

Outlook

We remain cautious about the next 12 months in light of the ongoing uncertain impact of COVID-19 on our industry in relation to severity and duration. FY20 showed that our business environment can change rapidly however it also highlighted that the Adairs and Mocka teams can move quickly as circumstances require and that our omni-channel model gives us a competitive advantage in all markets.

Thank you for your continued support.

Mark Ronan
Managing Director and CEO

CORPORATE SOCIAL RESPONSIBILITY

Adairs is committed to supporting the community that supports us, through a variety of initiatives.

Orange Sky

Adairs is proud to support Orange Sky, an outreach organisation providing free laundry and shower services to people experiencing homelessness across Australia and New Zealand with a mission to positively connect communities. Orange Sky believes that all people should have access to basic human needs such as clean clothes, safe hot showers, and most importantly, genuine non-judgemental conversation.

Orange Sky also assists people who are affected by temporary homelessness through natural disasters, such as cyclones, floods, bushfires, and earthquakes.

From humble beginnings in 2014 when they operated one van with two washers and dryers in a park in Brisbane, Orange Sky now service over 300 locations across Australia and New Zealand with a network of 33 vans and over 2,000 volunteers. Vans are based in metropolitan, regional and remote locations, where anyone who wants to use their service can do so freely, without assessment or judgment.

All profits from the sale of Adairs in-house designed reusable totes, introduced to replace single-use bags, will go to Orange Sky as will donations made by customers and team members via the in-store donation boxes.

Bushfires

Our hearts go out to all families, communities and wildlife devastated by the bushfires that burnt across large parts of Australia in late 2019 and early 2020. With many thousands affected by this disaster, Adairs made an initial donation of $50,000 to the Australian Red Cross to support our communities and assist in their recovery, and subsequently, through the support of our customers and store teams, contributed a further $30,000. Adairs recognises that the journey to re-build these communities is a long and painful one for many and we will continue working with partners to support those affected get back on their feet.

Melbourne Boomers

Adairs is a proud major sponsoring partner of the Melbourne Boomer's, an Australian professional women's basketball team participating in the Women's National Basketball League. For thousands of girls who aspire to play at the elite level in Melbourne, the Boomers' provide local access to a national competition and has produced more Australian Opals, World Champions and Olympians than any other club in Australia.

However, it's not just about elite sport. We love that the Boomers provide an opportunity for the community to see and interact with wonderful, strong, healthy role models.

OrangeSky Australia

"We're on a mission to help positively connect the 1 in every 200 Australians who are experiencing homelessness."

Impact in 2019

1.4m
Kilograms of Laundry

14,311
Warm, safe showers

241,551
Hours of genuine conversations

1,780
Volunteers

https://OrangeSky.org.au/

CORPORATE GOVERNANCE STATEMENT

Adairs has fully followed the recommendations of the ASX Corporate Governance Council's Principles and Recommendations (3rd Edition) throughout the reporting period. Further details are set out in the Group's Appendix 4G and Corporate Governance Statement, authorised for issue by the Directors on 28 August 2020, which are available to be viewed on the Group's investor relations website at: www.investors.adairs.com.au

Adairs is committed to good corporate governance practices. The Group has reviewed its governance policies and practices to ensure that they remain appropriate in light of changes in corporate governance expectations and developments as reflected in the 4th Edition of ASX Corporate Governance Council's Principles and Recommendations. Many of the new recommendations contained in the 4th Edition are already addressed in the Company's existing governance arrangements and are summarised its current Corporate Governance Statement.

FINANCIAL REPORT 2020

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 28 June 2020 ("FY2020" or "FY20").

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

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Simon West

Information on qualifications and experience of directors is included on pages 20 to 22 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.

2020 Operating and Financial Review

The profit from ordinary activities after income tax for FY2020 amounted to $35.3 million (2019: $29.6 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 FY2020 was $59.0 million (2019: EBIT $43.4 million).

Continuing Operations	**FY20[2] $'000**	**FY19 $'000**
Statutory profit after income tax for continuing operations	35,281	29,643
Add back:		
Finance expenses	6,250	1,237
Interest income	(90)	(77)
Income tax expense	17,510	12,643
EBIT[1]	**58,951**	**43,446**

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 the adoption of AASB 16 Leases in FY2020, the prior periods are not comparative (refer to Note 2.3(i)(a)) of the financial statements).

The table below sets out the operating results for FY2020 compared to the operating results for FY2019.

Continuing Operations	**FY20[1] $'000**	**FY19 $'000**	**Change %**
Revenue	388,933	344,430	12.9%
Gross Profit	222,119	197,124	12.7%
Gross Margin	57.1%	57.2%	–10 bps
EBIT	58,951	43,446	35.7%
EBIT Margin	15.2%	12.6%	+260 bps

1 Due to the adoption of AASB 16 Leases in FY2020, the prior periods are not comparative (refer to Note 2.3(i)(a)) of the financial statements).

Results Summary

Adairs has been able to deliver excellent financial and operational results in FY2020 despite the challenges and uncertainties created by the COVID-19 pandemic. The strength of the Company's brands and business model have been tested through this period, and the results demonstrate the effectiveness of the Company's strategy and operational agility. FY2020 also saw us announce the acquisition of Mocka Limited ("Mocka") in December 2019, which has continued to perform strongly under Adairs ownership.

FY2020 was a record year for the Company with revenue up 12.9% to $388.9 million. Adairs strong like-for-like sales growth of 15.9% was driven by our omni-channel model, high engagement from our Linen Lovers members, the continued success of our core strategies and the increasing focus of customers on their home, particularly during the COVID-19 restrictions.

Group online sales grew by 110.5% to $124.2 million and now represent 34.8% of total sales if Mocka's 30-week contribution was annualised (up from 17.1% in FY19). While our online channels clearly benefitted from store closures in April/May, our online business performed strongly across the entire year with Adairs online sales up 61.4% and Mocka sales up 30.4%[1] for the year.

Store sales were down 7.3% overall due to our store network needing to close for much of April and May as COVID-19 related concerns took hold and Government restrictions were applied. However, after adjusting for this closure period, store like-for-like sales were up 3.9%. We continued to optimise our store portfolio, opening 5 new stores, closing 3 stores, upsizing 4 and refurbishing 2 stores. Our total retail floor space, as measured by gross lettable area (GLA), increased by 5.1% to 61,845 square metres. Our store rollout and upsizing strategy is delivering healthy profit growth and return on investment, with all stores increasing their sales and profitability following upsizing.

Importantly, our strong sales growth was supported by an improving underlying Gross Margin rate within the Adairs business, which increased by 226bps to 61.4%. This was achieved through a coordinated program of sourcing and retail pricing initiatives combined with a focus on reduced depth and length of promotional activity, which collectively more than offset the impact of a weaker Australian dollar.

Strong like-for-like sales growth and improved gross margins more than outpaced the 1.8% absolute increase in our cost of doing business (CODB), such that Adairs underlying[2] EBIT rose by 24.3% to $54.0 million. The increased CODB reflected our investment in initiatives to support future growth across key areas of our business including our online platform, supply chain capability and the executive leadership team.

The investment in these areas enabled Adairs to effectively manage the impact COVID-19 had on the business and will reward shareholders as we continue to build upon our omni channel capabilities. In Australia our CODB benefitted from the receipt of JobKeeper subsidies, which have contributed materially to maintaining the employment of many of our team members. Of the $11.3 million of wage subsidies received during Q4, more than half was passed through to team members who had been stood down or whose hours were less than the value of the subsidies. The company's CODB was reduced by $5.3 million as a result of wage subsidies received for team that continued to work.

Adairs finished FY2020 with a lean inventory position, 18% lower than FY2019, as a result of deferring and cancelling inventory orders throughout March and April in response to the COVID-19 pandemic, and the strong sales experienced throughout the fourth quarter. Inventory will return to more normal levels by early October, with inventory management remaining a focus throughout FY2021 given uncertainties around the trading environment.

For Mocka the COVID-19 pandemic resulted in its New Zealand business being unable to trade for 5 weeks during Stage 4 restrictions in New Zealand, whilst its Australian business traded throughout the period. Sales over the 30 weeks of Adairs ownership in FY20 were up 50.2% over the prior corresponding period[2] to $29.0 million. Across the whole FY20 year, part of which was not under Adairs ownership, Mocka delivered total sales of $45.9 million, representing total growth of 30.4% over FY19.

During the 30 week ownership period Mocka's strong sales growth has been achieved at the same time as an improving Gross Margin rate, which increased by 250bps over the prior year The strong sales growth and improving gross margin rate delivered an underlying EBIT of $6.7 million for the period of Adairs ownership. We are pleased with the transition Mocka management have made to life with Adairs, where they continue to lead a highly efficient and customer focused organisation, achieving impressive and sustainable growth.

1. For information only and unaudited — Adairs did not own Mocka in FY2019.
2. "Underlying" in this context, and where used elsewhere in this Annual Report to describe financial performance, is after removing the impact of AASB 16 *Leases* (refer to Note 2.3(i)(a) of the financial statements) and transaction costs associated with the acquisition of Mocka Limited. Measures referred to as "underlying" are unaudited non-IFRS measures. For a reconciliation of Statutory and Underlying financial line items referred to in this Annual Report refer to the FY2020 Adairs Results Presentation lodged with the Australian Securities Exchange (ASX) on 10 August 2020.

Directors' Report

Dividends

In respect of the financial year ended 28 June 2020, no interim dividend was paid given the extreme uncertainties presented at that time by the COVID-19 pandemic and the Company's desire to protect shareholder's long-term interests.

Given the underlying net profit after tax (NPAT) achieved in FY2020 and the strong start to FY2021, the Board declared a final fully franked dividend of 11.0 cents per share which represents a payout ratio of 72% of the underlying NPAT in H2 of FY2020. The Record Date for the final dividend will be 10 September 2020 with payment on 24 September 2020.

Capital Management

There was a significant change in the capital structure of Adairs through FY2020 with the acquisition of Mocka Limited in December 2019, which included an upfront cash payment (A$42.5 million) funded through an increase in Adairs' group term debt facility. The Company's efforts in actively managing its cash during the fourth quarter, combined with the support of its major suppliers, landlords and business partners, the cancellation of the interim dividend and the strong sales results delivered a very strong cash flow result for 2H FY20.

This strong cashflow saw net debt[3] fall significantly, from $46.3 million at the end of December 2019 to $1.0 million at the end of June 2020.

The Company has complied with all of its bank covenants and continues to have significant headroom. Finance facilities of $96.5 million are available until March 2023 and the Company has no current plans to materially increase or decrease its available debt facility.

We expect that Adairs and Mocka will collectively re-invest circa $15 million in working capital through the first half of FY2021 to reset inventory positions and drive continued sales growth which will be partially funded by an increase in debt.

Adairs Strategic Update

The Company believes its existing underlying strategies remain appropriate and that its performance both operationally and financially in FY2020 given its challenges are evidence of this. Adairs will continue to pursue its vertically integrated omni-channel model which it believes will deliver significant growth in shareholder value.

We set out below the five key drivers of this growth.

1. Our proven and resilient business model

- We have strong brands that we own and control. This gives us a lower cost of customer acquisition and retention, allows us to offer exclusive product and deliver higher margins.
- We have a large and loyal customer base with over 800,000 paid up members of our proprietary loyalty program, Linen Lovers. Linen Lover membership numbers continue to grow strongly each year (with a CAGR 14% of the last 3 years) and members are highly engaged – they visit Adairs more often and spend more each visit than non-members (accounting for 75% of Adairs sales).
- We have high exposure to the accelerating trend to online shopping with c.35% of group sales now being from online or omni customers and we continue to win market share of this channel.
- We have a vertical supply chain which provides us with control of the range, quality, cost and timing of our product offering. It also makes us more agile and responsive to changing markets and provides for significantly higher gross margins and levels of profitability.

2. Our profitable store formats

- Stores provide a valued and trusted engagement point with our customers. Our experienced, customer-friendly store team can create and inspire a customer's vision, deliver a personalised and tailored experience and increase sales conversion and loyalty.
- All of our stores are profitable with relatively short lease terms and profitable new store opportunities remain.
- Larger stores are more profitable and significant upsizing opportunities remain within our portfolio. Larger stores allow us to showcase more products and categories, and drive increased store profit contribution.

3. Our digital transformation

- We are focused on the development of our digital channel and accelerating our digital transformation through additional investment in customer acquisition, customer experience, our platform and our team.
- Being omni is key as customers that engage with Adairs across multiple channels make purchases more often and spend more with each purchase than those who only engage via one channel.
- There are valuable Adairs/Mocka cross-learnings which will benefit both brands.

3. Net debt is calculated as total borrowings less cash and cash equivalents. Net debt excludes Mocka contingent consideration.

4. Mocka ‘s growth potential

- Mocka’s Australian brand awareness is growing rapidly – they have a low market share in a very large category, and we are fast-tracking the expansion of their Australian warehouse facilities to support their growth.
- There are significant opportunities to expand Mocka’s product category width and depth and to optimise their supply chain planning and management.
- Cross-promotion opportunities between Mocka and Adairs are being trialled.

5. Omni Supply Chain Strategy

- In February we announced the completion of the review of our domestic supply chain and the appointment of DHL as our 3PL partner to operate a new purpose-built National Distribution Centre (NDC).
- The NDC is a key component of our integrated omni-channel strategy to better enable customers to shop Adairs how, where and when they choose and will have the capacity and flexibility to support our business growth for the next 10 years across all channels.
- Consolidating our multiple DC operations into a single NDC will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods.
- Construction of the Melbourne-based NDC is underway with annual savings of c.$3.5 million per annum anticipated from FY2022.

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 and their mitigants include:

Risk	Explanation	Mitigation
The retail environment and general economic conditions may worsen	The likely economic impact of the COVID-19 pandemic could be significant with increased levels of unemployment, lower housing prices and falling consumer sentiment. 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 materially decline, this will likely reduce the demand for Adairs’ products and adversely affect Adairs’ financial performance.	Adairs proactively manages its business based upon its assessment of the likely future environment in which it operates. This includes planned responses to changing economic conditions and ensuring that its cost base is aligned to its expected sales levels.
Business interruption	The COVID-19 pandemic forced the closure of all Adairs stores in Australia and New Zealand for between 5 and 8 weeks. In addition to their impact on the retail environment and general economic conditions, unforeseeable events such as natural disasters, wars, strikes and epidemics have the potential to materially impact Adairs through their impact on supply chain, consumer behaviour and corporate operations. Some may also pose a threat to the health and safety of those who shop and work at Adairs. These events can arise rapidly with little or no warning and their duration and the subsequent recovery period is uncertain and may be protracted.	Adairs has a dedicated Risk and Compliance Manager responsible for business continuity plans across all aspects of the Company’s operations. Scenario-based training on critical incidents are undertaken quarterly. Distribution Centres and Head Office functions have back-up sites in place. Supplier concentration and counter-party risk is monitored and managed as required.
Availability of funding and liquidity	The availability of funding and management of capital and liquidity are important to fund Adairs’ business operations and growth objectives. Reduced access to liquidity increases the risk of insolvency in the event of a rapid and extended decline in sales.	Adairs has a strong and long-standing relationship with its lending bank and its group term debt facilities are in place until March 2023. The company undertakes detailed short and medium term cash flow forecasts.

Directors' Report

Risk	Explanation	Mitigation
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.	Adairs has a highly experienced product development team who actively monitor and forecast fashion trends domestically and offshore. The company undertakes range review processes prior to purchase and post season reviews to capture key learnings. Category expansion has diversified risk across more product groups.
Competition may increase or 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. There is also the risk that Adairs does not act on opportunities to increase market share if our competitor's circumstances change in the current environment.	Competitor activity is monitored on an ongoing basis. Having sought after on-trend product, a market leading customer service culture and a popular and effective customer loyalty program (Linen Lovers) are the primary defences to new competition.
Cyber security and IT infrastructure	A significant proportion of Adair's business is conducted online and involves the collection of customer data. This includes our Linen Lovers loyalty program. The protection of customer and corporate data, and our digital infrastructure, is critical to our operations and a breach could have significant reputational, financial and regulatory implications for the Company.	Protection of customer data, corporate applications and IT infrastructure is managed by a control framework and the continuing focus on system control improvements, supported by an established and embedded security strategy across the organisation which includes the real-time services of external security specialists.
Regulatory compliance	Adairs is subject to applicable laws, regulations and contractual arrangements and is exposed to adverse regulatory or legislative changes. Breaches or adverse changes could result in negative impacts on the Company's reputation and profitability, the imposition of significant fines or other adverse consequences.	Adairs has a dedicated Risk and Compliance Manager appointed to monitor, record, and ensure compliance with all regulatory requirements. In-house compliance training and an internal audit function are supported by external legal advisors as required.
Corporate social responsibility	Corporate social responsibility means having a degree of responsibility not only for the economic consequences of Adairs' activities, but also for the social and environmental implications Adairs has expectations placed on it by customers and regulators on a range of important matters including the impact of its activities on climate change, the transparency and practices of its supply chain, and the sustainability of its business operations. A failure to acknowledge and adequately address these expectations could negatively impact Adairs' reputation and profitability.	Formal strategies are being developed to ensure that Adairs is aware of and actively managing its social and environmental conduct and impact, particularly as they relate to climate change. Traceability is already underway to ensure the Company meets its obligations under Modern Slavery legislation, including the new obligations relating to the risks associated with COVID-19.
Workplace health and safety	Adairs recognises its moral and legal responsibilities to provide a safe and healthy work environment for its team and shopping environment for its customers. Any failure to adequately address these expectations could negatively impact Adairs' reputation and profitability including via the imposition of significant fines or other adverse consequences.	Adairs has an ongoing program to embed a safety culture across the business through training and leadership. Quarterly health and safety reports are provided to the Audit and Risk Committee. An external health and safety audit will be undertaken in FY21.

Risk	Explanation	Mitigation
Management succession	Adairs has a number of executive team members considered key to the success of the company by its stakeholders. A failure to adequately plan for their succession may result in the appointment of inappropriate persons, high turnover of senior management, loss of market share, reputational damage and a decline in investor sentiment towards the Company.	Succession plans are being developed for all key management personnel. Talent mapping is currently being completed across the business to identify key team members and roles.
National Distribution Centre (NDC)	Adairs recently appointed DHL to build and operate a new national distribution centre in Melbourne. It is expected that this facility will be fully operational by July 2021. This will involve transitional arrangements from existing distribution centres which could lead to material business disruption and costs if not managed appropriately.	DHL has a core competency in project management and supply chain execution. Detailed planning and business engagement is already underway to mitigate transitional risks as the NDC comes online.
Conduct risk	It is critical that customers have trust and confidence in Adairs as a place to shop. Conduct risk is the risk of inappropriate, unethical or unlawful behaviour on the part of an organisation's management or employees and can be caused by deliberate actions or may be inadvertent, because of inadequacies in an organisation's practices, frameworks or education programs.	Adairs approach to conduct risk management is based on setting behavioural expectations through its Code of Conduct, explicit culture commitments, strong leadership, and an organisational governance framework that monitors, measures and reports upon inappropriate behaviours.

Outlook

Given continuing COVID-19 uncertainties the Board cannot provide FY2021 guidance at this time however COVID-19 has reminded Australians of the importance of a comfortable home (and home office) and is motivating strong spend in home improvement and home decoration. We expect this behaviour to persist whilst COVID-19 remains a threat in our communities and sales in the first couple of months of FY2021 have remained elevated when compared to the same period in FY2020.

Adairs expects to open 3-5 net new stores and upsize 3-5 existing stores across Australia/New Zealand in FY2021. Construction of the National Distribution Centre in Melbourne is well underway and proceeding to plan. We expect it to be fully operational by July 2021.

Significant changes in the state of affairs

Apart from the acquisition of Mocka and the appointment of DHL as our 3PL partner to operate our new National Distribution Centre (both already discussed in this report) there have been no significant changes in the state of affairs of Adairs during the financial year ended 28 June 2020.

Matters subsequent to the end of the financial year

On 4 August 2020 the Victorian Government made public health and safety directions that required Adairs to close 43 stores in the Greater Melbourne area for a period of six weeks. Our DC operations and online channel remained operational after complying with the additional restrictions. In most instances our Customer Support Office team have transitioned to working from home where possible. For all other areas Adairs continues to operate its store network with processes and protocols in place to support the safety and wellbeing of our team and customers. Mocka's Australian operations are based in Brisbane and remain unaffected.

On 9 August 2020, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is $18.6 million which represents a fully franked final dividend of 11.0 cents per share. The dividend has not been provided for in the 28 June 2020 financial statements.

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 28 June 2020.

Directors' Report

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.

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 Adairs Limited shares and options

599,724 ordinary shares

Other Current Directorships

Non-executive director of Fruit Master Holdings Pty Ltd

Former Listed Directorships in the last 3 years

None

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.

Special Responsibilities

Managing Director and Chief Executive Officer

Interest in Adairs Limited shares and options

681,668 ordinary shares

2,443,379 option

Other Current Directorships

None

Former Listed Directorships in the last 3 years

None

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.

Special Responsibilities

Chair of the Audit and Risk Committee

Member of the Remuneration Committee

Member of the Nomination Committee

Interest in Adairs Limited shares and options

41,667 ordinary shares

Other Current Directorships

Chair of Colnvest Ltd

Non-executive director of Sonic Healthcare Ltd

Non-executive director of Sigma Healthcare Ltd

Non-executive director of Geelong Football Club

Non-executive director CIMIC Group Ltd

Former Listed Directorships in the last 3 years

Non-executive director of Xenith IP Ltd

Kiera Grant

Independent Non-Executive Director

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 and Trustee 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 the Ascham Foundation

Special Responsibilities

Member of the Remuneration Committee

Member of the Nomination Committee

Former Listed Directorships in the last 3 years

None

Interest in Adairs Limited shares and options

142,572 ordinary shares

Simon West

Independent Non-Executive Director

Simon is currently CEO of Torpedo7, an adventure sport retailer, and previously 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 Onceit Limited

Special Responsibilities

Member of the Nomination Committee

Former Listed Directorships in the last 3 years

Non-Executive Director of trademe Group Limited

Interest in Adairs Limited shares and options

Nil

David MacLean

Non-Executive Director

David was the Chief Executive Officer and Managing Director of Adairs for 14 years from 2002-2016, having previously held 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

Special Responsibilities

Member of the Nomination Committee

Member of Remuneration Committee

Former Listed Directorships in the last 3 years

None

Interest in Adairs Limited shares and options

2,993,486 ordinary shares

Trent Peterson

Independent Non-Executive Director

Trent has over 20 years of 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.

Special Responsibilities

Chair of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nomination Committee

Interest in Adairs Limited shares and options

1,405,334 ordinary shares

Other Current Directorships

Chair and Non-executive director of Cirrus Media Pty Ltd

Chair and Non-executive director of Universal Store 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 the Ascham Foundation

Former Listed Directorships in the last 3 years

None

Michael Cherubino

Executive Director Property and Business Development

Michael has over 24 years' experience in the retail sector, including as CFO of Adairs immediately prior to his current role. Prior to Adairs Michael held roles with National Australia Bank and Bankwest.

Special Responsibilities

Member of the Nomination Committee

Interest in Adairs Limited shares and options

2,058,135 ordinary shares

1,284,074 options

Other Current Directorships

None

Former Listed Directorships in the last 3 years

None

Company Secretary

Fay Hatzis is the Company Secretary (appointed 6 June 2019).

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 2020 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	17	17	4	4	2	2	2	2
D MacLean	17	17	–	–	2	2	2	2
T Peterson	17	17	4	4	2	2	2	2
M Cherubino	17	17	–	–	2	2	–	–
K Spargo	17	16	4	3	2	2	2	2
M Ronan	17	17	–	–	2	2	–	–
K Grant	17	17	–	–	2	2	2	2
S West	17	16	–	–	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 27 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 in accordance with our policy on non-audit services provided by the independent external auditor. Those requiring approval by the Audit and Risk Committee are approved 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.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 37.

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;

a. 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

b. 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) in accordance with ASIC Corporations *(Rounding in Financial/Directors' Reports) Instrument 2016/191.* The Company is an entity to which this legislative instrument applies.

REMUNERATION REPORT (AUDITED)

REMUNERATION REPORT (AUDITED)

The directors of Adairs Limited present the Remuneration Report for the Company for the 52 week period from 1 July 2019 to 28 June 2020. 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
Kiera Grant	Independent, Non-executive Director
Trent Peterson	Independent Non-executive Director
David MacLean	Non-executive Director
Executive Directors	
Mark Ronan	Chief Executive Officer (CEO) and Managing Director
Michael Cherubino	Executive Director Property and Business Development
Other Key Management Personnel	
Ashley Gardner	Chief Financial Officer (CFO) (appointed 14 August 2019)

Contents

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 are expected to 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 Ashley Gardner (Chief Financial Officer).

The financial results for FY2020 were characterised by solid underlying performance for the first 9 months which were then disrupted by the closure of stores for 6-8 weeks as a result of the COVID-19 pandemic lockdowns in April and May across Australia and New Zealand. During the period stores were closed, online sales were very strong and once stores reopened sales were well ahead of the prior year. Total sales for the Adairs Segment were 4.5% up on the prior year, with Like for Like sales up 12.9% (adjusting for the store closure period). Underlying Adairs EBIT for FY2020 of $54.0 million was 24.3% up on the prior year.

In November 2019, the Company acquired Mocka Limited. The results of Mocka for 7 months are included in the consolidated company results. Mocka contributed $6.7 million EBIT for the FY2020 year.

Total consolidated sales of $388.9 million, including Mocka for 7 months, were 12.9% up on last year. Consolidated underlying EBIT for the year, including Mocka for 7 months, was $60.7 million, up 39.7% on the prior year.

FY2020 Remuneration

Remuneration packages: During FY20, as a result of the uncertainty related to the COVID-19 pandemic, all members of the Board and executive leadership team accepted a reduction in remuneration of between 15% and 33% for the period April to June 2020. This was a temporary pay reduction and remuneration was restored to 100% for each Director and executive from July 2020.

Short-term incentive: The Company's short-term incentive ("STI") plan rewards performance against financial measures. For the 2020 financial year most of the financial and operational targets were achieved and as a result, the short-term incentive entitlements are payable to the executive participants. When considering the outcomes under the short-term incentive plan, the Remuneration Committee reviewed the performance of the business and the executives for the period prior to the disruptions related to COVID-19 (July 2019 to March 2020) and the performance during the disruption period (April to June 2020). The net financial benefits provided to the company from government subsidies in Australia and New Zealand of approximately $5.3 million and the acquisition of Mocka and the transaction costs and earnings contribution arising from it were excluded from the assessment of financial performance.

Long-term incentive: Long term incentives ("LTI") issued to executives in FY2020 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. Details of the options for the executive directors and KMP are included in Section 8 of the Remuneration Report.

During FY20 the Company also provided an interest free, non-recourse loan to Ashley Gardner, Chief Financial Officer, as part of his remuneration package. Details of this arrangement are included in Section 7 of this report.

Fees for Non-executive Directors: During the year there have been no changes to the remuneration of directors, following a review that was implemented in 2019. However, directors voluntarily reduced their fees by 33% for the period April to June 2020 to support the company as a result of the uncertainty related to the COVID-19 pandemic. Normal remuneration for non-executive directors was restored from July 2020.

The Board believes the current levels of remuneration are fair and appropriate and reflect the alignment between shareholders' interests and the Company's remuneration policies and practices.

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 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 loans to acquire shares in the company, 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 7 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 arrangement 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 28 June 2020.

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 FY2020 short term incentive (STI) scheme for Senior Executives is based on achieving pre-determined performance criteria and targets. The primary performance condition was the underlying EBIT of the business. The FY2020 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 2 July 2023. Key details of the LTI plan are summarised in Section 5. Shareholder approval for the 2020 LTI scheme for issue to Senior Executives was obtained at the Annual General Meeting on 25 October 2019.

The following table shows the Company's financial performance for FY2016 to FY2020.

Continuing Operations	FY2020[3] Performance	FY2019 Performance	FY2018[2] Performance	FY2017[2] Performance	Pro-forma[1,2] FY2016 Performance
Sales ($'000)	$388,933	$344,430	$314,769	$264,964	$247,426
Like for like sales (%)	+15.9%	+7.2%	+14.3%	-1.4%	+11.7%
EBIT ($'000)[1]	$59,041	$43,446	$45,261	$30,812	$39,231
Net profit before tax ($'000)	$52,791	$42,286	$43,816	$28,921	$37,353
Net profit after tax ($'000)	$35,281	$29,643	$30,561	$21,017	$26,143
Share price at end of year	$2.25	$1.42	$2.23	$0.86	$2.49
Dividends paid per shares	11.0 cents	14.5 cents	13.5 cents	8.0 cents	11.5 cents
Earnings per share	21 cents	18 cents	18 cents	13 cents	16 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. Due to adoption of AASB 15 in FY2019 the prior periods are not comparative.
3. FY20 performance includes Mocka for 30 weeks and the adoption of AASB16 Leases for the first time (refer to Note 2.3(i)(a) of the consolidated financial statements) . EBIT is therefore not comparable to prior periods. LFL sales excludes Mocka.

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 FY2020 was as follows:

Figure 1: Percentage mix of remuneration elements for Senior Executives for FY2020

	% of total target remuneration for FY2020		
Senior Executive	Fixed remuneration	At risk remuneration STI maximum opportunity	At risk remuneration LTI maximum opportunity[1]
Mark Ronan	43%	31%	26%
Michael Cherubino	55%	25%	19%
Ashley Gardner	27%	23%	50%[2]

1. LTI Options are eligible to vest on 2 July 2024, subject to service and performance conditions.
2. LTI includes the non-recourse loan to Ashley Gardner.

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 FY2020

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 directors' 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). In FY2020, the Remuneration Committee reviewed the performance of the business and the executives for the period prior to the disruptions related to COVID-19 (July 2019 to March 2020) and the performance during the disruption period (April to June 2020). The financial benefits provided to the Company from government subsidies in Australia and New Zealand were excluded from the assessment of performance for the purposes of the STI evaluation.

Figure 2: Percentage of FY2020 STI paid and forfeited for Senior Executives

The FY2020 STI was assessed following completion of the performance period from 1 July 2019 to 28 June 2020. 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	$420,000	$420,000	100%	0%
Michael Cherubino	$200,000	$200,000	100%	0%
Ashley Gardner	$339,500	$339,500	100%	0%

STI arrangements for FY2021

Set out in Figure 3 (below) is the maximum STI opportunity for each Senior Executive for FY2021. The maximum STI opportunity for Mark Ronan and Ashley Gardner as a percentage of fixed remuneration is 70% in line with the market for equivalent roles. The maximum STI opportunity for Michael Cherubino is $250,000.

The FY2021 STI will be based on similar performance and service conditions as the FY2020 STI (as set out above). The Board has reviewed and reset the EBIT targets for FY2021. Details of the FY2021 STI and any amount awarded to Senior Executives will be disclosed in the FY2021 Remuneration Report.

Figure 3: FY2021 remuneration opportunities

Senior Executive	Fixed remuneration (at 30 June 2021)	Maximum STI opportunity for FY2021[1]	% of fixed remuneration available as base STI
Mark Ronan	$650,000	$455,000	70%
Michael Cherubino	$465,000	$250,000	53.7%
Ashley Gardner	$510,000	$357,000	70%

1. This is based on the maximum STI opportunity. The actual reward is dependent on the achievement of performance conditions in FY2021. The board also reserves the right to pay participants a discretionary amount where they believe circumstances demand, though this discretion is exercised sparingly.

LTI arrangements for FY2020

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 25 October 2019, Mark Ronan, Michael Cherubino and Ashley Gardner received grants of share options as their FY2020 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 FY2020.

The performance period is from 1 July 2019 to 2 July 2023. 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 2023, being 3.7 years from the LTI Options grant date. The FY2020 share options have a six year expiry period (until 25 October 2025). After 25 October 2025, any unexercised LTI Options will lapse. On vesting, an exercise price of $1.86 per share option will be payable by the Senior Executive to receive their share allocation. The exercise price per share option was calculated as the volume weighted average price (VWAP) of Adairs shares over the five trading days immediately prior to the date of the 2019 Annual General Meeting, rounded up to the nearest whole cent per share, plus 5 cents. 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 3 July 2022.

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. Any material changes to accounting standards during the measurement period will be considered by the company to ensure the measurement is consistent and fair over the testing period.

Remuneration Report (Audited)

- **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 3 July 2022.

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 FY2020 to FY2022. 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 2 July 2023).

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 three 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).

Service Agreements

Adairs Holdings 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 Ashley Gardner 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 Holdings 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 Holdings may make payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Adairs Holdings 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 Holdings 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, Michael Cherubino and Ashley Gardner, 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, Remuneration or Audit and Risk Committees. In FY2020, the Director fees for Trent Peterson were paid to Catalyst Investment Managers Pty Ltd ("Catalyst") for the period July 2019 to March 2020, when Catalyst ceased to be a shareholder in the Company. From April 2020 to June 2020 Trent Peterson received his fees directly.

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

During the year, the Company provided an interest free, non-recourse loan amounting to $750,000 to Ashley Gardner to acquire shares in the Company. Mr Gardner must use proceeds arising from the sale of the shares to repay any outstanding loan balance. The loan must also be repaid if Mr Gardner ceases employment with the Company. As a condition of the loan, Mr Gardner was required to invest a further $250,000 of personal funds to purchase shares in the Company totalling $1,000,000. A total of 572,300 shares were purchased on-market by Mr Gardner at an average price of $1.75 per share. As part of this agreement, up to 55% of the loan will be forgiven progressively between August 2022 until maturity in August 2027 as follows, subject to continued employment with the Company:

Date	Forgiveness amount
14 August 2022	$93,750
14 August 2023	$97,750
14 August 2024	$56,250
14 August 2025	$56,250
14 August 2026	$56,250
14 August 2027	$56,250

The balance of the loan at maturity, amounting to $337,500, must be repaid on or before 14 August 2027. Repayment of the loan may also be made in full by returning the purchased shares under the arrangement back to the Company at any time during the term of the loan and at maturity.

The non-recourse nature of the loan and the potential loan forgiveness give rise to benefits to Mr Gardner that are considered share-based payments. The share-based payment expense is measured at fair value at the grant date and recognised as an expense when the arrangement is considered to vest, being immediately at the grant date. The vesting date is considered to be the grant date due to the non-recourse nature of the arrangement allowing Mr Gardner to return the subject shares to the Company in order to extinguish the loan during the term to maturity. During the 52 weeks ended 28 June 2020, the share-based payment expense recognised in the consolidated financial statements related to this agreement amounted to $472,000.

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.

Section 8: Details of Remuneration

Details of the remuneration of the Directors and KMP of the Company for the current financial year are set out below.

52 weeks ended 28 June 2020	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**	**Super annuation**	**Other**			**Long-Term Incentive Share options**	
Non-Executive Directors									
Michael Butler	$121,385	–	–	$11,532	–	–	–	–	$132,917
Trent Peterson[1]	$73,333	–	–	–	–	–	–	–	$73,333
Kate Spargo	$75,343	–	–	$7,158	–	–	–	–	$82,501
David MacLean	$66,971	–	–	$6,362	–	–	–	–	$73,333
Kiera Grant	$66,971	–	–	$6,362	–	–	–	–	$73,333
Simon West	$66,971	–	–	$6,362	–	–	–	–	$73,333
Total non-executive Directors	**$470,974**	–	–	**$37,776**	–	–	–	–	**$508,750**
Executive Directors									
Mark Ronan	$551,875	$420,000	–	$21,003	–	–	–	$65,866	$1,058,744
Michael Cherubino	$408,616	$200,000	–	$25,000	–	–	–	$33,071	$666,687
Other Senior Executives									
Ashley Gardner[2]	$376,540	$339,500	–	$22,115	–	–	–	$501,908	$1,240,063
Total executive	**$1,337,031**	**$959,500**	–	**$68,118**	–	–	–	**$600,845**	**$2,965,494**
Total 2020	**$1,808,005**	**$959,500**	–	**$105,894**	–	–	–	**$600,845**	**$3,474,244**

1. The Director fees for Trent Peterson for the period July 2019 March 2020 were paid to Catalyst Investment Managers Pty Ltd. Directors fees for the period April 2020 – June 2020 were paid directly to Mr Peterson.
2 Ashley Gardner commenced as Chief Financial Officer on 14 August 2019. Mr Gardner's share based payments consist of $29,837 of share options, and $472,071 related to the non-recourse interest free loan provided to acquire shares in the Company.

Details of the remuneration of the Directors and KMP of the Company for the previous financial year are set out below.

52 weeks ended 28 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**	**Super annuation**	**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
Kiera 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.

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 FY2020.

No. of Shares	Held at 30 June 2019	Granted as Remuneration	Received on exercise of options	Other net change[2]	Held at 28 June 2020
Non-Executive Directors					
Michael Butler	449,724	–	–	150,000	599,724
Trent Peterson[1]	1,440,019	–	–	(34,685)	1,405,334
Kate Spargo	41,667	–	–	–	41,667
David MacLean	2,993,486	–	–	–	2,993,486
Kiera Grant	–			142,572	142,572
Simon West	–			-	–
Executive Directors				–	–
Mark Ronan	681,668	–	–	–	681,668
Michael Cherubino	2,058,135	–	–	–	2,058,135
Other Senior Executives					
Ashley Gardner[3]	–	–	–	572,300	572,300

1. This excludes the economic interest held by Trent Peterson in ordinary shares that were, until their sale, held by Catalyst Funds as a result of his role at Catalyst Investment Managers Pty Ltd. Trent Peterson had 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 FY2020. 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 as well as his direct on-market purchases.
3. Ashley Gardner commenced as Chief Financial Officer on 14 August 2020. The shares held by Mr Gardner were acquired in accordance with the Loan Deed between Mr Gardner and the Company. Further details are included in section 7.

Options issued to Key Management Personnel

The following table discloses the details of option schemes awarded to KMP in FY2020 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 28 June 2020
Non-executive Directors								
Michael Butler	–	–			–		–	–
Trent Peterson	–	–			–		–	–
Kate Spargo	–	–			–		–	–
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	–	–
	25 Oct 2019	900,000	$0.38	2 Jul 2023	$1.86	18 Dec 2025	–	–
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	–	–
	25 Oct 2019	400,000	$0.38	2 Jul 2023	$1.86	25 Oct 2025	–	–
Other Senior Executives								
Ashley Gardner	25 Oct 2019	700,000	$0.38	2 Jul 2023	$1.86	25 Oct 2025	–	–

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 FY2020. This was the fourth year options were granted to Senior Executives as LTI remuneration.

No. of Share Options	Held at 30 June 2019	Quantity Granted	Exercised	Forfeited	Lapsed	Held at 28 June 2020	Vest %	Vested and exercisable as at 28 June 2020
Non-executive Directors								
Michael Butler	–	–	–	–	–	–	–	–
Trent Peterson	–	–	–	–	–	–	–	–
Kate Spargo	–	–	–	–	–	–	–	–
David MacLean	–	–	–	–	–	–	–	–
Executive Directors								
Mark Ronan	1,543,379	900,000	–	–	–	2,443,379	–	–
Michael Cherubino	884,074	400,000	–	–	–	1,284,074	–	–
Other Senior Executives								
Ashley Gardner	–	700,000	–	–	–	700,000	–	–

For details on the valuation of the options, including models and assumptions used, please refer to Note 25.

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
28 August 2020

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 28 June 2020, 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

Melbourne

28 August 2020

INDEPENDENT AUDITOR'S REPORT

to the members of Adairs Limited

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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 28 June 2020, 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 28 June 2020 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 (including Independence Standards)* (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.

Building a better working world

Acquisition of Mocka Limited

Why significant	How our audit addressed the key audit matter
In December 2019, the Group completed the acquisition of Mocka Limited ("Mocka") for purchase consideration including: ► Cash of $46.448 million; ► Shares in Adairs Limited valued at $5.749 million; and ► Contingent consideration valued at the date of acquisition at $32.297 million. The acquisition of Mocka has been accounted for as a business combination in accordance with AASB 3 *Business Combinations* and has involved consideration as to the acquisition date and the recognition and measurement of identifiable assets acquired and liabilities assumed as at that date. Included in the assets acquired was an indefinite life brand name intangible asset that was valued at $33.114 million applying the methodology and inputs as described in Note 2.5(b). The Sale and Purchase Agreement contains an earn-out arrangement payable to the vendors of Mocka as described in Note 13. The portion of the earn-out arrangement that is not related to future employment conditions of vendors, is included as contingent consideration in the business combination. The contingent consideration is measured at fair value at both the acquisition date and the reporting date. The assessment of fair value involves judgement with respect to forecast earnings in future periods. Goodwill arising on the acquisition of Mocka was $48.409 million. The acquisition of Mocka is significant to the financial position of the Group and given the judgements and estimates involved in the acquisition accounting, this was considered a key audit matter. The Group has detailed the acquisition of Mocka in Note 13 of the financial report.	Our audit procedures, involving our valuation specialists where necessary, included the following: ► Reviewed the Sale and Purchase Agreement and other documentation to assess the key terms of the business combination, including the acquisition date and purchase consideration. ► Assessed the completeness and valuation of assets acquired and liabilities assumed through the business combination. ► Assessed the valuation methodology applied and inputs utilised in determining the fair value of the acquired brand name intangible asset, including assessing future cash flow forecasts, royalty rates and the discount rate. Where applicable we have assessed these inputs against external data. ► Assessed the accounting treatment of the earn-out arrangement and the estimate of the fair value of the contingent consideration at the acquisition date. This included application of the terms of the Sale and Purchase Agreement and assumptions of relevant future earnings forecasts over the expected earn-out period. ► Assessed the fair value of the contingent consideration at 28 June 2020. ► Assessed the adequacy of the related disclosures made in the financial report.

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Accounting for leases, including the adoption of AASB 16 *Leases*

Why significant	How our audit addressed the key audit matter
The Group adopted Australian Accounting Standard AASB 16 *Leases* ("AASB 16") at 1 July 2019. The Group has lease arrangements as lessee for retail stores, distribution centers and office space. Note 2.3(i)(a) of the financial report details the accounting treatment applied by the Group on adoption of AASB 16, including the practical expedients applied, and describes the accounting policy for leases .. There is complexity involved in modelling the accounting for the Group's leases and involves the application of significant judgement in determining the: ► Incremental borrowing rate at which to discount future lease payments to present value; and ► Lease term of contracts with renewal options. Upon adoption of AASB 16, lease liabilities of \$107.112 million and right-of-use assets of \$93.010 million were recognised in the statement of financial position. The quantitative impact of the transition adjustments and significant judgements applied made the adoption of AASB 16 significant to the financial report and a key audit matter.	Our audit procedures, at the transition date and the reporting date as applicable, included the following: ► Considered the appropriateness of the Group's accounting policies as detailed in Note 2.3(i)(a) of the financial report against the requirements of AASB 16. This included the application of available practical expedients selected by the Group as part of the transition process. ► Assessed the integrity and mathematical accuracy of the Group's lease accounting calculation model. ► For a sample of leases, agreed the inputs in the lease accounting calculation model to the underlying lease agreements. ► Assessed the incremental borrowing rate applied in the lease accounting calculation model to discount future lease payments to present value against borrowing rates available to the Group. ► Assessed the Group's judgements in relation to the lease term of contracts with renewal options in the lease accounting calculation model. ► Assessed the adequacy of the related disclosures made in the financial report.

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Carrying value of inventories

Why significant	How our audit addressed the key audit matter
As at 28 June 2020, the Group held \$43.404 million in inventories representing 11% of total assets. As detailed in Note 2.4(i) 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. Given the judgment involved in determining the carrying value of inventories, this was considered a key audit matter.	Our audit procedures included the following: ► Assessed the application of the Group's inventory costing methodology, 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 key inputs to 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 28 June 2020 and compared the selling prices with the carrying value of inventories.

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Carrying value of intangible assets

Why significant	How our audit addressed the key audit matter
As at 28 June 2020, 50% of the Group's total assets was represented by goodwill and indefinite life brand names recognised from business combinations. As detailed in Note 2.4(l) and Note 9 of the financial report, the goodwill and brand names are tested by the Group for impairment annually. These assets are allocated to and tested within the Adairs and Mocka cash generating units ("CGU"). The recoverable amount of these CGUs 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. These estimates are based on conditions existing and emerging as at 28 June 2020, including management's assessment of the future impacts of the COVID-19 pandemic, which is impacting the markets within which the Group operates to varying degrees. Note 9 of the financial report details 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. The carrying value of intangible assets was considered a key audit matter due to the significance of this balance and the judgments involved.	Our audit procedures, involving our valuation specialists where necessary, included the following,: ► Assessed the application of the Group's valuation methodology against the requirements of Australian Accounting Standards. ► 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 reviewed 2021 budget. ► Compared the data used in the valuation to the actual and budgeted financial performance of the underlying cash generating unit to assess the historical forecasting accuracy of the Group. ► 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.

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 2020 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.

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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, actions taken to eliminate threats or safeguards applied.

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 24 to 36 of the directors' report for the 52 weeks ended 28 June 2020.

In our opinion, the Remuneration Report of Adairs Limited for the 52 weeks ended 28 June 2020, 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

28 August 2020

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 28 June 2020 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 28 June 2020 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 28 June 2020.

On behalf of the Board

Michael Butler
Chairman

Mark Ronan
Chief Executive Officer and Managing Director

Melbourne
28 August 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the 52 weeks ending 28 June 2020

	Note	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Revenue from contracts with customers	3(a)	388,933	344,430
Revenues		**388,933**	**344,430**
Cost of sales		(166,814)	(147,306)
Gross profit		**222,119**	**197,124**
Other income	3(b)	296	347
Depreciation and amortisation expenses	3(c)	(39,318)	(7,689)
Finance expenses	3(d)	(6,250)	(1,237)
Salaries and employee benefits expense	3(e)	(78,865)	(78,488)
Occupancy expenses		(10,066)	(42,742)
Advertising expenses		(10,760)	(8,472)
Other expenses from ordinary activities	3(f)	(20,481)	(16,557)
Costs associated with the acquisition of Mocka	3(g)	(3,884)	–
Profit before income tax		**52,791**	**42,286**
Income tax expense	4	(17,510)	(12,643)
Profit for the period		**35,281**	**29,643**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	22	21.0 cents	17.9 cents
Diluted earnings per share	22	20.7 cents	17.9 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 ending 28 June 2020

	Note	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Profit for the period		**35,281**	**29,643**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss			
Net movement of cash flow hedges		(251)	(771)
Income tax relating to the components of other comprehensive income	4	74	232
Exchange differences on translation of foreign operations		(171)	(36)
Other comprehensive income for the period, net of tax		(348)	(575)
Total comprehensive income for the period		**34,933**	**29,068**

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 28 June 2020

	Note	As at 28 June 2020 $'000	As at 30 June 2019 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	5	23,922	16,708
Trade and other receivables	6	2,949	1,894
Inventories	7	43,404	42,782
Other assets	6	6,754	6,311
Derivative financial instruments	17	589	1,013
TOTAL CURRENT ASSETS		**77,618**	**68,708**
NON-CURRENT ASSETS			
Property, plant and equipment	8	20,843	20,868
Intangibles	9	196,143	113,525
Right-of-use asset	16, 2.3(i)(a)	94,375	–
Derivative financial instruments	17	149	–
TOTAL NON-CURRENT ASSETS		**311,510**	**134,393**
TOTAL ASSETS		**389,128**	**203,101**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	10	31,257	29,658
Other liabilities	11	10,721	7,868
Lease liabilities	16, 2.3(i)(a)	36,252	–
Current tax liabilities		9,931	2,672
Provisions	14	6,121	6,419
TOTAL CURRENT LIABILITIES		**94,282**	**46,617**
NON-CURRENT LIABILITIES			
Deferred tax liabilities	4	12,182	5,721
Other liabilities	11	34,833	1,032
Interest bearing liabilities	12	24,927	24,949
Lease liabilities	16, 2.3(i)(a)	78,348	–
Provisions	14	3,985	6,465
TOTAL NON-CURRENT LIABILITIES		**154,275**	**38,167**
TOTAL LIABILITIES		**248,557**	**84,784**
NET ASSETS		**140,571**	**118,317**
EQUITY			
Contributed equity		74,098	68,349
Share-based payment reserve	15(b)	289	329
Foreign currency translation reserve	15(c)	(198)	(27)
Cash flow hedge reserve	15(d)	532	709
Retained earnings	15(e)	65,850	48,957
TOTAL EQUITY		**140,571**	**118,317**

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 28 June 2020

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 30 June 2019		**68,349**	**329**	**709**	**(27)**	**48,957**	**118,317**
Impact of adoption of new accounting standards[i]		–	–	–	–	(5,118)	(5,118)
At 30 June 2019 (adjusted)		**68,349**	**329**	**709**	**(27)**	**43,839**	**113,199**
Profit for the period		–	–	–	–	35,281	35,281
Other comprehensive income for the period		–	–	(177)	(171)	–	(348)
Total comprehensive income for the period		–	–	**(177)**	**(171)**	**35,281**	**34,933**
Transactions with owners in their capacity as owners:							
Dividend payment	24	–	–	–	–	(13,270)	(13,270)
Issued Shares		5,749	–	–	–	–	5,749
Issue of non-recourse loan	25	–	(750)	–	–	–	(750)
Share-based payments	25	–	710	–	–	–	710
At 28 June 2020		**74,098**	**289**	**532**	**(198)**	**65,850**	**140,571**

i. The Group has adopted AASB 16 Leases on a modified retrospective basis. This resulted in a decrease of $5,118,000 to retained earnings as at 1 July 2019, being the cumulative effect on initial application of the standard (refer to Note 2.3(i)(a)). The comparative results for the 52 weeks ended 30 June 2019 are not restated as permitted by the standard.

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 1 July 2018		**68,349**	**217**	**1,248**	**9**	**46,357**	**116,180**
Impact of adoption of new accounting standards[ii]		–	–	–	–	(2,991)	(2,991)
At 1 July 2018 (adjusted)		**68,349**	**217**	**1,248**	**9**	**43,366**	**113,189**
Profit for the period		–	–	–	–	29,643	29,643
Other comprehensive income for the period		–	–	(539)	(36)	–	(575)
Total comprehensive income for the period		–	–	**(539)**	**(36)**	**29,643**	**29,068**
Transactions with owners in their capacity as owners:							
Dividend payment	24	–	–	–	–	(24,052)	(24,052)
Share-based payments	25	–	112	–	–	–	112
At 30 June 2019		**68,349**	**329**	**709**	**(27)**	**48,957**	**118,317**

ii 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.

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 28 June 2020

	Note	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		430,336	379,236
Payments to suppliers and employees (inclusive of GST)		(323,105)	(330,437)
Interest received		90	77
Income tax paid		(11,340)	(12,666)
Receipts from Government Grants		7,136	–
Interest paid		(5,810)	(1,193)
Net cash flows from operating activities	5	97,307	35,017
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangibles		(7,531)	(6,959)
Acquisition of subsidiary, net of cash acquired	13	(42,509)	–
Net cash flows used in investing activities		(50,040)	(6,959)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawings of borrowings		48,000	19,000
Repayment of borrowings		(47,000)	(19,000)
Payment of borrowing costs		(865)	(50)
Dividends paid	24	(13,270)	(24,052)
Payment of principal portion of lease liabilities		(26,885)	–
Net cash flows used in financing activities		(40,020)	(24,102)
Net increase in cash and cash equivalents		7,247	3,956
Net foreign exchange differences		(33)	34
Cash and cash equivalents at beginning of the period		16,708	12,718
CASH AND CASH EQUIVALENTS AT END OF PERIOD	**5**	**23,922**	**16,708**

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 ending 28 June 2020

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ended 28 June 2020 were authorised for issue in accordance with a resolution of the directors on 28 August 2020.

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 FY2020, there was a 52 week reporting period (the comparative 2019 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 three operational entities and information on other related party relationships is provided in Note 21.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

2.1 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, contingent consideration and share based payments which have been measured at fair value.

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 16 *Leases*, the comparative results for the 52 weeks ended 30 June 2019 are not restated as the Group has adopted the modified retrospective method (refer to Note 2.3 (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.

2.2 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.

2.3 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 30 June 2019, except as follows:

(i) New and amended standards and interpretations

(a) AASB 16 Leases

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

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

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

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

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

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

› Leases previously accounted for as operating leases

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

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

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

The effect of adopting AASB 16 is as follows:

Impact on the consolidated statement of financial position

Impact on the statement of financial position (increase/(decrease)) at 1 July 2019

	$'000
Assets	
Non-current assets	
Right-of-use asset	93,010
Total non-current assets	**93,010**
Total assets	**93,010**
Liabilities	
Current liabilities	
Lease liabilities	27,691
Provisions	(1,532)
Total current liabilities	**26,159**
Non-current liabilities	
Deferred tax liability	(2,399)
Lease liabilities	79,421
Provisions	(5,053)
Total non-current liabilities	**71,969**
Total liabilities	**98,128**
Net assets	**(5,118)**
Equity	
Retained earnings	(5,118)
Total equity	**(5,118)**

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.3 Changes in accounting policy, accounting standards and interpretations (continued)

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

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

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

› **Right-of-use assets**

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

› **Lease liabilities**

At the commencement date of the lease, the Group recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. The variable lease payments that do not depend on an index or a rate are recognised as an expense in the period on which the event or condition that triggers the payment occurs.

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

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

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

› **Significant judgement and estimates**

Determining the lease term of contracts with renewal options

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

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

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

Extension options are negotiated by management to provide flexibility in managing the leased-asset portfolio and align with the Group's business needs. The present value of lease payments to be made under these options considered reasonably certain to be exercised have been included in the lease liability balance at 28 June 2020. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised is $42,900,000, which includes potential lease payments within the next five years of $6,705,000 should those options be exercised.

The Group also has a number of leases in holdover that are cancellable by the Group or the lessor with a short-term notice period. The lease term for cancellable leases has been determined by assessing whether termination options are reasonably certain to be exercised by Adairs. The Group's exposure to future lease payments is not included in the measurement of lease liabilities as cancellable leases ultimately depends on whether the Group agrees to renew the lease under revised terms or decides to exit a lease.

Determining the incremental borrowing rate

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

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

The Group has adopted AASB Interpretation 23 Uncertainty over Income Tax Treatments retrospectively from 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 determined, based on its tax compliance, that it is probable that its tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. The Interpretation did not have an impact on the consolidated financial statements of the Group.

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

(a) 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies

(a) 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 12 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 12 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 12 months after the reporting period; or
- There is no unconditional right to defer the settlement of the liability for at least 12 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.

(b) 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. A provision for expected credit loss is determined based on historic credit loss rates and adjusted for forward looking factors specific to the debtor and the economic environment.

(c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 28 June 2020. 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 (refer to Note 2.4(y) and Note 13).

(d) 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;

- 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 or group of cash generating units 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 or group of cash generating units 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.

(e) 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.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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.

(f) 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.

(g) 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.

(h) Revenue from contracts with customers

Revenue from the 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.

- **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.

› **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.

› **Rights of return**

When a contract provides a customer with a right to return the goods within a specified period (typically 30-60 days, with extended terms of 60-90 days for Linen Lover members), 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.

› **Gift card breakage revenue**

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.

› **Online sales**

Online sales are recognised upon the satisfaction of the Group's performance obligation which 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, being a cost incurred to fulfil the Group's performance obligation.

(i) Inventories

Inventories held by the Group are finished goods and are valued at the lower of cost and net realisable value.

The value of finished goods includes the 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.

(j) 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.

(k) 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
Leasehold improvements	Straight Line	Over lease term
Shop fixtures and fittings	Straight Line	Over lease term

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(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.

(l) 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.

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.

(m) 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.

(n) Transaction costs

Transaction costs are recognised as expenses using the effective interest method as described in Note 2.4(q).

(o) 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.

(p) 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.

(q) 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.

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.

(r) 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

(s) 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.

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.

(t) 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.

(u) 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 as defined by AASB 9. 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.

(v) 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 below:

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 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.

(w) Share-based payments

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

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 25.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.4 Summary of significant accounting policies (continued)

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.

(x) Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

During the 52 weeks ended 28 June 2020, the Group received subsidies from the Australian and New Zealand governments related to the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs. This government grant income received, or receivable has been recognised within Salaries and employee benefits expense and disclosed in Note 3(e).

2.5 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:

(a) 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.

Lease related judgements

Refer to Note 2.3(i)(a) for a description of lease related judgements.

(b) Significant accounting estimates and assumptions

Business combinations

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

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

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

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

Refer to Note 13 with respect to the acquisition of Mocka Limited ("Mocka") during the 52 weeks ended 28 June 2020.

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 or group of cash generating units to which the goodwill and intangibles with indefinite useful lives are allocated. These estimates are based on conditions existing and emerging as at 28 June 2020, including management's assessment of the future impacts of the COVID-19 pandemic, which is impacting the markets within which the Group operates to varying degrees. The assumptions used in this estimation of the 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 25.

Long service leave provision

As discussed in Note 2.4(p), 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 2.4(h) for further details in relation to the accounting policy for revenue from contracts with customers.

Measurement of brand names acquired in a business combination

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

Measurement and classification of the Mocka earn-out arrangement

In reference to the Sale and Purchase Agreement related to the Mocka business combination, the Group has agreed to an earn-out arrangement with the vendors. The fair value of the Mocka earn-out arrangement is determined with reference to an agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The determination of fair value requires estimates by management of future earnings before interest and tax, expected payment periods and discount rates.

A portion of the earn-out arrangement is contingent on certain vendors remaining in continuous employment up to 34 months from the acquisition date and this portion will be recognised as an expense in the statement of profit and loss over the relevant period of service (refer to Note 3(g)).

The portion of the earn-out arrangement that is not related to employment conditions is included as contingent consideration in the business combination. The fair value of the contingent consideration is remeasured at each reporting date based on the above outlined estimates.

Lease related estimates

Refer to Note 2.3(i)(a) for a description of lease related estimates.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (continued)

2.6 Segment reporting

For management purposes, the Group is organised into business units which form two reportable segments, being Adairs and Mocka. Prior to the acquisition of Mocka on 1 December 2019, the Group operated one reportable segment, being Adairs. Therefore, the entire financial performance and position of the Group for the prior 52 weeks ended 30 June 2019 represents the Adairs segment.

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

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

The following table presents the financial performance and position of the Group's operating segments for the 52 weeks ended 28 June 2020:

	Adairs $'000	Mocka $'000	Consolidated $'000
52 weeks ended 28 June 2020			
Revenue			
External customer	359,946	28,987	388,933
Inter-segment	–	–	–
Total revenue	**359,946**	**28,987**	**388,933**
Income/(expenses)			
Cost of sales	(149,447)	(17,367)	(166,814)
Other income	295	1	296
Depreciation and amortisation expenses	(39,230)	(88)	(39,318)
Salaries and employee benefits expense	(76,840)	(2,025)	(78,865)
Occupancy expenses	(9,642)	(424)	(10,066)
Advertising expenses	(10,080)	(680)	(10,760)
Other expenses from ordinary activities	(18,754)	(1,727)	(20,481)
Costs associated with the acquisition of Mocka	(3,884)	–	(3,884)
Earnings before Interest and Tax	**52,364**	**6,677**	**59,041**
Finance expenses	(6,250)	–	(6,250)
Profit before tax	**46,114**	**6,677**	**52,791**
Total assets	**367,012**	**22,116**	**389,128**
Total liabilities	**243,908**	**4,649**	**248,557**

Note: Mocka was acquired by Adairs on 1 December 2019. The results of Mocka are for the 30 weeks ended 28 June 2020.

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

The Group operated in one geographical segment for the 52 weeks ended 28 June 2020, being Australia and New Zealand.

NOTE 3. REVENUES AND EXPENSES

	52 weeks ended 28 June 2020 $'000	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	264,710	285,413
Sale of goods and services – online	124,223	59,017
Total revenue from contracts with customers	**388,933**	**344,430**
(b) Other Income		
Interest income	90	77
Net currency gains/(losses)	(55)	179
Other	261	91
	296	**347**
(c) Depreciation and amortisation expenses included in the Statement of Profit or Loss		
Depreciation of property, plant and equipment	7,217	6,394
Depreciation of right-of-use assets	31,389	–
Amortisation of computer software	712	1,295
	39,318	**7,689**
(d) Finance expenses		
Interest paid/payable and other finance costs	1,822	1,237
Interest on lease liabilities	4,181	–
Loan modification gain	(351)	–
Discount expense on deferred purchase price consideration	598	–
	6,250	**1,237**
(e) Salaries and employee benefits expense		
Wages and salaries[i]	78,206	73,013
Government grant income — wage subsidies[i]	(5,355)	–
Defined contribution superannuation expense	5,304	5,363
Share-based payment expense	710	112
	78,865	**78,488**

i During the 52 weeks ended 28 June 2020, the Group received or was entitled to receive gross government grants under the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs totalling $11,292,000. Of this total amount:

- $5,937,000 related to the remuneration of employees who were not working or did not work sufficient hours to be otherwise remunerated more than the subsidy received or receivable. This amount is included within Wages and salaries above.
- $5,355,000 related to the remuneration of other employees and is considered a benefit to the Group for employees who were otherwise remunerated more than the subsidy received or receivable. This amount is disclosed separately from Wages and salaries above.

NOTE 3. REVENUES AND EXPENSES (continued)

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
(f) Other expenses		
Credit card and merchant fees	4,478	3,420
Professional fees	2,070	643
Storage costs	3,373	2,617
Packaging and consumables	2,069	2,062
Other	8,491	7,815
	20,481	**16,557**
(g) Costs associated with the acquisition of Mocka Limited		
Transaction costs	2,139	–
Employee benefits expense from Mocka earn-out arrangement (Note 13)	1,745	–
	3,884	**–**

NOTE 4. INCOME TAX

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
The major components of income tax expense are:		
Statement of Profit or Loss		
Current income tax		
Current income tax charge	19,113	12,969
Adjustments in respect of current income tax of previous years	(230)	1
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,855)	(326)
Adjustments in respect of deferred income tax of previous years	482	(1)
Income tax expense reported in the Statement of Profit or Loss	**17,510**	**12,643**
Statement of Other Comprehensive Income		
Deferred income tax		
Relating to origination and reversal of temporary differences	(74)	(232)
Income tax expense/(benefit) reported in the Statement of Other Comprehensive Income	**(74)**	**(232)**
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	52,791	42,286
At the statutory income tax rate of 30% (2019: 30%)	15,860	12,588
Adjustments in respect of current income tax of previous years	(230)	1
Adjustments in respect of deferred income tax of previous years	483	(1)
Non-deductible expenses	1,471	45
Effect of foreign tax rates	(74)	10
Income tax expense reported in the Statement of Profit or Loss	**17,510**	**12,643**

	Statement of Financial Position		Statement of Profit or Loss and Other Comprehensive Income	
	As at 28 June 2020 $'000	As at 30 June 2019 $'000	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Deferred income tax				
Deferred income tax relates to the following:				
Deferred tax assets				
Inventory	245	169		
Property, plant and equipment	11	15		
Lease liabilities	31,325	–		
Other liabilities	2,387	1,891		
Provisions	4,937	4,838		
Non-recourse loan	124	–		
Transaction costs	–	2		
Carry forward tax losses	157	258		
Total deferred tax assets	**39,186**	**7,173**		
Deferred tax liabilities				
Trade and other receivables	(3)	(2)		
Other assets	(177)	(91)		
Property, plant and equipment	(49)	(49)		
Right-of-use assets	(28,211)	–		
Brand names	(22,657)	(12,395)		
Unrealised foreign exchange	(42)	(46)		
Financial instruments	(221)	(303)		
Other payables	(8)	(8)		
Total deferred tax liabilities	**(51,368)**	**(12,894)**		
Net deferred tax liabilities	**(12,182)**	**(5,721)**		
Amounts (charged) or credited directly to profit and loss			1,373	326
Amounts (charged) or credited directly to other comprehensive income			74	232
Deferred tax expense			**1,447**	**558**

NOTE 5. CASH AND CASH EQUIVALENTS

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Cash at bank	23,861	16,594
Cash on hand	61	114
Total cash and cash equivalents	**23,922**	**16,708**
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	23,861	16,594
Cash on hand	61	114
Total cash and cash equivalents	**23,922**	**16,708**

Statement of cash flows reconciliation

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

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Net profit/(loss) after tax	35,281	29,643
Adjustments and non-cash items		
Depreciation and amortisation expenses	39,318	7,689
Capitalised borrowing costs charged as finance expenses	109	44
Share-based payments expense	710	112
Payment of non-recourse loan to employee recognised in equity	(750)	–
Discount expense on contingent consideration	598	–
Debt facility modification gain	(323)	–
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	(818)	(1,114)
(Increase)/Decrease in other assets	3,308	(643)
(Increase)/Decrease in inventories	7,085	(8,960)
Increase/(Decrease) in payables	(148)	5,717
Increase/(Decrease) in other liabilities	3,759	1,052
Increase/(Decrease) in deferred tax liabilities	(846)	(326)
Increase/(Decrease) in provisions	3,185	1,483
Increase/(Decrease) in current tax liabilities	6,839	320
Net cash flow from operating activities	**97,307**	**35,017**

(b) Reconciliation of liabilities arising from financing activities

52 weeks ended 28 June 2020	As at 30 June 2019 $'000	Net Cash Flows $'000	Non-Cash Changes Modification Gain $'000	Non-Cash Changes Borrowing Costs Amortised $'000	As at 28 June 2020 $'000
Interest-bearing liabilities (Note 12)	24,949	136	(351)	193	24,927
Total liabilities from financing activities	**24,949**	**136**	**(351)**	**193**	**24,927**

52 weeks ended 28 June 2020	As at 1 July 2018 $'000	Net Cash Flows $'000	Non-Cash Changes Modification Gain $'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**

The reconciliation of Lease liabilities is detailed within Note 16.

NOTE 6. TRADE AND OTHER RECEIVABLES AND OTHER ASSETS

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Trade and other receivables		
Other receivables	2,949	1,894
Trade and other receivables	**2,949**	**1,894**
Other assets		
Prepaid expenses	5,392	4,667
Deposits	1,257	1,559
Other assets	105	85
Other assets	**6,754**	**6,311**
Current	9,703	8,205
Non-current	–	–
Total trade receivables and other assets	**9,703**	**8,205**

Other receivables are non-interest bearing and no material provision for impairment (based on expected credit losses) has been recorded as at 28 June 2020 (2019: nil) as the amount is considered to be not material.

NOTE 7. INVENTORIES

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Finished goods at net realisable value	43,404	42,782
Total inventories at lower of cost and net realisable value	**43,404**	**42,782**

During the 52 weeks ended 28 June 2020, $219,000 was recognised as an expense for inventories carried at net realisable value (2019: $89,000 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 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**
Additions	4,143	344	1,319	864	6,670
Acquisition of a subsidiary (Note 13)	–	55	110	881	1,046
Disposals	(2,597)	–	(10)	(32)	(2,639)
Exchange differences	(59)	(1)	(3)	(10)	(73)
As at 28 June 2020	**54,280**	**1,066**	**5,736**	**7,747**	**68,829**
Depreciation and impairment					
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**
Acquisition of a subsidiary (Note 13)	–	22	72	357	451
Depreciation charge for the year	5,692	15	724	788	7,219
Disposals	(2,575)	–	(8)	(25)	(2,608)
Exchange differences	(22)	(3)	(2)	(6)	(33)
As at 28 June 2020	**37,922**	**534**	**3,968**	**5,562**	**47,986**
Net book value					
As at 30 June 2019	**17,966**	**168**	**1,138**	**1,596**	**20,868**
As at 28 June 2020	**16,358**	**532**	**1,768**	**2,185**	**20,843**

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 28 June 2020 (2019: 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 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**
Additions	399	1,394	-	1,793
Acquisition of a subsidiary (Note 13)	17	33,115	48,409	81,541
Disposals	–	–	–	–
Exchange differences	(4)	–	–	(4)
As at 28 June 2020	**7,055**	**75,826**	**138,246**	**221,127**
Amortisation and impairment				
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**
Amortisation	712	–	–	712
Disposals	–	–	–	–
Exchange differences	–	–	–	–
As at 28 June 2020	**5,074**	–	**19,910**	**24,984**
Net book value				
As at 30 June 2019	**2,281**	**41,317**	**69,927**	**113,525**
As at 28 June 2020	**1,981**	**75,826**	**118,336**	**196,143**

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 cash generating units ("CGU") for the purpose of impairment testing.

NOTE 9. INTANGIBLE ASSETS (continued)

Carrying amount of goodwill and brand names allocated to the CGUs is as follows:

	Adairs $'000	Mocka $'000
Goodwill	57,532*	38,475*
Brand	42,711	33,115

* The allocation of goodwill excludes the goodwill arising from a deferred tax liability on indefinite life intangibles (brand names) acquired as part of the business combinations of $12,395,000 for the Adairs CGU and $9,934,000 respectively for the Mocka CGU.

The Group performed its annual impairment test for the Adairs and Mocka CGUs as at 28 June 2020. The Group considers the relationship between its enterprise value and its carrying amount, amount other factors, when reviewing for indicators for impairment. The recoverable amount of each CGU has been determined based on a value-in-use calculation using discounted cash flow projections from financial budgets approved by senior management covering a five-year period.

The estimate of the recoverable amount of each CGU is based on conditions existing and emerging as at 28 June 2020, including management's assessment of the future impacts of the COVID-19 pandemic, which is impacting the markets within which the Group operates to varying degrees.

The key assumptions in the estimate of the recoverable amount of each CGU is as follows:

	As at 28 June 2020		As at 30 June 2019	
	Adairs $'000	Mocka $'000	Adairs $'000	Mocka $'000
Pre-tax discount rate	11.80%	12.85%	10.85%	Not applicable
Long term (terminal) growth rate	2.25%	2.25%	3.00%	Not applicable

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	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.

As the global outbreak of COVID-19 continues to progress and evolve, it is extremely challenging to predict the full extent and duration of its impact on the Group's business activities. The Group's experience to date in both Australia and New Zealand evidences our ability to respond and adapt to our customers' changing needs, as reflected in our trading performance for the 52 weeks ended 28 June 2020.

The Group believes that the assumptions adopted in the value-in-use calculations reflect an appropriate balance between the Group's experience to date and the uncertainty associated with the COVID-19 pandemic. Whilst temporary store closures arising from Government restrictions may impact short term results, the expected timing and nature of any such closures is not expected to impact the long-term performance of the Group's businesses and results of the impairment testing at 28 June 2020.

Accordingly, no impairment was recorded for the 52 weeks ended 28 June 2020 (2019: nil impairment).

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

NOTE 10. TRADE AND OTHER PAYABLES

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Trade creditors	17,960	19,469
Accrued expenses	9,774	7,751
Other payables	3,523	2,438
Total current trade and other payables	**31,257**	**29,658**
Current	31,257	29,658
Non-current	–	–
Total trade and other payables	**31,257**	**29,658**

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 28 June 2020 $'000	As at 30 June 2019 $'000
Current other liabilities		
Other liabilities	10,721	7,868
Total current other liabilities	**10,721**	**7,868**
Non-current other liabilities		
Other liabilities	1,083	1,032
Contingent consideration liabilities	33,750	–
Total non-current other liabilities	**34,833**	**1,032**
Current	10,721	7,868
Non-current	34,833	1,032
Total trade and other payables	**45,554**	**8,900**

Other liabilities include 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.

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. Refer to Note 2.4(h) for revenue recognition policy.

Contingent consideration liabilities relate to future payments to be made with respect to brand name asset acquisitions and the Mocka business combination (refer to Note 13). The fair value of the contingent consideration is based on Level 3 techniques based on estimates of future cash flows.

NOTE 12. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Non-current				
Bank Loan – Facility A	BBSW + 2.15	31 Mar 2023	24,927	24,949
Total non-current			24,927	24,949
Current			–	–
Non-current			24,927	24,949
Total interest-bearing loans and borrowings			**24,927**	**24,949**
(a) Financing facilities available				
At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:				
Term debt facilities available at the reporting date:			90,000	50,000
Term debt facilities used at the reporting date:			(26,000)	(25,000)
Multi option facilities available at the reporting date:			6,500	–
Multi option facilities used at the reporting date*:			(500)	–
Facilities unused at the reporting date:			**70,000**	**25,000**

* The $500,000 used on the multi option facility represents a bank guarantee.

Term debt facilities of $90 million available until 31 March 2023 with multi option facilities of $6.5 million subject to an annual review.

NOTE 13. BUSINESS COMBINATIONS

On 1 December 2019, the Group acquired all of the shares and voting rights in Mocka Limited ("Mocka"), a pure-play online retailer of home and living products operating in Australia and New Zealand. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Mocka for the 30 week period from the acquisition date.

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

	Fair value recognised on acquisition $'000
Assets	
Cash	3,939
Trade receivables	237
Inventories	6,644
Other assets	3,751
Property, plant and equipment	613
Right-of-use assets	2,549
Intangibles	33,114
Total Assets	**50,847**
Liabilities	
Trade payables	1,749
Lease liabilities	2,745
Provisions	114
Current tax liability	420
Deferred tax liability	9,734
Total Liabilities	**14,762**
Total identifiable net assets at fair value	**36,085**
Goodwill arising on acquisition	48,409
Purchase consideration transferred	**84,494**
Purchase consideration	
Cash paid	46,448
Shares issued	5,749
Contingent consideration liability	32,297
Purchase consideration transferred	**84,494**
Cash flow on acquisition	
Net cash acquired with the subsidiary	3,939
Cash paid	(46,448)
Purchase consideration transferred	**(42,509)**

NOTE 13. BUSINESS COMBINATIONS (continued)

The net assets recognised in the 29 December 2019 interim financial statements were based on a provisional assessment of their fair value which was subject to finalisation by the Group. Upon finalisation, additional goodwill of $2,492,000 was recognised compared to the provisional accounting. The final goodwill recognised of $48,409,000 represents the fair value of expected future synergies arising from the acquisition.

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

As part of the purchase consideration for Mocka, the Group has agreed to an earn-out arrangement. The Group will make additional cash payments to the vendors of Mocka based on an agreed multiple of earnings before interest and tax over the 2021, 2022 and potentially 2023 financial years.

A portion of the earn-out arrangement is contingent on certain vendors remaining in continuous employment up to 34 months from the acquisition date and this portion will be recognised as an expense in the statement of profit and loss over the relevant period of service (refer to Note 3(g)).

The portion of the earn-out arrangement that is not related to employment conditions is included as contingent consideration in the business combination. The minimum contingent consideration to be paid is $18,890,000 (NZD $20,000,000).

As at the acquisition date, the fair value of the contingent consideration (measured using Level 3 techniques) was estimated to be $32,297,000.

Transaction costs of $2,140,000 have been expensed and are included in transaction costs in the Statement of Profit or Loss and are part of the operating cash flows in the Statement of Cash Flows.

From the date of acquisition, Mocka contributed $28,987,000 to revenue and $6,677,000 to profit before tax of the Group. If the business combination had taken place at the beginning of the year, revenue from continuing operations would have increased by $45,934,000 to $405,880,000 and profit before tax from continuing operations for the Group would have increased by $9,933,000 to $56,047,000.

NOTE 14. PROVISIONS

(a) Provisions

	Lease Incentives $'000	Straight-line lease $'000	Make good $'000	Total $'000
As at 30 June 2019	**2,907**	**3,170**	**869**	**6,946**
Arising during the year	–	–	37	37
Utilised	–	–	(21)	(21)
Unwinding of discount rate and changes in the discount rate	–	–	28	28
Impact of adoption of new accounting standards[i]	(2,907)	(3,170)	–	(6,077)
As at 28 June 2020	–	–	**913**	**913**
Current	–	–	(50)	(50)
Non-current	–	–	963	963
Total provisions	–	–	**913**	**913**

i For details on the overall transition of the Group to AASB 16 Leases, refer to Note 2.3(i)(a).

(b) Employee entitlements

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Current		
Annual Leave	4,048	3,019
Long service leave	2,123	1,823
Total current	**6,171**	**4,842**
Non-current		
Long service leave	1,277	1,095
Employee benefits from Mocka earn-out arrangement (Note 13)	1,745	–
Total non-current	**3,022**	**1,095**
Total employee entitlements	**9,193**	**5,937**
Total current	6,121	6,419
Total non-current	3,985	6,465
Total provisions	**10,106**	**12,884**

Nature and timing of provisions

Refer to note 2.4(s) and 2.5(b) for the relevant accounting policy and details of significant estimations and assumptions applied in the measurement of these provisions.

NOTE 15. ISSUED CAPITAL AND RESERVES

	As at 28 June 2020 Thousands	As at 30 June 2019 Thousands
(a) Authorised Shares		
Ordinary Shares	169,077	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.

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
(b) Share-based payment reserve		
Balance at the beginning of the period	329	217
Share-based payment expense	710	112
Issue of non-recourse loan	(750)	–
Balance at the end of the period	**289**	**329**
(c) Foreign currency translation reserve		
Balance at the beginning of the period	(27)	9
Foreign currency translation of foreign subsidiary	(171)	(36)
Balance at the end of the period	**(198)**	**(27)**

NOTE 15. ISSUED CAPITAL AND RESERVES (continued)

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
(d) Cash flow hedge reserve		
Balance at the beginning of the period	709	1,248
Transferred to Statement of Profit or Loss		
Net gain on cash flow hedges	(1,012)	(1,782)
Income tax related the net gain on cash flow hedges	303	534
Recognised in Statement of Other Comprehensive Income		
Net gain on cash flow hedges	760	1,012
Income tax related to the net gain on cash flow hedges	(228)	(303)
Balance at the end of the period	**532**	**709**
(e) Retained earnings		
Balance at the beginning of the period	48,957	46,357
Impact of adoption of new accounting standards (Note 2.3(i)(a))	(5,118)	(2,991)
Net profit for the period	35,281	29,643
Dividends paid and declared during the period	(13,270)	(24,052)
Balance at the end of the period	**65,850**	**48,957**

NOTE 16. LEASES

Set out below are the carrying amounts of the Groups' right-of-use assets and lease liabilities and the movement during the 52 weeks ended 28 June 2020:

	Right-of-use assets $'000	Lease liabilities $'000
As at 1 July 2019	93,010	107,112
Additions	30,374	31,841
Additions through subsidiary	2,549	2,745
Depreciation expense	(31,389)	–
Interest expense	–	4,181
Payments	–	(31,066)
Foreign currency difference	(169)	(213)
As at 28 June 2020	**94,375**	**114,600**
Current lease liabilities		**36,252**
Non-current lease liabilities		**78,348**
		114,600

The following are the amounts recognised in profit and loss:

	2020 $'000
Depreciation expense of right-of-use assets	31,389
Interest expense on lease liabilities	4,181
Expense relating to short-term leases (included in Occupancy expense)	1,003
Variable lease payments (included in Occupancy expense)	9,062
Total amount recognised in profit or loss	**45,635**

For details on the overall transition of the Group to AASB 16 Leases, refer to Note 2.3(i)(a).

The Group had total cash outflows for leases of $41,131,000 in 2020.

The maturity analysis of lease liabilities are disclosed in Note 18.

COVID-19 related rent concessions

The Group has adopted the practical expedient approach for rent concessions negotiated as a consequence of COVID-19 prior to 28 June 2020. This allows the Group to elect not to account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affect payments which fall due before 30 June 2021 and there has been no substantive change in terms and conditions. Where the practical expedient approach has been applied, rent concessions are accounted for as a reduction in Occupancy costs in the consolidated statement of profit or loss.

NOTE 17. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Current assets		
Forward currency contracts – cash flow hedges	589	1,013
	589	**1,013**
Non-current assets		
Forward currency contracts – cash flow hedges	149	–
	149	–

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 18 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.

NOTE 17. DERIVATIVE FINANCIAL INSTRUMENTS (continued)

The Group is holding the following foreign currency contracts:

	Maturity						
	< 1 month	1-3 months	3-6 months	6-9 months	9-12 months	>12 months	Total
As at 28 June 2020							
Forward currency contracts (highly probable forecast inventory purchases)							
› Notional amount ($'000)	526	14,006	31,646	13,251	15,386	13,081	87,896
› Average forward rate (USD/AUD)	0.6891	0.6942	0.6927	0.6966	0.6941	0.6957	–
› Average forward rate (USD/NZD)	0.6103	0.6281	0.6539	–	–	–	–
As at 30 June 2019							
Forward currency contracts (highly probable forecast inventory purchases)							
› Notional amount ($'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	–	–

	Notional amount $'000	Carrying amount $'000	Line item in the statement of financial position
As at 28 June 2020			
Forward currency contracts	87,896	738	Derivative financial instruments – assets
As at 30 June 2019			
Forward currency contracts	45,780	1,013	Derivative financial instruments – assets

	Total hedging gain/ (loss) recognised in OCI	Total amount reclassified from OCI to profit or loss	Line item in the statement of profit or loss
52 weeks ended 28 June 2020			
Highly probable forecast inventory purchases	738	1,013	Cost of sales
52 weeks ended 30 June 2019			
Highly probable forecast inventory purchases	1,013	1,783	Cost of sales

There was no hedge ineffectiveness arising from the Group's forward currency contract hedging strategy during the 52 weeks ended 28 June 2020 (2019: 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 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

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 28 June 2020 $'000	As at 30 June 2019 $'000
Financial instruments		
Cash and cash equivalents	23,922	16,708
Interest-bearing loans and borrowings	(24,927)	(24,949)
Net exposure	**(1,005)**	**(8,241)**

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

As at 28 June 2020, 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:

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
	Profit after tax higher/(lower)	
+1% (100 basis points)	(7)	(58)
–0.5% (50 basis points)	4	29

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.

NOTE 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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 28 June 2020 $'000	As at 30 June 2019 $'000
Financial liabilities		
Payables	4,174	6,012

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

As at 28 June 2020, 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:

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
	Profit after tax higher/(lower)	
AUD to USD +15%	381	549
AUD to USD -15%	(516)	(743)

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 and bank loans.

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 28 June 2020. 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 28 June 2020					
Liquid financial assets					
Cash and cash equivalents	23,922	–	–	–	23,922
Trade and other receivables	2,949	–	–	–	2,949
Financial Liabilities					
Trade and other payables	(31,258)	–	–	–	(31,258)
Lease Liabilities	(22,371)	(16,844)	(71,573)	(13,441)	(124,229)
Contingent consideration	–	–	(33,750)	–	(33,750)
Bank loans	–	–	(26,000)	–	(26,000)
Net outflow	**(26,758)**	**(16,844)**	**(131,323)**	**(13,441)**	**(188,366)**
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)**

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 28 June 2020					
Derivatives – forward currency contracts	292	297	149	–	738
Net outflow	**292**	**297**	**149**	–	**738**
As at 30 June 2019					
Derivatives – forward currency contracts	770	243	–	–	1,013
Net outflow	**770**	**243**	–	–	**1,013**

(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

NOTE 18. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

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.

	As at 28 June 2020			As at 30 June 2019	
	Valuation Level 2 $'000	Valuation Level 3 $'000	Total $'000	Valuation Level 2 $'000	Total $'000
Financial assets					
Forward exchange contracts	738	–	738	1,013	1,013
Financial liabilities					
Contingent consideration	–	(33,750)	(33,750)	–	–
	738	**(33,750)**	**(33,012)**	**1,013**	**1,013**

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:

	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial liabilities				
Forward exchange contracts	738	738	1,013	1,013
Contingent consideration	(33,750)	(33,750)	–	–
Bank loans	(24,927)	(24,927)	(25,000)	(25,000)
	(57,939)	**(57,939)**	**(23,987)**	**(23,987)**

NOTE 19. 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 adjusts 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 objective is to ensure the gearing ratio remains below 50%. The Group includes within net debt, interest-bearing loans and borrowings, contingent consideration , less cash and short-term deposits, excluding discontinued operations.

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Interest-bearing loans and borrowings	24,927	24,949
Contingent consideration	33,750	–
Less: cash and cash equivalents	(23,922)	(16,708)
Net debt	**34,755**	**8,241**
Equity	140,571	118,317
Capital and net debt	**175,326**	**126,558**
Gearing ratio	20%	7%

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 28 June 2020 and 52 weeks ended 30 June 2019.

NOTE 20. INFORMATION RELATING TO ADAIRS LIMITED ('the Parent entity')

	As at 28 June 2020 $'000	As at 30 June 2019 $'000
Current assets	442	360
Total assets	126,608	99,360
Current liabilities	(8,583)	(2,772)
Total liabilities	(9,007)	(3,341)
Net assets	**117,601**	**96,019**
Issued capital	74,098	68,349
Retained earnings	42,464	27,341
Share-based payment reserve	1,039	329
Net Equity	**117,601**	**96,019**
Loss of the parent entity	(1,606)	(918)
Total comprehensive loss of the Parent entity	**(1,606)**	**(918)**

NOTE 21. 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 28 June 2020. 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 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Short-term employee benefits	1,808	1,704
Short-term incentives	959	–
Post-employment benefits	106	118
Termination benefits	–	85
Share-based payments	601	55
Total compensation to key management personnel	**3,474**	**1,962**

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

NOTE 22. 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 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Profit for the year attributable to ordinary equity holders of the Parent	35,281	29,643
Profit attributable to ordinary equity holders of the Parent for basic earnings	**35,281**	**29,643**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**35,281**	**29,643**

	As at 28 June2020 '000	As at 30 June2019 '000
Weighted average number of ordinary shares for basic EPS	167,617	165,875
Share options	2,601	–
Weighted average number of ordinary shares for the effect of dilution	**170,218**	**165,875**

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 23. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

		Equity Holding	
Name of Entity	**Country of incorporation**	**As at 28 June 2020 %**	**As at 30 June 2019 %**
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
Mocka Limited	New Zealand	100	–
Mocka Holdings Pty Ltd	Australia	100	–
Mocka Products Pty Ltd	Australia	100	–

NOTE 24. DIVIDEND

	52 weeks ended 28 June 2020 $'000	52 weeks ended 30 June 2019 $'000
Cash dividends on ordinary shares declared and paid:		
Interim dividend for 2020: Nil (2019: 6.5 cents)	–	10,782
Proposed dividends on ordinary shares:		
Final cash dividend for 2020: 11.0 cents per share (2019: 8.0 cents)	18,598	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 28 June 2020.

Franking credit balance

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

	52 weeks ended 28 June 2020 $'000
Franking account balance as at the end of the period at 30%	24,748
Franking credits that will arise from the payment of income tax payable as at the end of the period	8,434
Franking debits that will arise from the payment of dividends as at the end of the period	(7,971)
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–
	25,211

NOTE 25. 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 (being like-for-like sales) 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 (being like-for-like sales) 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 (being like-for-like sales) 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.

NOTE 25. SHARE-BASED PAYMENTS (continued)

2020 Tranche

In December 2019, 3,300,000 share options were granted to participants under the EIP for nil consideration. The options vest if the Service and Performance conditions are met. The Service condition requires the participants to be employed on a full-time basis by an entity of the Group from Grant Date to 2 July 2023. There are two separate Performance conditions – an EPS Performance condition and a Sales Performance (being like-for-like sales) 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 at the grant date using the following assumptions:

	2020 Tranche	2019 Tranche	2018 Tranche	2017 Tranche
Share option pricing model	Black Scholes	Black Scholes	Black Scholes	Black Scholes
Dividend yield	8.00%	5.00%	5.00%	4.75%
Expected volatility	50.00%	45.00%	45.00%	32.50%
Risk-free interest rate	0.82%	2.23%	2.23%	2.11%
Expected life of share options	4.8 years	4.8 years	4.8 years	5.8 years
Exercise share price	$1.86	$2.40	$1.75	$2.00
Fair value of share options at grant date (per share option)	**$0.38**	**$0.43**	**$0.39**	**$0.27**

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

	As at 28 June 2020 Number	As at 30 June 2019 Number
Outstanding balance at beginning of the period	4,473,447	4,267,500
› Granted	3,300,000	2,250,000
› Forfeited	–	(675,000)
› Lapsed	–	(1,369,053)
› Exercised	–	–
› Expired	–	–
Outstanding balance at end of the period	**7,773,447**	**4,473,447**

The weighted average fair value of the share options granted during the 52 weeks ended 28 June 2020 was $0.38 (2019: $0.43).

The weighted average remaining contractual life of share options outstanding as at 28 June 2020 was 4.5 years (2019: 5.0 years).

For the 52 weeks ended 28 June 2020, the Group has recognised $710,000 of share-based payment expense in the Statement of Profit or Loss (2019: $112,000).

During the year, the Company provided an interest free, non-recourse loan amounting to $750,000 to Ashley Gardner to acquire shares in the Company. As a condition of the loan, Mr Gardner was required to invest a further $250,000 of personal funds to purchase shares in the Company totalling $1,000,000. As part of this agreement, up to 55% of the loan will be forgiven progressively between August 2022 until maturity in August 2027 as follows, subject to continued employment with the Company:

Date	Forgiveness Amount
14 August 2022	$93,750
14 August 2023	$97,750
14 August 2024	$56,250
14 August 2025	$56,250
14 August 2026	$56,250
14 August 2027	$56,250

The balance of the loan at maturity, amounting to $337,500, must be repaid on or before 14 August 2027. Repayment of the loan may also be made in full by returning the purchased shares under the arrangement back to the Company at any time during the term of the loan and at maturity.

The non-recourse nature of the loan and the potential loan forgiveness give rise to benefits to Mr Gardner that are considered share-based payments. The share-based payment expense is measured at fair value at the grant date and recognised as an expense when the arrangement is considered to vest, being immediately at the grant date. The vesting date is considered to be the grant date due to the non-recourse nature of the arrangement allowing Mr Gardner to return the subject shares to the Company in order to extinguish the loan during the term to maturity. During the 52 weeks ended 28 June 2020, the share-based payment expense recognised in the consolidated financial statements related to this agreement amounted to $472,000.

The fair value of the non-recourse loan has been estimated at the grant date in different portions over the forgiveness period by applying valuation methodologies consistent with the nature of the arrangement as a share option. The following key assumptions have been applied in the estimation of the fair value:

Option pricing model	Black Scholes
Expected volatility	50.00%
Risk-free interest rate	0.94%
Expected life of loan	2-8 years
Implied effective price	$1.75

NOTE 26. EVENTS AFTER THE BALANCE SHEET DATE

On 4 August 2020 the Victorian Government made public health and safety directions that required Adairs to close 43 stores in the Greater Melbourne area for a period of six weeks. Our distribution centre operations and online channel remain operational after complying with the additional restrictions. In most instances our Customer Support Office team have transitioned to working from home where possible. For all other areas Adairs continues to operate its store network with processes and protocols in place to support the safety and wellbeing of our team and customers. Mocka's Australian operations are based in Brisbane and remain unaffected.

On 9 August 2020, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is $18.6 million which represents a fully franked dividend of 11.0 cents per share. The dividend has not been provided for in the 28 June 2020 Preliminary Final Report.

Other than the above, no matters or circumstances have arisen since reporting date which significantly affected or may significantly affect the operations of the company, the results of those operations, or the state of affairs of the Company.

NOTE 27. AUDITOR'S REMUNERATION

The auditor of Adairs Limited is Ernst & Young Australia.

	52 weeks ended 28 June 2020 $'000	**52 weeks ended 30 June 2019 $'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	380	215
› Other services in relation to the Company and any other entity in the consolidated group:		
– Tax compliance	26	66
– Due diligence services	215	–
– Other	110	30
	731	**311**

Auditor's remuneration disclosed above relates to the audit of the statutory financial report of the Company and any other entity in the consolidated group, fees for tax compliance, due diligence on the acquisition of Mocka Limited (Note 13) and other services.

SHAREHOLDER INFORMATION

for the 52 weeks ending 28 June 2020

The shareholder information set out below was applicable as at 10 August 2020

Number of shareholders

There were 3,734 shareholders, holding 169,077,075 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	580,777	1,137
1,001 - 5,000	3,797,267	1,332
5,001 - 10,000	4,707,665	600
10,001 - 100,000	15,759,000	599
100,001 and over	144,232,366	66
Total	**169,077,075**	**3,734**

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:

	Ordinary shares	
Name	**Number held**	**Percentage of issued shares**
HSBC Custody Nominees (Australia) Limited	39,701,440	23.48
J P Morgan Nominees Australia Pty Limited	22,534,371	13.33
Citicorp Nominees Pty Limited	21,265,455	12.58
National Nominees Limited	15,531,871	9.19
BNP Paribas Nominees Pty Ltd	10,598,941	6.27
BNP Paribas Noms Pty Ltd	3,030,027	1.79
HSBC Custody Nominees (Australia) Limited – A/C 2	2,462,754	1.46
Michael Cherubino Investments Pty Ltd	1,996,135	1.18
UBS Nominees Pty Ltd	1,886,490	1.12
Bond Street Custodians Limited	1,826,986	1.08
CS Fourth Nominees Pty Limited	1,587,853	0.94
BBRC International Pte Ltd	1,311,047	0.78
Bond Street Custodians Limited	1,166,500	0.69
CEMJ Trustee Limited	1,067,430	0.63
Jeta Trustee (2017) Limited	1,067,430	0.63
Bret R Gamble & Jeremy T Blake & Rachel M Blake	1,067,430	0.63
Brispot Nominees Pty Ltd	913,261	0.54
Mr Trent Peterson	860,000	0.51
Truebell Capital Pty Ltd	700,000	0.41
BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	696,007	0.41
Total	**131,271,428**	**77.64**

C. Substantial Shareholdings

As at 10 August 2020, 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**
JPMorgan Chase & Co	20,890,169	12.36	25/02/2020
Pendal Group Limited	13,231,111	7.83	04/05/2020
Mitsubishi UFJ Financial Group, Inc.	13,057,145	7.72	01/07/2020
Challenger Limited	12,301,076	7.28	02/04/2020
Wilsons Asset Management Group	12,194,805	7.21	03/08/2020

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.

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CORPORATE INFORMATION

Adairs Limited
ABN 50 147 375 451

Directors

Michael Butler

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Simon West

Company Secretary

Fay Hatzis

Registered office

2 International Court
Scoresby
Victoria, 3179
Australia

Principal place of business

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Phone: 1800 990 475

Investor website

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Share register

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Sydney South NSW 1235

Phone: 1300 554 474

Auditors

Ernst & Young

Solicitors

Herbert Smith Freehills

Bankers

Commonwealth Bank of Australia

adairs