

adairs

NOTICE OF ANNUAL GENERAL MEETING 2020



Notice is given that the 2020 Annual General Meeting of Adairs Limited (the **Company**) will be held as a virtual meeting on Monday 26 October 2020 at 11:00am (AEDT) (the **Meeting** or **AGM**). Shareholders may attend virtually via the following website: <https://agmlive.link/ADH20>

Given the current restrictions on indoor gatherings and travel imposed by governments, our 2020 AGM will be held online (virtually) rather than at a physical location. Shareholders may attend the AGM through an online platform that will allow them to view the Meeting, ask questions and vote in real time.

Further information on how to participate in our virtual AGM is set out in this Notice of Meeting and in the document titled "Virtual Meeting Online Guide" which is available on the Adairs Investor Relations website (<http://investors.adairs.com.au/investors/>) Both documents have also been lodged with the Australian Securities Exchange (**ASX**).

The online platform will provide a reasonable opportunity for shareholders to participate, and the Meeting will operate on the basis that such participation will constitute shareholders being present at the Meeting for all purposes.

Voting on all resolutions will occur by way of poll, and the online platform will enable Securityholders to lodge a vote in real time.

Shareholders may lodge a direct vote or appoint a proxy online at www.linkmarketservices.com.au or by submitting a voting form to the share registry. Please note that your votes need to be received by no later than 11.00am (AEDT) on Saturday, 24 October 2020.

Even if you plan to attend the Meeting, you are still encouraged to submit a direct vote or directed proxy in advance of the Meeting so that your votes can still be counted if for any reason you cannot attend (for example, if there is an issue with your internet connection on the day of the meeting).

We also invite you to submit questions to the Company or auditor in advance of the AGM. Questions must be received by no later than 11.00am (AEDT) on Monday, 19 October 2020. The Company will endeavour to address as many of the more frequently raised relevant questions as possible during the AGM. However, there may not be sufficient time to address all questions raised. Please note that individual responses will not be sent to shareholders. Please submit any written questions to the Company by submitting them via the Link website at www.linkmarketservices.com.au.

If it becomes necessary for the Company to give further updates about the AGM, information will be lodged with the ASX and posted on the Company's Investor Relations website.

AGENDA ITEMS

1. Annual Financial Report

To receive and consider the Financial Report of the Company and its controlled entities and the Reports of the Directors and Auditor for the year ended 28 June 2020.

2. Re-election of Directors

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That David MacLean, being eligible, be re-elected as a Director of the Company."

3. Remuneration Report

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That the Remuneration Report for the year ended 28 June 2020 be adopted."

Note: The vote on this resolution is advisory only and does not bind the Directors or the Company. A voting exclusion statement applies to this resolution (see item 2 of the notes relating to voting).

4. Approval of long-term incentive grant of options to Mark Ronan

To consider and, if thought fit, pass the following resolution as an ordinary resolution:

"That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of options to Mark Ronan as his annual long term incentive for the year ended 27 June 2021 on the terms described in the explanatory notes accompanying this Notice of Meeting."

Note: A voting exclusion statement applies to this resolution (see item 2 of the notes relating to voting).

5. Approval of long-term incentive grant of options to Michael Cherubino

To consider and, if thought fit, to pass the following resolution as an ordinary resolution:

"That approval be given for all purposes, including ASX Listing Rule 10.14, for the grant of options to Michael Cherubino as his annual long term incentive for the year ended 27 June 2021 on the terms described in the explanatory notes accompanying this Notice of Meeting."

Note: A voting exclusion statement applies to this resolution (see item 2 of the notes relating to voting).

6. Approval of the financial assistance provided by Mocka Products Pty Ltd to Mocka Holdings Pty Ltd, a wholly-owned subsidiary of Adairs Limited, in connection with the acquisition of Mocka Limited

To consider and, if thought fit, pass the following resolution as a special resolution:

"That, for the purposes of section 260B(2) of the *Corporations Act 2001* (Cth), approval is given for the financial assistance to be provided by Mocka Products Pty Ltd (ACN 152 476 349) from time to time in connection with the Acquisition as described in the explanatory notes accompanying the Notice of Meeting dated 23 September 2020."

7. Re-insertion of Proportional Takeover Provisions in the Constitution

To consider and, if thought fit, pass the following resolution as a special resolution:

"That the proportional takeover provisions contained in Rule 6 of the Company's Constitution be inserted for a period of three years with effect from the date of the Annual General Meeting."

By Order of the Board

Fay Hatzis
Company Secretary

23 September 2020

NOTES RELATING TO VOTING

The notes relating to voting and the explanatory notes form part of this Notice of Meeting.

1. Entitlement to vote

In accordance with Regulation 7.11.37 of the *Corporations Regulations Act 2001* (Cth), the Board has determined that persons who are registered holders of shares in the Company as at 7:00 pm AEDT on Saturday 24 October 2020 will be entitled to attend and vote at the Meeting as a shareholder. Share transfers registered after that time will be disregarded in determining entitlements to attend and vote at the Meeting.

If more than one joint holder of shares is present at the virtual AGM (whether personally, by proxy or by attorney or by representative) and tenders a vote, only the vote of the joint holder whose name appears first on the register will be counted.

On a poll, shareholders have one vote for every fully paid ordinary share held (subject to the restrictions on voting referred to below).

2. Voting exclusions

Agenda item 3

The Company will disregard any votes cast on Agenda item 3:

- › by or on behalf of a member of the Company's key management personnel (**KMP**) named in the Company's Remuneration Report for the year ended 28 June 2020 or their closely related parties (regardless of the capacity in which the vote is cast); or
- › as a proxy by a person who is a member of the Company's KMP at the date of the Meeting or their closely related parties.

However, votes will not be disregarded if they are cast as proxy for a person entitled to vote on Agenda item 3:

- › in accordance with a direction in the Voting Form; or
- › by the person chairing the Meeting, in accordance with an express authorisation in the Voting Form to exercise the proxy even though Agenda item 3 is connected with the remuneration of the KMP.

Agenda items 4 and 5

The Company will disregard any votes cast on Agenda items 4 and 5:

- › in favour of either resolution by or on behalf of Mark Ronan and Michael Cherubino and their associates (regardless of the capacity in which the vote is cast); or
- › as a proxy by a person who is a member of the Company's KMP at the date of the Meeting, or their closely related parties.

However, votes will not be disregarded if they are cast on Agenda items 4 and 5:

- › as proxy or attorney for a person entitled to vote on the resolution in accordance with a direction given to the proxy or attorney to vote on the resolution in that way; or
- › by the person chairing the Meeting as a proxy for a person who is entitled to vote on the resolution, pursuant to an express authorisation in the Voting Form to exercise the proxy as the Chair decides;
- › by a holder acting solely in a nominee, trustee, custodial or other fiduciary capacity on behalf of a beneficiary provided the following conditions are met:
 - the beneficiary provides written confirmation to the holder that the beneficiary is not excluded from voting, and is not an associate of a person excluded from voting, on the resolution; and
 - the holder votes on the resolution in accordance with directions given by the beneficiary to the holder to vote in that way.

3. How to vote

How to vote prior to the meeting

Shareholders may lodge a direct vote or appoint a proxy online at www.linkmarketservices.com.au or by submitting a Voting Form to the share registry. Please note that votes need to be received by no later than 11.00am (AEDT) on Saturday, 24 October 2020.

Even if you plan to attend the Meeting, you are still encouraged to submit a direct vote or directed proxy in advance of the Meeting so that your votes can still be counted if for any reason you cannot attend (for example, if there is an issue with your internet connection on the day of the meeting).

- › To log in, you will need your holder identifier (SRN or HIN) and postcode.

How to be present virtually and vote at the meeting

Shareholders will have the opportunity to be present virtually via a live webcast and will be able to vote electronically via an online platform (including lodging a vote in real time and asking questions online).

You can access the platform at <https://agmlive.link/ADH20>

- › To log in, you will need your holder identifier (SRN or HIN) and postcode.

Proxy holders will need their proxy number which will be provided by Link Market Services no later than 24 hours prior to the Annual General Meeting and following lodgement of the proxy appointment. Voting will be available during the Meeting, as announced by the Chair during the meeting. Online participants should register at least 15 minutes before the Annual General Meeting.

More information regarding online participation at the Meeting including how to vote and ask questions is available in the Virtual Meeting Online Guide. The Guide is available on the Adairs Investor Relations website (www.investors.adairs.com.au) and has been lodged with the ASX.

Technical difficulties when attending online

Technical difficulties may arise during the course of the online meeting. The Chair has discretion as to whether and how the online meeting should proceed in the event that a technical difficulty arises. In exercising his discretion, the Chair will have regard to the number of shareholders impacted and the extent to which participation in the business of the meeting is affected. Where he considers it appropriate, the Chair may continue to hold the online meeting and transact business, including conducting a poll and voting in accordance with valid proxy instructions.

Appointing a proxy

- a. A shareholder entitled to attend and vote has a right to appoint a proxy to attend and vote instead of the shareholder. A proxy need not be a shareholder and can be either an individual or a body corporate. A shareholder can appoint a proxy by completing and returning a valid Voting Form (see section 4 of these notes relating to voting, and the Voting Form accompanying this Notice).
- b. A shareholder that is entitled to cast two or more votes may appoint two proxies and may specify the proportion or number of votes each proxy is appointed to exercise. If no proportion or number is specified, each proxy may exercise half of the shareholder's votes.
- c. If you wish to direct how your proxy should vote, please mark the appropriate boxes on the Voting Form. If you do not direct your proxy how to vote on a particular item of business, you are authorising your proxy to vote as they decide, subject to any applicable voting exclusions.
- d. Unless the Chair of the Meeting is your proxy, members of the Company's KMP (which includes each of the Directors) will not be able to vote as proxy on Agenda items 3, 4 or 5, unless you direct them how to vote. If you intend to appoint a member of the KMP (such as one of the Directors) as your proxy, you should ensure that you direct that person how to vote on Agenda items 3, 4 and 5.
- e. If you intend to appoint the Chair of the Meeting as your proxy, you can direct the Chair how to vote by marking the boxes for the relevant resolution (for example, if you wish to vote "for", "against" or to "abstain" from voting). However, if you do not mark a box next to Agenda items 3, 4 or 5, then by signing and submitting the Voting Form, you will be expressly authorising the Chair to vote as they see fit in respect of Agenda items 3, 4 or 5 even though they are connected with the remuneration of the Company's KMP.
- f. All resolutions will be decided by poll. On a poll, if:
 - › a shareholder has appointed a proxy (other than the Chair of the Meeting) and the appointment of the proxy specifies the way the proxy is to vote on the resolution; and
 - › that shareholder's proxy is either not recorded as attending the Meeting or does not vote on the resolution,the Chair of the Meeting will, before voting on the resolution closes, be taken to have been appointed as the proxy for the shareholder for the purposes of voting on that resolution and must vote in accordance with the written direction of that shareholder.
- g. Please note that for proxies without voting instructions that are exercisable by the Chair of the Meeting, the Chair intends to vote all available proxies in favour of each resolution.

Notes relating to voting

4. Voting Form

A Voting Form accompanies this Notice of Meeting. To be effective a Voting Form must be received no later than 11:00am (AEDT) Saturday 24 October 2020 at:

By Mail: Locked Bag A14
SYDNEY SOUTH NSW 1235

By Hand: Link Market Services Limited
Level 12, 680 George Street
Sydney, NSW 2000

By Fax: +61 2 9287 0309

Online: www.linkmarketservices.com.au

Step 1: Select Investor Login from the right hand menu.

Step 2: Enter Adairs Limited as the Issuer.

Step 3: Enter your Holder Identifier (which appears under the barcode on the front of your Voting Form) and your postcode or Country.

Step 4: Enter the security code, tick the box to accept the terms and conditions and click "Login".

Step 5: Select Voting from the top menu and follow the prompts to lodge your Voting Form.

5. Corporate representatives

A body corporate that is a shareholder, or which has been appointed as a proxy, may appoint an individual to act as its representative at the Meeting. The appointment must comply with the requirements of section 250D of the *Corporations Act 2001* (Cth) (Corporations Act). The representative should provide evidence of his or her appointment in advance of the Meeting, including any authority under which it has been signed, unless it has previously been given to the Company.

6. Voting by attorney

A shareholder entitled to attend and vote may appoint an attorney to act on his or her behalf at the Meeting. An attorney may but need not be a member of the Company.

An attorney may not vote at the Meeting unless the instrument appointing the attorney, and the authority under which the instrument is signed or a certified copy of the authority, are received by the Company in the same manner, and by the same time, as outlined above for Voting Forms.

7. Questions for the Company

Shareholders may submit written questions to the Chair about the management of the Company. Written questions must be submitted no later than 11:00am (AEDT) on Monday 19 October 2020 by submitting them via the Link website at www.linkmarketservices.com.au. Questions in relation to the management of the Company will be collated and, during the Meeting, the Chair of the Meeting will seek to address as many of the more frequently raised topics as possible. However, there may not be sufficient time available at the meeting to address all of the questions raised. Please note that individual responses will not be sent to shareholders.

8. Questions for the Auditor

Shareholders may submit written questions to the Company's Auditor, Ernst & Young, if the question is relevant to the content of Ernst & Young's Audit Report for the year ended 28 June 2020 or the conduct of its audit of the Company's Financial Report for the year ended 28 June 2020.

Relevant written questions for the Auditor must be received by the Company by no later than Monday 19 October 2020 by submitting them via the Link website at www.linkmarketservices.com.au.

A list of written questions will be made available to shareholders attending the meeting. The auditor is not obliged to provide written answers to questions. If written answers are tabled at the Meeting, they will be made available to shareholders as soon as practicable after the Meeting.

EXPLANATORY NOTES

These explanatory notes have been prepared to help shareholders understand the items of business at the forthcoming Meeting.

Item 1 – Annual Financial Report

The Corporations Act requires:

- › the reports of the Directors and Auditor; and
- › the annual Financial Report, including the Financial Statements of the Company for the year ended 28 June 2020,

to be laid before the Meeting. Neither the Corporations Act nor the Company's Constitution requires a vote of shareholders on the reports. However, shareholders will be given an opportunity to raise questions or comments on the management of the Company.

Also, a reasonable opportunity will be given to shareholders as a whole at the Meeting to ask the Company's Auditor questions relevant to the conduct of the audit, the preparation and content of the Auditor's Report, the accounting policies adopted by the Company in relation to the preparation of the financial statements and the independence of the Auditor in relation to the conduct of the audit.

Item 2 – Re-election of Director

In accordance with the Company's Constitution, a Director must retire from office no later than the longer of the third AGM and three years following that Director's last election. Retiring Directors are eligible for re-election. In addition, the Company is required to hold an election of at least one Director at every Annual General Meeting, even where no Director is required to stand for re-election under the three year rule.

David MacLean was last elected as a Directors at the 2018 AGM and, being eligible, offers himself for re-election.

The Board has undertaken a review of the performance Mr MacLean and the contribution he has made to the Board and to Board Committees. As a former Chief Executive Officer and Managing Director of Adairs the Board does not consider Mr MacLean to be independent however the Board considers his skills, expertise and insight into the Company, its operations and stakeholders allows him to significantly contribute to the Board as a whole.

Re-election of David MacLean

David is a Non-Executive Director and joined the Board in 2010. David is a member of the Remuneration Committee and the Nomination Committee.

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. He is a non-executive director of dusk Retail Holdings Group Pty Ltd and a non-executive director Universal Store Pty Ltd.

Recommendation

The Board (with David MacLean abstaining) unanimously recommends that shareholders vote **in favour** of David MacLean's re-election.

Item 3 – Remuneration Report

Shareholders will have a reasonable opportunity at the Meeting to ask questions about or make comments on the Remuneration Report. The Remuneration Report on pages 24-36 of the Company's 2020 Annual Report sets out the remuneration policies of the Company and reports on the remuneration arrangements in place for the Company's KMP during the year ended 28 June 2020. The Annual Report is available on the Company's website at investors.adairs.com.au.

As prescribed by the Corporations Act, the vote on the adoption of the Remuneration Report is advisory only and does not bind the Directors or the Company. However, the Board will take the outcome of the vote and discussion at the Meeting into account in setting remuneration policy for future years.

Recommendation

The Board unanimously recommends that shareholders vote in favour of the adoption of the Remuneration Report.

Explanatory Notes

Items 4 and 5 – Approval of long term incentive grant of options

ASX Listing Rule 10.14 requires that shareholder approval be obtained for the acquisition of securities by a director under an employee incentive scheme. Pursuant to ASX Listing Rule 10.14, the Company is seeking shareholder approval for the grant of options to Mark Ronan and Michael Cherubino (each an **Eligible Participant**), as part of their Long Term Incentive (**LTI**) for FY2021.

Both Mr Ronan and Mr Cherubino are Executive Directors of the Company and shareholder approval is being sought on that basis for ASX Listing Rule 10.14 purposes.

Subject to shareholder approval, the options proposed to be granted pursuant to items 4 and 5 will be granted under the Adairs Limited Equity Incentive Plan (the **Plan**) within 12 months of the Meeting.

If shareholder approval is not obtained, the Board will consider alternative arrangements to appropriately remunerate and incentivise Mark Ronan and Michael Cherubino.

Key terms of the FY2021 LTI grant

The LTI grant is designed to align the interests of the Eligible Participants with the interests of shareholders by providing the opportunity to receive an equity interest in the Company through the granting of options.

It is proposed that Mr Ronan be granted 675,000 options, which has been determined by dividing his maximum LTI opportunity (being 37% of his fixed annual remuneration, equalling \$241,650) by the fair value of the options (being \$0.358).

It is proposed that Mr Cherubino be granted 300,000 options, which has been determined by dividing his maximum LTI opportunity (being 23% of his fixed annual remuneration, equalling \$107,400) by the fair value of the options (being \$0.358).

As the options form part of the Eligible Participants' remuneration, they will be issued for nil consideration. The exercise price per option payable by an Eligible Participant if the options vest and become exercisable will be the volume weighted average price (VWAP) of Adairs shares over the five trading days immediately prior to the date of the Annual General Meeting, rounded up to the nearest whole cent per share, plus 5 cents. For the purposes of this calculation the Board may ignore all off-market trades and any other trades which it considers are not fairly reflective of supply and demand.

Each option entitles an Eligible Participant to acquire one ordinary share in the Company on payment of the exercise price. Options will only vest and become exercisable if vesting conditions are satisfied. The Board has discretion to make a cash payment in lieu of an allocation of shares on vesting and exercise of options.

Prior to vesting, the options do not entitle Eligible Participants to dividends or voting rights.

Performance Period

The performance period is from 29 June 2020 to 30 June 2024.

Vesting conditions

Service condition

Unless the Board determines otherwise, for any options to vest and become exercisable, the Eligible Participant must remain employed on a full time basis by the Group at 30 June 2024 and have not given notice of their resignation. The service condition will be tested on 30 June 2024.

Performance conditions

Each proposed grant of options will be subject to two separate performance conditions as follows:

- › 60% of the options will be subject to an earnings per share (**EPS**) performance condition; and
- › 40% of the options will be subject to a sales growth performance condition.

EPS performance condition

The EPS performance condition will be measured by reference to the compound annual growth rate (CAGR) of the Company's total EPS over a period of 3 financial years, commencing on 29 June 2020 and ending on 25 June 2023.

EPS measures the earnings generated by the Company attributable to each share on issue on a fully diluted basis. Calculation of the CAGR of the EPS and achievement against the performance condition will be determined by the Board in its absolute discretion.

Sales performance condition

The sales performance condition will be measured by reference to the compound annual growth rate (CAGR) of the Company's total sales growth across Adairs and Mocka over a period of three financial years, commencing on 29 June 2020 and ending on 25 June 2023. Calculation of the CAGR of the total sales and achievement against the sales performance condition will be determined by the Board in its absolute discretion.

These hurdles and vesting schedules are set out below:

EPS CAGR Performance (60% Weighting)	Sales CAGR Performance (40% Weighting)	Proportion of options that will vest against relevant target
Less than or equal to 5% p.a.	Less than or equal to 7.5%	Nil
Between 5% and 15% p.a.	Between 7.5% and 15.0%	Straight line vesting between 0% and 100%
Equal to, or above, 15% p.a.	Equal to, or above, 15.0%	100%

Testing of the vesting conditions

Testing of the vesting conditions will occur at the end of the performance period. Any options that do not vest will lapse immediately. Any options that vest will be exercisable until 6 years after the date of grant.

Cessation of employment

Where the employment of an Eligible Participant is terminated for cause or they resign, all unvested options and vested but unexercised options will lapse, unless otherwise determined by the Board.

In all other circumstances, a pro rata portion of the unvested options (based on the portion of the performance period that has elapsed) will remain on foot and be subject to the original vesting conditions, as though the Eligible Participant had not ceased employment, unless otherwise determined by the Board. Vested but unexercised options will remain on foot and exercisable for a period of 3 months, after which time they will lapse, unless otherwise determined by the Board.

Change of control

In the event of a likely change in control of the Company, the Board has a discretion to determine that some or all of the Eligible Participant's options will vest.

If a 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 and be exercisable for a period of 3 months after the change of control.

Clawback

The Board has broad "clawback" powers to determine that options lapse or shares allocated on exercise of the vested options are forfeited, or that amounts are to be repaid in certain circumstances (for example, in the case of serious misconduct).

Restrictions on dealing

An Eligible Participant must not sell, transfer, encumber, hedge or otherwise deal with options. An Eligible Participant will be free to deal with the shares allocated on exercise of the options, subject to the requirements of the Company's Securities Dealing Policy.

Additional information provided in accordance with ASX Listing Rule 10.15

- Mr Ronan's total remuneration package as at 31 August 2020 is \$1,346,650, comprising 48% as total fixed remuneration (inclusive of superannuation) and 52% as the maximum amount he can earn as variable remuneration. Further details regarding Mr Ronan's remuneration package are set out in the Remuneration Report in the Company's 2020 Annual Report.
- Mr Cherubino's total remuneration package as at 31 August 2020 is \$822,400, comprising 57% as total fixed remuneration (inclusive of superannuation) and 43% as the maximum amount he can earn as variable remuneration. Further details regarding Mr Cherubino's remuneration package are set out in the Remuneration Report in the Company's 2020 Annual Report.
- 2,991,000 of LTI options have been granted to Mr Ronan and 1,597,000 of LTI options have been granted to Mr Cherubino under the Plan in prior years. Each LTI option held by Mr Ronan and Mr Cherubino entitles them to acquire an ordinary share in the Company subject to meeting specific performance and service conditions, and payment of an exercise price. The range of exercise prices is set out on page 35 of the 2020 Annual Report while the performance and service conditions are re-assessed and set by the Board each year in which LTI options are proposed to be granted. As the LTI options form part of Mr Ronan's and Mr Cherubino's remuneration they are granted at no cost. No other options have been issued to the Company's Directors under the Plan.

Explanatory Notes

- › Mark Ronan and Michael Cherubino are the only Directors entitled to receive options under the Plan.
- › No loan will be made by the Company in relation to the acquisition of options.
- › Details of any LTI options or shares issued under the Plan will be published in the Company's Annual Report relating to the period in which they were issued, along with a statement that approval for this issue was obtained under ASX Listing Rule 10.14.
- › Any additional persons covered by ASX Listing Rule 10.14 who become entitled to participate in an issue of securities under the Plan after these resolutions are approved and who are not named in this Notice will not participate until approval is obtained under ASX Listing Rule 10.14.

A voting exclusion applies in relation to Agenda items 4 and 5 and is described in the Notes relating to voting on page 2.

Recommendation

The Board (with Mark Ronan and Michael Cherubino abstaining) unanimously recommends that shareholders vote **in favour** of the grant of options to Mark Ronan and Michael Cherubino.

Item 6 – Approval of financial assistance

1. Background to the requirement for the financial assistance resolution

Pursuant to section 260A(1) of the Corporations Act, a company may financially assist a person to acquire shares in the company or a holding company of the company if the assistance is approved by shareholders under section 260B of the Corporations Act.

Under section 260B(1) of the Corporations Act, the financial assistance must be approved by a resolution passed by the shareholders of the relevant company.

In addition, under section 260B(2) of the Corporations Act, if immediately after the acquisition the company will be a subsidiary of another domestic corporation that is listed in Australia, then the financial assistance must be approved by a special resolution passed by the shareholders of that other domestic corporation.

The purpose of this item 6 is to explain in further detail the proposed financial assistance resolution set out in this Notice of Meeting which must be passed under section 260B(2) of the Corporations Act to enable Mocka Products Pty Ltd (ACN 152 476 349) (**Mocka Products**) to financially assist Mocka Holdings Pty Ltd (ACN 637 714 464) (the **Purchaser**) in connection with the Acquisition (as described below). This resolution is required as, immediately following completion of the Acquisition (as described below), the Company became a holding company of Mocka Products.

2. Acquisition

On 13 December 2019, the Purchaser, a wholly-owned subsidiary of the Company, acquired the entire issued share capital of Mocka Limited (NZBN 9429033853963), which owns the entire issued share capital of Mocka Products (the Acquisition).

Following the Acquisition, Mocka Products became a wholly-owned subsidiary of the Company.

The upfront consideration that was payable in connection with the Acquisition was partly funded with the proceeds of loans under the Facilities (as described below). Any deferred consideration which may have been paid or may in the future become payable by the Purchaser in connection with the Acquisition may also be funded with the proceeds of loans under the Facilities (as described below).

Further details of the Acquisition are outlined in the Company's ASX announcement on 4 December 2019.

3. Debt financing arrangements

The Company and certain of its subsidiaries are or may in the future become party to debt financing arrangements. Pursuant to the terms of the debt financing arrangements, the Company and certain of its other subsidiaries have or will in the future have access to debt facilities including, amongst other things, cash advance facilities and working capital facilities (which may include, amongst other things, bank guarantee/letter of credit facilities, credit card facilities, overdraft facilities and other transactional banking facilities) (together, the **Facilities**).

The debt financing arrangements are currently governed by, amongst other documents:

- › the senior facilities agreement dated 23 February 2015 between, amongst others, the Company, the Purchaser and Commonwealth Bank of Australia, as amended from time to time, including by the amendment letter dated 11 December 2019 (**SFA**);
 - › a security trust deed dated 3 December 2010, as amended from time to time (**Security Trust Deed**); and
 - › each other 'Finance Document' (as defined in the SFA),
- (together, the **Finance Documents**).

The Finance Documents contain, amongst other things, guarantees and indemnities in respect of the payment and other obligations under the Finance Documents and undertakings, representations, warranties and events of default consistent with financing arrangements of this nature or as required by the relevant financiers.

In addition, the Company and certain of its subsidiaries have provided security over some or all of their assets and undertaking to a security trustee (the **Security Trustee**) to hold on trust for the 'beneficiaries' under the Security Trust Deed. Those 'beneficiaries' include, among others, the financiers under the Facilities and the Finance Documents.

4. Financial Assistance

4.1 Provision of guarantees and security

Under the terms of the SFA, it is a requirement that, following the completion of the Acquisition, Mocka Products become:

- a. a "Guarantor" and "Obligor" under the SFA, by executing an accession letter under the SFA; and
- b. a "Security Provider" under the Security Trust Deed, by executing an accession deed under the Security Trust Deed, (the **Accession Documents**).

Upon execution of the Accession Documents, Mocka Products will (amongst other things) become a party to the SFA and the Security Trust Deed and become bound by the guarantees, indemnities and undertakings and give the representations and warranties in the SFA and the Security Trust Deed.

In addition, it is proposed that Mocka Products grant security over its assets and undertaking to the Security Trustee to hold on trust for the 'beneficiaries' under the Security Trust Deed (the **Security**). The Security will, amongst other things, secure the obligations of all borrowers and guarantors under the SFA and the other Finance Documents.

4.2 Other support

In addition, Mocka Products may, or may be required to:

- › borrow amounts under the Finance Documents or incur other indebtedness under the Finance Documents;
- › make available directly or indirectly its cash flows (whether through dividends, capital distributions, intercompany loans or otherwise) or other resources in order to enable the Company or its other subsidiaries to comply with their payment and other obligations under the Finance Documents;
- › consent or agree to amendments to the Finance Documents or enter into other Finance Documents;
- › provide additional support which may include incurring additional obligations and/or providing additional guarantees, mortgages and/or charges; and/or
- › provide other financial assistance in connection with the Acquisition including, without limitation, in connection with any refinancing.

5. Financial assistance resolution

5.1 Need for approval

The entry by Mocka Products into, and the performance by Mocka Products of its rights and obligations under, the Accession Documents, the Security and the other documents described above and the participation by Mocka Products in the funding arrangements and other transactions, all as described above, constitutes the giving of financial assistance in connection with the Acquisition, within the meaning of section 260A(1) of the Corporations Act.

Pursuant to section 260B(2) of the Corporations Act, it is proposed that the giving of the financial assistance by Mocka Products be approved by the shareholders of the Company.

In addition, approval under section 260B(1) of the Corporations Act will be separately sought from the sole shareholder of Mocka Products.

5.2 Reason for the financial assistance

The reason for the giving of the financial assistance described above is to enable the Company and its other subsidiaries to comply with their obligations under the SFA and the other Finance Documents. If such obligations are not complied with, an 'Event of Default' will occur under the Finance Documents and the funding under the Finance Documents may be required to be repaid.

Explanatory Notes

5.3 Effects, advantages and disadvantages

The substantial effect of the financial assistance described above on Mocka Products is that it will have guaranteed all amounts payable under the Finance Documents and granted security for such obligations over its assets and undertaking. In addition, its operations will be restricted by the representations, warranties and undertakings given by it under the Finance Documents.

As the Company and certain of its subsidiaries are already liable for amounts payable under the Finance Documents, the giving of the financial assistance described above by Mocka Products is unlikely to have any adverse effect on the Company and the directors of the Company do not believe there are any disadvantages to the Company of the proposed resolution.

The advantage to the Company of the proposed resolution is that the Company and its other subsidiaries will be able to comply with its obligations under the SFA and the other Finance Documents. This will avoid an 'Event of Default' occurring under the SFA. If an 'Event of Default' occurs, the financiers may require immediate repayment of the amounts outstanding under the Finance Documents and the Security Trustee may be able to enforce the security it holds over the assets of the Company and its subsidiaries.

6. Prior notice to the Australian Securities & Investments Commission

As required by section 260B(5) of the Corporations Act, copies of this Notice of Meeting and these Explanatory Notes were lodged with the Australian Securities & Investments Commission prior to being made available to shareholders.

7. Further Information

The financial assistance resolution is set out in this Notice of meeting. The financial assistance resolution will be passed if at least 75% of the votes cast by shareholders entitled to vote on the resolution vote for the resolution. Shareholders may vote either for or against the financial assistance resolution.

8. Disclosure

The directors consider that this item 6 contains all information known to the Company that would be material to the shareholders in deciding how to vote on the proposed resolution other than information which it would be unreasonable to require the Company to include because it has been previously disclosed to the shareholders of the Company.

Recommendation

The directors unanimously recommend that the shareholders vote **in favour** of the financial assistance resolution to approve the giving of financial assistance by Mocka Products from time to time.

Item 7 – Re-insertion of proportional takeover provisions in Constitution

The provisions relating to proportional takeover bids previously contained in Rules 6 of the Company's Constitution are designed to assist shareholders to receive proper value for their shares if a proportional takeover bid is made for the Company.

Under the Corporations Act and Rule 6.4 of the Constitution, these provisions must be renewed every three years or they will cease to have effect. The proportional takeover provisions have not been renewed within the last three years so must be re-inserted at this AGM to apply to any proportional takeover offers.

If these provisions are re-inserted by shareholders, they will be in exactly the same terms as the current provisions in Rule 6 of the Constitution and will operate for three years from the date of the AGM. A copy of the Company's Constitution is available on the Company's website at <http://investors.adairs.com.au/Investors/>.

1. Statement under the Corporations Act

The Corporations Act requires that the following information be provided to shareholders when they are considering the inclusion of proportional takeover provisions in a constitution.

2. Effect

A proportional takeover offer is where an offer is made to each shareholder for a proportion of that shareholder's shares, and not for the shareholder's entire shareholding.

The provisions of the Company's Constitution stated that the registration of any transfer of shares giving effect to a takeover contract under a proportional takeover bid in respect of shares in a class of shares in the Company is prohibited unless and until a resolution to approve the takeover bid is passed. Rule 6.3 contains details regarding the procedures for any such resolution. The Corporations Act also sets out requirements relating to this resolution.

The vote is decided on a simple majority. Each person who, as at the end of the day on which the first offer under the bid was made, held shares included in the bid class in respect of which the offer was made is entitled to vote, but the bidder and its associates are not allowed to vote.

If the resolution is not passed, transfers which would have resulted from the acceptance of a bid will not be registered and the bid will be taken to have been withdrawn. If the bid is approved (or taken to have been approved), the transfers must be registered if they comply with the Corporations Act and the Company's Constitution.

The Directors will breach the Corporations Act if they fail to ensure the approving resolution is voted on. However, if the resolution is not voted on, the bid will be taken to have been approved.

The proportional takeover approval provisions do not apply to full takeover bids and only apply for three years from approval. The provisions may be renewed, but only by a special resolution.

3. Reasons for re-inserting the provisions

If the proportional takeover approval provision is not in the Constitution, a proportional takeover bid may enable control of the Company to pass without shareholders having the opportunity to sell all of their shares to the bidder. Shareholders may therefore be exposed to the risk of being left as a minority in the Company and the risk of the bidder being able to acquire control of the Company without payment of an adequate control premium for their shares. The proposed proportional takeover provisions decrease this risk because they allow shareholders to decide whether a proportional takeover bid is acceptable and should be permitted to proceed.

4. Review of proportional takeover provisions

While proportional takeover approval provisions were in force under the Company's Constitution, there have been no full or proportional takeover bids for the Company. Therefore, there is no example against which to review the advantages or disadvantages of the provisions for the Directors and the shareholders. The Directors are not aware of any potential takeover that has been discouraged by Rule 6 of the Company's Constitution.

5. Potential advantages and disadvantages

The Directors consider that the re-insertion of the proportional takeover approval provisions has no potential advantages or disadvantages for them. They remain free to make a recommendation as to whether an offer under a proportional takeover bid should be accepted.

The potential advantages of the proportional takeover approval provisions for shareholders of the Company are:

- › shareholders have the right to decide by majority vote whether an offer under a proportional takeover bid should proceed;
- › the provisions may help shareholders avoid being locked in as a minority;
- › the bargaining power of shareholders is increased (this may help ensure that any partial offer is adequately priced); and
- › knowing the view of the majority of shareholders may help each individual shareholder assess the likely outcome of the proportional takeover bid and to decide whether to accept or reject that offer.

The potential disadvantages for shareholders of the Company include:

- › proportional takeover bids for shares in the Company may be discouraged;
- › shareholders may lose an opportunity of selling some of their shares at a premium; and
- › the chance of a proportional takeover bid being successful may be reduced.

The Board considers that the potential advantages for shareholders of the proportional takeover approval provisions outweigh the potential disadvantages. In particular, shareholders as a whole are able to decide whether or not a proportional takeover bid is successful.

6. No knowledge of any acquisition proposals

At the date of this Notice of Meeting, no Director is aware of a proposal by a person to acquire, or to increase the extent of, a substantial interest in the Company.

Recommendation

The directors unanimously recommend that the shareholders vote **in favour** of the re-insertion of proportional takeover provisions.

adairs

LODGE YOUR VOTE



ONLINE

www.linkmarketservices.com.au



BY MAIL

Adairs Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235 Australia



BY FAX

+61 2 9287 0309



BY HAND

Link Market Services Limited
1A Homebush Bay Drive, Rhodes NSW 2138; or
Level 12, 680 George Street, Sydney NSW 2000



ALL ENQUIRIES TO

Telephone: +61 1300 554 474



X99999999999

VOTING FORM

I/We being a member(s) of Adairs Limited (the **Company**) and entitled to attend and vote hereby appoint:

STEP 1 Please mark either A or B

A

VOTE DIRECTLY



elect to lodge my/our
vote(s) directly (mark box)



in relation to the Annual General Meeting of the Company to be held at **11:00 am (AEDT) on Monday, 26 October 2020**, and at any adjournment or postponement of the Meeting.

You should mark either "for" or "against" for each item. Do not mark the "abstain" box.

OR

B

APPOINT A PROXY



the Chairman
of the Meeting
(mark box)

OR if you are **NOT** appointing the Chairman of the Meeting as your proxy, please write the name and email of the person or body corporate you are appointing as your proxy

Name

Email

or failing the person or body corporate named, or if no person or body corporate is named, the Chairman of the Meeting, as my/our proxy to act on my/our behalf (including to vote in accordance with the following directions or, if no directions have been given and to the extent permitted by the law, as the proxy sees fit) at the Annual General Meeting of the Company to be held at **11:00 am (AEDT) on Monday, 26 October 2020** (the **Meeting**) and at any postponement or adjournment of the Meeting.

The Meeting will be conducted as a virtual meeting. You can participate by logging in online at <https://agmlive.link/ADH20> (refer to details in the Virtual Meeting Online Guide).

Important for Items 3, 4 & 5: If the Chairman of the Meeting is your proxy, either by appointment or by default, and you have not indicated your voting intention below, you expressly authorise the Chairman of the Meeting to exercise the proxy in respect of Items 3, 4 & 5, even though the Item is connected directly or indirectly with the remuneration of a member of the Company's Key Management Personnel (**KMP**).

The Chairman of the Meeting intends to vote undirected proxies in favour of each item of business.

VOTING DIRECTIONS

Voting Forms will only be valid and accepted by the Company if they are signed and received no later than 48 hours before the Meeting.

STEP 2

Items

2 Re-election of David MacLean as a Director

For Against Abstain*

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

3 Remuneration Report

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
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4 Approval of long term incentive grant of options to Mark Ronan

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

5 Approval of long term incentive grant of options to Michael Cherubino

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

6 Approval of financial assistance

For Against Abstain*

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------

7 Reinsertion of Proportional Takeover Provisions in Constitution

<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------	--------------------------



* If you mark the Abstain box for a particular Item, you are directing your proxy not to vote on your behalf on a show of hands or on a poll and your votes will not be counted in computing the required majority on a poll.

SIGNATURE OF SHAREHOLDERS – THIS MUST BE COMPLETED

Shareholder 1 (Individual)

Joint Shareholder 2 (Individual)

Joint Shareholder 3 (Individual)

Sole Director and Sole Company Secretary

Director/Company Secretary (Delete one)

Director

This form should be signed by the shareholder. If a joint holding, either shareholder may sign. If signed by the shareholder's attorney, the power of attorney must have been previously noted by the registry or a certified copy attached to this form. If executed by a company, the form must be executed in accordance with the company's constitution and the *Corporations Act 2001* (Cth).

ADH PRX2001N



HOW TO COMPLETE THIS SHAREHOLDER VOTING FORM

YOUR NAME AND ADDRESS

This is your name and address as it appears on the Company's Share register. If this information is incorrect, please make the correction on the form. Shareholders sponsored by a broker should advise their broker of any changes. **Please note: you cannot change ownership of your Shares using this form.**

VOTING UNDER BOX A - DIRECT VOTE

If you ticked the box under Box A you are indicating that you wish to vote directly. Please only mark either **"for"** or **"against"** for each item. Do not mark the **"abstain"** box. If you mark the **"abstain"** box for an item, your vote for that item will be invalid.

If no direction is given on all of the items, or if you complete both Box A and Box B, your vote may be passed to the Chairman of the Meeting as your proxy.

Custodians and nominees may, with the Share Registrar's consent, identify on the Voting Form the total number of votes in each of the categories **"for"** and **"against"** and their votes will be valid.

The Chairman's decision as to whether a direct vote is valid is conclusive.

VOTING UNDER BOX B – APPOINTMENT OF PROXY

If you wish to appoint the Chairman of the Meeting as your proxy, mark the box in Step 1. If you wish to appoint someone other than the Chairman of the Meeting as your proxy, please write the name and email address of that individual or body corporate in Step 1. A proxy need not be a Shareholder of the Company.

DEFAULT TO CHAIRMAN OF THE MEETING

Any directed proxies that are not voted on a poll at the Meeting will default to the Chairman of the Meeting, who is required to vote those proxies as directed. Any undirected proxies that default to the Chairman of the Meeting will be voted according to the instructions set out in this Voting Form, including where the Items are connected directly or indirectly with the remuneration of KMP.

VOTES ON ITEMS OF BUSINESS – PROXY APPOINTMENT

You may direct your proxy how to vote by placing a mark in one of the boxes opposite each item of business. All your Shares will be voted in accordance with such a direction unless you indicate only a portion of voting rights are to be voted on any item by inserting the percentage or number of Shares you wish to vote in the appropriate box or boxes. If you do not mark any of the boxes on the items of business, your proxy may vote as he or she chooses. If you mark more than one box on an item your vote on that item will be invalid.

APPOINTMENT OF A SECOND PROXY

You are entitled to appoint up to two persons as proxies to attend the Meeting and vote on a poll. If you wish to appoint a second proxy, an additional Voting Form may be obtained by telephoning the Company's Share registry or you may copy this form and return them both together.

To appoint a second proxy you must:

- (a) on each of the first Voting Form and the second Voting Form state the percentage of your voting rights or number of Shares applicable to that form. If the appointments do not specify the percentage or number of votes that each proxy may exercise, each proxy may exercise half your votes. Fractions of votes will be disregarded; and
- (b) return both forms together.

SIGNING INSTRUCTIONS

You must sign this form as follows in the spaces provided:

Individual: where the holding is in one name, the holder must sign.

Joint Holding: where the holding is in more than one name, either Shareholder may sign.

Power of Attorney: to sign under Power of Attorney, you must lodge the Power of Attorney with the registry. If you have not previously lodged this document for notation, please attach a certified photocopy of the Power of Attorney to this form when you return it.

Companies: where the company has a Sole Director who is also the Sole Company Secretary, this form must be signed by that person. If the company (pursuant to section 204A of the *Corporations Act 2001*) does not have a Company Secretary, a Sole Director can also sign alone. Otherwise this form must be signed by a Director jointly with either another Director or a Company Secretary. Please indicate the office held by signing in the appropriate place.

CORPORATE REPRESENTATIVES

If a representative of the corporation is to attend the Meeting Virtually the appropriate "Certificate of Appointment of Corporate Representative" must be received at vote@linkmarketservices.com.au prior to admission in accordance with the Notice of Annual General Meeting. A form of the certificate may be obtained from the Company's Share registry or online at www.linkmarketservices.com.au.

LODGEMENT OF A VOTING FORM

This Voting Form (and any Power of Attorney under which it is signed) must be received at an address given below by **11:00 am (AEDT) on Saturday, 24 October 2020**, being not later than 48 hours before the commencement of the Meeting. Any Voting Form received after that time will not be valid for the scheduled Meeting.

Voting Forms may be lodged using the reply paid envelope or:



ONLINE

www.linkmarketservices.com.au

Login to the Link website using the holding details as shown on the Voting Form. Select 'Voting' and follow the prompts to lodge your vote. To use the online lodgement facility, shareholders will need their 'Holder Identifier' - Securityholder Reference Number (SRN) or Holder Identification Number (HIN).



BY MAIL

Adairs Limited
C/- Link Market Services Limited
Locked Bag A14
Sydney South NSW 1235
Australia



BY FAX

+61 2 9287 0309



BY HAND

delivering it to Link Market Services Limited*
1A Homebush Bay Drive
Rhodes NSW 2138
or
Level 12
680 George Street
Sydney NSW 2000

* During business hours (Monday to Friday, 9:00am–5:00pm)