

# ADAIRS LIMITED

## APPENDIX 4E

### PRELIMINARY FINAL REPORT

52 weeks ending 27 June 2021

#### 1. DETAILS OF THE REPORTING PERIOD AND THE PRIOR CORRESPONDING PERIOD

Current Period: 29 June 2020 to 27 June 2021 (52 weeks)

Prior corresponding period: 1 July 2019 to 28 June 2020 (52 weeks)

#### 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

##### Statutory results

Statutory comparison to previous corresponding period	Increase/ (Decrease)	Change %	\$'000
Revenue from continuing operations	Increase	28.5%	499,762
Profit after tax from continuing operations attributable to members	Increase	80.7%	63,742
Net profit after tax for the period attributable to members	Increase	80.7%	63,742

##### Underlying results

The table below presents the Group's underlying financial results. These have been calculated to exclude the impact of (i) AASB 16 Leases, (ii) one-off costs associated with the transition to the new National Distribution Centre, and (iii) Mokka related acquisition costs (including earn-out related adjustments) and (iv) the net JobKeeper wage subsidy benefit received and the amount returned to the Government in 2H FY21. The underlying FY20 financial results were calculated on a comparative basis.

Underlying comparison to previous corresponding period	Increase/ (Decrease)	Change %	\$'000
Revenue from continuing operations	Increase	28.5%	499,762
Profit after tax from continuing operations attributable to members	Increase	101.5%	75,412
Net profit after tax for the period attributable to members	Increase	101.5%	75,412

For a reconciliation between statutory to Underlying NPAT, please refer to the Investor Presentation.

Dividends/distributions	Amount per ordinary share	Franked Amount per ordinary share
2021 Interim dividend	13.0 cents	13.0 cents
2021 Final dividend (resolved, not yet provided for at 27 June 2021)	10.0 cents	10.0 cents
Record date for determining entitlements to the dividend		9th September 2021
Payment date of Final dividend		23rd September 2021

##### Brief explanation of the figures reported above

The figures above represent the statutory results of the Group and the underlying results of the Group, adjusting for AASB 16 and other non-recurring items.

For further explanation please refer to the attached financial statements and Investor Presentation accompanying this financial report.

# ADAIRES LIMITED

## APPENDIX 4E

### 3. INCOME STATEMENT

Please refer to the attached financial statements for the 52 weeks ended 27 June 2021.

### 4. BALANCE SHEET

Please refer to the attached financial statements for the 52 weeks ended 27 June 2021.

### 5. CASH FLOW STATEMENT

Please refer to the attached financial statements for the 52 weeks ended 27 June 2021.

### 6. DIVIDEND DETAILS

Please refer to Note 25 of the attached financial statements for details of dividends paid in the 52 weeks ended 27 June 2021.

### 7. DIVIDEND OR DISTRIBUTION REINVESTMENT PLAN DETAILS

The company has not activated its Dividend Reinvestment Plan.

### 8. STATEMENT OF CHANGES IN EQUITY

Please refer to the attached financial statements for the 52 weeks ended 27 June 2021.

### 9. NET TANGIBLE ASSET BACKING PER ORDINARY SECURITY AS AT 27 JUNE 2021

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security	-\$0.13	-\$0.26

### 10. CONTROL GAINED OR LOST OVER ENTITIES IN THE FINANCIAL YEAR

Not applicable

### 11. DETAILS OF AGGREGATE SHARE OF PROFITS (LOSSES) OF ASSOCIATES AND JOINT VENTURE ENTITIES

Not applicable

### 12. OTHER SIGNIFICANT INFORMATION

Refer to the commentary in Section 2.

### 13. FOREIGN ENTITIES

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

### 14. COMMENTARY

For further explanation please refer to the ASX Release and Investor Presentation accompanying this preliminary final report.

### 15. AUDITED REPORT

The report should be read in conjunction with the attached audited financial statements for the 52 weeks ended 27 June 2021. The audit opinion is unqualified.

A bedroom with a large bed, a vase of flowers, and a window with a grid pattern. The bed has a tufted headboard and is covered with dark grey bedding and a beige blanket. A vase with pink flowers sits on the floor to the left. The window has a grid pattern and is set in a white frame. The floor is dark wood. The overall aesthetic is modern and elegant.

adairs

ANNUAL REPORT 2021

## 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](http://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](http://www.adairs.com.au)

## ABOUT MOCKA

Mocka 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 and 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](http://www.mocka.com.au)





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## 2021 ANNUAL GENERAL MEETING

11.00am on Wednesday, 20 October 2021

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**  
**+28.5%**

with Online Sales  
+51%, to \$187m

**ONLINE NOW**  
**37% of Total Sales**  
Up from 32% last year

**UNDERLYING GROSS MARGIN**  
**+410 bps**

GM initiatives  
continue to deliver

**UNDERLYING GROUP EBIT**  
**of \$109.1M**

Up 97.3%,  
(Pre AASB 16)

## MOCKA GROWING STRONGLY

Sales +31%  
New CEO appointed

## NATIONAL DISTRIBUTION CENTRE

Operational from  
September 2021

## LINEN LOVER MEMBERSHIP OVER 950,000

Members now  
account for over 80%  
of Adairs sales

## CASH GENERATION AND STRONG BALANCE SHEET

Cash flow from  
operations +14%  
(pre AASB 16) and net  
cash position now \$26m

## OPTIMISATION OF STORE PORTFOLIO

4 new stores,  
6 stores upsized



# CHAIRMAN'S REPORT





DEAR SHAREHOLDER,

I am very pleased to present the 2021 Annual Report of Adairs Limited.

## ANOTHER RECORD YEAR

The 2021 financial year saw COVID-19 continue to impact the lives of our customers, our team and the broader community. Against this challenging backdrop I am pleased to report that Adairs has again produced a record year in terms of both sales and profitability. While COVID-19 has brought focus to the Home category our success in FY21 is equally attributable to the strategic pillars the Board and management team set prior to COVID, underpinned by our vertically integrated omni-channel model, our unique product and our amazing team who continue to delight and inspire our customers every day.

Our financial results for FY21 were excellent:

- › Group sales up 28.5% to \$499.8 million
- › Group online sales of \$187.0 million representing 37.4% of Group sales
- › Underlying Group EBIT up 97.3% to \$109.1 million (Pre AASB 16)
- › Strong cash flow resulted in closing net cash of \$26.0 million
- › Declared final dividend of 10.0 cents per share fully franked.

We chose to return the net benefit of our FY21 JobKeeper wage subsidy to the Australian Government. JobKeeper was a welcome and necessary initiative, helping employers and employees remain connected during a period of significant economic disruption. Ultimately however, given our success in navigating this period, we felt it right to return this benefit to the Government.

## NATIONAL DISTRIBUTION CENTRE

Construction of our new purpose-built National Distribution Centre (NDC) commenced in May 2020 and we are pleased to report that it will be fully operational by the end of September 2021. 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.

## MOCKA

Mocka has performed ahead of the expectations we had of the business when we acquired it in December 2019. Since then, our understanding of and confidence in the potential for the business has continued to develop, especially the scope for substantial further growth in Australia.

In June we announced an agreement with the Mocka founders to finalise and bring forward the settlement of the deferred consideration component of the Mocka acquisition. The original sale and purchase agreement provided for the deferral of 35% of the consideration to be paid in FY21 and FY22 based on a formula linked to the actual EBIT in those years. Bringing this forward enables us to continue to invest in the short-term to realise Mocka's long-term potential, a period which lay beyond the time horizon of the founders.

We recently announced the appointment of Vanessa Brennan as Chief Executive Officer of Mocka. Vanessa is an experienced retail executive, having previously been Chief Brand and Strategy Officer at global jewellery retailer Michael Hill International.

We are excited by the opportunity for Mocka and with ongoing investment we expect to deliver continued profitable growth.

## STRONG FINANCIAL POSITION AND DIVIDEND

Adairs' balance sheet remains strong with cash of \$26 million and no outstanding debt at year end. Payment of the Mocka deferred consideration (A\$44.7 million) will occur in September 2021 to be funded from existing cash and term debt facilities.

Given the underlying NPAT achieved in FY21 and the strong cash generation of the business, I am pleased to advise that the Board have declared a final fully franked dividend of 10.0 cents per share. This takes the total dividend payout for the year to 23.0 cents per share.

## OUR OUTSTANDING TEAM

I joined the board of Adairs in November 2020 and one aspect that has impressed me immensely in my first year is the passion, talent and resilience of our people. Regardless of which team they come from - product, marketing, in-store, digital, customer support, logistics or executive - everyone in Adairs has a clear and united vision for the company. Importantly they also know how they individually contribute to delivering this vision. This is a credit to our CEO, Mark Ronan, and his dedicated leadership team.

On behalf of the Board I would like to thank all team members for their unwavering commitment to our business and the way in which they have individually responded to the challenges of the year. It has been an outstanding effort.

**Brett Chenoweth**  
Chair

# MANAGING DIRECTOR AND CEO'S REPORT



Dear Shareholder,

I am pleased to report that FY21 has delivered another record set of financial and operational results for Adairs.

This comes as the COVID pandemic continues to impact our lives with multiple regional lockdowns announced across Australia and New Zealand during FY21, the longest of which in Victoria lasted 16 weeks. While these lockdowns impacted our store performance there were key strategic mitigants which played an important role in ensuring we continued to grow both sales and profitability, even as we cycled FY20 which was itself a record year. Our omni-channel model, strong product offering and engaged customer base collectively ensured that COVID's impact on our business was significantly reduced.

Group revenue grew 28.5% to \$499.8 million and on a like-for-like basis<sup>1</sup> by 16.5%. Group online sales grew to \$187.0 million and now represent 37.4% of total sales. Underlying Group EBIT<sup>2</sup> finished up 97.3% against the prior year at \$109.1 million.

Given the inherent difficulties in assessing our performance across two

COVID-impacted years, each of which had different lockdown experiences in terms of severity, duration and geography, we have reviewed our FY21 performance against pre-COVID levels (FY19). On this basis total sales (excluding Mocka which was not owned in FY19) are up 31.9%, with online up 113.7% and like-for-like store sales up 12.6%. This is an outstanding result and clearly demonstrates the strength of our underlying strategies and the resilience of our business.

When reviewed by brand the underlying financial results for FY21 are also excellent.

## **ADAIRS FINANCIAL AND OPERATIONAL PERFORMANCE (EXCLUDING MOCKA)**

Adairs sales finished up 22.1% over the prior year and up 14.5% on a like-for-like basis<sup>1</sup>.

In a year with significant disruptions caused by government mandated store closures we saw our omni channel strategy deliver this strong sales growth.

Customers were comfortable moving from one channel to the other and back



1. Like-for-Like Sales Growth has been adjusted for any store closures and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).
2. Underlying group EBIT excludes the impact of (i) AASB 16, (ii) one-off costs associated with the transition to the new National Distribution Centre, (iii) Mocka related acquisition costs (including deferred consideration fair-value adjustments), and (iv) JobKeeper wage subsidy received in 1H FY21 and returned to Government in 2H FY21.



again depending on the circumstances at the time. Total store sales were up 18.1% for the year or 7.4% on a like-for-like basis. Online sales grew by 33.2% to \$126.9 million and accounted for 28.9% of the Adairs business total sales (up from 26.5% in FY20 and 17.1% in FY19).

Linen Lovers members increased by c.15% and now exceed 950,000. Given the paid for nature of our loyalty program, and the fact that Linen Lover members now account for over 80% of sales, this is an excellent barometer of our customer engagement and provides a solid and growing base for future sales.

Adairs gross lettable area (store floor space) grew by 8.2% through a combination of new and upsized stores. We opened four new Homemaker stores, upsized six stores (four Homemakers and two regular stores) and refurbished three stores. Our store rollout and upsizing strategy continues to deliver a strong return on investment and healthy profit growth, with all stores increasing their sales and profitability following upsizing. Importantly, our pipeline for new and upsized stores is healthy with up to 10 properties to be developed in FY22.

Managing gross margin has continued to be a key focus, with Adairs gross margin rate increasing by 520bps to 66.7%. There is no doubt that the FY21

retail environment, which saw generally lower stock levels across the industry and strong customer demand, helped contribute to this result. However, the ongoing focus of the team on continuing our coordinated program of sourcing and retail pricing initiatives combined with reducing the depth and length of promotional activity drove this result. Over the year we reduced the number of storewide promotional events by 44 days compared to the previous year, which we expect will be maintained going forward.

CODB expenditure increased by 12.2% with some increases in variable costs related to the strong sales growth, an increase in online marketing expenditure and further investment in talent and capability within the support office to drive key growth areas across the business. Adairs also incurred one-off costs of \$2.7 million in relation to the new National Distribution Centre project and \$7.6 million in relation to the revaluation of the Mocka deferred payments. These investments will reward shareholders as we continue to build upon our omni channel capabilities.

As announced with our first half results, we chose to return the net benefit of the FY21 JobKeeper wage subsidy received to the Australian Government. JobKeeper was a welcome and necessary initiative when it was launched however given our success in navigating the impact of COVID-19 we felt it right to return the wage subsidy component. This was repaid and recognised in the Company's financial results in 2H FY2021.

Overall Adairs achieved significant operating leverage with CODB as a percentage of sales declining 350bps from 42.8% to 39.3%. Strong growth in sales across both channels, combined with this operating leverage delivered underlying EBIT growth of 98.2% to \$96.7 million representing an EBIT margin of 22.0% (up from 13.5% in FY20).

## **MOCKA FINANCIAL AND OPERATIONAL PERFORMANCE**

Mocka achieved total sales of \$60.2 million, 30.9% up on its FY20 results (noting that Adairs ownership was for 30 of these 52 weeks) and ahead

of the original business case when the business was acquired. Underlying gross margin rate declined by 60bps to 51.2% reflecting the impact of additional promotional activity in the second half as stock levels returned to more normal levels and the business cycled store closure periods in the prior year.

Mocka's CODB as a percentage of sales increased from 17.3% to 18.4% as we continued to invest in both marketing and talent. These initiatives are consistent with the intention to invest in the Mocka business to build our management capabilities, raise our brand awareness, particularly in Australia, and position us for strong growth in coming years.

Mocka's underlying EBIT for FY21 was \$12.4 million with an underlying EBIT margin of 20.6%.

Throughout the year Mocka undertook a couple of significant projects to enable our future growth. The New Zealand and Australian websites were re-platformed in September 2020, with Mocka transitioning well with no disruption to our customers or trading through this period. We also doubled the size of our Australian warehouse in Brisbane to support the continuing growth of Mocka as we continue to build our capacity to support the growth of the business.

To further support this growth, Adairs announced in June the early settlement of the deferred consideration payable to the Mocka founders. This was an important step as it enables Mocka to continue to invest in the short-term to accelerate the realisation of the long-term potential, a period beyond the time horizon of the founders.

The Blake family, who founded the business, have done an exceptional job in building the Mocka brand to date. I want to take this opportunity to thank them for the work they have done in building a great brand and their assistance in transitioning to independent management since Adairs acquisition. We look forward to their ongoing support as we aim to make them proud of the brand they created as it grows over the coming years.



The appointment of Vanessa Brennan as Chief Executive Officer of Mocka is the next step in this transition. Vanessa is an experienced retail executive, having been Chief Brand and Strategy Officer at global jewellery retailer Michael Hill International and is well placed to continue Mocka's strategy of delivering strong and profitable growth by gaining market share in a very large product category.

We remain very confident in, and ambitious for, the long-term success of Mocka.

## **STRONG CASHFLOW AND BALANCE SHEET**

Given the outstanding results the group converted this into strong operating cashflow which saw it close FY21 with net cash of \$26.0 million compared to a net debt position of \$1.0 million a year earlier. Both Adairs and Mocka finished the year with significantly higher levels of inventory than the prior year which was artificially low due to the actions we took to combat COVID-19 in the second half of FY20. The higher inventory

holdings also reflect that we currently expect to hold slightly more inventory than normal to accommodate delays in shipping inventory from various source countries.

The Company has considerable headroom with finance facilities of \$96.5 million available until July 2023 which represents an extension of four months on its previous expiry to better align with financial periods.

The Company expects to pay both the FY2021 final dividend (\$16.9 million) and the deferred Mocka consideration (NZ\$48.0 million) in September 2021. These will be funded by existing cash and term debt facilities.

With a strong balance sheet the company will continue to assess potential acquisition opportunities that meet its strict return requirements.

## **DIVIDENDS**

Given the underlying NPAT achieved in FY21 and our strong cash position, the Board has declared a final fully franked dividend of 10.0 cents per share. The Record Date for the dividend will be 9 September 2021 with payment on 23 September 2021. This takes the total dividend payout for the year to 23.0 cents per share.

## **NATIONAL DISTRIBUTION CENTRE**

I am pleased to report that our new DHL-operated National Distribution Centre ('NDC') will be fully operational by the end of September 2021. While this is approximately three months later than originally foreshadowed I wanted to congratulate all of those involved in its build and commissioning which had to accommodate a number of COVID-related delays in the delivery of building materials from offshore suppliers, and COVID-related restrictions throughout the building timeline.

The NDC is a key component of our integrated omni-channel strategy to

# MANAGING DIRECTOR AND CEO'S REPORT

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 facility will improve stock flow and online fulfilment, increase stock availability, and improve service levels for both customers and stores during peak trading periods.

Once fully transitioned we anticipate annual savings of c.\$3.5 million per annum over existing operations (with pro-rata savings in 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 have significantly enhanced our Corporate Governance Statement to address issues of interest to all our stakeholders. These include the ethical sourcing of products, sustainability, modern slavery, gender diversity and climate change. In many of these areas we have made excellent progress however we also acknowledge that much remains to be done and we undertake to be transparent and timely in our disclosures around our progress.

Our Corporate Governance Statement can be viewed on our investor relations website ([investors.adairs.com.au](http://investors.adairs.com.au)). In addition to setting out our governance framework, it also sets out our social and environmental initiatives, and details the high standard of ethics, integrity and behaviour we require and expect from the entire Adairs team and all of our suppliers.

## OUR COMMUNITY

Our partnership with Orange Sky continues to flourish and is a matter of great pride to everyone at Adairs. Orange Sky is an outreach organisation providing free laundry, shower services and non-judgmental conversation with the many people experiencing homelessness across Australia and New Zealand. I'm delighted to report that thanks to the generosity of our

customers and team we contributed over \$330,000 to Orange Sky in FY21 which, together with our volunteering efforts, has provided 8,733 washes, 5,001 hot showers and 9,184 hours of conversation to those experiencing homelessness.

Adairs is also a major sponsor of the Melbourne Boomers, a women's basketball team in the WNBL. This ongoing partnership is aimed at providing an opportunity for the community to see and interact with wonderful, strong, healthy role models as well as providing women with the opportunity to play professional sport in Australia.

## OUR TEAM

Critical to our success is our team, whose commitment and excellence underpin the delivery of our performance and growth plans. FY21 has been another challenging year for all of them and I am incredibly proud in the way they have united with the common goal of delivering exceptional customer experiences that deliver outstanding results. This has been seen not only from a financial perspective, but also in relation to our ability to adapt to the changing circumstances across the course of the year. I can't thank the Adairs and Mocka teams enough for their commitment to the business over the last 18 months.

I would like to also acknowledge the continued support of our suppliers, landlords and other business partners who play a key role in ensuring we deliver against our strategic growth initiatives and remain the leading omni channel retailer of home furnishings in Australia and New Zealand.

Finally, I would like to thank our many customers, both longstanding and new. We exist to serve our customer's home needs and in being totally focussed on our customers we can help them create a home they love and ensure that our shareholders benefit through profitable growth.



## OUTLOOK

The strategic pillars we set prior to COVID have enabled the business to deliver outstanding financial results in FY21, underpinned by our vertically integrated omni-channel model and our amazing team who continue to delight and inspire our customers every day.

In considering the FY22 outlook it should be noted that we continue to operate in a COVID impacted environment and need to remain prepared to act and adapt to significant business disruptions at short notice. As has been proved over the last two years our strategic pillars provide strong mitigants in these conditions and should see us continue to take market share. That said, the frequency, duration and extent of Government imposed store closures due to COVID-19 will remain a significant factor in our financial performance over FY22.

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 number 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 31 vans and over 1,700 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 judgement.

Adairs supports Orange Sky in a number of ways:

- › Adairs team members across all levels of the company are given the opportunity to volunteer with Orange Sky in location across Australia
- › All profits from the sale of Adairs in-house designed reusable totes (introduced to replace single-use bags) go to Orange Sky
- › Adairs collects donations made via in-store donation boxes.

In FY21 Adairs contributed over \$330,000 to Orange Sky which, together with our volunteering efforts, has provided 8,733 washes, 5,001 hot showers and 9,184 hours of conversation to our friends experiencing homelessness.

### 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.



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

### IMPACT IN 2020

Although 2020 brought challenges that none of us could have predicted, Orange Sky remained committed to supporting our friends experiencing homelessness by providing access to free laundry, warm showers and genuine conversation.

**13,701**

people positively connected



**8,308**  
Shifts



**31**  
Vans in operation



**38,125**  
Washes



**5,120**  
Warm, safe  
showers



**55,426**  
Hours of genuine  
conversations



**1,735**  
Volunteers

<https://OrangeSky.org.au/>



# CORPORATE GOVERNANCE STATEMENT

## **CORPORATE GOVERNANCE STATEMENT**

Adairs has fully followed the recommendations of the ASX Corporate Governance Council's Principles and Recommendations (4th 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 19 August 2021, which are available to be viewed on the Group's investor relations website at: [www.investors.adairs.com.au](http://www.investors.adairs.com.au)

FINANCIAL  
REPORT  
2021



# DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited (the “Company”) and its subsidiaries (the “Group”) for the 52 weeks ended 27 June 2021 (“FY2021” or “FY21”).

## DIRECTORS

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

Brett Chenoweth (appointed 16 November 2020)

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Simon West

Michael Butler (retired 26 October 2020)

Information on qualifications and experience of directors is included on pages 21 to 23 of this report.

## Principal Activities

During the period, the principal continuing activities of the Group consisted of the retailing of homewares, furniture and home furnishings in Australia and New Zealand, through both retail stores and online channels.

## Dividends

In respect of the 52 weeks ended 27 June 2021, an interim dividend of 13.0 cents per share was paid to the holders of fully paid ordinary shares on 25 March 2021 and the directors have declared the payment of a final dividend of 10.0 cents per share, to be paid to the holders of fully paid ordinary shares on 9 September 2021 (Record Date) with payment on 23 September 2021 (Payment Date).

This takes the total dividend for the full year to 23.0 cents per share, with dividends franked to 100% at the 30% corporate income tax rate.

## 2021 Operating and Financial Review

The profit from ordinary activities after income tax for FY2021 amounted to \$63.7 million (FY2020: \$35.3 million).

The Directors' Report includes references to Non-IFRS financial measures such as Underlying Earnings Before Interest and Tax (Underlying EBIT), Underlying EBIT Margin, Underlying EBITDA (Underlying EBIT excluding depreciation and amortisation), Gross Profit, Underlying Gross Margin and Like-for-Like (LFL) Sales Growth. These are all unaudited measures.

EBIT and other Non-IFRS terms (described above) are 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. These are not measures of operating income, operating performance or liquidity under IFRS. Other companies may calculate such measures in a different manner to the Group.

The Underlying EBIT of the Group for FY2021 was \$109.1 million (FY2020: Underlying EBIT \$55.3 million).

<b>Continuing Operations</b>	<b>FY21 \$'000</b>	<b>FY20 \$'000</b>
Statutory profit after income tax for continuing operations	63,742	35,281
<i>Add back:</i>		
Finance expenses	7,457	6,250
Interest income	(31)	(90)
Income tax expenses	31,548	17,510
<b>Statutory EBIT (Non-IFRS)</b>	<b>102,716</b>	<b>58,951</b>
<i>Significant items:</i>		
Impact of AASB 16 Leases <sup>1</sup>	(3,930)	(2,195)
Costs associated with the transition to the National Distribution Centre	2,698	–
Mocka acquisition costs (including earn-out related adjustments)	7,583	3,884
Net benefit of the JobKeeper wage subsidy	–	(5,355)
<b>Underlying EBIT (Non-IFRS)</b>	<b>109,067</b>	<b>55,285</b>

The table below sets out the operating results for FY2021 compared to the operating results for FY2020.

<b>Continuing Operations</b>	<b>FY21 \$'000</b>	<b>FY20 \$'000</b>	<b>Change %</b>
Revenue	499,762	388,933	28.5%
Gross Profit (Non-IFRS)	303,293	222,119	36.5%
Gross Profit Margin (Non-IFRS)	60.7%	57.1%	+360 bps
Underlying EBIT (Non-IFRS)	109,067	55,285	97.3%
Underlying EBIT Margin (Non-IFRS)	21.8%	14.2%	+760 bps

## Results Summary

While FY2021 continued to be impacted by COVID-19 the strength of the Group's omni-channel business model saw the Group deliver another record year with revenue up 28.5% to \$499.8 million. On a like-for-like basis, sales increased by 16.5% driven by the continued success of our core strategies.

The Group's omni-channel strategy continued to progress strongly during the year, delivering sales growth across the Group. Group online sales grew by 50.6% to \$187.0 million and now represent 37.4% of total sales (up from 34.8% on a directly comparable basis after annualising Mocka's prior year contribution).

The Group's strong sales performance, uplift in gross margin and disciplined cost control delivered a record underlying Group EBIT<sup>2</sup> of \$109.1 million, 97.3% up on last year. Adairs contributed \$96.7 million of this EBIT result and Mocka \$12.4 million.

## Adairs Business

Total sales for Adairs of \$439.6 million was 22.1% up on the prior year, with total like-for-like sales<sup>3</sup> up 14.5%. Store sales were up 18.1% for the year as the segment cycled the Government mandated nation-wide store closures in Q4 FY2020. However, store like-for-like sales were up 7.4% and up by 12.6% over the pre-COVID-19 levels achieved in FY2019. Online sales were 33.2% up on last year, with ongoing investment in this channel delivering strong results. Total digital channel<sup>4</sup> sales now equate to 41% of total sales for Adairs.

1. The impact of AASB 16 Leases resulted in an earnings shift in the consolidated statement of profit or loss from Occupancy expenses under AASB 117 to Depreciation and amortisation expenses and Finance expenses under AASB 16.

2. Underlying EBIT excludes the impact of (i) AASB 16 Leases, (ii) costs associated with the transition to the new National Distribution Centre, (iii) Mocka related acquisition costs (including earn-out related adjustments), and (iv) the net JobKeeper wage subsidy benefit received and returned to Government.

3. Like-for-Like Sales Growth has been adjusted for any store closures and is calculated on a store-by-store daily basis (where only stores open on the same day in each corresponding period have been included).

4. Digital channel sales are the total of online sales and sales of stock not ranged in store but where the order is placed by the customer within the store and fulfilled from the central warehouse.

# DIRECTORS' REPORT

Adairs continued to optimise the store portfolio, opening four new Homemaker stores, upsizing six stores and refurbishing three stores through the year. Total retail floor space, as measured by gross lettable area (GLA), increased by 8.2% to 66,896 square metres. The store rollout and upsizing strategy continues to deliver healthy profit growth and return on investment, with all stores increasing their sales and profitability following upsizing.

Stronger sales were accompanied by further improvement in Underlying Gross Margin<sup>5</sup> within the Adairs business, which increased by 520bps to 66.7%. 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.

Adairs' cost of doing business (CODB) reduced by 350bps from 42.8% of sales in FY2020 to 39.3% of sales in FY2021. Increased investment in online marketing delivered strong returns throughout the year and further investment in technology, talent and capability to drive key growth areas across the business into FY2022 and beyond. Adairs also incurred transition costs of \$2.7 million in relation to the new National Distribution Centre project and \$7.6 million in relation to the revaluation of the Mocka earn-out liabilities.

In February 2021, the Board determined that based on the performance of the Company it was appropriate to repay the net JobKeeper wage subsidy benefit of \$6.1 million received during 1H FY2021 to the Australian Government. This was repaid and recognised in the Group's financial results in 2H FY2021.

## Mocka Business

Mocka achieved total sales of \$60.2 million which was 30.9% up on the prior year<sup>6</sup> (including the full year of FY20) and ahead of the original business case when the business was acquired. Underlying Gross Margin rate declined by 60bps to 51.2% reflecting the impact of additional promotional activity in Q4 as stock levels returned to more normal levels and the business cycled accelerated COVID-related growth in the prior year.

Mocka's costs of doing business (CODB) as a percentage of sales increased from 17.3% to 18.4% due to increased investment in both marketing and talent. These initiatives are consistent with the intention to invest in the Mocka business to raise its brand awareness, particularly in Australia, and position it for strong growth in coming years. In a correlated development Adairs announced in June the early settlement of the deferred consideration payable to the Mocka founders. This was a positive and important development for Mocka which enables the company to continue to invest in the short-term to accelerate the realisation of the long-term potential, a period beyond the time horizon of the founders.

## Capital Management

The Group experienced strong cashflow which saw its net cash position rise to \$26.0 million at the end of June 2021 from a net debt position of \$1.0 million a year earlier. Both Adairs and Mocka are carrying significantly higher levels of inventory compared to the prior year which is in line with the normal trading pattern and flow of inventory for both businesses and includes additional allowances to accommodate delays in shipping inventory from source countries.

The Group has complied with all of its bank covenants and continues to have significant headroom. The Group will continue to assess potential acquisition opportunities that meet its strict return requirements and has finance facilities of \$96m available until 31 July 2023 which represents an extension of four months on its previous expiry which was renegotiated after the reporting date.

The Group expects to pay both the FY2021 final dividend (\$16.9 million) and the deferred Mocka consideration (NZ\$48.0 million/ A\$44.7 million) in September 2021. These will be funded by existing cash and term debt facilities.

## Adairs Strategic Update

The Group believes its existing underlying strategies remain appropriate and that its performance both operationally and financially in both FY2021 and FY2020 given their pandemic-related 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.

Set out below are the five key drivers of this growth.

5. Underlying Gross Margin is Gross Profit excluding Online distribution costs (postage).

6. Includes the period prior to December 2019 which was outside of the Group's ownership.

## Our proven and resilient business model

- › Strong brands that are owned and controlled. This enables a lower cost of customer acquisition and retention, offer exclusive product and deliver higher margins.
- › A large and loyal customer base with over 950,000 paid up members of our proprietary loyalty program, Linen Lovers. Membership numbers continue to grow strongly each year (with a CAGR<sup>7</sup> 14.5% of the last 5 years). Linen Lovers are highly engaged, visiting Adairs more often and spending more each visit than non-members (accounting for over 80% of Adairs sales in FY2021).
- › High exposure to the accelerating trend to online shopping with digital channel shoppers now representing c.48% of group sales. Continue to win market share of this channel as customers transition to online/omni.
- › A vertical supply chain which enables control of the range, quality, cost and timing of the product offering. It also makes each business more agile and responsive to changing markets and provides for significantly higher gross margins and levels of profitability.

## 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.
- › Our store portfolio is profitable and with relatively short lease terms we are able to take advantage of profitable new store and upsizing opportunities whilst optimising the portfolio where appropriate.
- › Larger stores are more profitable and significant upsizing opportunities remain within the current portfolio. Upsizing our stores allows us to showcase more products/categories and typically delivers a c.60% increase in store contribution amount. To date we have upsized 21 stores and believe a further 20-25 upside opportunities remain over the next few years.

## Our digital transformation

- › Our multi-channel offer gives us a larger total accessible market (TAM), significant synergies across channels, and delivers customers a superior and more flexible shopping experience.
- › We are focused on the development of our digital channel and accelerating our digital transformation through additional investment in customer acquisition, customer experience, technology 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 benefit both brands.

## 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 have fast-tracked the expansion of our Australian warehouse facilities to support our growth. Mocka's Australian website visits are up 33.0% and Australian sales are up 28.9% in FY2021 over the prior year.<sup>8</sup>
- › We are investing in the significant opportunities to expand Mocka's product category width and depth and to optimise our supply chain planning and management team.
- › New CEO (Vanessa Brennan) joins in September 2021 and will drive Mocka's growth strategy. Vanessa has strong retail and digital experience, having been Chief Brand and Strategy Officer at global jewellery retailer Michael Hill International and most recently a consulting partner at PwC in its Customer, Retail and Digital Transformation practise.

## Omni Supply Chain Strategy

- › Adairs' new purpose-built National Distribution Centre (NDC) is expected to be fully operational from September 2021 with DHL as our 3PL partner and operator.
- › 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 Adairs multiple warehouse 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.
- › Annual savings of c.\$3.5 million per annum are anticipated once the transition from our current warehouses is complete (with a pro-rata saving expected in FY2022).

7. Compound annual growth rate.

8. Includes the period prior to December 2019 which was outside of the Group's ownership.

# DIRECTORS' REPORT

## Material Business Risks

There are a number of risk factors both specific to the Group and of a general nature which may impact the future operating and financial performance of the Group. The performance of the Group 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 the Group and their mitigants include:

Risk	Explanation	Mitigation
Major economic downturn	The economic impact of the COVID-19 pandemic could worsen. While unemployment, housing prices and consumer sentiment are presently favourable this could change. Consumers may consider many of the Group's 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 demand for the Group's products and adversely affect financial performance.	The Group proactively and conservatively 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 and that it retains access to liquidity.
Business interruption	The COVID-19 pandemic continues to require the closure of Adairs stores in impacted regions for varying times. 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 the Group 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 the Group's businesses. 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. 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 the Group's 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.	The Group has a strong and long-standing relationship with its primary lending bank and its group term debt facilities are in place and recently extended until July 2023. The Group undertakes detailed short and medium term cashflow forecasts, including stress testing to ensure there is sufficient headroom to accommodate unforeseen material shocks.
Customer's buying habits or seasonal trading patterns may change	Many of the Group's products are considered to be discretionary goods, particularly products in the Group's fashion item lines where consumer preferences and tastes can change quickly. Consumer demand for these products is sensitive to the Group's 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 the Group's financial performance.	The Group has a highly experienced product development team who actively monitor and forecast fashion trends domestically and internationally. The company undertakes range review processes prior to purchase and post season reviews to capture key learnings. Further category expansion has diversified risk across more product groups.

<b>Risk</b>	<b>Explanation</b>	<b>Mitigation</b>
Competition may increase or change	The competitive environment in which the Group operates in is relatively stable, however there are low barriers to entry so there is a risk that the Group may lose market share to new or existing competitors. The Group's competitive position may deteriorate as a result of increased competition, and customers may choose to purchase products from its competitors rather than from the Group which could lead to downward pressure on margins and subsequently have an adverse impact on the Group's financial performance. There is also the risk that the Group 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 exclusive 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 the Group's business is conducted online and involves the collection of customer data. This includes Adairs' Linen Lover 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 Group.	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. Periodic cyber security audits are undertaken.
Regulatory compliance	The Group 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 Group's reputation and profitability, the imposition of significant fines or other adverse consequences.	The Group 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 who understand our business and are readily available.
Environmental, social and governance (ESG) responsibility	The Group's stakeholders (across customers, shareholders and team) have expectations for the Group on a range of important environmental, social and governance matters including its governance structure, 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 the Group's reputation and profitability.	The Group meets regularly with shareholders and ESG rating agencies to discuss the company's current and proposed initiatives. ESG initiatives are reported upon annually in the Adairs Corporate Governance Statement. Traceability is already underway to ensure the Company meets its obligations under Modern Slavery legislation. The Group has a formal sustainability strategy under development that consolidates current initiatives across the business, such as Global Organic Textile Standards, Oeko-Tex, Australian Packaging Convention and Responsible Down Standards.
Workplace health and safety	The Group 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 responsibilities could result in serious injury and/or death and negatively impact the Group's reputation and profitability including via the imposition of significant fines or other adverse consequences.	The Group 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 was undertaken in FY21 with no material adverse findings. COVID-19 health management plans have been implemented across the business.

# DIRECTORS' REPORT

Risk	Explanation	Mitigation
Management succession	The Group has a number of executive team members considered key to the success of the Group 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. A senior leadership development program has been developed with the Melbourne Business School which seeks to develop the leadership capabilities of the next-level of talent within the business.
Major projects	The Group has a number of major projects underway which need to be delivered on time and within budget. These include a new National Distribution Centre (NDC) which is expected to be operational by September 2021. This will involve transitional arrangements from existing distribution centres which could lead to material business disruption and costs if not managed appropriately. Another major project underway is an upgrade of our digital platform. Given online sales are approaching 40% of Group sales the successful implementation of this upgrade is critical.	Major projects are overseen by a steering committee to appropriately manage costs and resources. The NDC operator (DHL) has a core competency in project management and supply chain execution.
Supply chain risk	The Group currently sources c.93% of its products from outside Australia (primarily China, India and Bangladesh). Failure to adequately diversify the supply chain both geographically and/or by supplier volume raises risks associated with supplier concentration, geo-political exposure, raw material supply, and climate risk.	The Group is well advanced in a supplier profiling exercise to identify and assess opportunities for consolidation and/or diversification of suppliers and their country of origin to reduce risk in its supply chain.
Conduct risk	It is critical that customers have trust and confidence in the Group's businesses 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.	The Group's 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 FY2022 guidance at this time. COVID-19 continues to remind Australians of the importance of a comfortable home (and home office) and motivates strong spend in home improvement and home decoration. We expect this behaviour to persist whilst COVID-19 remains a threat in our communities albeit the frequency, duration and extent of Government imposed store closures due to COVID-19 will also be a significant contributor to the FY2022 result.

Adairs expects to open 2-4 net new stores and upsize 8-10 existing stores across Australia/New Zealand in FY2022.

## Significant changes in the state of affairs

There have been no significant changes in the state of affairs of the Group during the 52 weeks ended 27 June 2021.

## Matters subsequent to the end of the financial year

Subsequent to 27 June 2021, the Group's Adairs store portfolio has been impacted by various Government imposed restrictions related to COVID-19. This has resulted in temporary store closures however majority of the impacted stores continue to offer Call & Collect and Call & Deliver services with processes and protocols in place to support the safety and wellbeing of our team and customers.

In July 2021, the Group renegotiated the maturity date of its existing finance facilities to be extended by four months. The finance facilities are now due to expire on 31 July 2023 which better reflects the reporting cycle of the Group. There were no further material changes to the finance facilities.

On 19 August 2021, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2021 financial year. The total amount of the dividend is \$16.9 million which represents a fully franked final dividend of 10.0 cents per share. The dividend has not been provided for in the 27 June 2021 financial statements.

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

## Environmental regulation

The Group's operations are not subject to any significant environmental obligations or regulations. No environmental breaches have been notified to the Group during the 52 weeks ended 27 June 2021.

## Directors and Directors' Interests

The Directors of Adairs Limited in office at 27 June 2021 are listed below together with details of their relevant interests in the securities of the Company at this date.



### **Brett Chenoweth**

#### ***Independent Chair, Non-Executive***

Brett was appointed Independent Chair in November 2020 and brings a wealth of major international experience across media, technology, entertainment, investment and telecommunications. Previously Brett was the Chief Executive Officer and Managing Director of APN News and Media, and Head of Group Strategy and Mergers & Acquisitions at Telecom New Zealand. Brett holds a number of unlisted directorships including Vodafone New Zealand, Canberra Data Centres and Madman Entertainment.

#### ***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***

Nil

#### ***Other Current Listed Directorships***

Janison Education Group (since July 2014)

#### ***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

#### ***Other Current Listed Directorships***

None

#### ***Interest in Adairs Limited shares and options***

681,668 ordinary shares

3,118,379 options

#### ***Former Listed Directorships in the last 3 years***

None

# DIRECTORS' REPORT



## **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. In addition to her listed roles Kate is a Non-executive director of the Geelong Football Club.

#### ***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 Listed Directorships***

Non-executive director of Sonic Healthcare Ltd (since July 2010)  
Non-executive director of Sigma Healthcare Ltd (since December 2015)  
Non-executive director CIMIC Group Ltd (since September 2017)

#### ***Former Listed Directorships in the last 3 years***

Non-executive director of Xenith IP Ltd (April 2017 to August 2019)



## **Trent Peterson**

### ***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 Catalyst Direct Capital Management. Trent was non-executive Chairman of Adairs from 2010 until the IPO in 2015, being the period of Catalyst's majority ownership. Trent is also a non-executive director of a number of unlisted companies including Cirrus Media Pty Ltd and Australian Pure Health Pty Ltd (trading as Mr Vitamins).

#### ***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 Listed Directorships***

Non-executive director of Dusk Group Limited (since February 2015)  
Non-executive director of Universal Store Holdings Limited (since October 2018)  
Non-executive director of The Shaver Shop Group Limited (since May 2016)

#### ***Former Listed Directorships in the last 3 years***

None



## **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. Kiera is Chair and Trustee of the Art Gallery of New South Wales Foundation and holds a number of unlisted non-executive directorships including Samuel Smith and Sons Pty Ltd (incorporating Yalumba Wine Co and Negotiants Fine Wine Distributors).

#### ***Special Responsibilities***

Member of the Remuneration Committee  
Member of the Nomination Committee

#### ***Interest in Adairs Limited shares and options***

170,427 ordinary shares

#### ***Other Current Listed Directorships***

Non-Executive Director of Future Generation Global Investment Company Ltd (since March 2018)

#### ***Former Listed Directorships in the last 3 years***

None



### **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. Simon is a non-executive director of online fashion retailer Onceit Limited and also provides advisory services to retail businesses in the direct-to-consumer space. Simon is based in Auckland, New Zealand.

#### ***Special Responsibilities***

Member of the Audit and Risk Committee

Member of the Nomination Committee

#### ***Interest in Adairs Limited shares and options***

Nil

#### ***Other Current Listed Directorships***

None

#### ***Former Listed Directorships in the last 3 years***

Non-Executive Director of Trademe Group Limited (November 2016 to May 2019)



### **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.

#### ***Special Responsibilities***

Member of the Nomination Committee

Member of Remuneration Committee

#### ***Interest in Adairs Limited shares and options***

2,993,486 ordinary shares

#### ***Other Current Listed Directorships***

Non-executive director of Dusk Group Limited (since November 2015)

Non-executive director Universal Store Holdings Limited (since October 2019)

#### ***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***

2,117,209 ordinary shares

1,525,000 options

#### ***Other Current Listed Directorships***

None

#### ***Former Listed Directorships in the last 3 years***

None

# DIRECTORS' REPORT

## Company Secretary

Fay Hatzis is the Company Secretary.

## 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 2021 financial year and the number of meetings attended by the members of the Board or the relevant Committee.

Director	Meetings of Committees							
	Board		Audit		Nomination		Remuneration	
	Held	Attended	Held	Attended	Held	Attended	Held	Attended
M Butler	5	5	3	3	-	-	1	1
B Chenoweth	10	10	2	2	-	-	1	1
D MacLean	16	15	-	-	2	2	2	2
T Peterson	16	16	5	5	2	2	2	2
M Cherubino	16	16	-	-	2	2	-	-
K Spargo	16	16	5	5	2	2	2	2
M Ronan	16	16	-	-	2	2	-	-
K Grant	16	16	-	-	2	2	2	2
S West	16	15	5	5	2	2	-	-

**Held:** Number of meetings held while a Director was a member of the Board or Committee.

**Attended:** Number of meetings attended.

## Non-Audit Services

The Group may decide to engage the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Group 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 28 of the financial statements.

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

- › all non-audit services are reviewed and approved by the Audit and Risk Committee prior to commencement to ensure that they do not impact the integrity and objectivity of the auditor; and
- › the nature of the services provided does not compromise the general principles relating to auditor independence as set out in APES110 - Code of Ethics for Professional Accountants.

## Auditors Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 42.

## Proceedings on behalf of the Company

There are currently no proceedings on behalf of the Group.

## Indemnification and insurance of officers

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

- a. in bringing or prosecuting any claim, unless the claim is a claim in the nature of a cross-claim or third-party claim for contribution or indemnity in, and results directly from, any proceedings in respect of which the directors have made a claim under the indemnity;
- b. in connection with any proceedings between the directors and the director's appointee or any related body corporate of the appointer (within the meaning of section 50 of the Corporations Act 2001) or their respective insurers; or
- c. to the extent that the amount of the claim under the indemnity is increased as a result of failure of the director to comply with their obligations under the indemnity agreement.

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

- a. A wilful breach of duty
  - b. A contravention of sections 182 or 183 of the Corporations Act 2001, as permitted by section 199B of the Corporations Act 2001
- Under the terms of the policy, the total amount of insurance contract premiums paid cannot be disclosed.

## Indemnification of Auditors

To the extent permitted by law, the Company has agreed to indemnify its auditors, Ernst & Young Australia, as part of the terms of its audit engagement agreement against claims by third parties arising from the audit (for an unspecified amount). No payment has been made to indemnify Ernst & Young during or since the financial year.

## Rounding

The amounts contained in the financial report have been rounded to the nearest \$1,000 (when rounding is applicable) where noted (\$000) under the option available to the Company under ASIC Corporations (*Rounding in Financial/Directors' Reports*) Instrument 2016/191. The Company is an entity to which this legislative instrument applies.

# REMUNERATION REPORT (AUDITED)

The Directors of Adairs Limited present the Remuneration Report for the Group for the 52 week period from 29 June 2020 to 27 June 2021. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the Corporations Act 2001.

This Remuneration Report sets out the remuneration arrangements for the Group's 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.

<b>Name</b>	<b>Position</b>
<b>Non-executive Directors</b>	
Brett Chenoweth	Independent, Non-executive Chair (appointed 16 November 2020)
Kate Spargo	Independent, Non-executive Director
Simon West	Independent, Non-executive Director
Kiera Grant	Independent, Non-executive Director
Trent Peterson	Independent, Non-executive Director (full year) and Interim Chair (27 October 2020 - 15 November 2020)
David MacLean	Non-executive Director
Michael Butler	Independent, Non-executive Chair (retired 26 October 2020)
<b>Executive Directors</b>	
Mark Ronan	Chief Executive Officer (CEO) and Managing Director
Michael Cherubino	Executive Director Property and Business Development
<b>Other Key Management Personnel</b>	
Ashley Gardner	Chief Financial Officer (CFO)

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## 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 Group'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 Non-Executive Directors of the Board as well as Mark Ronan (Managing Director and Chief Executive Officer), Michael Cherubino (Executive Director Property and Business Development) and Ashley Gardner (Chief Financial Officer).

While FY2021 continued to be impacted by COVID-19 the group delivered another record year with revenue up 28.5% to \$499.8 million. On a like-for-like basis sales increased by 16.5%, driven by the continued successful execution of our underlying strategies.

The Group's omni-channel strategy continued to progress strongly during the year, delivering sales growth across the Group. Group online sales grew by 50.6% to \$187.0 million and now represent 37.4% of total sales (up from 34.8% on a directly comparable basis after annualising Mocka's prior year contribution). Both Adairs and Mocka delivered strong online sales growth of 32.5% and 30.9% respectively. Adairs store sales were up 18.1% for the year as the business cycled the Government mandated nation-wide store closures in Q4 FY2020. However, even after adjusting for closures in both years, store like-for-like sales were up 7.4% and up by 12.6% over the pre-COVID levels achieved in FY2019.

Group Underlying EBIT<sup>1</sup> of \$109.1 million was up 97.3% on FY20. This was achieved through strong like-for-like sales growth across all channels, continued gains in gross margin (up 410bps to 64.8% and disciplined cost control supporting significant operating leverage with CODB as a percentage of sales falling from 40.9% to 36.7%.

In terms of major projects, the new National Distribution Centre remains on track to be operational by the end of Q1 FY2022 and will deliver further improvements in both customer experience and operating efficiencies. Given the scale of this project and the ongoing disruptions caused by COVID-19 throughout this project this is an excellent outcome.

Finally, as advised with the 1H FY2021 results, the Board determined that based on the performance of the Company it was appropriate to repay the net JobKeeper wage subsidy benefit of \$6.1 million received during FY2021 to the Australian Government. This was repaid and recognised in the Group's financial results in 2H FY2021 and is therefore excluded from all the relevant results in the Remuneration Report.

### FY2021 Remuneration

**Remuneration packages:** To remain competitive in attracting and retaining key talent during the 2021 financial year the Board considered the remuneration levels for Senior Executives with reference to external market benchmarks. As a result of this review, the Board increased Senior Executives' fixed remuneration by up to 8%. There were no significant changes made to the remuneration packages of the Senior Executives in relation to their short-term or long-term incentive, except for the Executive Director of Property and Business Development, whose short-term incentive was increased by 25% on the prior year to align this with other Senior Executives and in recognition of the importance of managing the Group's lease portfolio through the COVID-19 period.

**Short-term incentive:** The Group's short-term incentive ("STI") plan rewards performance against financial measures. For the FY2021 all the financial and operational targets were achieved and as a result, the short-term incentive entitlements are payable to the Senior Executives. In assessing FY2021 financial performance, the following were specifically excluded:

- i. JobKeeper wage subsidy benefit received in 1H FY2021 and returned to Government in 2H FY2021;
- ii. Costs associated with the transition to the new National Distribution Centre;
- iii. Mocka related acquisition costs (including earn-out related adjustments); and
- iv. Impact of AASB 16 *Leases*.

1. Underlying EBIT excludes the impact of (i) AASB 16 *Leases*, (ii) costs associated with the transition to the new National Distribution Centre, (iii) Mocka related acquisition costs (including earn-out related adjustments), and (iv) the net JobKeeper wage subsidy benefit received and returned to Government.

# REMUNERATION REPORT (AUDITED)

**Long-term incentive:** Long-term incentives (“LTI”) issued to Senior Executives in FY2021 are in the form of share options. Each share option entitles the executive to acquire an ordinary share in the Company subject to the share options vesting after meeting specific performance and service conditions and payment of an exercise price. Details of the share options for the Senior Executives are included in Section 8 of the Remuneration Report.

As part of his remuneration package, the Group provided an interest free, non-recourse loan to Ashley Gardner in FY2020. Details of this arrangement are included in Section 7 of this report.

**Fees for Non-Executive Directors:** During FY2021 there were no changes to the remuneration of non-executive directors, following a review that was implemented in FY2019. The Board believes the current levels of remuneration are fair and appropriate and reflect the alignment between shareholders’ interests and the Group’s remuneration policies and practices.

## SECTION 2: REMUNERATION STRATEGY AND POLICY

A core belief of the 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 Group. The maintenance and development of these leaders and fostering a workplace culture that supports this belief are priorities for the Group.

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

Remuneration can include a number of different elements such as fixed remuneration, 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 KMPs, the Remuneration Committee makes recommendations based on 7 important concepts:

1. **Simplicity:** Seek to ensure remuneration arrangements are easily understood by both the KMP and other key stakeholders.
2. **Alignment:** 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:** Seek to ensure the material aspects of a KMP’s remuneration arrangements are sustainable and could withstand tests of precedent and transparency within the organisation and market place.
4. **Competitive:** Seek to ensure KMP’s 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 Group 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 succession planning.
6. **Company first:** The Group develops systems, policies and processes to ensure it manages its reliance on any given individual within its leadership team (which includes the KMP). This extends to remuneration, where it seeks to ensure the remuneration architecture and individual arrangements are orderly and appropriate in the relevant circumstances. Finally, the Group seeks to respond to changes in market conditions in a measured and sustainable manner.
7. **Reward for outcomes and performance:** The Group seeks 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 Group’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 Group’s remuneration strategy and remuneration policy to facilitate an understanding of the overall approach to remuneration and to confirm alignment with the Group’s 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 Remuneration 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 Remuneration Committee obtains independent external remuneration advice where appropriate.

The Remuneration Committee exercises caution in interpreting remuneration surveys. While it seeks independent data from time to time, benchmarking of salaries requires an intimate knowledge of the details, role and circumstances of the components of the reference data set, and this is rarely possible, is complex and prone to error. Such information is therefore regarded as only one component of the balanced consideration of base salaries and other remuneration terms and as a result the Remuneration Committee does 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 27 June 2021.

## SECTION 4: COMPANY PERFORMANCE — RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND REMUNERATION

Remuneration for Senior Executives is directly linked to the performance of the Group.

The FY2021 Short-term incentive (STI) scheme for Senior Executives is based on achieving pre-determined performance criteria and targets. The primary performance condition is the Underlying EBIT of the business. The FY2021 Long-term incentive (LTI) plan offered Senior Executives share options over the ordinary shares of Adairs Limited. The share options were issued for nil consideration and are subject to the satisfaction of both performance and service conditions. Key details of the LTI plan are summarised in Section 5. Shareholder approval for the FY2021 LTI scheme for the issue of share options to Directors of the Company was obtained at the Annual General Meeting on 26 October 2020.

The following table shows the Group's financial performance for FY2017 to FY2021.

Continuing Operations	FY2021 Performance	FY2020 <sup>1</sup> Performance	FY2019 Performance	FY2018 <sup>2</sup> Performance	FY2017 <sup>2</sup> Performance
Sales (\$'000)	\$499,762	\$388,933	\$344,430	\$314,769	\$264,964
Like for like sales (%)	+16.5%	+12.6%	+7.2%	+14.3%	-1.4%
EBIT (\$'000) <sup>1</sup>	\$102,716	\$59,041	\$43,446	\$45,261	\$30,812
Net profit before tax (\$'000)	\$95,290	\$52,791	\$42,286	\$43,816	\$28,921
Net profit after tax (\$'000)	\$63,742	\$35,281	\$29,643	\$30,561	\$21,017
Share price at end of year	\$4.20	\$2.25	\$1.42	\$2.23	\$0.86
Dividends paid per shares	23.0 cents	11.0 cents	14.5 cents	13.5 cents	8.0 cents
Earnings per share	38 cents	21 cents	18 cents	18 cents	13 cents

1. FY2020 performance includes Mocka for 30 weeks and the adoption of AASB 16 Leases for the first time (refer to Note 2.3(i)(a) of the FY2020 consolidated financial statements). EBIT is therefore not comparable to prior periods. Like for like sales excludes Mocka.

2. Due to adoption of AASB 15 in FY2019, the prior periods are not comparative.

## 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.

# REMUNERATION REPORT (AUDITED)

The mix of fixed remuneration, STI and LTI elements as a percentage of total target remuneration for FY2021 was as follows:

**Figure 1: Percentage mix of remuneration elements for Senior Executives for FY2021**

Senior Executive	% of total target remuneration for FY2021			
	Fixed remuneration	At risk remuneration STI maximum opportunity	At risk remuneration LTI - FY2021 Tranche <sup>1</sup>	At risk remuneration LTI - Prior Year Tranches <sup>2</sup>
Mark Ronan	36%	33%	3%	27%
Michael Cherubino	43%	30%	3%	25%
Ashley Gardner	47%	42%	4%	7%

1. LTI Options are eligible to vest on 30 June 2024, subject to service and performance conditions.

2. Share-based payment expense recorded in FY21 with respect to previously issued tranches. The costs include a review of the assumptions in relation to the probability of achieving performance targets and service conditions.

## Fixed remuneration

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

The remuneration policy provides Senior Executives a base salary package that reflects the base salary for a comparable role in similarly sized companies operating in the retail industry, having regard to the experience and expertise of the Senior Executive, their performance and history with the Group, 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.

## Short-term incentives (STIs)

The Group's STI scheme aligns Senior Executive reward with the achievement of performance targets that are aligned to delivering and protecting sustainable value to shareholders. Senior Executives are eligible to participate in an annual STI based on the achievement of annual performance conditions.

The amount of any STI paid in a year is firstly dependent upon a minimum level of EBIT being achieved by Adairs (EBIT benchmark). If the EBIT benchmark is not achieved no STI is payable to any Senior Executive. If the EBIT benchmark is met the amount of STI paid to each Senior Executive is set having regard to individual contribution and continuing service conditions as set out below:

Condition	Explanation
<b>Performance conditions:</b>	
The level of Group EBIT achieved for the financial year	At the beginning of each year the Board determines a set of tiered EBIT targets for the forthcoming year with reference to the annual forecast and prior year results. The Remuneration Committee has the ability to subsequently adjust EBIT targets for any significant changes including, but not limited to, variances in the number of stores compared to budget; or other event(s) which were not contemplated by the budget which require a significant change in capital structure, including but not limited to a material acquisition or divestment, or other event which requires a significant capital raising (equity or debt).
Individual contribution	The Remuneration Committee's assessment of the Senior Executive's value adding performance as measured by the achievement of their individual KPIs.
<b>Continuing service conditions</b>	
	On the STI payment date (anticipated to be in September each year), the Senior Executive must be employed by the Group (and not have given notice or be suspended from employment) otherwise no STI will be paid, subject to the Board's discretion.

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

## STI targets and outcomes for FY2021

For FY2021 the Board set the EBIT benchmark at \$67.25 million, being c.20% above the prior year's Underlying EBIT (\$55.3 million). In addition, following strong performance of the Group in 1H FY2021, the Board introduced additional levels to encourage and reward management for maximising the FY2021 result for shareholders. However, the Board determined that any additional incentive payable would be deferred for 12 months and subject to the individual remaining employed by Adairs at that time. The table below summarises the tiers and participation levels for each scheme in FY2021:

Tier	FY2021 EBIT benchmark	FY2021 EBIT benchmark v FY2020 Underlying EBIT	Potential Incentive as a % of Maximum Potential Incentive
Level 1	\$67.25m	+21.6%	15%
Level 2	\$68.65m	+24.10%	30%
Level 3	\$70.05m	+26.7%	50%
Level 4	\$71.45m	+29.2%	75%
Level 5	\$72.85m	+31.7%	100%
Additional Level 1	\$95.00m	+71.8%	115%
Additional Level 2	\$100.00m+	+80.8%	130%

If the FY2021 EBIT was less than \$67.25m no incentive would be payable to any Adairs Senior Executive, regardless of whether they achieved their individual KPIs.

If the FY2021 EBIT met or exceeded the relevant EBIT benchmark level, the Senior Executive is entitled to 50% of their maximum potential incentive with the balance of 50% being equally dependent upon the achievement of their two individual KPIs (25% each).

As detailed above the Additional Levels were created after the highly successful first half and enabled the Senior Executives to achieve up to an additional 30% of their maximum potential incentive based on the FY2021 EBIT exceeding \$95.0 million. Additional levels have not been provided in prior years, however the Board felt that by rewarding management for maximising the FY2021 result and then deferring payment for 12 months encouraged retention of our strong management team.

Senior Executives were advised that for the purposes of determining if the EBIT benchmark had been met, the FY2021 EBIT calculation would be adjusted for the following items ("STI adjustments"):

- › the net benefit of the JobKeeper wage subsidy received would be excluded;
- › Transition costs in relation to the closure and relocation of the existing Distribution Centres to the new National Distribution Centre would be excluded;
- › costs associated with the acquisition of Mocka would be excluded; and
- › any abnormal items (revenue or expense) as determined by the Board would be excluded.

In FY2021, the Remuneration Committee reviewed the performance of the business and the Senior Adairs Executives against their KPIs for the 52 week period from 29 June 2020 to 27 June 2021. The results of this review were as follows:

Mark Ronan	Condition met	Proportion of target STI (%)	Proportion of target STI (\$)
EBIT benchmark	Yes (Level 5)	50%	\$225,000
KPI 1: Group like-for-like sales > 3.0%	Yes	25%	\$112,500
KPI 2: Group average stockturn not to be below 3.5x	Yes	25%	\$112,500
Short-Term Incentive Achieved		100%	\$450,000
Additional Levels: EBIT benchmark	Yes	30%	\$135,000
		130%	\$585,000

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<b>Michael Cherubino</b>	<b>Condition met</b>	<b>Proportion of target STI (%)</b>	<b>Proportion of target STI (\$)</b>
EBIT benchmark	Yes (Level 5)	50%	\$125,000
KPI 1: Store occupancy costs as a % of Sales not to exceed Budget	Yes	25%	\$62,500
KPI 2: Aggregate annualised savings of net rent change on all lease renewals agreed and rental rebates earned of \$500k or more	Yes	25%	\$62,500
Short-Term Incentive Achieved		100%	\$250,000
Additional Levels: EBIT benchmark	Yes	30%	\$75,000
		130%	\$325,000

  

<b>Ashley Gardner</b>	<b>Condition met</b>	<b>Proportion of target STI (%)</b>	<b>Proportion of target STI (\$)</b>
EBIT benchmark	Yes (Level 5)	50%	\$175,000
KPI 1: CODB as a % of Sales not to exceed Budget	Yes	25%	\$87,500
KPI 2: Group average stockturn not to be below 3.5x	Yes	25%	\$87,500
Short-Term Incentive Achieved		100%	\$350,000
Additional Levels: EBIT benchmark	Yes	30%	\$105,000
		130%	\$455,000

**Figure 2: Percentage of FY2021 STI paid and forfeited for Senior Executives**

Given the above assessment the following STIs were awarded:

<b>Senior Executives</b>	<b>Target STI (Base) (\$)</b>	<b>Actual STI awarded (\$)</b>	<b>Actual STI awarded as % of maximum STI</b>	<b>% of maximum STI award forfeited</b>	<b>Deferred STI award<sup>1</sup> (\$)</b>	<b>% of maximum STI award deferred</b>
Mark Ronan	\$450,000	\$585,000	130%	0%	135,000	30%
Michael Cherubino	\$250,000	\$325,000	130%	0%	75,000	30%
Ashley Gardner	\$350,000	\$455,000	130%	0%	105,000	30%

1. The Deferred STI is amortised over the service period.

### STI arrangements for FY2022

Set out in Figure 3 (below) is the maximum STI opportunity for each Senior Executive for FY2022. 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 \$300,000 (61% of fixed remuneration).

The FY2022 STI will be based on similar performance and service conditions as the FY2021 STI (as set out above). The Board has reviewed and reset the EBIT targets for FY2022. Details of the FY2022 STI and any amount awarded to Senior Executives will be disclosed in the FY2022 Remuneration Report.

Figure 3: FY2022 remuneration opportunities

Senior Executive	Fixed remuneration (at 30 June 2022)	Maximum STI opportunity for FY2022 <sup>1</sup>	% of fixed remuneration available as base STI
Mark Ronan	\$730,000	\$511,000	70.0%
Michael Cherubino	\$490,000	\$300,000	61.2%
Ashley Gardner	\$550,000	\$385,000	70.0%

1. This is based on the maximum STI opportunity. The actual reward is dependent on the achievement of performance conditions in FY2022. The board also reserves the right to pay participants a discretionary amount where they believe circumstances demand, though this discretion is exercised sparingly.

### Long-term incentives (LTIs)

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 KMPs with shareholders and focusing performance on the achievement of long-term metrics including sustainable shareholder value creation (and value protection) over time. 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.

LTIs issued to executives 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 (**LTI Options**).

### LTI vesting and grants for FY2021

In FY2021 the LTI vesting outcomes for KMPs were as follows:

	LTI Plan / Vesting date	Condition met	Proportion of target LTI (%)	% of LTI Options that vested
<b>Mark Ronan</b>				
EPS performance condition (4 July 2016 to 30 June 2019)	FY2017 / 30 June 2020	No	60%	0%
Sales performance condition (4 July 2016 to 30 June 2019)	FY2017 / 30 June 2020	Yes	40%	39.7%
Service condition	30 June 2020	Yes		
<b>Michael Cherubino</b>				
EPS performance condition (4 July 2016 to 30 June 2019)	FY2017 / 30 June 2020	No	60%	0%
Sales performance condition (4 July 2016 to 30 June 2019)	FY2017 / 30 June 2020	Yes	40%	39.7%
Service condition	30 June 2020	Yes		

Details of the number of LTI Options exercised and lapsed during FY2021 are detailed in Section 8 of this report.

On 26 October 2020, Mark Ronan, Michael Cherubino and Ashley Gardner received grants of LTI Options as their FY2021 LTI award. Each LTI 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. The LTI Options were granted at no cost to the Senior Executives as they form part of the Senior Executive's remuneration for FY2021.

The performance period is 3 financial years from 29 June 2020 to 25 June 2023. In addition to the performance condition, there is also a service condition which must be satisfied ending on 30 June 2024. 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 1 July 2024, being 3.7 years from the LTI Options grant date. The FY2021 share options have a six year expiry period (until 26 October 2026). After 26 October 2026, any unexercised LTI Options will lapse. On vesting, an exercise price of \$4.04 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 2020 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.

# REMUNERATION REPORT (AUDITED)

## 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 2 July 2023.

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 Group's audited financial statements adjusted for any abnormal items (revenue or expense) as determined by the Board. The use of audited financial statements ensures the integrity of the measure and alignment with the true financial performance of the Group.

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.

- › **Sales performance condition** – 40% of the LTI Options are subject to a total sales growth performance condition. This is based on the compound annual sales growth of the Company over a 3 year period ending 25 June 2023.

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

Total sales growth for performance period	% of sales growth LTI Options that vest
Less than or equal to 7.5%	0%
Between 7.5% and 15.0%	pro-rata between 0% and 100%
Equal to, or greater than, 15.0%	100%

The sales performance condition will be measured by reference to the Company's total sales growth over 29 June 2020 to 25 June 2023. Total sales growth measures the total sales generated from the group in a relevant period compared to the total aggregated sales in the relevant corresponding period and after adjusting for any acquisitions or divestments made across the period. For purposes of the calculation the sales result will be the compounded annual growth rate achieved over the period.

Prior to FY2021 the sales performance condition was based upon like-for-like sales performance. The addition of other brands to the group, the omni-channel approach of the Group and the impact of COVID-19 (resulting in ongoing periods of store closures) has resulted in like-for-like sales becoming more difficult to objectively calculate and a less reliable measure of performance and brand health.

Total sales growth replaced the like-for-like sales performance measure as the Board believe it is an objective measure of the Long-term health of the company's customer proposition, and is consistent with the Group's omni-channel strategy to enable customers to shop how they choose.

## 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 Group at the vesting date (being 30 June 2024).

## Treatment on cessation of employment

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

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 three 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 Holdings) 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 a 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 Group's Senior Executives.

# REMUNERATION REPORT (AUDITED)

## 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 (including superannuation where applicable) are \$200,000 for the Chairman, \$90,000 for the Chairman of the Audit & Risk Committee and \$80,000 for each other Non-executive Director. No additional fees were paid to directors for their roles on the Nomination or Remuneration Committees.

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 FY2020, the Group 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 Group. 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 Group:

Date	Forgiveness Amount
14 August 2022	\$93,750
14 August 2023	\$93,750
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. The cost of this arrangement was recognised in full as a share-based payment in FY2020 and there have been no further costs recognised by the Company in FY2021.

No Director or other KMP (including their related parties) has entered into a loan made, guaranteed or secured, directly or indirectly, by the Group 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 27 June 2021	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	
<b>Non-Executive Directors</b>								
Brett Chenoweth <sup>1,3</sup>	\$125,000	-	-	-	-	-	-	\$125,000
Michael Butler <sup>2</sup>	\$44,140	-	-	\$4,193	-	-	-	\$48,333
Trent Peterson <sup>3</sup>	\$80,000	-	-	-	-	-	-	\$80,000
Kate Spargo	\$82,192	-	-	\$7,808	-	-	-	\$90,000
David MacLean	\$62,600	-	-	\$17,400	-	-	-	\$80,000
Kiera Grant	\$73,059	-	-	\$6,941	-	-	-	\$80,000
Simon West	\$73,059	-	-	\$6,941	-	-	-	\$80,000
<b>Total Non-Executive Directors</b>	<b>\$540,050</b>	<b>-</b>	<b>-</b>	<b>\$43,283</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$583,333</b>
<b>Executive Directors</b>								
Mark Ronan	\$615,992	\$489,706	-	\$21,668	-	-	\$545,455	\$1,672,821
Michael Cherubino	\$436,250	\$272,059	-	\$25,000	-	-	\$292,399	\$1,025,708
<b>Other Senior Executives</b>								
Ashley Gardner	\$478,750	\$380,882	-	\$25,000	-	-	\$119,142	\$1,003,774
<b>Total Executives</b>	<b>\$1,530,992</b>	<b>\$1,142,647</b>	<b>-</b>	<b>\$71,668</b>	<b>-</b>	<b>-</b>	<b>\$956,996</b>	<b>\$3,702,303</b>
<b>Total 2021</b>	<b>\$2,071,042</b>	<b>\$1,142,647</b>	<b>-</b>	<b>\$114,951</b>	<b>-</b>	<b>-</b>	<b>\$956,996</b>	<b>\$4,285,636</b>

1. Brett Chenoweth joined the Board as Independent, Non-executive Chair on 16 November 2020.

2. Michael Butler retired from the Board on 26 October 2020.

3. The Director fees for Trent Peterson and Brett Chenoweth for the period July 2020 to June 2021 were paid to them directly.

## REMUNERATION REPORT (AUDITED)

Details of the remuneration of the Directors and KMP of the Group for the previous 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	
<b>Non-Executive Directors</b>								
Michael Butler	\$121,385	-	-	\$11,532	-	-	-	\$132,917
Trent Peterson <sup>1</sup>	\$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
<b>Total Non-Executive Directors</b>	<b>\$470,974</b>	<b>-</b>	<b>-</b>	<b>\$37,776</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$508,750</b>
<b>Executive Directors</b>								
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
<b>Other Senior Executives</b>								
Ashley Gardner <sup>2</sup>	\$376,540	\$339,500	-	\$22,115	-	-	-	\$501,908 \$1,240,063
<b>Total Executives</b>	<b>\$1,337,031</b>	<b>\$959,500</b>	<b>-</b>	<b>\$68,118</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$600,845 \$2,965,494</b>
<b>Total 2020</b>	<b>\$1,808,005</b>	<b>\$959,500</b>	<b>-</b>	<b>\$105,894</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>\$600,845 \$3,474,244</b>

1. The Director fees for Trent Peterson for the period July 2019 to March 2020 were paid to Catalyst Investment Managers Pty Ltd. Directors fees for the period April 2020 to 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.

## 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 FY2021.

No. of Shares	Held at 28 June 2020	Granted as Remuneration	Received on exercise of options	Other net change	Held at 27 June 2021
<b>Non-Executive Directors</b>					
Brett Chenoweth	–	–	–	–	–
Michael Butler	599,724	–	–	(599,724) <sup>1</sup>	n.a.
Trent Peterson	1,405,334	–	–	–	1,405,334
Kate Spargo	41,667	–	–	–	41,667
David MacLean	2,993,486	–	–	–	2,993,486
Kiera Grant	142,572	–	–	27,855 <sup>2</sup>	170,427
Simon West	–	–	–	–	–
<b>Executive Directors</b>					
Mark Ronan	681,668	–	–	–	681,668
Michael Cherubino	2,058,135	–	59,074	–	2,117,209
<b>Other Senior Executives</b>					
Ashley Gardner	572,300	–	–	–	572,300

1. "Other net change" for Michael Butler reflects that he ceased to a Director during FY2021 and was not a KMP at 27 June 2021.

2. "Other net change" for Kiera Grant reflects on market ordinary share purchases made by her over the course of FY2021.

# REMUNERATION REPORT (AUDITED)

## Option issued to Key Management Personnel

The following table discloses the details of option schemes awarded to KMP in FY2021 and prior reporting periods.

No. of Share Options	Grant date	Quantity Granted	Fair value per option at Grant Date	Number vested during the year	Vested in the period %	Number forfeited during the year	No of options exercised during the year	Exercise price (\$)	Vesting date	Expiry date
<b>Non-Executive Directors</b>										
Michael Butler	-	-	-	-	-	-	-	-	-	-
Trent Peterson	-	-	-	-	-	-	-	-	-	-
Kate Spargo	-	-	-	-	-	-	-	-	-	-
David MacLean	-	-	-	-	-	-	-	-	-	-
Kiera Grant	-	-	-	-	-	-	-	-	-	-
Simon West	-	-	-	-	-	-	-	-	-	-
<b>Executive Directors</b>										
Mark Ronan	18 Nov 16	651,000	\$0.27	103,379	16%	547,621	-	\$2.00	30 Jun 20	18 Nov 22
	2 Nov 17	900,000	\$0.39					\$1.75	30 Jun 21	2 Nov 23
	26 Oct 18	540,000	\$0.43					\$2.40	3 Jul 22	26 Oct 24
	25 Oct 19	900,000	\$0.38					\$1.86	2 Jul 23	25 Oct 25
	26 Oct 20	675,000	\$0.90					\$4.04	30 Jun 24	26 Oct 26
Michael Cherubino	18 Nov 16	372,000	\$0.27	59,074	16%	312,926	59,074	\$2.00	30 Jun 20	18 Nov 22
	2 Nov 17	510,000	\$0.39				-	\$1.75	30 Jun 21	2 Nov 23
	26 Oct 18	315,000	\$0.43				-	\$2.40	3 Jul 22	26 Oct 24
	25 Oct 19	400,000	\$0.38				-	\$1.86	2 Jul 23	25 Oct 25
	26 Oct 20	300,000	\$0.90				-	\$4.04	30 Jun 24	26 Oct 26
<b>Other Senior Executives</b>										
Ashley Gardner	25 Oct 19	700,000	\$0.38	-	-	-	-	\$1.86	2 Jul 23	25 Oct 25
	26 Oct 20	525,000	\$0.90	-	-	-	-	\$4.04	30 Jun 24	26 Oct 26

## 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 FY2021. This was the fifth year options were granted to Senior Executives as LTI remuneration.

No. of Share Options	Held at 28 June 2020	Quantity Granted	Exercised	Forfeited	Lapsed	Held at 27 June 2021	Vested %	Vested and exercisable as at 27 June 2021
<b>Non-Executive Directors</b>								
Michael Butler	-	-	-	-	-	-	-	-
Trent Peterson	-	-	-	-	-	-	-	-
Kate Spargo	-	-	-	-	-	-	-	-
David MacLean	-	-	-	-	-	-	-	-
<b>Executive Directors</b>								
Mark Ronan	2,443,379	675,000	-	-	-	3,118,379	3.3%	103,379
Michael Cherubino	1,284,074	300,000	(59,074)	-	-	1,525,000	-	-
<b>Other Senior Executives</b>								
Ashley Gardner	700,000	525,000	-	-	-	1,225,000	-	-

For details on the valuation of the options, including models and assumptions used, please refer to Note 26.

Signed in accordance with a resolution of the Directors.

On behalf of the Board



**Brett Chenoweth**  
Chair

Melbourne  
19 August 2021



**Mark Ronan**  
Chief Executive Officer and Managing Director

# 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 27 June 2021, 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.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Joanne Lonergan'.

Joanne Lonergan  
Partner

Melbourne

19 August 2021

# INDEPENDENT AUDITOR'S REPORT



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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 27 June 2021, the consolidated statement of profit or loss, the consolidated statement of other 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 27 June 2021 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.

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# INDEPENDENT AUDITOR'S REPORT



## Carrying value of inventories

### Why significant

As at 27 June 2021, the Group held \$68.0m million in inventories representing 16% of total assets.

As detailed in Note 2.4(i) and Note 8 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 significance of the inventory balance and judgment involved in determining the carrying value of inventories, this was considered a key audit matter.

### How our audit addressed the key audit matter

Our audit procedures included the following:

- ▶ Assessed the application of inventory costing methodologies, and whether this was consistent with Australian Accounting Standards.
- ▶ Assessed the effectiveness of relevant controls in relation to the inventory costing process and assessed the accuracy of the Group's inventory valuation model, on a sample basis.
- ▶ Assessed the basis for inventory provisions recorded by the Group to determine whether inventory was recorded at the lower of cost and net realisable value. In doing so, we examined the ageing profile of inventories, the process for identifying specific slow-moving inventories and historical inventory turnover.
- ▶ Considered the impact on inventory provisions of retail promotional sales at or subsequent to 27 June 2021 and compared the selling prices with the carrying value of inventories inclusive of selling costs.



### Carrying value of intangible assets

Why significant	How our audit addressed the key audit matter
<p>As at 27 June 2021, 47% of the Group's total assets was represented by goodwill and indefinite life brand names recognised from business combinations.</p> <p>As detailed in Note 2(m) and Note 10 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 segment level.</p> <p>The recoverable amounts have 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.</p> <p>These estimates are based on conditions existing and emerging as at 27 June 2021, 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.</p> <p>Note 10 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.</p> <p>Carrying value of intangible assets was considered a key audit matter due to the significance of this balance and the judgments involved.</p>	<p>Our audit procedures, involving our valuation specialists where necessary, included the following;</p> <ul style="list-style-type: none"> <li>▶ Assessed the application of the Group's valuation methodology.</li> <li>▶ Assessed the key inputs and assumptions, including forecasted cash flows, gross margins, discount rates and growth rates adopted in the valuation. We agreed the forecast cashflows to the Board approved 2022 budget.</li> <li>▶ Compared the data used in the value in use model to the actual and budgeted financial performance of the underlying cash generating unit.</li> <li>▶ Performed sensitivity analysis on key inputs, assumptions and forecast financial performance to determine whether any reasonably possible change could result in impairment.</li> <li>▶ Compared earnings multiples derived from the Group's value in use model to those observable from external market data of comparable listed entities.</li> <li>▶ Assessed the adequacy of the related disclosures made in the financial report.</li> </ul>

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# INDEPENDENT AUDITOR'S 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 2021 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.

# INDEPENDENT AUDITOR'S REPORT



## Report on the Audit of the Remuneration Report

### Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 26 to 41 of the directors' report for the 52 weeks ended 27 June 2021.

In our opinion, the Remuneration Report of Adairs Limited for the 52 weeks ended 27 June 2021, 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.

A handwritten signature in black ink that reads 'Ernst + Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Joanne Lonergan'.

Joanne Lonergan  
Partner

Melbourne

19 August 2021

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# 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 27 June 2021 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 27 June 2021 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 27 June 2021.

On behalf of the Board



**Brett Chenoweth**  
Chair

Melbourne  
19 August 2021



**Mark Ronan**  
Chief Executive Officer and Managing Director

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the 52 weeks ended 27 June 2021

	Note	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Revenue from contracts with customers	4(a)	499,762	388,933
<b>REVENUES</b>		<b>499,762</b>	<b>388,933</b>
Cost of sales		(196,469)	(166,814)
<b>GROSS PROFIT</b>		<b>303,293</b>	<b>222,119</b>
Other income	4(b)	174	296
Depreciation and amortisation expenses	4(c)	(44,575)	(39,318)
Finance expenses	4(d)	(7,457)	(6,250)
Salaries and employee benefits expenses	4(e)	(100,868)	(78,865)
Occupancy expenses		(5,059)	(10,066)
Advertising expenses		(15,564)	(10,760)
Other expenses from ordinary activities	4(f)	(27,071)	(20,481)
Costs associated with the acquisition of Mocka	4(g)	(7,583)	(3,884)
<b>PROFIT BEFORE INCOME TAX</b>		<b>95,290</b>	<b>52,791</b>
Income tax expense	5	(31,548)	(17,510)
<b>PROFIT FOR THE PERIOD</b>		<b>63,742</b>	<b>35,281</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic earnings per share	23	37.7 cents	21.0 cents
Diluted earnings per share	23	36.5 cents	20.7 cents

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

# CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 52 weeks ended 27 June 2021

	Note	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>PROFIT FOR THE PERIOD</b>		<b>63,742</b>	<b>35,281</b>
<b>OTHER COMPREHENSIVE INCOME</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Net movement of cash flow hedges		(911)	(251)
Income tax relating to the components of other comprehensive income	5	273	74
Exchange differences on translation of foreign operations		97	(171)
<b>Other comprehensive income for the period, net of tax</b>		<b>(541)</b>	<b>(348)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>		<b>63,201</b>	<b>34,933</b>

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 27 June 2021

	Note	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	6	25,970	23,922
Trade and other receivables	7	2,276	2,949
Inventories	8	67,996	43,404
Other assets	7	10,143	6,754
Derivative financial instruments	18	-	589
<b>TOTAL CURRENT ASSETS</b>		<b>106,385</b>	<b>77,618</b>
NON-CURRENT ASSETS			
Property, plant and equipment	9	21,168	20,843
Intangibles	10	197,340	196,143
Right of use asset	17	89,579	94,375
Derivative financial instruments	18	357	149
<b>TOTAL NON-CURRENT ASSETS</b>		<b>308,444</b>	<b>311,510</b>
<b>TOTAL ASSETS</b>		<b>414,829</b>	<b>389,128</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables	11	43,811	31,257
Other liabilities	13	15,034	10,721
Earn-out liabilities	12	44,726	-
Lease liabilities	17	33,473	36,252
Current tax liabilities		14,453	9,931
Provisions	15	7,785	6,121
Derivative financial instruments	18	507	-
<b>TOTAL CURRENT LIABILITIES</b>		<b>159,789</b>	<b>94,282</b>
NON-CURRENT LIABILITIES			
Deferred tax liabilities	5	11,037	12,182
Other liabilities	13	1,460	1,083
Earn-out liabilities	12	1,012	35,495
Interest bearing liabilities	14	-	24,927
Lease liabilities	17	73,721	78,348
Provisions	15	3,150	2,240
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>90,380</b>	<b>154,275</b>
<b>TOTAL LIABILITIES</b>		<b>250,169</b>	<b>248,557</b>
<b>NET ASSETS</b>		<b>164,660</b>	<b>140,571</b>
<b>EQUITY</b>			
Contributed equity	16(a)	73,823	74,098
Share-based payment reserve	16(b)	2,030	289
Foreign currency translation reserve	16(c)	(101)	(198)
Cash flow hedge reserve	16(d)	(106)	532
Retained earnings	16(e)	89,014	65,850
<b>TOTAL EQUITY</b>		<b>164,660</b>	<b>140,571</b>

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 27 June 2021

	Note	Ordinary shares \$'000	Share-based payment reserve \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
<b>At 28 June 2020</b>		<b>74,098</b>	<b>289</b>	<b>532</b>	<b>(198)</b>	<b>65,850</b>	<b>140,571</b>
Profit for the period		-	-	-	-	63,742	63,742
Other comprehensive income for the period		-	-	(638)	97	-	(541)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(638)</b>	<b>97</b>	<b>63,742</b>	<b>63,201</b>
<b>Transactions with owners in their capacity as owners:</b>							
Dividend payment	25	-	-	-	-	(40,578)	(40,578)
Exercise of share options	26	(275)	-	-	-	-	(275)
Share-based payments	26	-	1,741	-	-	-	1,741
<b>At 27 June 2021</b>		<b>73,823</b>	<b>2,030</b>	<b>(106)</b>	<b>(101)</b>	<b>89,014</b>	<b>164,660</b>

	Note	Ordinary shares \$'000	Share-based payment reserve \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
<b>At 30 June 2019</b>		<b>68,349</b>	<b>329</b>	<b>709</b>	<b>(27)</b>	<b>48,957</b>	<b>118,317</b>
Impact of adoption of new accounting standards (i)		-	-	-	-	(5,118)	(5,118)
<b>At 30 June 2019 (adjusted)</b>		<b>68,349</b>	<b>329</b>	<b>709</b>	<b>(27)</b>	<b>43,839</b>	<b>113,199</b>
Profit for the period		-	-	-	-	35,281	35,281
Other comprehensive income for the period		-	-	(177)	(171)	-	(348)
<b>Total comprehensive income for the period</b>		<b>-</b>	<b>-</b>	<b>(177)</b>	<b>(171)</b>	<b>35,281</b>	<b>34,933</b>
<b>Transactions with owners in their capacity as owners:</b>							
Dividend payment	25	-	-	-	-	(13,270)	(13,270)
Issued Shares		5,749	-	-	-	-	5,749
Issue of non-recourse loan	26	-	(750)	-	-	-	(750)
Share-based payments	26	-	710	-	-	-	710
<b>At 28 June 2020</b>		<b>74,098</b>	<b>289</b>	<b>532</b>	<b>(198)</b>	<b>65,850</b>	<b>140,571</b>

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. The comparative results for the 52 weeks ended 30 June 2019 were not restated as permitted by 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 27 June 2021

	Note	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		554,429	430,336
Payments to suppliers and employees (inclusive of GST)		(413,709)	(323,105)
Interest received		31	90
Income tax paid		(27,901)	(11,340)
Receipts of Government grants		14,898	7,136
Repayment of Government grants		(6,077)	–
Interest paid		(4,799)	(5,810)
Net cash flows from operating activities	6	116,872	97,307
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangibles		(11,348)	(7,531)
Acquisition of subsidiary, net of cash acquired		–	(42,509)
Net cash flows used in investing activities		(11,348)	(50,040)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Drawings of borrowings		12,000	48,000
Repayment of borrowings		(38,000)	(47,000)
Payment of borrowing costs		–	(865)
Dividends paid	25	(40,578)	(13,270)
Payment of principal portion of lease liabilities		(36,618)	(26,885)
Net payment from exercise of share options		(275)	–
Net cash flows used in financing activities		(103,471)	(40,020)
Net increase in cash and cash equivalents		2,053	7,247
Net foreign exchange differences		(5)	(33)
Cash and cash equivalents at beginning of the period		23,922	16,708
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	<b>6</b>	<b>25,970</b>	<b>23,922</b>

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

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ended 27 June 2021 were authorised for issue in accordance with a resolution of the directors on 19 August 2021.

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 FY2021, there was a 52 week reporting period (the comparative FY2020 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.

## 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 and contingent consideration 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.

Certain classifications have been made in the consolidated financial statements to ensure prior year comparative information is consistent with the current year presentations.

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.

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 28 June 2020, except as follows:

#### i. New and amended standards and interpretations

##### a. AASB 2018-6 Amendments to Australian Accounting Standards – Definition of a Business

The amendment to AASB 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. These amendments had no impact on the consolidated financial statements of the Group.

##### b. AASB 2019-3 Amendments to Australian Accounting Standards – Interest Rate Benchmark Reform

The amendments to AASB 9 and AASB 139 *Financial Instruments: Recognition and Measurement* provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. These amendments have no impact on the consolidated financial statements of the Group.

##### c. AASB 2018-7 Amendments to Australian Accounting Standards – Definition of Material

The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." These amendments had no impact on the consolidated financial statements of the Group.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

### ***d. AASB 2019-1 Amendments to Australian Accounting Standards – References to the Conceptual Framework***

The revised Conceptual Framework includes some new concepts, updated definitions and recognition criteria for assets and liabilities and clarifies some important concepts. These amendments had no impact on the consolidated financial statements of the Group.

### ***e. AASB 138 Intangible Assets – Cloud computing arrangements***

In April 2021, the International Financial Reporting Standards Interpretations Committee (IFRIC) issued a final agenda decision which impacts SaaS arrangements agenda decisions:

- › Configuration or customisation costs in a cloud computing arrangement – this decision discusses whether configuration or customisation expenditure relating to SaaS arrangements can be recognised as an intangible asset and if not, over what time period the expenditure is expensed.

The adoption of the above agenda decisions had no material impact on the consolidated financial statements of the Group. Refer to Note 2.4 (l) for an outline of the accounting policy for Software-as-a-Service (SaaS) arrangements.

### ***f. IAS 2 Inventories – Costs necessary to sell Inventories***

In June 2021, IFRIC published an agenda decision in relation to the accounting treatment when determining net realisable value (NRV) of inventories, in particular what costs are necessary to sell inventories under IAS 2 *Inventories*. The Group is currently assessing the impact the agenda decision will have on its current accounting policy and whether an adjustment to inventory may be necessary.

Accordingly, a reliable estimate of the impact of the IFRIC agenda decision on the Group cannot be made at the date of this report, however based on preliminary analysis performed, the Group is not expecting a material impact from the adoption of the IFRIC agenda decision. The Group expects to complete the implementation of the above IFRIC agenda decision as part of its 26 December 2021 reporting.

### ***g. Amendments to AASB 16 Covid-19 Related Rent Concessions beyond 30 June 2021***

AASB 16 was amended to extend the availability of the practical expedient to not account for COVID-19-related rent concessions as lease modifications by one year. Provided all conditions are met, this expedient can be applied to rent concessions that reduce only lease payments originally due on or before 30 June 2022.

The Group has early adopted amendments to AASB 16 Covid-19 Related Rent Concessions.

## **ii. Accounting standards and interpretations issued but not yet effective**

### ***a. Amendments to AASB 101: Classification of Liabilities as Current or Non-current***

In January 2020, the AASB issued amendments to paragraphs 69 to 76 of AASB 101 to specify the requirements for classifying liabilities as current or non-current. The amendments clarify:

- › What is meant by a right to defer settlement
- › That a right to defer must exist at the end of the reporting period
- › That classification is unaffected by the likelihood that an entity will exercise its deferral right
- › That only if an embedded derivative in a convertible liability is itself an equity instrument would the terms of a liability not impact its classification.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and must be applied retrospectively. The Group is currently assessing the impact the amendments will have on current practice, however does not expect there to be a material impact on the Group.

### ***b. Property, Plant and Equipment: Proceeds before Intended Use – Amendments to AASB 116***

In May 2020, the IASB issued Property, Plant and Equipment – Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognises the proceeds from selling such items, and the costs of producing those items, in profit or loss. The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment. The amendments are not expected to have a material impact on the Group.

### ***c. Onerous Contracts – Costs of Fulfilling a Contract – Amendments to AASB 137***

In May 2020, the IASB issued amendments to AASB 137 to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making.

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and are not expected to have a material impact on the Group.

**d. *Deferred Tax related to Assets and Liabilities arising from a single transaction – AASB 2021-5 – Amendments to AASs***

AASB 112 Income Taxes requires entities to account for income tax consequences when economic transactions take place, and not at the time when income tax payments or recoveries are made. Accounting for such tax consequences, means entities need to consider the differences between the tax rules and the accounting standards.

In specified circumstances, companies are exempt from recognising deferred tax when they recognise assets or liabilities for the first time. The amendments clarify that the initial recognition exception does not apply to transactions where both an asset and a liability are recognised in a single transaction. Accordingly, deferred tax is required to be recognised on such transactions.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are not expected to have a material impact on the Group.

**e. *AASB 2021-2 Amendments to Australian Accounting Standards – Disclosure of Accounting Policies and Definition of Accounting Estimates***

The amendments to Australian Accounting Standards specifically amends:

- › AASB 7 Financial Instruments: Disclosures, to clarify that information about measurement bases for financial instruments is expected to be material to an entity’s financial statements
- › AASB 101 Presentation of Financial Statements, to require entities to disclose their material accounting policy information rather than their significant accounting policies
- › AASB 108 Accounting Policies, Changes in Accounting Estimates and Errors, to clarify how entities should distinguish changes in accounting policies and changes in accounting estimates
- › AASB 134 Interim Financial Reporting, to identify material accounting policy information as a component of a complete set of financial statements
- › AASB Practice Statement 2 Making Materiality Judgements, to provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

The amendments are effective for annual reporting periods beginning on or after 1 January 2023 and are not expected to have a material impact on the Group.

## **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 twelve months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

- › It is expected to be settled in the Group’s normal operating cycle;
- › It is held primarily for the purpose of trading;
- › It is due to be settled within 12 months after the reporting period; or
- › There is no unconditional right to defer the settlement of the liability for at least twelve months after the reporting period.

The Group classifies all other liabilities as non-current.

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

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

### ***b. Trade and other receivables***

Other receivables from lessors and suppliers comprise the majority of the trade and other receivables balance. Trade receivables are initially recognised at transaction price and other receivables 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 27 June 2021. 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.

### ***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; and
- › is not larger than a segment based on the Group's primary reporting format determined in accordance with AASB 8 *Operating Segments*.

Impairment is determined by assessing the recoverable amount of the cash-generating unit 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, excluding Mocka Products Pty Ltd, 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.

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; and/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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

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 Adairs segment 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 Adairs segment 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. In recognising breakage revenue, the Group takes 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 either a straight-line or diminishing value basis over the estimated useful life of the asset as follows:

<b>Class</b>	<b>Period</b>
Computer hardware	2 - 3 years
Plant and other equipment	5 years
Leasehold improvements	Over lease term
Shop fixtures and fittings	Over lease term

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

#### *i. Derecognition and disposal*

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

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

#### *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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

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

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

### **i. *Computer software and Software-as-a-Service (SaaS) arrangements***

The Group records 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.

SaaS arrangements are arrangements in which the Group/Company does not currently control the underlying software used in the arrangement.

Where costs incurred to configure or customise SaaS arrangements result in the creation of a resource which is identifiable, and where the company has the power to obtain the future economic benefits flowing from the underlying resource and to restrict the access of others to those benefits, such costs are recognised as a separate intangible software asset and amortised over the useful life of the software on a straight-line basis. The amortisation is reviewed at least at the end of each reporting period and any changes are treated as changes in accounting estimates.

Where costs incurred to configure or customise do not result in the recognition of an intangible software asset, then those costs that provide the Group/Company with a distinct service (in addition to the SaaS access) are now recognised as expenses when the supplier provides the services. When such costs incurred do not provide a distinct service, the costs are now recognised as expenses over the duration of the SaaS contract.

### **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.

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 related to borrowings are recognised as expenses using the effective interest method as described in Note 2.4(r).

#### ***o. Leases***

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### ***Group as a lessee***

The Group applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Group recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

##### **› 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.

#### ***p. 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

### ***q. 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.

### ***r. 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.

### ***s. 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.

### ***t. 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.

### ***u. 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.

### ***v. 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.

#### **w. 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

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

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.

### ***x. 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 26.

That cost is recognised in employee benefits expense, together with a corresponding increase in equity (share-based payment reserve), over the period in which the service and, where applicable, the performance conditions are fulfilled (the vesting period). The cumulative expense recognised for equity-settled transactions at each reporting date until the vesting date reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The expense or credit in the Statement of Profit or Loss for a period represents the movement in cumulative expense recognised as at the beginning and end of that period.

Service and non-market performance conditions are not taken into account when determining the grant date fair value of awards, but the likelihood of the conditions being met is assessed as part of the Group's best estimate of the number of equity instruments that will ultimately vest. Market performance conditions are reflected within the grant date fair value. Any other conditions attached to an award, but without an associated service requirement, are considered to be non-vesting conditions. Non-vesting conditions are reflected in the fair value of an award and lead to an immediate expensing of an award unless there are also service and/or performance conditions.

No expense is recognised for awards that do not ultimately vest because non-market performance and/or service conditions have not been met. Where awards include a market or non-vesting condition, the transactions are treated as vested irrespective of whether the market or non-vesting condition is satisfied, provided that all other performance and/or service conditions are satisfied.

When the terms of an equity-settled award are modified, the minimum expense recognised is the grant date fair value of the unmodified award, provided the original terms of the award are met. An additional expense, measured as at the date of modification, is recognised for any modification that increases the total fair value of the share-based payment transaction, or is otherwise beneficial to the employee. Where an award is cancelled by the Group or by the counterparty, any remaining element of the fair value of the award is expensed immediately through profit or loss.

### ***y. 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.

### ***z. 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.

## 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.

#### **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 27 June 2021. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised at 27 June 2021 is \$51,017,878 (2020: \$42,900,000), which includes potential lease payments within the next five years of \$10,461,937 (2020: \$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 leased asset**

A leased asset exists when an entity receives 'substantially all' the economic benefits and controls the asset. The accounting standards do not define a threshold for 'substantially all' (although it is generally accepted in practice to be a very high threshold) and therefore management is required to exercise judgement. The Group has assessed that there is no leased asset on the new National Distribution Centre. The Group has determined that upon commencement of the contract there is no identifiable asset as the Group does not have the right to receive substantially all the economic benefits and control the asset.

### b. Significant accounting estimates and assumptions

#### **Impairment of goodwill and intangibles with indefinite useful lives**

The Group determines whether goodwill and intangibles with indefinite useful lives are impaired at least on an annual basis. This requires an estimation of the recoverable amount of the cash-generating units 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 27 June 2021, including management's assessment of the future impacts of the COVID-19 pandemic, which is impacting the

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## **NOTE 2: SIGNIFICANT ACCOUNTING POLICIES *continued***

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 10.

### ***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 26.

### ***Long service leave provision***

As discussed in Note 2.4(q), 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 9.

### ***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 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 method of determining the fair value of the Mocka earn-out arrangement changed as at 27 June 2021 (compared to the prior year ended 28 June 2020) due to a variation to the Sale and Purchase Agreement agreed in June 2021. At the relevant reporting dates, the fair value was determined with respect to:

- › As at 27 June 2021  
Single fixed payment of NZ\$48,000,000 expected to be paid in September 2021.
- › As at 28 June 2020 and at the acquisition date  
Agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The determination of fair value required 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 for a defined period from the acquisition date and this portion is recognised as an expense in the statement of profit and loss over the relevant period of service (refer to Note 4(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 – Estimating the incremental borrowing rate**

If the Group cannot readily determine the interest rate implicit in the lease, it uses its incremental borrowing rate (IBR) to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use-asset in a similar economic environment. The IBR therefore reflects what the Group would have to pay, which requires estimation when no observable rates are available or when they need to be adjusted to reflect the terms and conditions of the lease. The Group estimates the IBR using observable inputs when available and is required to make certain entity-specific estimates.

## **NOTE 3. SEGMENT REPORTING**

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

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 which 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 27 June 2021:

	<b>Adairs \$'000</b>	<b>Mocka \$'000</b>	<b>Consolidated \$'000</b>
<b>52 weeks ended 27 June 2021</b>			
<i>Revenue</i>			
External customer	439,605	60,157	499,762
Inter-segment	–	–	–
<b>Total revenue</b>	<b>439,605</b>	<b>60,157</b>	<b>499,762</b>
<b>Income/(expenses)</b>			
Cost of sales	(160,134)	(36,335)	(196,469)
Other income	166	8	174
Depreciation and amortisation expenses	(43,350)	(1,225)	(44,575)
Salaries and employee benefits expense	(96,384)	(4,484)	(100,868)
Occupancy expenses	(4,815)	(244)	(5,059)
Advertising expenses	(12,935)	(2,629)	(15,564)
Other expenses from ordinary activities	(24,002)	(3,069)	(27,071)
Costs associated with the acquisition of Mocka	(7,583)	–	(7,583)
<b>Earnings before Interest and Tax</b>	<b>90,568</b>	<b>12,179</b>	<b>102,747</b>
Finance expenses	(7,346)	(111)	(7,457)
<b>Profit before tax</b>	<b>83,222</b>	<b>12,068</b>	<b>95,290</b>
<b>Total assets</b>	<b>379,486</b>	<b>35,343</b>	<b>414,829</b>
<b>Total liabilities</b>	<b>241,133</b>	<b>9,036</b>	<b>250,169</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 3: SEGMENT REPORTING *continued*

	Adairs \$'000	Mocka \$'000	Consolidated \$'000
<b>52 weeks ended 28 June 2020</b>			
<i>Revenue</i>			
External customer	359,946	28,987	388,933
Inter-segment	–	–	–
<b>Total revenue</b>	<b>359,946</b>	<b>28,987</b>	<b>388,933</b>
<b>Income/(expenses)</b>			
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)
<b>Earnings before Interest and Tax</b>	<b>52,364</b>	<b>6,677</b>	<b>59,041</b>
Finance expenses	(6,250)	–	(6,250)
<b>Profit before tax</b>	<b>46,114</b>	<b>6,677</b>	<b>52,791</b>
<b>Total assets</b>	<b>367,012</b>	<b>22,116</b>	<b>389,128</b>
<b>Total liabilities</b>	<b>243,908</b>	<b>4,649</b>	<b>248,557</b>

Note: Mocka was acquired by Adairs on 1 December 2019. The results of Mocka during the comparative period 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 27 June 2021, being Australia and New Zealand.

## NOTE 4. REVENUES AND EXPENSES

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>(a) Revenue from contracts with customers</b>		
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
<i>Types of goods and services</i>		
Sale of goods and services – stores	312,718	264,710
Sale of goods and services – online	187,044	124,223
<b>Total revenue from contracts with customers</b>	<b>499,762</b>	<b>388,933</b>
<b>(b) Other Income</b>		
Interest income	31	90
Net currency gains/(losses)	–	(55)
Other	143	261
	<b>174</b>	<b>296</b>
<b>(c) Depreciation and amortisation expenses included in the Statement of Profit or Loss</b>		
Depreciation of property, plant and equipment	9,204	7,217
Depreciation of right-of-use assets	34,009	31,389
Amortisation of computer software	1,362	712
	<b>44,575</b>	<b>39,318</b>
<b>(d) Finance expenses</b>		
Interest paid/payable and other finance costs	954	1,822
Interest on lease liabilities	3,866	4,181
Loan modification gain	–	(351)
Amortisation of borrowing costs	315	–
Discount expense on earn-out liabilities	2,322	598
	<b>7,457</b>	<b>6,250</b>
<b>(e) Salaries and employee benefits expense</b>		
Wages and salaries <sup>1</sup>	92,987	78,206
Government grant income – wage subsidies <sup>1</sup>	(6,077)	(5,355)
Government grant repaid <sup>1</sup>	6,077	–
Defined contribution superannuation expense	6,140	5,304
Share-based payment expense	1,741	710
	<b>100,868</b>	<b>78,865</b>

1. During the 52 weeks ended 27 June 2021, the Group was entitled to receive gross government grants under the JobKeeper program totalling \$10,742,000 (2020: \$11,292,000). Of this total amount:

- › \$4,665,000 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 (2020: \$5,937,000). This amount is included within Wages and salaries above.
- › \$6,077,000 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 (2020: \$5,355,000). This amount is disclosed separately from Wages and salaries above. During the period, the Group repaid the JobKeeper wage subsidy benefit related to the 52 weeks ended 27 June 2021 to the Australian Government.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 4: REVENUES AND EXPENSES *continued*

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>(f) Other expenses</b>		
Credit card and merchant fees	5,482	4,478
Professional fees	4,104	2,070
Storage costs	3,840	3,373
Packaging and consumables	1,965	2,069
Other	11,680	8,491
	<b>27,071</b>	<b>20,481</b>
<b>(g) Costs associated with the acquisition of Mocka Limited</b>		
Transaction costs	–	2,139
Fair value remeasurement of contingent consideration (Note 12)	164	–
Employee benefits expense from earn-out arrangement (Note 12)	7,600	1,745
Other	(181)	–
	<b>7,583</b>	<b>3,884</b>

## NOTE 5. INCOME TAX

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
The major components of income tax expense are:		
<b>Statement of Profit or Loss</b>		
<i>Current income tax</i>		
Current income tax charge	32,501	19,113
Adjustments in respect of current income tax of previous years	(81)	(230)
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(918)	(1,855)
Adjustments in respect of deferred income tax of previous years	46	482
<b>Income tax expense reported in the Statement of Profit or Loss</b>	<b>31,548</b>	<b>17,510</b>
<b>Statement of Other Comprehensive Income</b>		
<i>Deferred income tax</i>		
Relating to origination and reversal of temporary differences	(273)	(74)
<b>Income tax benefit reported in the Statement of Other Comprehensive Income</b>	<b>(273)</b>	<b>(74)</b>
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	95,290	52,791
At the statutory income tax rate of 30% (2020: 30%)	28,587	15,860
Adjustments in respect of current income tax of previous years	(81)	(230)
Adjustments in respect of deferred income tax of previous years	46	483
Non-deductible expenses <sup>1</sup>	3,214	1,471
Effect of foreign tax rates	(218)	(74)
<b>Income tax expense reported in the Statement of Profit or Loss</b>	<b>31,548</b>	<b>17,510</b>

1. The majority of non-deductible expenses relate to costs associated with the acquisition of Mocka Limited.

	Statement of Financial Position		Statement of Profit or Loss and Other Comprehensive Income	
	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>Deferred income tax</b>				
Deferred income tax relates to the following:				
<i>Deferred tax assets</i>				
Inventory	356	245		
Property, plant and equipment	–	11		
Lease liabilities	29,830	31,325		
Other liabilities	3,670	2,387		
Provisions	5,728	4,937		
Non-recourse loan	124	124		
Financial Instruments	69	–		
Carry forward tax losses	–	157		
Other	125	–		
<b>Total deferred tax assets</b>	<b>39,902</b>	<b>39,186</b>		
<i>Deferred tax liabilities</i>				
Trade and other receivables	–	(3)		
Other assets	(181)	(177)		
Property, plant and equipment	(1,813)	(49)		
Right-of-use assets	(26,774)	(28,211)		
Brand names	(22,329)	(22,657)		
Unrealised foreign exchange	189	(42)		
Financial instruments	(24)	(221)		
Other payables	(7)	(8)		
<b>Total deferred tax liabilities</b>	<b>(50,939)</b>	<b>(51,368)</b>		
<b>Net deferred tax liabilities</b>	<b>(11,037)</b>	<b>(12,182)</b>		
Amounts credited directly to profit and loss			872	1,373
Amounts credited directly to other comprehensive income			273	74
<b>Deferred tax expense</b>			<b>1,145</b>	<b>1,447</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 6. CASH AND CASH EQUIVALENTS

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Cash at bank	25,882	23,861
Cash on hand	88	61
<b>Total cash and cash equivalents</b>	<b>25,970</b>	<b>23,922</b>

### Statement of Cash Flows Reconciliation

#### a. Reconciliation of net profit after tax to net cash flows from operating activities

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Net profit/(loss) after tax	63,742	35,281
<i>Adjustments and non-cash items</i>		
Depreciation and amortisation expenses	44,575	39,318
Share-based payments expense	1,741	710
Costs associated with the acquisition of Mocka	7,583	–
Discount expense on earn-out liabilities	2,322	598
Payment of non-recourse loan to employee recognised in equity	–	(750)
Debt facility modification gain	–	(323)
Amortisation of borrowing costs	315	109
<i>Changes in assets and liabilities</i>		
(Increase)/Decrease in trade and other receivables	673	(818)
(Increase)/Decrease in other assets	(3,704)	3,308
(Increase)/Decrease in inventories	(24,592)	7,085
Increase/(Decrease) in payables	14,040	(148)
Increase/(Decrease) in other liabilities	4,690	3,759
Increase/(Decrease) in deferred tax liabilities	(872)	(846)
Increase/(Decrease) in provisions	1,834	3,185
Increase/(Decrease) in current tax liabilities	4,525	6,839
<b>Net cash flow from operating activities</b>	<b>116,872</b>	<b>97,307</b>

**b. Reconciliation of liabilities arising from financing activities**

<b>52 weeks ended 27 June 2021</b>	<b>As at 28 June 2020 \$'000</b>	<b>Net cash flows \$'000</b>	<b>Non-cash changes modification gain \$'000</b>	<b>Non-cash changes borrowing costs amortised \$'000</b>	<b>Other \$'000</b>	<b>As at 27 June 2021 \$'000</b>
Interest-bearing liabilities (Note 14)	24,927	(26,000)	-	315	758	-
<b>Total liabilities from financing activities</b>	<b>24,927</b>	<b>(26,000)</b>	<b>-</b>	<b>315</b>	<b>758</b>	<b>-</b>

<b>52 weeks ended 28 June 2020</b>	<b>As at 30 June 2019 \$'000</b>	<b>Net cash flows \$'000</b>	<b>Non-cash changes modification gain \$'000</b>	<b>Non-cash changes borrowing costs amortised \$'000</b>	<b>Other \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Interest-bearing liabilities (Note 14)	24,949	136	(351)	193	-	24,927
<b>Total liabilities from financing activities</b>	<b>24,949</b>	<b>136</b>	<b>(351)</b>	<b>193</b>	<b>-</b>	<b>24,927</b>

The reconciliation of Lease liabilities is detailed within Note 17.

**NOTE 7. TRADE AND OTHER RECEIVABLES AND OTHER ASSETS**

	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
<i>Trade and other receivables</i>		
Other receivables	2,276	2,949
<b>Trade and other receivables</b>	<b>2,276</b>	<b>2,949</b>
<i>Other assets</i>		
Prepaid expenses	8,807	5,392
Deposits	463	1,257
Contract assets	115	105
Other	758	-
<b>Other assets</b>	<b>10,143</b>	<b>6,754</b>
Current	12,419	9,703
Non-current	-	-
<b>Total trade receivables and other assets</b>	<b>12,419</b>	<b>9,703</b>

Other receivables are non-interest bearing and no material provision for impairment (based on expected credit losses) has been recorded as at 27 June 2021 (2020: nil) as the amount is considered to not be material.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 8. INVENTORIES

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Stock on hand at lower of cost and net realisable value	58,125	35,540
Stock in transit at cost	9,871	7,864
<b>Total inventories</b>	<b>67,996</b>	<b>43,404</b>

During the 52 weeks ended 27 June 2021, \$39,000 was recognised as an expense for inventories carried at net realisable value (2020: \$219,000 debited). This is recognised in cost of sales.

## NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	Shop Fixtures and Fittings \$'000	Leasehold Improvements \$'000	Computer Hardware \$'000	Plant and Other Equipment \$'000	Total \$'000
<b>Cost</b>					
<b>As at 30 June 2019</b>	52,793	668	4,320	6,044	63,825
Additions	4,143	344	1,319	864	6,670
Acquisition of a subsidiary	–	55	110	881	1,046
Disposals	(2,597)	–	(10)	(32)	(2,639)
Exchange differences	(59)	(1)	(3)	(10)	(73)
<b>As at 28 June 2020</b>	<b>54,280</b>	<b>1,066</b>	<b>5,736</b>	<b>7,747</b>	<b>68,829</b>
Additions	5,901	3	809	1,959	8,672
Additions - work in progress	836	47	–	–	883
Disposals	(2,926)	–	(11)	(77)	(3,014)
Exchange differences	(10)	–	–	(1)	(11)
<b>As at 27 June 2021</b>	<b>58,081</b>	<b>1,116</b>	<b>6,534</b>	<b>9,628</b>	<b>75,359</b>
<b>Depreciation and impairment</b>					
<b>As at 30 June 2019</b>	<b>34,827</b>	<b>500</b>	<b>3,182</b>	<b>4,448</b>	<b>42,957</b>
Acquisition of a subsidiary	–	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)
<b>As at 28 June 2020</b>	<b>37,922</b>	<b>534</b>	<b>3,968</b>	<b>5,562</b>	<b>47,986</b>
Depreciation charge for the year	6,388	17	1,050	1,749	9,204
Disposals	(2,922)	–	(10)	(61)	(2,993)
Exchange differences	(5)	–	–	(1)	(6)
<b>As at 27 June 2021</b>	<b>41,383</b>	<b>551</b>	<b>5,008</b>	<b>7,249</b>	<b>54,191</b>
<b>Net book value</b>					
<b>As at 28 June 2020</b>	<b>16,358</b>	<b>532</b>	<b>1,768</b>	<b>2,185</b>	<b>20,843</b>
<b>As at 27 June 2021</b>	<b>16,698</b>	<b>565</b>	<b>1,526</b>	<b>2,379</b>	<b>21,168</b>

### **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 27 June 2021 (2020: nil impairment loss was recognised).

## NOTE 10. INTANGIBLES

	Software \$'000	Brand Names and Trademarks \$'000	Goodwill \$'000	Total \$'000
<b>Cost or fair value</b>				
<b>As at 30 June 2019</b>	<b>6,643</b>	<b>41,317</b>	<b>89,837</b>	<b>137,797</b>
Additions	399	1,394	-	1,793
Acquisition of a subsidiary	17	33,115	48,409	81,541
Disposals	-	-	-	-
Exchange differences	(4)	-	-	(4)
<b>As at 28 June 2020</b>	<b>7,055</b>	<b>75,826</b>	<b>138,246</b>	<b>221,127</b>
Additions	595	-	-	595
Disposals	-	-	-	-
Additions - work in progress	1,965	-	-	1,965
Exchange differences	(1)	-	-	(1)
<b>As at 27 June 2021</b>	<b>9,614</b>	<b>75,826</b>	<b>138,246</b>	<b>223,686</b>
<b>Amortisation and impairment</b>				
<b>As at 30 June 2019</b>	<b>4,362</b>	<b>-</b>	<b>19,910</b>	<b>24,272</b>
Amortisation	712	-	-	712
Disposals	-	-	-	-
Exchange differences	-	-	-	-
<b>As at 28 June 2020</b>	<b>5,074</b>	<b>-</b>	<b>19,910</b>	<b>24,984</b>
Amortisation	1,362	-	-	1,362
Disposals	-	-	-	-
Exchange differences	-	-	-	-
<b>As at 27 June 2021</b>	<b>6,436</b>	<b>-</b>	<b>19,910</b>	<b>26,346</b>
<b>Net book value</b>				
<b>As at 28 June 2020</b>	<b>1,981</b>	<b>75,826</b>	<b>118,336</b>	<b>196,143</b>
<b>As at 27 June 2021</b>	<b>3,178</b>	<b>75,826</b>	<b>118,336</b>	<b>197,340</b>

### 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.

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 10: INTANGIBLES *continued*

The Group performed its annual impairment test for the Adairs and Mocka CGUs as at 27 June 2021. The Group considers the relationship between its enterprise value and its carrying amount, among 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 27 June 2021, 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 27 June 2021		As at 28 June 2020	
	Adairs \$'000	Mocka \$'000	Adairs \$'000	Mocka \$'000
Pre-tax discount rate	12.05%	12.95%	11.80%	12.85%
Long-term (terminal) growth rate	2.25%	2.25%	2.25%	2.25%

### 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 27 June 2021.

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 27 June 2021.

Accordingly, no impairment was recorded for the 52 weeks ended 27 June 2021 (2020: 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 11. TRADE AND OTHER PAYABLES

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Trade creditors	21,321	17,960
Accrued expenses	19,368	9,774
Other payables	3,122	3,523
<b>Total current trade and other payables</b>	<b>43,811</b>	<b>31,257</b>
Current	43,811	31,257
Non-current	–	–
<b>Total trade and other payables</b>	<b>43,811</b>	<b>31,257</b>

### **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 12. EARN-OUT LIABILITIES

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Mocka contingent consideration	35,381	–
Mocka vendor remuneration provision	9,345	–
<b>Total current earn-out liabilities</b>	<b>44,726</b>	<b>–</b>
Mocka contingent consideration	–	32,896
Mocka vendor remuneration provision	–	1,745
Other	1,012	854
<b>Total non-current earn-out liabilities</b>	<b>1,012</b>	<b>35,495</b>
Current	44,726	–
Non-current	1,012	35,495
<b>Total earn-out liabilities</b>	<b>45,738</b>	<b>35,495</b>

Earn-out liabilities relate to future payments to be made with respect to brand name asset acquisitions and the Mocka business combination.

As part of the purchase consideration for Mocka, the Group agreed to an earn-out arrangement. The original Sale and Purchase Agreement was revised in June 2021 which altered the earn-out mechanism. As a result of this revision, the fair value of the earn-out was calculated based on the earn-out mechanism applicable at the respective reporting dates:

- › *As at 27 June 2021*  
Single fixed payment of NZ\$48,000,000 expected to be paid in September 2021.
- › *As at 28 June 2020 and at the acquisition date*  
Agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The fair value of the earn-out liabilities was based on Level 3 techniques using estimates of future cash flows.

A portion of the earn-out arrangement is contingent on certain vendors remaining in continuous employment for defined periods from the acquisition date. This portion is recognised as an expense in the statement of profit or loss over the relevant period of service (refer to Note 4(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 the reporting date with adjustments recognised in the statement of profit or loss (refer to Note 4(g)), with a discount expense unwound and included within Finance expenses (Note 4(d)) to reflect the time-value of money.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 13. OTHER LIABILITIES

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
<i>Current other liabilities</i>		
Other liabilities	15,034	10,721
<b>Total current other liabilities</b>	<b>15,034</b>	<b>10,721</b>
<i>Non-current other liabilities</i>		
Other liabilities	1,460	1,083
<b>Total non-current other liabilities</b>	<b>1,460</b>	<b>1,083</b>
Current	15,034	10,721
Non-current	1,460	1,083
<b>Total trade and other payables</b>	<b>16,494</b>	<b>11,804</b>

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.

## NOTE 14. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Non-current				
Bank Loan - Facility A	BBSW + 1.85	31 Mar 2023	-	24,927
Total non-current			-	24,927
Current				
Non-current			-	24,927
<b>Total interest-bearing loans and borrowings</b>			<b>-</b>	<b>24,927</b>
(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	90,000
Term debt facilities used at the reporting date:			-	(26,000)
Multi-option facilities available at the reporting date:			6,500	6,500
Multi-option facilities used at the reporting date*:			(837)	(500)
<b>Facilities unused at the reporting date:</b>			<b>95,663</b>	<b>70,000</b>

\* The \$837,000 used on the multi-option facility represents bank guarantees.

In July 2021, the Group renegotiated the maturity date of its existing finance facilities to be extended by four months. The finance facilities are now due to expire on 31 July 2023 which better reflects the reporting cycle of the Group. There were no further material changes to the finance facilities.

The term debt facilities of \$90,000,000 are available until maturity with the multi option facilities of \$6,500,000 subject to an annual review.

## NOTE 15. PROVISIONS

<b>a. Provisions</b>	<b>Make good \$'000</b>	<b>Total \$'000</b>
<b>As at 28 June 2020</b>	<b>913</b>	<b>913</b>
Arising during the year	756	756
Utilised	(28)	(28)
Unwinding of discount rate and changes in the discount rate	11	11
<b>As at 27 June 2021</b>	<b>1,652</b>	<b>1,652</b>
Current	–	–
Non-current	1,652	1,652
<b>Total provisions</b>	<b>1,652</b>	<b>1,652</b>
	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
<b>b. Employee entitlements</b>		
<i>Current</i>		
Annual Leave	5,264	4,048
Long service leave	2,521	2,123
<b>Total current</b>	<b>7,785</b>	<b>6,171</b>
<i>Non-current</i>		
Long service leave	1,498	1,277
<b>Total non-current</b>	<b>1,498</b>	<b>1,277</b>
<b>Total employee entitlements</b>	<b>9,283</b>	<b>7,448</b>
Total current	7,785	6,121
Total non-current	3,150	2,240
<b>Total provisions</b>	<b>10,935</b>	<b>8,361</b>

### **Nature and timing of provisions**

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

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 16. ISSUED CAPITAL AND RESERVES

<b>a. Authorised Shares</b>	<b>As at 27 June 2021 Thousands</b>	<b>As at 28 June 2020 Thousands</b>
Ordinary Shares	169,077	169,077

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

	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Balance at the beginning of the period	74,098	68,349
Issued shares	–	5,749
Exercise of share options <sup>1</sup>	(275)	–
<b>Balance at the end of the period</b>	<b>73,823</b>	<b>74,098</b>

<sup>1</sup> The exercise of share options was facilitated through a custodian arrangement with the Group paying \$585,000 for the on-market purchase of ordinary shares in the Company. The Group received \$310,000 from the holders of the share options that were exercised.

<b>b. Share-based payment reserve</b>	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Balance at the beginning of the period	289	329
Share-based payment expense	1,741	710
Issue of non-recourse loan	–	(750)
<b>Balance at the end of the period</b>	<b>2,030</b>	<b>289</b>

<b>c. Foreign currency translation reserve</b>	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Balance at the beginning of the period	(198)	(27)
Foreign currency translation of foreign subsidiary	97	(171)
<b>Balance at the end of the period</b>	<b>(101)</b>	<b>(198)</b>

<b>d. Cash flow hedge reserve</b>	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Balance at the beginning of the period	532	709
<i>Transferred to Statement of Profit or Loss</i>		
Net gain on cash flow hedges	(760)	(1,012)
Income tax related the net gain on cash flow hedges	228	303
<i>Recognised in Statement of Other Comprehensive Income</i>		
Net gain on cash flow hedges	(151)	760
Income tax related to the net gain on cash flow hedges	45	(228)
<b>Balance at the end of the period</b>	<b>(106)</b>	<b>532</b>

<b>e. Retained earnings</b>	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
Balance at the beginning of the period	65,850	48,957
Impact of adoption of new accounting standards	–	(5,118)
Net profit for the period	63,742	35,281
Dividends paid and declared during the period	(40,578)	(13,270)
<b>Balance at the end of the period</b>	<b>89,014</b>	<b>65,850</b>

## NOTE 17. LEASE ARRANGEMENTS AND OTHER COMMITMENTS

As disclosed in the annual report for the 52 weeks ended 28 June 2020, the Group adopted AASB 2020-4 *Amendments to Australian Accounting Standards - COVID-19-Related Rent Concessions*.

The amendments introduced a practical expedient into AASB 16 *Leases* which permits a lessee to elect not to account for changes in lease payments as a lease modification where the revised consideration is 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 2022 and there has been no substantive change in terms and conditions.

Where the practical expedient has been applied, rent concessions have been accounted for as a reduction in Occupancy expenses in the consolidated statement of profit or loss for the 52 weeks ended 27 June 2021. Other items included within Occupancy expenses are primarily variable lease payments and outgoings.

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 27 June 2021:

	<b>Right-of-use assets \$'000</b>	<b>Lease liabilities \$'000</b>
<b>As at 1 July 2019</b>	<b>93,010</b>	<b>107,112</b>
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)
<b>As at 28 June 2020</b>	<b>94,375</b>	<b>114,600</b>
Additions	29,237	29,467
Depreciation expense	(34,009)	–
Interest expense	–	3,866
Payments	–	(40,711)
Foreign currency difference	(24)	(28)
<b>As at 27 June 2021</b>	<b>89,579</b>	<b>107,194</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 17: LEASE ARRANGEMENTS AND OTHER COMMITMENTS *continued*

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Current lease liabilities	33,473	36,252
Non-current lease liabilities	73,721	78,348
	<b>107,194</b>	<b>114,600</b>

The following are the amounts recognised in profit and loss:

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Depreciation expense of right-of-use assets	34,009	31,389
Interest expense on lease liabilities	3,866	4,181
Expense relating to short-term leases (included in Occupancy expense)	926	1,003
Variable lease payments (included in Occupancy expense)	7,327	9,568
COVID-19 rent concessions (included in Occupancy expense)	(3,226)	(506)
<b>Total amount recognised in profit or loss</b>	<b>42,902</b>	<b>45,635</b>

The Group had total cash outflows for leases of \$42,898,000 in 2021 (2020: \$41,131,000).

The maturity analysis of lease liabilities are disclosed in Note 19.

## NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
<i>Current assets</i>		
Forward currency contracts – cash flow hedges	–	589
	–	<b>589</b>
<i>Non-current assets</i>		
Forward currency contracts – cash flow hedges	357	149
	<b>357</b>	<b>149</b>
<i>Current liabilities</i>		
Forward currency contracts – cash flow hedges	(507)	–
	<b>(507)</b>	–

### 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.

The Group is holding the following foreign currency contracts:

	Maturity						Total
	< 1 month	1-3 months	3-6 months	6-9 months	9-12 months	>12 months	
<b>As at 27 June 2021</b>							
<i>Forward currency contracts (highly probable forecast inventory purchases)</i>							
› Notional amount (\$'000)	3,427	17,910	35,621	22,559	16,602	14,442	110,561
› Average forward rate (USD/AUD)	0.7340	0.7442	0.7557	0.7622	0.7714	0.7805	–
› Average forward rate (USD/NZD)	0.7185	0.7188	0.7206	–	–	–	–
<b>As at 28 June 2020</b>							
<i>Forward currency contracts (highly probable forecast inventory purchases)</i>							
› 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	–	–	–	–
	<b>Notional amount \$'000</b>	<b>Carrying amount \$'000</b>	<b>Line item in the statement of financial position</b>				
<b>As at 27 June 2021</b>	110,561	(150)	Derivative financial instruments – liabilities				
<b>As at 28 June 2020</b>	87,896	738	Derivative financial instruments – assets				
			<b>Total hedging gain/(loss) recognised in OCI (\$'000)</b>	<b>Total amount reclassified from OCI to profit or loss (\$'000)</b>	<b>Line item in the statement of profit or loss</b>		
<b>52 weeks ended 27 June 2021</b>							
Highly probable forecast inventory purchases			(150)	738	Cost of sales		
<b>52 weeks ended 28 June 2020</b>							
Highly probable forecast inventory purchases			738	1,013	Cost of sales		

There was no material hedge ineffectiveness arising from the Group's forward currency contract hedging strategy during the 52 weeks ended 27 June 2021 (2020: 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 19. 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 27 June 2021 \$'000	As at 28 June 2020 \$'000
<i>Financial instruments</i>		
Cash and cash equivalents	25,970	23,922
Interest-bearing loans and borrowings	-	(24,927)
<b>Net exposure</b>	<b>25,970</b>	<b>(1,005)</b>

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

As at 27 June 2021, if interest rates had moved, as illustrated in the table below, with all other variables held constant, profit after tax would have been affected as follows due to the higher/lower interest rate costs from variable debt and cash balances:

#### Judgments of reasonably possible movements:

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
	<b>Profit after tax higher/(lower)</b>	
+1% (100 basis points)	182	(7)
-0.5% (50 basis points)	(91)	4

#### 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 twelve months from the reporting date.

## ii. Foreign currency risk

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

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

	<b>As at 27 June 2021 \$'000</b>	<b>As at 28 June 2020 \$'000</b>
<i>Financial liabilities</i>		
Payables	6,405	4,174

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

As at 27 June 2021, had the AUD moved, as illustrated in the table below, with all other variables held constant, profit after tax would have been affected as follows:

### **Judgments of reasonably possible movements:**

	<b>52 weeks ended 27 June 2021 \$'000</b>	<b>52 weeks ended 28 June 2020 \$'000</b>
	<b>Profit after tax higher/(lower)</b>	
AUD to USD +15%	585	381
AUD to USD -15%	(791)	(516)

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 twelve months from reporting date.

## 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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

### A. Non-derivative financial assets and liabilities

The following liquidity risk disclosures reflect all contractually fixed payables, repayments and interest resulting from recognised financial liabilities as well as liquid financial assets as of 27 June 2021. 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 to 12 months \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>As at 27 June 2021</b>					
<i>Liquid financial assets</i>					
Cash and cash equivalents	25,970	–	–	–	25,970
Trade and other receivables	2,276	–	–	–	2,276
<i>Financial liabilities</i>					
Trade and other payables	(43,811)	–	–	–	(43,811)
Lease liabilities	(20,846)	(16,749)	(73,804)	(11,952)	(123,351)
Earn-out liabilities	(44,726)	–	(1,012)	–	(45,738)
<b>Net outflow</b>	<b>(81,137)</b>	<b>(16,749)</b>	<b>(74,816)</b>	<b>(11,952)</b>	<b>(184,654)</b>

	< 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>As at 28 June 2020</b>					
<i>Liquid financial assets</i>					
Cash and cash equivalents	23,922	–	–	–	23,922
Trade and other receivables	2,949	–	–	–	2,949
<i>Financial Liabilities</i>					
Trade and other payables	(31,258)	–	–	–	(31,258)
Lease liabilities	(22,371)	(16,844)	(71,573)	(13,441)	(124,229)
Earn-out liabilities	–	–	(37,931)	–	(37,931)
Bank loans	–	–	(26,000)	–	(26,000)
<b>Net outflow</b>	<b>(26,758)</b>	<b>(16,844)</b>	<b>(135,504)</b>	<b>(13,441)</b>	<b>(192,547)</b>

### 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 assets and liabilities held by the Group at the reporting date:

	< 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>As at 27 June 2021</b>					
Derivatives – forward currency contracts	(675)	168	357	–	(150)
<b>Net outflow</b>	<b>(675)</b>	<b>168</b>	<b>357</b>	<b>–</b>	<b>(150)</b>

	< 6 months \$'000	6 to 12 months \$'000	1 to 5 years \$'000	> 5 years \$'000	Total \$'000
<b>As at 28 June 2020</b>					
Derivatives – forward currency contracts	292	297	149	–	738
<b>Net outflow</b>	<b>292</b>	<b>297</b>	<b>149</b>	<b>–</b>	<b>738</b>

#### iv. Fair value

The Group uses various methods in estimating the fair value of a financial instrument. The methods comprise:

Level 1	Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2	Valuation techniques for which the lowest level input that is significant to the fair value measurement directly or indirectly observable
Level 3	Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

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

	As at 27 June 2021			As at 28 June 2020		
	Valuation Level 2 \$'000	Valuation Level 3 \$'000	Total \$'000	Valuation Level 2 \$'000	Valuation Level 3 \$'000	Total \$'000
<i>Financial assets</i>						
Forward exchange contracts	–	–	–	738	–	738
<i>Financial liabilities</i>						
Forward exchange contracts	(150)	–	(150)	–	–	–
Earn-out liabilities	–	(45,738)	(45,738)	–	(35,495)	(35,495)
	<b>(150)</b>	<b>(45,738)</b>	<b>(45,888)</b>	<b>738</b>	<b>(35,495)</b>	<b>(34,757)</b>

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments, other than those with carrying amounts that are reasonable approximations of fair values:

	As at 27 June 2021		As at 28 June 2020	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<i>Financial liabilities</i>				
Forward exchange contracts	(150)	(150)	738	738
Earn-out liabilities	(45,738)	(45,738)	(35,495)	(35,495)
Bank loans	–	–	(24,927)	(24,927)
	<b>(45,888)</b>	<b>(45,888)</b>	<b>(59,684)</b>	<b>(59,684)</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 20. 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, earn-out liabilities, less cash and short-term deposits, excluding discontinued operations.

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Interest-bearing loans and borrowings	–	24,927
Earn-out liabilities	45,738	35,495
Less: cash and cash equivalents	(25,970)	(23,922)
<b>Net debt</b>	<b>19,768</b>	<b>36,500</b>
Equity	164,660	140,571
<b>Capital and net debt</b>	<b>184,428</b>	<b>175,326</b>
Gearing ratio	11%	21%

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 27 June 2021 and 52 weeks ended 28 June 2020.

## NOTE 21. INFORMATION RELATING TO ADAIRS LIMITED ('THE PARENT ENTITY')

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Current assets	22	442
Total assets	129,227	126,608
Current liabilities	(13,050)	(8,583)
Total liabilities	(13,464)	(9,007)
<b>Net assets</b>	<b>115,763</b>	<b>117,601</b>
Issued capital	73,823	74,098
Retained earnings	39,161	42,464
Share-based payment reserve	2,779	1,039
<b>Net Equity</b>	<b>115,763</b>	<b>117,601</b>
Loss of the parent entity	(2,725)	(1,606)
<b>Total comprehensive loss of the Parent entity</b>	<b>(2,725)</b>	<b>(1,606)</b>

## NOTE 22. 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 27 June 2021. 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 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Short-term employee benefit	2,070	1,808
Short-term incentives	1,365	959
Post-employment benefits	115	106
Termination benefits	–	–
Share-based payments	957	601
<b>Total compensation to key management personnel</b>	<b>4,507</b>	<b>3,474</b>

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

## NOTE 23. 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 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Profit for the year attributable to ordinary equity holders of the Parent	63,742	35,281
<b>Profit attributable to ordinary equity holders of the Parent for basic earnings</b>	<b>63,742</b>	<b>35,281</b>
<b>Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution</b>	<b>63,742</b>	<b>35,281</b>

  

	As at 27 June 2021 \$'000	As at 28 June 2020 \$'000
Weighted average number of ordinary shares for basic EPS	169,077	167,617
Share options	5,753	2,601
<b>Weighted average number of ordinary shares for the effect of dilution</b>	<b>174,830</b>	<b>170,218</b>

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.

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 24. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

Name of Entity	Country of incorporation	Equity Holding	
		As at 27 June 2021 %	As at 28 June 2020 %
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	100
Mocka Holdings Pty Ltd	Australia	100	100
Mocka Products Pty Ltd	Australia	100	100

## NOTE 25. DIVIDENDS

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<b>Cash dividends on ordinary shares declared and paid:</b>		
Interim dividend for 2021: 13.0 cents per share (2020: Nil)	21,980	–
<b>Proposed dividends on ordinary shares:</b>		
Final cash dividend for 2021: 10.0 cents per share (2020: 11.0 cents)	16,908	18,598

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 27 June 2021.

### Franking credit balance

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

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
Franking account balance as at the end of the period at 30%	28,210	24,748
Franking credits that will arise from the payment of income tax payable as at the end of the period	1,968	8,434
Franking debits that will arise from the payment of dividends as at the end of the period	(7,246)	(7,971)
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	–
	<b>22,932</b>	<b>25,211</b>

## NOTE 26. 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.

### 2020 Tranche

In December 2019, 3,400,000 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.

### 2021 Tranche

In November 2020, 3,000,000 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 the grant date to 30 June 2024. There are two separate Performance conditions – an EPS Performance condition and a Sales Performance (being total Group or Adairs segment sales, depending on the participant) condition. If these conditions are not met, the options will lapse immediately. 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:

	2021 Tranche	2020 Tranche	2019 Tranche	2018 Tranche	2017 Tranche
Share option pricing model	Black Scholes				
– Dividend yield	6.00%	8.00%	5.00%	5.00%	4.75%
– Expected volatility	60.00%	50.00%	45.00%	45.00%	32.50%
– Risk-free interest rate	0.31%	0.82%	2.23%	2.23%	2.11%
– Expected life of share options	4.8 years	4.8 years	4.8 years	4.8 years	5.8 years
– Exercise share price	\$4.04	\$1.86	\$2.40	\$1.75	\$2.00
<b>Fair value of share options at grant date (per share option)</b>	<b>\$0.90</b>	<b>\$0.38</b>	<b>\$0.43</b>	<b>\$0.39</b>	<b>\$0.27</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 27 June 2021

## NOTE 26. SHARE-BASED PAYMENTS *continued*

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

	As at 27 June 2021 Number	As at 28 June 2020 Number
Outstanding balance at beginning of the period	7,873,447	4,473,447
- Granted	3,000,000	3,400,000
- Forfeited	-	-
- Lapsed	-	-
- Exercised	(155,069)	-
- Expired	-	-
<b>Outstanding balance at end of the period</b>	<b>10,718,378</b>	<b>7,873,447</b>

The weighted average fair value of the share options granted during the 52 weeks ended 27 June 2021 was \$0.90 (2020: \$0.38).

The weighted average remaining contractual life of share options outstanding as at 27 June 2021 was 4.1 years (2020: 4.5 years).

For the 52 weeks ended 27 June 2021, the Group has recognised \$1,741,000 of share-based payment expense in the Statement of Profit or Loss (2020: \$710,000).

During the comparative period being the 52 weeks ended 28 June 2020, a key management personnel was extended cash in the form of a loan for \$750,000 to purchase ordinary shares in the Company. The arrangement is a limited recourse loan which may be settled through the return of the ordinary shares in the Company to the Group.

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	\$93,750
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. There was no further share-based payment expense recognised during the 52 weeks ended 27 June 2021.

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.

## NOTE 27. EVENTS AFTER THE BALANCE SHEET DATE

On 6 July 2021, the Group renegotiated the maturity date of its existing finance facilities to be extended by four months. The finance facilities are now due to expire on 31 July 2023 which better reflects the reporting cycle of the Group. There were no further material changes to the finance facilities.

On 19 August 2021, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2021 financial year. The total amount of the dividend is \$16.9 million which represents a fully franked dividend of 10.0 cents per share. The dividend has not been provided for in the 27 June 2021 Financial Report.

Subsequent to 27 June 2021, the Group's Adairs store portfolio has been impacted by various Government imposed restrictions related to COVID-19. This has resulted in temporary store closures however majority of the impacted stores continue to offer Call & Collect and Call & Deliver services with processes and protocols in place to support the safety and wellbeing of our team and customers.

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 28. AUDITOR'S REMUNERATION

The auditor of Adairs Limited is Ernst & Young Australia.

	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<i>Amounts received or due and receivable by Ernst &amp; Young Australia for:</i>		
› Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	313	270
› Fees for other services		
– Taxation services	49	26
– Advisory services	175	215
– Other	–	110
<b>Total fees to Ernst &amp; Young Australia</b>	<b>537</b>	<b>621</b>
	52 weeks ended 27 June 2021 \$'000	52 weeks ended 28 June 2020 \$'000
<i>Fees to other overseas member firms of Ernst &amp; Young (Australia):</i>		
› Fees for auditing the financial report of any controlled entities	91	110
› Fees for other services		
– Taxation services	9	–
Total fees to overseas member firms of Ernst & Young (Australia)	100	110
<b>Total auditor's remuneration</b>	<b>637</b>	<b>731</b>

Auditors' remuneration disclosed above relate 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 and other services.

# SHAREHOLDER INFORMATION

for the period ended 27 June 2021

The shareholder information set out below was applicable as at 2 August 2021.

## Number of shareholders

There were 12,046 shareholders, holding 169,077,075 fully paid ordinary shares.

## Distribution of equity securities

Analysis of numbers of equity holders by size of holding:

Range	Ordinary Securities	No. of Security holders
1 – 1,000	2,310,506	5,035
1,001 – 5,000	11,931,178	4,564
5,001 – 10,000	9,873,335	1,319
10,001 – 100,000	24,733,319	1,062
100,001 and over	120,228,737	66
<b>Total</b>	<b>169,077,075</b>	<b>12,046</b>

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

## Equity security holders

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

Name	Ordinary Shares	
	Number held	Percentage of issued shares
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	29,601,990	17.51
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	23,589,358	13.95
CITICORP NOMINEES PTY LIMITED	15,857,290	9.38
BNP PARIBAS NOMINEES PTY LTD	9,681,696	5.73
NATIONAL NOMINEES LIMITED	9,678,490	5.72
BNP PARIBAS NOMS PTY LTD	3,456,331	2.04
GRAHGER RETAIL SECURITIES PTY LTD	2,200,000	1.30
MICHAEL CHERUBINO INVESTMENTS PTY LTD	1,996,135	1.18
BOND STREET CUSTODIANS LIMITED	1,826,986	1.08
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	1,269,560	0.75
BOND STREET CUSTODIANS LIMITED	1,166,500	0.69
BRET R GAMBLE & JEREMY T BLAKE & RACHEL M BLAKE	1,067,430	0.63
JETA TRUSTEE (2017) LIMITED	1,067,430	0.63
CEMJ TRUSTEE LIMITED	1,067,430	0.63
BNP PARIBAS NOMINEES PTY LTD	875,297	0.52
MR TRENT PETERSON	860,000	0.51
BRISPOT NOMINEES PTY LTD	856,115	0.51
JEREMY AND LYNETTE KING SUPERANNUATION PTY LTD	775,000	0.46
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	748,052	0.44
CANDAD PTY LTD	681,724	0.40
CS THIRD NOMINEES PTY LIMITED	604,941	0.36
BNP PARIBAS NOMS PTY LTD	593,000	0.35
	<b>109,520,755</b>	<b>64.77</b>

### **Substantial Shareholdings**

As at 2 August 2021, there were no substantial shareholders that the Company is aware of.

### **Voting Rights**

The Company's Constitution sets out the voting rights attached to ordinary shares. The voting rights relating to each class of equity securities is as follows:

#### **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. On a poll, each person present in person or by proxy shall have one vote for each ordinary share held.

#### **On market share acquisition**

During FY21, 155,069 Adairs ordinary shares were purchased on market at an average price of \$3.77 per share for the purposes of employee incentive schemes.

There is no current on market buy-back of the Company's shares.



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# CORPORATE INFORMATION

## **Adairs Limited**

ABN 50 147 375 451

## **Directors**

Brett Chenoweth (appointed 16 November 2020)

Michael Butler (resigned 26 October 2020)

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**

2 International Court

Scoresby

Victoria, 3179

Australia

Phone: 1800 990 475

## **Investor Relations website**

[investors.adairs.com.au](http://investors.adairs.com.au)

## **Share register**

Link Market Services

Locked Bag A14

Sydney South NSW 1235

Phone: 1300 554 474

## **Auditors**

Ernst & Young

## **Solicitors**

Herbert Smith Freehills

adairs

