

## HALF YEAR REPORT

For the 26 week period ended 26 December 2021

This information should be read in conjunction with the interim condensed financial report for the 26 weeks ended 26 December 2021.

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

Current period: 28 June 2021 to 26 December 2021 (26 weeks)

Prior corresponding period: 29 June 2020 to 27 December 2020 (26 weeks)

### 2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Comparison to previous corresponding period	Increase/ (Decrease)	Change %	\$'000
Revenue from continuing operations	(Decrease)	-0.5%	241,752
Profit after tax from continuing operations attributable to members	(Decrease)	-59.9%	17,596
Net profit attributable to members	(Decrease)	-59.9%	17,596

Dividends	Amount per security	Franked amount per security
2021 Final Dividend - Ordinary (paid)	10.0 cents	10.0 cents
2022 Interim Dividend - Ordinary (resolved, not yet provided for at 26 December 2021)	8.0 cents	8.0 cents
Record date for determining entitlements to the dividend	Ordinary Shares	22nd March 2022
Payment date of interim dividend	Ordinary Shares	14th April 2022

### 3. NET TANGIBLE ASSET BACKING PER ORDINARY SECURITY

	26 December 2021	27 December 2020
Net tangible asset backing per ordinary security <sup>1</sup>	-47 cents	-16 cents

1. The net tangible asset backing includes the Right-of-use assets as per AASB 16.

# ADAIRES LIMITED

## APPENDIX 4D

### **4. ENTITIES OVER WHICH CONTROL HAS BEEN GAINED OR LOST DURING THE PERIOD**

During the period, Adairs Limited acquired all of the shares in Refocus Furniture Pty Ltd (trading as “Focus on Furniture”) for a total consideration of \$81.3 million. The acquisition was funded through a combination of new and existing facilities and placement of ordinary shares in Adairs Limited.

### **5. DIVIDEND**

An interim dividend of 8.0 cents per share has been declared by the board. The record date for the interim dividend is 22 March 2022, with payment on 14 April 2022.

### **6. DIVIDEND REINVESTMENT PLAN**

The company’s dividend reinvestment plan (DRP) has been activated and will operate for the interim dividend payable on 14 April 2022. Eligible shareholders may participate in the DRP in respect of all or part of their shareholding. The last date for receipt of election notices for the DRP is 23 March 2022. The Company intends to issue new shares to satisfy its obligations under the DRP.

There is currently a 1.5% DRP discount applied to the dividend and no limit on the number of shares that can participate in the DRP. Shares will be allocated to shareholders under the DRP for the 2022 interim dividend at an amount equal to the average of the daily volume weighted average market price of ordinary shares of Adairs Limited traded over the period of 5 trading days commencing on 24 March 2022, less the 1.5% discount.

### **7. DETAILS OF ASSOCIATE AND JOINT VENTURES**

Please refer to the Annual Financial Report for the 52 weeks ended 27 June 2021, Note 24 of the consolidated financial statements.

### **8. FOREIGN ENTITIES**

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

A photograph of a bedroom featuring a large bed with a tufted headboard, dark bedding, and a beige throw blanket. To the left, a large vase holds a branch with pink blossoms and greenery. The room is filled with light from a large window with a grid pattern. The Adairs logo is overlaid at the top.

adairs

**INTERIM CONDENSED FINANCIAL REPORT**  
FOR THE 26 WEEKS ENDED  
26 DECEMBER 2021

## ABOUT ADAIRS LIMITED

Adairs Limited is Australia's largest omni channel specialty retailer of home furnishings, home furniture and home decoration products. We own and operate three vertically integrated brands in the Home category - Adairs, Mocka and Focus on Furniture. All brands 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)

### ABOUT FOCUS ON FURNITURE

Focus on Furniture ("Focus") is a vertically integrated omni-channel furniture and bedding retailer offering well designed, functional and on-trend products at great value for money through its network of stores in Australia and its online channel. Focus is characterised by its attention to customer service, support, product quality and range.

For further information visit [www.focusonfurniture.com.au](http://www.focusonfurniture.com.au)





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# DIRECTORS' REPORT

Your directors submit their report on the consolidated entity, being Adairs Limited ("the Company" or "the Group") and its subsidiaries, for the 26 weeks ended 26 December 2021.

## DIRECTORS

The names of the Company's directors in office during the 26 weeks ended 26 December 2021 and until the date of this report are set out below. Directors were in office for this entire period unless otherwise stated.

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

## PRINCIPAL ACTIVITIES

For the 26 weeks ended 26 December 2021, and in all referenced corresponding periods, Adairs Limited has operated as an omni channel specialty retailer of home furnishings, home furniture and home decoration products within Australia and New Zealand. The Group's principal place of business is 2 International Court, Scoresby, Victoria, Australia.

## DIVIDENDS

On 21 February 2022, the Directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 26 weeks ended 26 December 2021. The total amount of the dividend is \$13.671 million which represents a fully franked dividend of \$0.08 per share. The dividend has not been provided for in the 26 December 2021 interim condensed financial report.

	Cents	\$000
Interim dividends recommended:	8.00	13,671

## OPERATING AND FINANCIAL REVIEW

The COVID-19 pandemic continued to significantly impact the Group's operations and its financial performance. During the half government mandated store closures reduced the Group's overall number of store trading days by approximately 31%. Online sales remained strong however such that revenue for the 26 weeks ended 26 December 2021 was \$241,752,000, down just 0.5% on the comparative period of \$242,990,000.

The Group delivered profit after income tax for the 26 weeks ended 26 December 2021 of \$17,596,000, a decrease of \$26,269,000 from the comparative period of \$43,865,000. Underlying earnings before interest, tax and depreciation ("EBIT") was \$30,048,000 for the 26 weeks ended 26 December 2021 which is reconciled to statutory EBIT as follows (with comparatives):

	26 weeks ended 26 Dec 2021 \$'000 (Unaudited)	26 weeks ended 27 Dec 2020 \$'000 (Unaudited)
<b>Statutory profit before income tax</b>	<b>26,204</b>	<b>62,982</b>
Finance expenses	3,054	3,329
<b>Statutory EBIT (Non-IFRS)</b>	<b>29,258</b>	<b>66,311</b>
Costs associated with the acquisition of Mocka	858	1,254
Costs associated with the acquisition of Focus	1,072	-
Impact of AASB 16 Leases <sup>1</sup>	(1,327)	(1,767)
National Distribution Centre transition costs	3,040	487
Underlying EBIT contribution of Focus	(2,853)	-
<b>Underlying EBIT including JobKeeper (Non-IFRS)</b>	<b>30,048</b>	<b>66,285</b>
JobKeeper wage subsidy benefit	-	(6,090)
<b>Underlying EBIT excluding JobKeeper (Non-IFRS)</b>	<b>30,048</b>	<b>60,195</b>

1. The impact of AASB 16 Leases upon transition from the former AASB 17 Leases resulted in an earnings shift in the interim consolidated statement of profit or loss from Occupancy expenses under AASB 17 to Depreciation and amortisation expenses and Finance expenses under AASB 16.

## AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 370C of the Corporations Act 2001 is set out on page 6.

## SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

On 25 November 2021, the Group announced the acquisition of Focus on Furniture, a profitable vertically integrated omni-channel furniture designer and retailer operating in Australia. Strategically the acquisition increases the Group's exposure to the bulky furniture category with clear growth opportunities for the brand across store roll out, online growth and category/range expansion. There were no other material changes in the state of affairs of the business during the 26 weeks ended 26 December 2021.

## MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL PERIOD

In February 2022, as part of the 2022 tranche, an additional 175,000 share options were granted to other employees of the Group under the EIP for nil consideration. The terms of the options are outlined in Note 14.

On 21 February 2022, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is \$13.7 million which represents an interim franked dividend of 8.0 cents per share. The dividend has not been provided for in the 26 December 2021 interim condensed financial report.

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

## 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 period.

## ROUNDING

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

Signed in accordance with a resolution of the directors.

On behalf of the Board



**Brett Chenoweth**  
Independent Chairman  
Non-Executive Director

Melbourne  
21 February 2022



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

# INDEPENDENT AUDITOR'S REVIEW CONCLUSION



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## Independent auditor's review report to the members of Adairs Limited

### Conclusion

We have reviewed the accompanying half-year financial report of Adairs Limited (the Company) and its subsidiaries (collectively the Group), which comprises the interim statement of financial position as at 26 December 2021, interim statement of profit or loss, interim statement of other comprehensive income, interim statement of changes in equity and interim statement of cash flows for the 26 week period ended on that date, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration.

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of the Group does not comply with the Corporations Act 2001, including:

- a. Giving a true and fair view of the consolidated financial position of the Group as at 26 December 2021 and of its consolidated financial performance for the 26-week period ended on that date; and
- b. Complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

### Basis for conclusion

We conducted our review in accordance with ASRE 2410 Review of a Financial Report Performed by the Independent Auditor of the Entity (ASRE 2410). Our responsibilities are further described in the Auditor's responsibilities for the review of the half-year 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 annual financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

### Directors' responsibilities for the half-year financial report

The directors of the Company are responsible for the preparation of the half-year financial report that gives a true and fair view in accordance with Australian Accounting Standards and the Corporations Act 2001 and for such internal control as the directors determine is necessary to enable the preparation of the half-year financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

### Auditor's responsibilities for the review of the half-year financial report

Our responsibility is to express a conclusion on the half-year financial report based on our review. ASRE 2410 requires us to conclude whether we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the Corporations Act 2001 including giving a true and fair view of the Group's financial position as at 26 December 2021 and its performance for the 26-week period ended on that date, and complying with Accounting Standard AASB 134 Interim Financial Reporting and the Corporations Regulations 2001.

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A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

A stylized, handwritten signature of 'Ernst &amp; Young' in black ink.

Ernst & Young

A handwritten signature of 'Tony Morse' in black ink.

Tony Morse  
Partner

Melbourne  
21 February 2022

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# AUDITOR'S INDEPENDENCE DECLARATION



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## Auditor's independence declaration to the directors of Adairs Limited

As lead auditor for the review of the half-year financial report of Adairs Limited for the 26 week period ended 26 December 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 review;
- (b) no contraventions of any applicable code of professional conduct in relation to the review; and
- (c) no non-audit services provided that contravene any applicable code of professional conduct in relation to the review.

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 &amp; Young'.

Ernst & Young

A handwritten signature in black ink that reads 'Tony Morse'.

Tony Morse  
Partner  
21 February 2022

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# DIRECTORS' DECLARATION

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

In the opinion of the directors:

- a. the financial statements and notes of Adairs Limited for the 26 weeks ended 26 December 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 26 December 2021 and of its performance for the 26 weeks ended on that date; and
  - ii. complying with Accounting Standard AASB 134 *Interim Financial Reporting and the Corporations Regulations 2001*;
- b. There are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

On behalf of the Board



**Brett Chenoweth**  
Independent Chairman  
Non-Executive Director



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

Melbourne  
21 February 2022

# INTERIM CONSOLIDATED STATEMENT OF PROFIT OR LOSS

for the 26 weeks ended 26 December 2021

	Note	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
Revenues from contracts with customers	4(a)	241,752	242,990
<b>REVENUES</b>		<b>241,752</b>	<b>242,990</b>
Cost of sales		(104,386)	(90,998)
<b>GROSS PROFIT</b>		<b>137,366</b>	<b>151,992</b>
Other income	4(b)	264	90
Depreciation and amortisation expenses	5(b)	(22,664)	(21,781)
Finance expenses	5(a)	(3,054)	(3,329)
Salaries and employee benefits expenses	5(c)	(49,635)	(41,700)
Occupancy expenses		(4,235)	(2,082)
Advertising expenses		(8,531)	(7,641)
Other expenses from ordinary activities	5(d)	(21,377)	(11,313)
Costs associated with the acquisition of subsidiaries		(1,930)	(1,254)
<b>PROFIT BEFORE INCOME TAX</b>		<b>26,204</b>	<b>62,982</b>
Income tax expense		(8,608)	(19,117)
<b>PROFIT FOR THE PERIOD</b>		<b>17,596</b>	<b>43,865</b>
<b>EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE PARENT</b>			
Basic earnings per share	15	10.4 cents	25.9 cents
Diluted earnings per share	15	10.0 cents	25.3 cents

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

# INTERIM CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 26 weeks ended 26 December 2021

Note	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
<b>PROFIT FOR THE PERIOD</b>	<b>17,596</b>	<b>43,865</b>
<b>OTHER COMPREHENSIVE INCOME</b>		
<i>Items that may be reclassified subsequently to profit and loss (net of tax):</i>		
Net movement on cash flow hedges	4,808	(7,800)
Income tax relating to the components of other comprehensive income	(1,442)	2,341
Exchange differences on translation of foreign operations	(80)	(111)
<b>Other comprehensive income for the period, net of tax</b>	<b>3,286</b>	<b>(5,570)</b>
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>20,882</b>	<b>38,295</b>

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

# INTERIM CONSOLIDATED STATEMENT OF FINANCIAL POSITION

as at 26 December 2021

	Note	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
<b>ASSETS</b>			
CURRENT ASSETS			
Cash and cash equivalents	9	29,122	25,970
Trade and other receivables		3,042	2,276
Inventories	10	100,155	67,996
Other assets		11,787	10,143
Derivative financial instruments		4,259	-
<b>TOTAL CURRENT ASSETS</b>		<b>148,365</b>	<b>106,385</b>
NON-CURRENT ASSETS			
Property, plant and equipment		22,257	21,168
Intangibles	7	277,525	197,340
Right-of-use assets		158,167	89,579
Derivative financial instruments		398	357
<b>TOTAL NON-CURRENT ASSETS</b>		<b>458,347</b>	<b>308,444</b>
<b>TOTAL ASSETS</b>		<b>606,712</b>	<b>414,829</b>
<b>LIABILITIES</b>			
CURRENT LIABILITIES			
Trade and other payables		52,253	43,811
Other liabilities	11	29,383	15,034
Earn-out liabilities		200	44,726
Lease liabilities		45,908	33,473
Current tax liabilities		12,460	14,453
Provisions		10,853	7,785
Derivative financial instruments		-	507
<b>TOTAL CURRENT LIABILITIES</b>		<b>151,057</b>	<b>159,789</b>
NON-CURRENT LIABILITIES			
Other liabilities	11	1,405	1,460
Earn-out liabilities		612	1,012
Deferred tax liabilities		21,199	11,037
Borrowings	12	118,758	-
Lease liabilities		130,735	73,721
Provisions		6,531	3,150
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>279,240</b>	<b>90,380</b>
<b>TOTAL LIABILITIES</b>		<b>430,297</b>	<b>250,169</b>
<b>NET ASSETS</b>		<b>176,415</b>	<b>164,660</b>
<b>EQUITY</b>			
Contributed equity		80,030	73,823
Share based payment reserve		3,604	2,030
Cash flow hedge reserve		3,260	(106)
Foreign currency translation reserve		(181)	(101)
Retained earnings		89,702	89,014
<b>TOTAL EQUITY</b>		<b>176,415</b>	<b>164,660</b>

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

# INTERIM CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

for the 26 weeks ended 26 December 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 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>
Profit for the period		-	-	-	-	17,596	17,596
Other comprehensive income		-	-	3,366	(80)	-	3,286
<b>Total comprehensive income for the period</b>		-	-	3,366	(80)	17,596	20,882
Dividend payment	6	-	-	-	-	(16,908)	(16,908)
Exercise of share options		207	-	-	-	-	207
Share based payments	14	-	1,574	-	-	-	1,574
Issued shares	8	6,000	-	-	-	-	6,000
<b>At 26 December 2021</b>		<b>80,030</b>	<b>3,604</b>	<b>3,260</b>	<b>(181)</b>	<b>89,702</b>	<b>176,415</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 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		-	-	-	-	43,865	43,865
Other comprehensive income		-	-	(5,459)	(111)	-	(5,570)
<b>Total comprehensive income for the period</b>		-	-	<b>(5,459)</b>	<b>(111)</b>	<b>43,865</b>	<b>38,295</b>
Dividend payment	6	-	-	-	-	(18,598)	(18,598)
Share based payments	14	-	302	-	-	-	302
<b>At 27 December 2020</b>		<b>74,098</b>	<b>591</b>	<b>(4,927)</b>	<b>(309)</b>	<b>91,117</b>	<b>160,570</b>

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

# INTERIM CONSOLIDATED STATEMENT OF CASH FLOWS

for the 26 weeks ended 26 December 2021

	Note	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
<b>OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		268,636	272,272
Payments to suppliers and employees (inclusive of GST)		(224,135)	(204,677)
Interest received		4	21
Income tax paid		(10,950)	(16,852)
Government grants received		-	14,898
Interest paid		(2,718)	(2,687)
Net cash flows from operating activities		30,837	62,975
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangibles		(5,324)	(3,560)
Payment of Mocka earn-out liability		(45,731)	-
Payment for the acquisition of Focus, net of cash acquired	8	(61,497)	-
Net cash flows used in investing activities		(112,552)	(3,560)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(16,908)	(18,598)
Receipt from exercise of share options		207	-
Repayment of borrowings		(30,000)	(32,000)
Proceeds from borrowings		150,000	6,000
Payment of borrowing costs		(820)	-
Payment of principal portion of lease liabilities		(17,537)	(16,503)
Net cash flows from/(used in) financing activities		84,942	(61,101)
Net decrease in cash and cash equivalents		3,227	(1,686)
Net foreign exchange difference		(75)	(113)
Cash and cash equivalents at beginning of the period		25,970	23,922
<b>CASH AND CASH EQUIVALENTS AT THE END OF THE PERIOD</b>	<b>9</b>	<b>29,122</b>	<b>22,123</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 26 weeks ended 26 December 2021

## NOTE 1. CORPORATE INFORMATION

The interim condensed financial report of Adairs Limited and its subsidiaries (collectively, "the Group") for the 26 weeks ended 26 December 2021 were authorised for issue in accordance with a resolution of the directors on 21 February 2022.

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.

During the 26 weeks ended 26 December 2021 and the comparative period, the Group is an omni channel specialty retailer of home furnishings, home furniture and home decoration products within Australia and New Zealand. The Group's principal place of business is International Court, Scoresby, Victoria, Australia.

## NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### a. Basis of Preparation

The interim condensed financial report for the 26 weeks ended 26 December 2021 has been prepared in accordance with AASB 134 *Interim Financial Reporting* and the *Corporations Act 2001*.

This interim condensed financial report does not include all notes of the type normally included within the annual financial report and therefore cannot be expected to provide a full understanding of the financial performance, financial position and financing and investing activities of the consolidated entity as the full financial report.

It is recommended that the interim condensed financial report be read in conjunction with the annual report for the 52 weeks ended 27 June 2021.

The interim condensed 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.

Certain classifications have been made in the interim condensed financial report to ensure that prior year comparative information conforms to the current year presentations.

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

### b. New standards, interpretations and amendments adopted by the Group

The accounting policies adopted in the preparation of the interim condensed financial report are consistent with those followed in the preparation of the Group's annual consolidated financial report for the 52 weeks ended 27 June 2021, except for the adoption of new standards effective for the Group from 28 June 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

## NOTE 3. SEGMENT REPORTING

For management purposes, the Group is organised into business units which form three reportable segments, being Adairs, Mocka and Focus. Prior to the acquisition of Focus on 1 December 2021, the Group operated 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 when aggregated, forms two reportable operating segments.

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 3. SEGMENT REPORTING *continued*

The following tables present revenue and profit before tax information for the Group's operating segments for the 26 weeks ended 26 December 2021:

	Adairs \$'000	Mocka \$'000	Focus \$'000	Consolidated \$'000
<b>26 weeks ended 26 December 2021</b>				
<i>Revenue</i>				
External customer	194,922	34,341	12,489	241,752
Inter-segment	-	-	-	-
<b>Total revenue</b>	<b>194,922</b>	<b>34,341</b>	<b>12,489</b>	<b>241,752</b>
<b>Income/(expenses)</b>				
Cost of sales	(76,325)	(21,178)	(6,883)	(104,386)
Other income	134	15	115	264
Depreciation and amortisation expenses	(20,948)	(655)	(1,061)	(22,664)
Salaries and employee benefits expense	(45,129)	(3,083)	(1,423)	(49,635)
Occupancy expenses	(4,020)	(189)	(26)	(4,235)
Advertising expenses	(6,751)	(1,612)	(168)	(8,531)
Other expenses from ordinary activities	(19,240)	(1,880)	(257)	(21,377)
Costs associated with the acquisition of subsidiaries	(1,930)	-	-	(1,930)
<b>Earnings before interest and tax</b>	<b>20,713</b>	<b>5,759</b>	<b>2,786</b>	<b>29,258</b>
Finance expenses	(2,795)	(53)	(206)	(3,054)
<b>Profit before tax</b>	<b>17,918</b>	<b>5,706</b>	<b>2,580</b>	<b>26,204</b>
<b>As at 26 December 2021</b>				
<b>Total assets</b>	<b>477,323</b>	<b>32,445</b>	<b>96,944</b>	<b>606,712</b>
<b>Total liabilities</b>	<b>326,302</b>	<b>8,686</b>	<b>95,309</b>	<b>430,297</b>

Note: Focus was acquired by Adairs on 1 December 2021. The results of Focus are for the 26 days ended 26 December 2021.

	<b>Adairs \$'000</b>	<b>Mocka \$'000</b>	<b>Consolidated \$'000</b>
<b>26 weeks ended 27 December 2020</b>			
<i>Revenue</i>			
External customer	215,033	27,957	242,990
Inter-segment	-	-	-
<b>Total revenue</b>	<b>215,033</b>	<b>27,957</b>	<b>242,990</b>
<b>Income/(expenses)</b>			
Cost of sales	(74,880)	(16,118)	(90,998)
Other income	88	2	90
Depreciation and amortisation expenses	(21,274)	(507)	(21,781)
Salaries and employee benefits expense	(39,685)	(2,015)	(41,700)
Occupancy expenses	(1,950)	(132)	(2,082)
Advertising expenses	(6,768)	(873)	(7,641)
Other expenses from ordinary activities	(9,994)	(1,319)	(11,313)
Costs associated with the acquisition of Mocka	(1,254)	-	(1,254)
<b>Earnings before interest and tax</b>	<b>59,316</b>	<b>6,995</b>	<b>66,311</b>
Finance expenses	(3,278)	(51)	(3,329)
<b>Profit before tax</b>	<b>56,038</b>	<b>6,944</b>	<b>62,982</b>
<b>As at 27 December 2020</b>			
<b>Total assets</b>	<b>379,486</b>	<b>34,353</b>	<b>414,829</b>
<b>Total liabilities</b>	<b>241,133</b>	<b>9,036</b>	<b>250,169</b>

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 26 weeks ended 26 December 2021, being Australia and New Zealand.

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 4. REVENUES

	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 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:		
<b>Types of goods and services</b>		
Sale of goods and services - stores	143,028	152,786
Sale of goods and services - online	98,724	90,204
<b>Total revenue from contracts with customers</b>	<b>241,752</b>	<b>242,990</b>
	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
<b>b. Other Income</b>		
Interest income	4	21
Other	260	69
	264	90

## NOTE 5. EXPENSES

	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
<b>a. Finance expenses</b>		
Interest on borrowings and other finance costs	983	774
Interest on lease liabilities	2,071	2,044
Discount expense on earn-out liabilities	-	511
	3,054	3,329
<b>b. Depreciation and amortisation expenses</b>		
Depreciation of property, plant and equipment	3,776	4,199
Depreciation of right-of-use assets	18,398	16,800
Amortisation of computer software	490	782
	22,664	21,781
<b>c. Salaries and employee benefits expense</b>		
Wages and salaries	45,298	44,183
Government grant income - wage subsidies	-	(6,090)
Defined contribution superannuation expense	3,473	3,305
Share based payment expense	864	302
	49,635	41,700
<b>d. Other expense</b>		
Credit card and merchant fees	2,767	2,739
Professional fees	2,024	984
Third party logistics and other storage costs	8,621	1,626
Packaging and consumables	599	1,103
Other	7,366	4,861
	21,377	11,313

## NOTE 6. DIVIDENDS PAID AND PROPOSED

	26 weeks ended 26 Dec 2021 \$'000	26 weeks ended 27 Dec 2020 \$'000
<b>Dividends on ordinary shares declared and paid:</b>		
Final dividend for 2021: 10.0 cents per share (2020: 11.0 cents)	16,908	18,598
<b>Proposed dividends on ordinary shares:</b>		
Interim cash dividend for 2022: 8.0 cents per share (2021: 13.0 cents)	13,671	21,980

The proposed interim dividend for the 26 weeks ended 26 December 2021 has not been provided for in the financial results as at 26 December 2021 as it had not been declared.

## NOTE 7. IMPAIRMENT TESTING

### Intangible assets – goodwill and brand names

After initial recognition, goodwill and indefinite-life brand names acquired in a business combination are measured at cost less any accumulated impairment losses. Goodwill and brand names are not amortised but are subject to impairment testing on an annual basis or whenever there is an indication of impairment. Goodwill and brand names (other than those associated with the acquisition of Focus) were subject to a full annual impairment test as at 27 June 2021. A review of indicators of impairment relating to all goodwill and brand names was performed as at 26 December 2021. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 26 December 2021. The annual financial report for the 52 weeks ended 27 June 2021 details the most recent annual impairment tests undertaken for both brand names and goodwill. The Group's impairment tests for goodwill and brand names are based on value-in-use calculations. The key assumptions used to determine the recoverable amounts for the cash-generating units to which brand names and goodwill relate are disclosed in the annual financial report.

### Property, plant and equipment

A review of indicators of impairment relating to property, plant and equipment was performed as at 26 December 2021. As a result of this review, no indicators of impairment were identified that would require a full impairment test to be performed as at 26 December 2021.

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 8. BUSINESS COMBINATIONS

On 1 December 2021, the Group acquired all of the shares of ReFocus Furniture Pty Ltd ("Focus"), a furniture and bedding retailer offering well designed, functional and on-trend products through its network of stores in Australia and its online channel. The acquisition has been accounted for using the acquisition method. The interim condensed consolidated financial statements include the results of Focus for the 26 day period from the acquisition date 1 December 2021.

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

	<b>Provisional fair value recognised on acquisition \$'000</b>
<b>ASSETS</b>	
Cash and cash equivalents	12,503
Trade and other receivables	250
Inventories	18,015
Current tax receivables	1,048
Derivative financial instruments	275
Other assets	1,663
Property, plant and equipment	1,786
Intangibles - brand	36,984
Right-of-use assets	64,511
<b>Total assets</b>	<b>137,035</b>
<b>LIABILITIES</b>	
Trade and other payables	8,632
Other liabilities	11,584
Provisions	2,283
Lease liabilities	64,511
Deferred tax liabilities	10,196
<b>Total liabilities</b>	<b>97,206</b>
<b>Total identifiable net assets at fair value</b>	<b>39,829</b>
Goodwill arising on acquisition	41,436
<b>Purchase consideration transferred</b>	<b>81,265</b>
<i>Purchase consideration</i>	
Cash - settled	74,000
Cash - unsettled	1,265
Shares issued	6,000
<b>Purchase consideration transferred</b>	<b>81,265</b>
<i>Cash flow on acquisition</i>	
Net cash acquired with the subsidiary	12,503
Cash paid	(74,000)
<b>Payment for the acquisition, net of cash acquired</b>	<b>(61,497)</b>

The net assets recognised above are based on a provisional assessment of their fair value. The fair valuations had not been completed by the date of the interim condensed financial report for 26 weeks ended 26 December 2021. Transaction costs of \$1,072,000 have been expensed and are included in Costs associated with the acquisition of subsidiaries in the statement of profit or loss and are part of the operating cash flows in the statement of cash flows.

From the date of acquisition, Focus contributed \$12,489,000 of revenue and \$2,580,000 of profit before tax from continuing operations of the Group.

The Group issued 1,709,402 ordinary shares in the Company as part of the purchase consideration for Focus. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was \$3.51 per share. The fair value of the consideration given was therefore \$6,000,000.

## Significant judgements and estimates

### *Measurement of brand names acquired in a business combination*

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

### *Business combination provisional accounting*

Provisional accounting is applied by the Group to account for business combinations when the initial accounting is incomplete at the end of the reporting period. The Group has 12 months from the acquisition date to finalise its provisional accounting. By its nature provisional accounting involves estimates and judgements based on the information available to the Group at the end of the reporting period, while it continues to seek information about facts and circumstances that existed as of the acquisition date.

## NOTE 9. CASH AND CASH EQUIVALENTS

	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
Cash at bank*	29,022	25,882
Cash on hand	100	88
<b>Total cash and cash equivalents</b>	<b>29,122</b>	<b>25,970</b>

\* The Group holds short-term deposits (within 3 months to maturity) for the purpose of guaranteeing lease arrangements related to Focus. As at 26 December 2021 these amounted to \$3,023,000 (2020: nil).

## NOTE 10. INVENTORIES

	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
Stock on hand at lower of cost and net realisable value	80,643	58,125
Stock in transit at cost	19,512	9,871
<b>Total inventories</b>	<b>100,155</b>	<b>67,996</b>

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 11. OTHER LIABILITIES

	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
<i>Current other liabilities</i>		
Undelivered customer orders and deposits	14,266	2,971
Other liabilities	15,117	12,063
<b>Total current other liabilities</b>	<b>29,383</b>	<b>15,034</b>
<i>Non-current other liabilities</i>		
Other liabilities	1,405	1,460
<b>Total non-current other liabilities</b>	<b>1,405</b>	<b>1,460</b>
Current	29,383	15,034
Non-current	1,405	1,460
<b>Total other liabilities</b>	<b>30,788</b>	<b>16,494</b>

Undelivered customer orders and deposits represent amounts received from customers for orders not yet completed. Deposits received from customers are recognised as revenue at the point of delivery of the goods to the customer.

Other liabilities include deferred revenue with respect to the Linen Lover membership program, unredeemed gift cards, 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.

## NOTE 12. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
<i>Non-current</i>				
Bank Loan - Facility A	BBSW + 1.85	31 Jul 2023	75,000	-
Bank Loan - Facility D	BBSW + 1.85	3 Jan 2025	45,000	-
Principal outstanding borrowings			120,000	-
Capitalised borrowing costs			(1,242)	-
<b>Total non-current</b>			<b>118,758</b>	<b>-</b>
<i>Current</i>				
Non-current			118,758	-
<b>Total interest-bearing loans and borrowings</b>			<b>118,758</b>	<b>-</b>

	As at 26 Dec 2021 \$'000	As at 27 June 2021 \$'000
<i>(a) Financing facilities available</i>		
At reporting date, the following non-shareholder financing facilities had been in place with the bank and were available:		
Term debt facilities available at the reporting date:	135,000	90,000
Term debt facilities used at the reporting date:	(120,000)	-
Other multi option facilities available at the reporting date:	9,700	6,500
Other multi option used at the reporting date*:	(3,845)	(837)
<b>Facilities unused at the reporting date:</b>	<b>20,855</b>	<b>95,663</b>

\* The amount of used multi option facilities of \$3,845,000 (June 2021: \$837,000) represents bank guarantees.

In November 2021, the Group refinanced its bank facility to include Facility D of \$45,000,000. Term debt facilities of \$135,000,000 are available until their respective maturities with the multi option facilities of \$9,700,000 subject to an annual review.

Focus has a bank guarantee facility of \$3,200,000 that was included in the acquisition during the 26 weeks ended 26 December 2021.

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 13. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

### 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 currency contracts to purchase USD. These 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.

### Fair value of financial assets and liabilities

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

For assets and liabilities that are recognised 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.

The fair value of forward currency contracts is measured at fair value using the Level 2 method. Forward currency contracts are measured based on observable spot exchange rates, the yield curves of the USD as well as the currency basis spread between the currencies.

Set out below is a comparison, by class, of the carrying amounts and fair value of the Group's financial instruments:

	As at 26 December 2021		As at 27 June 2021	
	Carrying Amount \$'000	Fair Value \$'000	Carrying Amount \$'000	Fair Value \$'000
<i>Financial assets</i>				
Forward exchange contracts	4,657	4,657	-	-
	<b>4,657</b>	<b>4,657</b>	-	-
<i>Financial liabilities</i>				
Forward exchange contracts	-	-	(150)	(150)
Earn-out liabilities	(812)	(812)	(45,738)	(45,738)
Bank Loans	(118,758)	(118,758)	-	-
	<b>(119,570)</b>	<b>(119,570)</b>	<b>(45,888)</b>	<b>(45,888)</b>

## NOTE 14. SHARE-BASED PAYMENTS

In addition to those disclosed at 27 June 2021, the following share options were granted to senior executives (“the participants”) under the Equity Incentive Plan (“EIP”) during the 26 weeks ended 26 December 2021.

### 2022 Tranche

In October 2021, 3,575,000 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 29 June 2025. There are two separate Performance conditions:

- › 50% of the options are subject to an earnings per share (EPS) compound annual growth rate (CAGR) performance condition over a period of three financial years. The options vest if the EPS CAGR increases by 8% within three years from the grant date on a pro-rated basis from 0 - 8%.
- › 50% of the options are subject to a total shareholder return (TSR) over a period of approximately three years. The options vest if the TSR CAGR is greater than 15% within three years from grant date and on a pro-rated basis from 8% - 15%.

If these respective conditions are not met, the options will lapse immediately. The contractual life of each option granted is six years.

The fair value of share options granted was estimated at the grant date by taking into account the terms and conditions upon which the options were granted and applying the following assumptions:

	<b>2022 Tranche - EPS component</b>	<b>2022 Tranche - TSR component</b>
Share option pricing model	Black-Scholes	Monte Carlo
Dividend yield	6.00%	6.00%
Expected volatility	50.00%	50.00%
Risk-free interest rate	1.35%	1.35%
Expected life of share options	4.80 years	4.80 years
Exercise share price	\$3.95	\$3.95
<b>Fair value of share options at grant date (per share option)</b>	<b>\$0.96</b>	<b>\$0.80</b>

In December 2021, 785,000 share options were granted to other employees of the Group under the EIP for nil consideration. The fair value of the options granted was \$0.90 per option. 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 1 September 2023. The Performance condition is subject to an EBIT performance condition. If these conditions are not met, the options will lapse immediately.

The weighted average fair value of the share options granted during the 26 weeks ended 26 December 2021 was \$0.88 (26 weeks ended 27 December 2020: \$0.90).

The weighted average remaining contractual life of share options outstanding as at 26 December 2021 was 4.3 years (27 June 2021: 4.1 years).

For the 26 weeks ended 26 December 2021, the Group has recognised \$1,574,000 of share-based payment expense in the consolidated income statement (26 weeks ended 27 December 2020: \$302,000), including \$709,000 included within Costs associated with the acquisition of subsidiaries.

# NOTES TO THE FINANCIAL STATEMENTS

for the 26 weeks ended 26 December 2021

## NOTE 15. EARNINGS PER SHARE

Basic earnings per share ("EPS") amounts are calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by the weighted average number of ordinary shares outstanding during the period.

Diluted earnings per share is calculated by dividing the net profit for the year attributable to ordinary equity holders of the Parent by weighted average number of ordinary shares outstanding during the period, adjusted for dilutive potential ordinary shares.

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

	<b>26 weeks ended 26 Dec 2021 \$'000</b>	<b>26 weeks ended 27 Dec 2020 \$'000</b>
<b>Profit for the year attributable to ordinary equity holders of the Parent</b>	<b>17,596</b>	<b>43,865</b>
	<b>As at 26 Dec 2021 \$'000</b>	<b>As at 27 Dec 2020 \$'000</b>
Weighted average number of ordinary shares for basic EPS	169,334	169,077
<i>Effect of dilution:</i>		
Share options	6,888	4,478
<b>Weighted average number of ordinary shares adjusted for the effect of dilution</b>	<b>176,222</b>	<b>173,555</b>

## NOTE 16. EVENTS AFTER THE BALANCE SHEET DATE

In February 2022, as part of the 2022 tranche, an additional 175,000 share options were granted to other employees of the Group under the EIP for nil consideration. The terms of the options are outlined in Note 14.

On 21 February 2022, the directors of Adairs Limited declared an interim dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is \$13.7 million which represents an interim franked dividend of 8.0 cents per share. The dividend has not been provided for in the 26 December 2021 interim condensed financial report.

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

# CORPORATE INFORMATION

## **Adairs Limited**

ABN 50 147 375 451

## **Directors**

Brett Chenoweth

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Simon West

## **Company Secretary**

Fay Hatzis

## **Registered office**

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## **Principal place of business**

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## **Share register**

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## **Auditors**

Ernst & Young

## **Solicitors**

Herbert Smith Freehills

adairs