adairs

Adairs Limited

APPENDIX 4E

PRELIMINARY FINAL REPORT

52 weeks ending 26 June 2022

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

Current Period: 28 June 2021 to 26 June 2022 (52 weeks)

Prior corresponding period: 29 June 2020 to 27 June 2021 (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	12.9%	564,476
Profit after tax from continuing operations attributable to members	(Decrease)	(29.6%)	44,890
Net profit after tax for the period attributable to members	(Decrease)	(29.6%)	44,890

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) Focus and Mocka related transaction costs (including earn-out related adjustments). The underlying FY21 financial results were calculated on a comparative basis.

Underlying comparison to previous corresponding period	Increase/ (Decrease)	Change %	$'000
Revenue from continuing operations	Increase	12.9%	564,476
Profit after tax from continuing operations attributable to members	(Decrease)	(31.5%)	51,629
Net profit after tax for the period attributable to members	(Decrease)	(31.5%)	51,629

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
2022 Interim dividend	8.0 cents	8.0 cents
2022 Final dividend (resolved, not yet provided for at 26 June 2022)	10.0 cents	10.0 cents

Record date for determining entitlements to the dividend:	6 September 2022
Payment date of Final dividend	22 September 2022

Brief explanation of the figures reported above

The figures above represent the statutory results of the company and the underlying results of the company, 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.

APPENDIX 4E *continued*

3. INCOME STATEMENT

Please refer to the attached financial statements for the 52 weeks ended 26 June 2022.

4. BALANCE SHEET

Please refer to the attached financial statements as at 26 June 2022.

5. CASH FLOW STATEMENT

Please refer to the attached financial statements for the 52 weeks ended 26 June 2022.

6. DIVIDEND DETAILS

Please refer to Note 26 of the attached financial statements for details of dividends paid in the financial year ended 26 June 2022.

7. DIVIDEND OR DISTRIBUTION REINVESTMENT PLAN DETAILS

The Company's dividend reinvestment plan (DRP) continues to be available to eligible shareholders. The last date for receipt of election notices for participation in the final dividend under the DRP is 7 September 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 based on 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 8 September 2022, less the 1.5% discount.

8. STATEMENT OF CHANGES IN EQUITY

Please refer to the attached financial statements for the 52 weeks ended 26 June 2022.

9. NET TANGIBLE ASSET BACKING PER ORDINARY SECURITY AS AT 26 JUNE 2022

	Current Period	**Previous corresponding period**
Net tangible asset backing per ordinary security	($0.33)	($0.13)

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

During the period, Adairs 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.

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 2.6

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 financial report.

15. AUDITED REPORT

The report should be read in conjunction with the attached audited financial statements for the 52 weeks ended 26 June 2022. The audit opinion is unqualified.

ANNUAL REPORT 2022

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2022 ANNUAL GENERAL MEETING

Notice is hereby given that the 2022 Annual General Meeting of members of Adairs Limited will be held at the Hyatt Centric Melbourne, 25 Downie Street, Melbourne on Friday, 21 October 2022 at 11.00 AM (Melbourne time).

Full details will be provided to all shareholders in the Notice of Meeting.

ABOUT ADAIRS LIMITED

Adairs Limited is Australia's largest omni-channel specialty retailer of home furnishings, home furniture and home decoration products with three vertically integrated brands – 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.

ABOUT ADAIRS

Adairs is a leading specialty omni-channel 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. Adairs strategy is to present customers with a differentiated proposition, which combines on-trend fashion products, quality staples, strong value and superior customer service.

For further information visit **www.adairs.com.au**

ABOUT MOCKA

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

For further information visit **www.mocka.com.au**

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**

PERFORMANCE HIGHLIGHTS

GROUP SALES +12.9%

Record $564.5m following Focus on Furniture acquisition

ONLINE SALES 35% OF TOTAL GROUP SALES

Approaching **$200m Annually**

UNDERLYING GROUP GROSS MARGIN 59.6%

Impacted by higher contribution from Mocka and Focus on Furniture at lower gross margins

UNDERLYING GROUP EBIT OF $76.4m

Impacted by COVID disruptions

ACQUISITION OF FOCUS ON FURNITURE

EBIT contribution of **$17.2m** for 7 months of ownership

THE 2022 FINANCIAL YEAR SAW THE GROUP ACHIEVE ANOTHER STRONG SALES RESULT INCLUDING A RECORD LEVEL OF ONLINE SALES

ADAIRS NATIONAL DISTRIBUTION CENTRE

Operational from **September 2021**

ADAIRS LINEN LOVER MEMBERSHIP

Over 1 million paying members at June 2022

OPTIMISATION OF ADAIRS' STORE PORTFOLIO

4 new stores and 11 upsized stores delivered a **7% increase** in store floorspace

AS WE GROW WE NEED TO MAKE SURE THAT WE CONTINUE TO MANAGE OUR IMPACT ON THE ENVIRONMENT AND THE COMMUNITIES WE SERVE

CHAIRMAN'S REPORT

Dear Shareholder,

I am pleased to present the 2022 Annual Report of Adairs Limited (the "Company") and its subsidiaries (the "Group").

STRONG SALES IN A CHALLENGING YEAR

The 2022 financial year saw the Group achieve another strong sales result including a record level of online sales. It is a testament to the health and resilience of the Group that these outcomes were achieved despite significant Government-mandated store closures in the first half of the year and before including any sales from Focus on Furniture which was acquired in December 2021.

Our strong sales result was unfortunately offset by a number of factors, mostly related to COVID, which impacted our operations and added considerably to our cost base. The majority of these costs should not continue into future years, and the underlying business continues to perform well above its FY20 (pre-COVID) levels.

- Group sales of $564.5 million, up 12.9% on FY21 (up 45.1% on FY20)
- Group online sales up 4.5% to $195.4 million, contributing 34.6% of Group sales
- Underlying[1] Group EBIT of $76.4 million, down 30.0% on FY21 (up 38.2% on FY20)
- Statutory NPAT of $44.9 million delivering EPS of 26.4 cents
- Net debt[2] of $93.2 million following the acquisition of Focus on Furniture and the final payment to the Mocka founders during the year
- Final dividend of 10.0 cents per share fully franked (unchanged from FY21) and DRP remains active

In addition to the acquisition of Focus on Furniture, FY22 saw the commissioning of our National Distribution Centre and the launch of a number of important sustainability initiatives. Each of these initiatives will have an important role to play in delivering our future growth.

SUSTAINABILITY

This year sees the production of our first Sustainability Report, which forms part of this Annual Report and can be found on page 15. Going forward you will hear more from us on our sustainability strategy and initiatives, including how these are being integrated into our business and how they are impacting our decision making. Being sustainable is a constant journey. As Adairs grows we need to make sure that we continue to manage our impact on the environment and the communities we serve as well as meet evolving stakeholder expectations.

STRATEGIC INITIATIVES

In November 2021, Adairs announced the acquisition of Focus on Furniture, a highly profitable omni-channel furniture retailer operating in Australia. Strategically the acquisition increases the Group's exposure to the bulky furniture category (an $8.3 billion+ market) with clear growth opportunities for the brand through store roll-out, online growth and category/range expansion. Focus on Furniture has a complementary customer and product overlap with the Group's existing businesses and also provides opportunities to leverage skills and assets.

Construction of the National Distribution Centre (NDC) in Melbourne was completed in early August 2021, approximately 3 months later than originally planned due to COVID related construction delays and commenced operations a month later. While operational stability has been achieved it will take some time for all of the benefits and efficiencies to be delivered.

1 Underlying Group EBIT (unaudited) excludes the impact of (i) AASB 16, (ii) one-off costs associated with the transition to the new National Distribution Centre, and (iii) Focus and Mocka related acquisition costs (including earn-out related adjustments).
2 Net debt calculated as cash less borrowings

CHAIRMAN'S REPORT *continued*

The NDC is a key component of our integrated omni-channel strategy to enable customers to shop the Adairs brand how, where and when they choose, with the capacity and flexibility to support our business growth over the long term.

MOCKA

Mocka had a more challenging year, primarily due to external factors which adversely impacted both sales and its cost base. These matters are covered in more detail in the Chief Executive Officer's report, however I wanted to reiterate that, while FY23 is likely to be a year of consolidation for the business, the Board and management team remain excited by the opportunity for Mocka to deliver significant growth in shareholder value over time.

BALANCE SHEET AND DIVIDEND

After funding the Focus on Furniture acquisition and the final Mocka earn-out payments, the Group ended the year with net debt of $93.2 million. Whilst high in a historical context, this is expected to come down steadily over the next few years given our strong cash generation and we remain comfortably within our banking covenants with sufficient head room to accommodate adverse changes in the general macro environment or business performance.

The Board has declared a final fully franked dividend of 10.0 cents per share taking the total dividend payout for the year to 18.0 cents per share which represents a payout ratio of 68.6% of reported NPAT. In setting the dividend the Board has been mindful of current market conditions and its desire to reduce debt.

In response to shareholder feedback the dividend reinvestment plan (DRP) was activated in February 2022 and has operated for both FY22 dividends with DRP shares sourced from an issue of new shares by the Company.

OUTLOOK

The broader retail industry is facing a number of well publicised macro-economic headwinds that mean the medium-term outlook is less certain. The Board is confident that the Group remains well placed to navigate these challenges given its resilient business model, loyal customer base, large addressable market and proven management team. A more challenging retail environment also provides opportunities for category-leading companies such as Adairs to strengthen their market positioning through execution excellence.

OUR TEAM

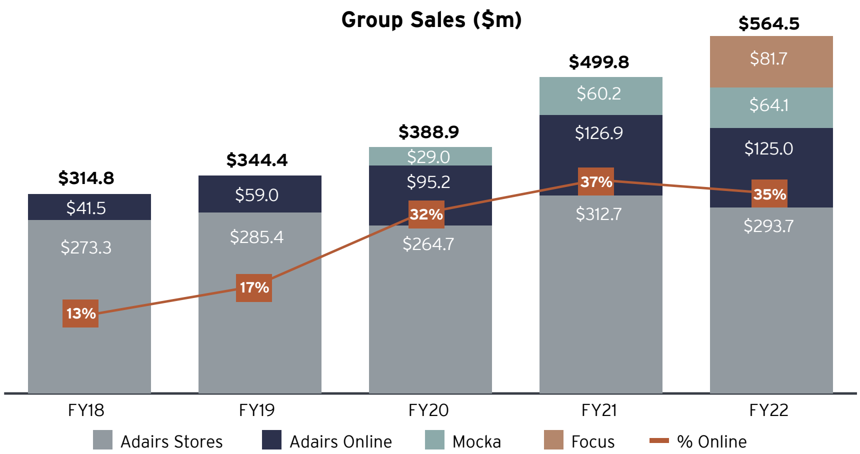
Finally, on behalf of the Board I would like to thank all team members across the Group for their passion and unwavering commitment to our business. Their focus on providing our customers with the very best retail experience is a key point of differentiation and underpins our continued success.

Brett Chenoweth
Chairman

MANAGING DIRECTOR & CEO'S REPORT

Dear Shareholder

I am pleased to report that FY22 delivered a record sales result for the Group with strong contributions from all three business units and a record level of Group online sales. This is despite the Adairs brand losing c16% of its total store trading days due to government mandated store closures. Adairs omni-channel model, strong product offering and engaged customer base meant that the sales impact of store closures on the business was significantly reduced.



Group revenue grew 12.9% to $564.5 million and on a like-for-like basis (removing the impact of store closures and the Focus acquisition) declined by 2.0% after the Group cycled the record result of FY21. Group online sales grew to $195.4 million ($187.0 million in FY21) and represents 34.6% of total sales.

Operationally FY22 brought significant COVID disruptions to the supply chain and DC operations of Adairs and Mocka which adversely impacted our overall financial results. Our cost of doing business increased significantly, with most of this increase related to COVID impacts that were one-off or short-term in nature.

Underlying Group EBIT[1] fell 30.0% to $76.4 million. While the decline was disappointing the causes are well understood and EBIT remains over 38.2% ahead of FY20 (Pre-COVID) levels. Adairs contributed $55.5 million of this EBIT result, Mocka $3.7 million and Focus on Furniture $17.2 million for its seven months of ownership.

1 Underlying Group EBIT (unaudited) excludes the impact of (i) AASB 16, (ii) one-off costs associated with the transition to the new National Distribution Centre, and (iii) Focus and Mocka related acquisition costs (including earn-out related adjustments).

FY22 DELIVERED A RECORD SALES RESULT FOR THE GROUP WITH STRONG CONTRIBUTIONS FROM ALL THREE BUSINESS UNITS

ADAIRS

The Adairs result for the year was significantly impacted by government mandated store closures which saw store sales fall 6.1% to $293.7 million. Management estimate that these store closures reduced sales by c.$35 million. Despite the store closures, Adairs' total sales for the year of $418.7 million remains 16.3% above FY20 levels, reflecting the underlying strength of the business with membership of the Linen Lovers loyalty program now exceeding one million customers and online sales of $125.0 million (31.2% higher than achieved in FY20). Linen Lovers members continue to account for over 80% of all sales.

As anticipated, Adairs' gross margin softened in FY22 against FY21, finishing at 63.2% due to increases in global supply chain costs, particularly sea freight, and a measured increase in promotional activity contributed. Higher delivery costs to online customers contributed to a 10.5% decline in gross profit.

Adairs' cost of doing business (CODB) was 8.3% higher than FY21 reflecting:

- Higher warehouse costs following the decision to retain one Adairs warehouse and slow down the transition to the single National Distribution Centre whilst COVID uncertainty was disrupting warehouse and supply chain operations;
- Lower levels of COVID-19 rent rebates in FY22 with rent rebates for store closure periods continuing to be negotiated with landlords;
- Higher salary and wages costs to support our store teams during periods of store closures which was not supported by Job Keeper wage subsidies in FY22 as it was in FY21; and
- Continued investments in team, marketing, and digital initiatives to drive future growth.

A number of these costs were related to managing the business through COVID and should not be recurring in the medium term.

The store closures combined with the CODB increases saw Adairs underlying EBIT fall 42.5% to $55.5 million (although this remains well above FY20, pre-COVID levels).

In line with its strategy Adairs opened four new stores and upsized eleven stores during the year which delivered a 7% increase in store floor space as measured by Gross Lettable Area (GLA), which now totals c. 71,500 square metres.

Further, the construction and opening of the Adairs' National Distribution Centre (NDC) in Melbourne was completed throughout the first half of FY22. The process of consolidating four Distribution Centres into a new single NDC with a new operator was a large and complex logistical undertaking involving over 18,000 pallets and I want to acknowledge the incredible work undertaken by our Supply Chain team to get the business to this point.

The NDC is a key component of Adairs' integrated omni-channel strategy to better enable customers to shop Adairs how, where and when they choose. Whilst it has taken longer than planned to stabilize the operations at the new NDC, we remain confident it has the capacity and flexibility to support our business growth by improving online fulfilment and store replenishment, increasing stock availability, and improving service levels for both customers and stores during peak trading periods.

MOCKA

Mocka delivered a disappointing year with several events that were unexpected and largely outside of the direct control of the business impacting its financial performance. Total sales of $64.1 million were up 6.5% on FY21, however EBIT fell 70.4% on FY21 to $3.7 million reflecting significant business disruption and adverse customer feedback.

The failure of Mocka's delivery partner to meet their contracted service levels towards the end of CY21 due to the impact of COVID resulted in a large number of customer orders being delayed and ultimately cancelled. This was an unacceptable experience for our customers and necessitated a complete change of our Australian supply chain delivery partners, which was completed in April 2022.

In March 2022, following the extreme weather events that occurred in New South Wales and Queensland, the business was made aware of some customers finding mould on the bases of their Mocka cot. Independent investigation and testing by a National Association for Testing Authorities ("NATA") accredited specialist found that the mould was not caused by the Mocka cot but was attributable to environmental factors (such as ventilation and air moisture). While the testing confirmed that the Mocka cot was not causing the mould, the business has taken steps to ensure that customers are aware of the risk that mould presents in their children's rooms and have also commenced a program to redesign the cot bases to further reduce the risk that the cots may attract mould.

Following the change of management and the reopening of borders, a complete review of the quality of inventory was performed which led to a one-off inventory provision of $1.2 million being recognised to deal with inventory that will not be sold in the normal course of operations.

These events were compounded by higher import freight costs and higher domestic delivery charges resulting in a decline in the gross profit margin (including customer postage) to 30.7% (from 39.6% in FY21).

Mocka's costs were elevated due to the continued planned investments in team to support the business for long term growth, as well as increased warehousing requirements to support inventory holdings.

The FY22 year has seen the new management team deal with the issues outlined and look to put the business on a solid foundation for the coming year. The focus is now on restoring customer confidence through execution excellence and ensuring the changes made support a stable supply chain. We have taken the necessary steps to address poor quality inventory and remain confident in the value proposition for customers, especially as we head into a period where we expect value will become more important. We continue to believe that the opportunity to materially grow the business in Australia over time remains substantial.

MANAGING DIRECTOR & CEO'S REPORT *continued*

FOCUS ON FURNITURE

In November 2021, Adairs announced the acquisition of Focus on Furniture, a highly profitable vertically integrated omni-channel furniture retailer operating in Australia through a network of 23 stores and a small but growing online channel. The consideration paid represented an enterprise value of $80 million on a debt-free basis. The acquisition is expected to deliver double-digit EPS accretion from FY23 (its first full year of ownership).

Strategically the acquisition increases the Group's exposure to the bulky furniture category (an $8.3 billion+ market) with clear growth opportunities for the brand through store roll-out (c.30+ new stores), online growth and category/range expansion. Focus has a complementary customer and product overlap with the Group's existing businesses and provides opportunities to leverage skills in store expansion, product development and last mile delivery capability. The acquisition is a quality addition to our portfolio of attractive businesses all targeting the Australian home furnishings and furniture middle market.

For the seven months of ownership, total sales was $81.7 million with online sales accounting for 7.8% of total sales. Underlying EBIT contribution of $17.2 million, represented an Underlying EBIT margin of 21.0%. These results were well ahead of our expectations when the business was acquired.

While all Focus stores are profitable, we see scope to enhance and differentiate the in-store experience through a relatively modest capital investment in areas such as lighting, layout and styling. This process will commence in FY23 with the refurbishment of 3-5 existing stores accompanied by 2-3 new store openings, most likely in Queensland and New South Wales.

As outlined at the time of acquisition Focus has an attractive growth profile supported by a clear set of strategies which we believe can deliver sales in excess of $250 million within five years.

STRONG CASHFLOW AND BALANCE SHEET

During the year the Group completed the acquisition of Focus on Furniture and finalised the earn-out with the founders of Mocka. These transactions were funded from existing and new debt facilities with no further payments required for either acquisition. Cash generation from operations saw net debt finish at $93.2 million, with $120.0 million in drawn debt and cash on hand of $26.1 million. The Group has considerable covenant headroom with finance facilities of $135 million available until July 2023 ($90 million) and January 2025 ($45 million).

We continue to deliberately carry higher inventory levels of core inventory lines and to bring inventory in earlier than occurred pre-COVID to accommodate delays experienced across the global supply chain. We expect this to continue throughout FY23 whilst supply chain disruptions remain.

DIVIDEND

The Board has declared a final fully franked dividend of 10.0 cents per share, taking the total dividend payout for the year to 18.0 cents per share, or 68.6% of FY22 NPAT. The dividend record date is 6 September 2022 and payment date is 22 September 2022. The Board has determined that the dividend reinvestment plan will continue to operate for the FY22 final dividend.

SUSTAINABILITY

Advances made in our sustainability strategy have been a highlight of FY22 and this year sees the publication of our first Sustainability Report, which is included in this Annual Report. Sustainability covers a diverse range of important issues such as our carbon footprint, water usage, community support efforts, and the diversity of our board and team. Sustainability is closely linked to our values and culture, and while being sustainable is not new to Adairs it is good to bring some light to our sustainability strategy, goals and initiatives. While I am proud of our progress to date, much remains to be done in this important area and I look forward to sharing further updates with you going forward.

OUR TEAM

Our business is built on people and we are fortunate to have a passionate and talented team across all three brands. I would like to thank each of them for helping deliver another record year of sales and ensuring we 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 help each of them create a home they love and ensure that our shareholders benefit through continued profitable growth.

OUTLOOK

While rising inflationary pressures and increased mortgage repayments due to higher interest rates have led to a sharp decline in consumer confidence, we believe a more challenging trading environment will see the Group grow market share. The strengths and benefits of our business model become more apparent as consumers become increasingly value-orientated, customer loyalty becomes more important, and execution on product and service an even greater differentiator.

The Group now operates three vertically integrated businesses with attractive economics, clear growth pathways and large addressable markets in Australia and New Zealand.

OUR BUSINESS IS BUILT ON PEOPLE AND WE ARE FORTUNATE TO HAVE A PASSIONATE AND TALENTED TEAM ACROSS ALL THREE BRANDS

As we enter FY23 the strength of our multi brand and multi channel model will see the Group continue to grow and progress its strategic objectives. We expect this to be underpinned by ongoing growth in our store footprint, continued membership growth in our loyalty program as well as the benefits which will flow from enhancements in our digital platforms, which will be released during FY23.

Thank you for your continued support.

Mark Ronan
Managing Director & CEO

SUSTAINABILITY REPORT

Dear Shareholders

Welcome to our inaugural Sustainability Report.

While Adairs has always sought to ensure that its business practices are sustainable, we recognise that communicating our initiatives, updating on their progress and being clear on our targets or goals is vital in holding ourselves accountable to our stakeholders.

As a Group, we recognise that incorporating sustainability into our daily operations and long-term business strategy is essential, both for our business and the planet.

The business case is clear. Being sustainable:

- ensures we address growing opportunities and risks to our business by taking a long-term view of our business
- enables us to reach more customers through improved brand loyalty and reputation
- helps us recruit and retain the best talent
- helps continue to drive innovation in our products and processes in order to overcome environmental and social challenges; and
- ensures we meet all current and future emissions and waste obligations.

Beyond the business case, sustainability is central to the relationship we have with each of our stakeholders including our customers, team, shareholders, suppliers, landlords and the broader communities within which we operate. It is reflected in our approach to supply chain, human rights, corporate social responsibility, welfare of the planet, and is critical to maintaining our reputation as one of Australasia's leading retailers.

Going forward you will hear more from us on our sustainability efforts – how these are being integrated into our business and how they are impacting our decision making.

Being sustainable is a constant journey. As Adairs grows we need to make sure that we continue to manage the impact we have on our environment and the communities we serve whilst also meeting evolving stakeholder expectations.

While the need for action is clear, the desired goals or outcomes will involve an investment in time and resources and necessarily involve prioritisation. Some initiatives can be implemented relatively quickly, however most are long term or continuing in nature.

We look forward to sharing our sustainability journey with you in the years to come.

Mark Ronan
Managing Director & CEO

1. SUSTAINABILITY GOALS

Companies worldwide have a role to play in addressing sustainability. While the impact each can make will vary by factors such as industry, geography, and scale there is a need for all to work towards a common set of broad sustainability goals. The Sustainable Development Goals ('SDGs'), created by the United Nations in 2015, are designed to provide a framework for all organisations to work towards. They seek to improve health and education, reduce inequality, and spur economic growth – while tackling climate change and working to preserve the earth's natural assets.

As a specialist retailer of home furniture and home furnishings Adairs' ability to address individual SDGs varies, and its focus is on those most relevant to its operations. The achievement of Adairs' sustainability goals is underpinned by a series of initiatives which are summarised in the table below and outlined in more detail in the balance of this report.

	People	**Planet**	**Product**
SUSTAINABLE DEVELOPMENT GOALS	5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	7 AFFORDABLE AND CLEAN ENERGY 15 LIFE ON LAND	12 RESPONSIBLE CONSUMPTION AND PRODUCTION 17 PARTNERSHIPS FOR THE GOALS
Initiatives to support Goals	› Initiatives relating to human rights, including modern slavery, and responsible sourcing › Initiatives to make sure that everyone in our supply chain is treated with dignity and respect › Initiatives to support the communities we operate in › Initiatives which ensure our team work in a safe and inclusive environment which allows each member to be their best self regardless of their gender, age, ethnicity, faith, ability or sexual orientation.	› Initiatives designed to address climate change, waste and our impact on the environment	› Initiatives which help evolve the way we operate to embrace circular thinking – where waste is significantly reduced or eliminated through reuse, recycling and responsible manufacturing processes › Communication and other initiatives which make it easier for customers to appreciate and value that our products are sustainably sourced, manufactured and responsibly packaged

2. SUSTAINABILITY GOVERNANCE

The Board has oversight of sustainability (including climate) related risks and opportunities through the Group's formal risk management framework as described in section 8 of its FY22 Corporate Governance Statement.

In FY22 a new People, Product and Planet Committee (PPP Committee) was formed with representation from all business units to coordinate the identification, development, execution and review of sustainability initiatives across the Group to achieve its sustainability objectives. The PPP Committee meets monthly and reports to the Chief Executive Officer and Chief Financial Officer.

3. PEOPLE

3.1. Ethical sourcing

Adairs is committed to sourcing products in an ethical manner and seeks to partner with suppliers who share its commitment to operating legally, ethically and within global laws, regulations, codes and frameworks. The Group's Ethical Sourcing Policy and latest Modern Slavery Statement can be viewed on the Corporate Governance page of its investor relations website.

Supply chains can be complex, particularly where they cross country borders and involve multiple levels of suppliers and subcontractors across the production process. These complexities raise the risk of unethical practices and require robust processes and constant vigilance.

	Adairs	Focus	Mocka	Group
Country of origin1				
China (ex HK)	64%	86%	93%	74%
India	10%			7%
Bangladesh	6%			4%
Australia	5%			3%
Vietnam	3%	5%		3%
Malaysia		9%	2%	3%
Turkey	4%			2%
Hong Kong	4%			2%
Indonesia	2%			1%
Other various	2%		1%	1%
Total	**100%**	**100%**	**100%**	**100%**
Suppliers2				
Number of suppliers	233	25	43	301
Concentration1				
Largest supplier	20%	24%	24%	-
Top 10	60%	80%	80%	-
Top 20	73%	95%	95%	-

Note 1: Percentage of total stock purchases by value for that brand (FY22). Focus includes all of FY22 albeit Adairs ownership was from 1 Dec 2021.

Note 2: Suppliers across all tiers as at June 2022. One supplier may have more than one factory across different tiers. Total factory numbers across all tiers are c.500.

A key tool in managing the Group's ethical sourcing program is its Supplier Code of Conduct.

3.1.1. Supplier Code of Conduct

Adairs has a Supplier Code of Conduct which outlines its strong governance requirements which all suppliers (and any subcontractors) are required to sign up to before commencing any work.

The Supplier Code of Conduct covers:

- human rights (including child labour, harassment, discrimination, freedom of association, grievance procedures, wages and working hours);
- forced labour (including modern slavery);
- safe working conditions;
- restricted raw materials and practices (ensuring banned substances and banned processes are not used in or on any Adairs product), and animal welfare protections;
- environment (multiple initiatives to promote greater environmental responsibility);
- business licenses and registrations;
- transparency (across end-to-end production process);
- unauthorised sub-contracting; and
- anti-bribery and corruption.

Adairs communicates regularly with suppliers to discuss matters including ethical risk mitigation and to ensure suppliers understand and comply with its requirements.

3.1.2. Subcontractors

Given the practical limitations on Adairs having direct management of, or involvement in, the lower levels of its supply chain, the Company places the onus for managing subcontractors' compliance with its Code of Conduct on its upstream suppliers. These suppliers have a direct relationship with the relevant subcontractor and are expected to visit subcontractor factories frequently to monitor and ensure compliance with Adairs' Code of Conduct. Regardless of where a subcontractor sits in the Adairs supply chain, Adairs seeks to have all subcontractors identified and approved before any subcontracting work can commence.

Adairs complements this process with periodic visits to sub-contractors by independent agents of Adairs to confirm compliance. The use of undisclosed subcontractors is strictly prohibited under the Code of Conduct and measures are in place to investigate any suspected breaches of these requirements.

3.1.3. Onboarding

Before new suppliers are engaged, Adairs conducts thorough due diligence through its onboarding process, which includes requiring a current social compliance audit (to be undertaken by an approved third-party auditor), a factory self-assessment including independently supporting evidence and photographs, and where possible, a visit by a product team member before being approved. During this process suppliers are also required to disclose any sub-contractors used in the production of goods for review and approval. All onboarding is overseen by the Risk & Compliance team who operate at arm's length from the Product team.

3.1.4. Traceability

Supply chain traceability, where a company is able to track the provenance and journey of its products and their inputs from the very start of the supply chain through to end-use, is a key element in managing ethical sourcing and modern slavery risk.

Adairs' traceability program seeks to have transparency of all factories, facilities and inputs used in its supply chain. Currently this is the case for all Tier 1 (c.300) suppliers across the Group, being those suppliers it directly deals with. The Group continues its work to gain visibility of subcontractors and Tier 2-4 suppliers. To support this, Adairs has invested in additional resources within its Risk & Compliance team whose role is to manage traceability as part of the greater social compliance program. Adairs is committed to tracing all stages of production across its supply chain and has built into its supplier contracts the requirement that all suppliers disclose this information to it in a comprehensive and timely manner.

3.1.5. Modern Slavery

Adairs has procedures in place to identify if modern slavery exists within its supply chain and broader business. Vigilance is required as risks remain, particularly where operations are several steps removed from Adairs' direct involvement.

Adairs recognises the importance of ensuring that its supply chain and broader business is free of modern slavery and uses four primary tools to identify where it may inadvertently cause, contribute or be linked to potential risks of modern slavery:

Tool	Explanation
Dedicated internal resources and use of industry leading external specialists	Adairs has a dedicated internal Ethical Sourcing team which has been working with leading ethical sourcing specialist organisation – the Ethical Sourcing Agency (http://ethicalsourcingagency.com.au) since 2019 – to provide Modern Slavery expertise and support across its entire business, including sourcing markets and supply chain.
Independent audits	Adairs requires all traced factories (Tiers 1-4) used in the production of goods to supply a current Social Compliance Audit, completed by an independent and appropriately qualified party. These audits involve worker interviews in both group and individual settings by experienced specialists who have the knowledge and skill to identify any weaknesses or problem areas. Adairs has also engaged globally accredited Qualspec to provide a program of independent social compliance audits on its behalf as an additional layer of compliance assurance.
Factory visits	Adairs has a program of in person factory visits across the supply chain. These are conducted by members of the Product, Management and Risk & Compliance teams. Due to COVID travel restrictions in FY22 these visits were conducted by Qualspec on behalf of Adairs.
Whistle-blowers	Adairs utilises tools such as confidential whistle-blower hotlines and grievance mechanisms.

The Group's Ethical Sourcing Policy and latest Modern Slavery Statement can be viewed on the Corporate Governance page of its investor relations website.

3.2. Corporate Social Responsibility

Adairs is committed to supporting the communities that support it. Adairs' support takes the form of formal partnerships as well as one-off initiatives directed at situations of need where its support can make a meaningful difference to those to whom the support is directed.

3.2.1. Supporting those experiencing homelessness

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 30 vans and over 2,000 volunteers. Vans are based in metropolitan, regional and remote locations, where anyone who wants to use their service can do so freely, without judgment.

Adairs has supported Orange Sky in a number of ways since 2019, when it first became a Strategic Partner:

- All profits from the sale of Adairs in-house designed reusable totes (introduced to replace in-store plastic carry bags) go to Orange Sky
- Adairs collects donations made via in-store donation

In FY22 Adairs, together with its customers and team, contributed over $300,000 to Orange Sky which, when added to prior year contributions, equates to 26,306 laundry washes, 8,392 hot showers and 15,560 hours of genuine conversation to those experiencing homelessness.

3.2.2. Supporting victims of natural disasters

Our hearts go out to all those impacted by the devastating floods which occurred across New South Wales and Queensland in February 2022. Over 50,000 homes were damaged or destroyed and for many the process of rebuilding will take years. Working with a number of national and local aid agencies, the Group donated $125,000 worth of new furniture, bedding, towels, rugs and mats to flood-affect families to help them at their time of need. A number of team members also travelled to Ipswich, where flood waters caused devastating damage to almost 600 homes and 300 businesses, to help sort and distribute our donated products.

3.2.3. Supporting women's sport

Adairs is a proud major sponsoring partner of the Melbourne Boomers, 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. Adairs loves that the Boomers provide an opportunity for the community to see and interact with wonderful, strong, healthy role models.

3.3. Supporting our Team

People are Adairs most valuable resource and the Company is committed to providing a safe and healthy workplace where all team members are treated with dignity and respect, which includes valuing diversity and inclusivity and excludes discrimination and harassment. Adairs wants its team to be their best self regardless of their gender, age, ethnicity, faith, ability or sexual orientation. It also wants them to be engaged and supported in all aspects of their role, including their learning and development.

FY22 saw COVID continue to impact Group operations and team, with extensive store closures in New South Wales and Victoria in the first half of the year and supply chain interruptions which impacted both our team and customers. Through this difficult period Adairs has supported team members when stores were closed with the continuation of flexible work-from-home arrangements, where able, and Group-wide access to a confidential company-funded Employee Assistance Program.

3.3.1. Team health and safety

Adairs seeks to protect the health and safety of its team members, customers, contractors, and visitors in its workplace by ensuring that risks to health or safety are proactively identified and if possible, eliminated or otherwise minimised or controlled. Adairs considers that all team members have a legal and ethical responsibility to participate in the development, implementation and monitoring of strategies to prevent work-related injuries and illness. By working together, it seeks to ensure that:

- risks are identified and controlled to prevent accidents and injury as far as practicable
- safety is integrated into all aspects of the workplace and all team members are active participants

- communication and consultation on matters related to safety are encouraged
- the Workplace Health & Safety program Plan is updated, implemented and monitored
- all team members and contractors receive relevant training, information, and advice
- there are regularly scheduled audits, reports, and clear targets/objectives which improve the Group's safety and injury management performance
- all team members have access to early assistance and support in the event of any work-related injury, illness, or disability
- the Group is in compliance with all relevant legislation.

While the Group takes a proactive and forward-looking approach to occupational health and safety it recognises that 'outcome measures' remain an important tool to track trends over time and seeks to achieve a year-on-year improvement in key metrics such as Lost Time Injury Frequency Rate (LTIFR).

Over the last 3 years the Adairs business has seen an average reduction in LTIFR of 33%, with the current rate 46% lower than FY20. From FY23 it will begin to measure both LTIFR and TRIFR (Total Recordable Injury Frequency Rate) across the Group and report upon these results annually.

3.3.2. Team engagement and development

Adairs conducts an annual engagement survey of its team supplemented by smaller periodic 'pulse surveys'. These are an opportunity for individual team members to provide confidential feedback and insights on the company's purpose, behaviours, values and culture; and their experience working at Adairs. The detailed results are discussed with the team collectively and in smaller groups with a view to identifying and implementing specific initiatives to raise engagement.

Adairs is committed to providing quality learning and development of its team to ensure they are effective and successful in their current role and to support their future career at Adairs. This is delivered through the Adairs Academy, an in-house learning platform which provides on-the-job, relationship-based and formal learning across core technical, leadership and essential skills. These include knowledge, skill and competency-based training (face-to-face/online), social collaboration, knowledge sharing, and access to an online knowledge library.

We also develop programs in partnership with leading institutions/experts that focus on building strategic capabilities. In FY22 approximately twenty team members identified as emerging leaders attended a one year part-time Advanced Leadership Course run by the Melbourne Business School. This was a significant investment in talent and has led to greater cross-divisional collaboration and the initiation of a number of exciting new strategic projects in areas such as sustainability, product development, digital strategy and customer loyalty.

3.3.3. Diversity

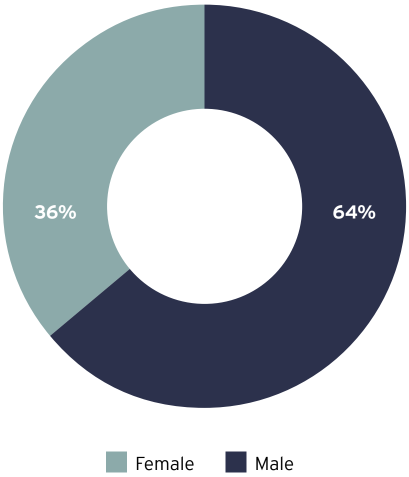
The Board has adopted a Diversity Policy which aims to, among other matters, address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure.

In May 2022, Adairs became a signatory to the 40:40 Vision initiative, an investor-led initiative to achieve gender balance – defined as 40% women, 40% men and 20% any gender – in executive leadership across Australia's largest listed companies by 2030. Given its current senior executive gender balance Adairs seeks to achieve this target by 2027, three years earlier than the initiative requires.

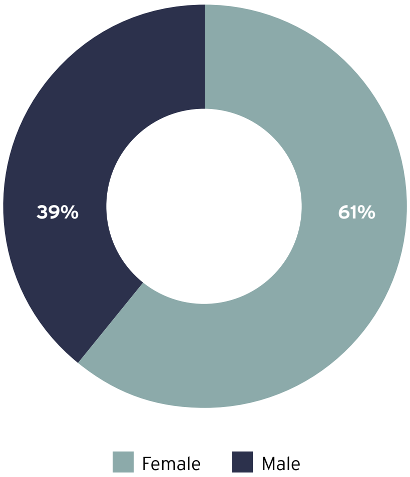
Adairs actively promotes diversity through its hiring and promotion practices, measures gender diversity in the composition of its senior executives and workforce generally, and reports these annually to the Australian Government's Workplace Gender Equality Agency.

As at 31 March 2022, the gender diversity of Group team members was as follows:

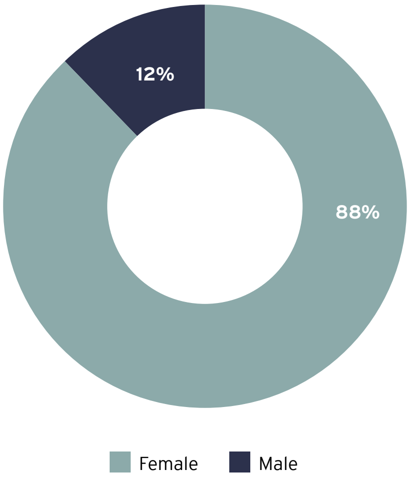
Senior Executives[1]



Senior Management[2]



The Group



Note 1: Senior Executives are the individuals whose roles are set out in Appendix 4 of the Environmental, Social & Governance presentation lodged with ASX on 31 May 2022 (14 persons in total).

Note 2: Senior Management is defined as all employees classified as "Other Managers" or above, as those terms are defined under the Australian Government's Workplace Gender Equality Act (WGEA).

The Company has an overall majority representation of women in senior management positions and across the whole organisation. Board diversity is addressed in section 1.9 of the FY22 Corporate Governance Statement.

The Board has set the following gender diversity targets:

Reference Group	Gender diversity target	FY22 outcome
Board of directors	Not less than 30% of Directors to be women by July 2023 and not less than 40% of each gender by July 2027	› On track to achieve target › Currently 29% women
Senior executives1	Not less than 40% of each gender across the senior executive team by July 2027 with an interim target of 38% by July 2023	› On track to achieve target › Currently 36% women
Group workforce	A majority of women across the Group workforce, reflective of its current customer profile	› Target met › Currently 88% women

Note 1: "Senior Executives" are the individuals whose roles are set out in Appendix 4 of the Environmental, Social & Governance presentation lodged with ASX on 31 May 2022 (14 persons in total).

3.4. Strategic commitments (People)

Below is a summary of the Group's commitments relating to the welfare of people across its value chain, operations, and the communities it serves.

Initiative	Our commitment	Where we are today / FY22 outcome
Ethical Sourcing	Adairs is committed to undertaking ethical audits and Code of Conduct assessments of › all direct suppliers (Tier 1 factories); and › downstream sub-contractors (Tier 2-4 factories) who do not face the Group directly however are part of its supply chain as they provide components, parts or raw materials to our direct suppliers, across each of Adairs, Mocka and Focus on Furniture	Tier 1 factories are fully traced for Adairs, Mocka and Focus on Furniture. Tier 2-4 sub-contractor factory tracing is being undertaken across all three brands. This is a multi-year project.
Modern Slavery	The Group is committed to ensuring no modern slavery exists within its supply chain and meeting all obligations under the Modern Slavery Act	The Group's Modern Slavery Statement has been published annually since FY20. Throughout the year the Group did not identify any modern slavery in the Group's supply chain.
Corporate social responsibility	The Group is committed to: 1. Supporting those experiencing homelessness 2. Supporting victims of natural disasters 3. Supporting and promoting strong and healthy women role models in sport	1. Adairs is a Strategic Partner of Orange Sky with donations of >$300k in FY22 and volunteering by team members 2. Adairs and Mocka collectively donated furniture, bedlinen and related products worth $125,000 to flood victims in NSW / Queensland in FY22 3. Adairs is a Principal Sponsor of the Melbourne Boomers, who play in the Women's National Basketball League and are the longest-running elite-level women's sports team in Australia.
Board gender diversity	The Group is committed to its Board of directors comprising at least 30% women with a longer-term goal of not less than 40% of each gender.	Women currently comprise 29% of directors (2 of 7) with the Board committed to increasing this over 30% by June 2023 through natural board renewal.
Executive leadership team gender diversity	The Group is committed to its executive leadership team having not less than 40% of each gender by 2027	Adairs became a signatory to the 40:40 Vision Initiative by HESTA in May 2022. Women currently comprise 36% of the executive leadership team.
Team health and safety	The Group is committed to year-on-year improvement in both Lost Time Injury Frequency Rate and Total Recordable Injury Frequency Rate across the Group	LTIFR: 18.8 in FY22 (Adairs only), down from 24.5 in FY21. Mocka and Focus on Furniture to be included from FY23. TRIFR: To be recorded from FY23

4. PLANET

Adairs is committed to minimising the impact that its operations have on the planet through reducing its emissions, waste, and energy consumption.

4.1. Greenhouse gas (GHG) emissions

Adairs is committed to taking responsibility for its GHG emissions and in FY22 appointed an independent expert to determine a baseline level of its Scope 1 and 2 emissions, from which it can assess feasible 5 and 10-year reduction targets. While the baseline work is now complete the setting of reduction targets will take further time given the large number and diverse nature of its leased store network in terms of geography, format and scope for reductions in energy usage. The historic impact of COVID-related store closures in baseline estimates and the number, timing and location of future store openings need to also be taken into account in setting future targets.

The Group's baseline GHG emissions (for the 12 months to 30 June 2021) total 8,130 tonnes of carbon dioxide. Going forward the Company will report annual GHG emissions with explanation for year-on-year changes and progress towards medium and long-term reduction targets.

Sources of emissions		**Tonnes[1] of CO_2**
Scope 1	**Direct emissions from controlled/owned sources** The Group's direct emissions are relatively low and primarily arise from gas heating at its customer service centres and fuel consumption from directly owned fleet.	**22.7**
Scope 2	**Indirect emissions from the generation of purchased energy** The vast majority of the Group's Scope 2 emissions come from electricity usage and so the focus is on action to reduce electricity consumption. The ability to drive change varies significantly between homemaker stores and those contained within shopping centres. LED lighting is standard in new stores and those recently refurbished. Each store has been surveyed to establish their existing practices with regards to the switching on and off of lights and air-conditioning, and whether store doors are movement activated to minimise instore temperature fluctuations. Inventories have also been taken of all in-store electrical devices used in both front and back of house.	**8,107**
Scope 3	**All indirect emissions within our value chain (outside scope 2)** As is the case for most retailers, the majority of the Group's carbon emissions are generated outside its operational control - within its supply chain and in particular the sourcing, manufacturing and transportation of Group products including their component materials. The reduction of these emissions is the most challenging, but also the most impactful. Going forward the Group will work with its largest suppliers (many of whom have partnered with Adairs over a number of years) to better understand, encourage and support them to adopt more sustainable business practices. As a vertically integrated retailer Adairs has an important role in the selection of product materials and, for its Tier 1 factories, a clear understanding of the production process. Scope 3 emissions also occur downstream of Adairs in customers using (and ultimately disposing of) its products.	**n.a.**
	Total Scope 1 and 2 emissions[1]	**8,130**

Note 1: Baseline estimates for the 12 months to 30 June 2021

1 National Greenhouse and Energy Reporting (2021) 'Reporting hydrofluorocarbons and sulphur hexafluoride gases guideline'.

The Greenhouse Gas accounting process followed 'Method 1' within the National Greenhouse and Energy Reporting (NGERs) guidelines[2]. This method applies the internationally recognised and approved emission factors for electricity, fuel, and gas to consumption data across all business assets.

In preparing the above calculations, it is noted that:

- Approximately 7% of the calculated Scope 2 emissions are estimated for stores with data gaps; and
- Of these estimated stores, for those with no electricity data available for the 12 months to 30 June 2021, the electricity consumption has been benchmarked based on stores of the same type and brand;
- Approximately 60% of the stores experienced at least one (1) COVID-19 lockdown period of at least one (1) day within the reporting year. No adjustments were made to the data during these lockdown periods to maintain an accurate representation of the year's total emissions. However, this deviation from business-as-usual total operating hours across the year will be factored into account for internal target setting and benchmarking for future reporting years; and
- Given the variety of servicing arrangements at our stores and relatively small size of the air-conditioning systems we have not included refrigerant use in the air-conditioning systems of our stores as part of this inventory.[3]

The vast majority of the Group's Scope 2 emissions comes from grid electricity used in our stores, warehousing and customer service office, and the calculations of these emissions have been based on actual electricity consumed (except as noted above).

While these figures have been prepared having regard to actual usage data (where available), no assurance has been conducted in relation to these amounts.

4.2. Waste and recycling

The majority of Group waste is related to product packaging and as described in Section 5.3 Adairs is committed to achieving Australia's 2025 National Packaging Targets, which includes a goal of 100% of packaging being reusable, recyclable or compostable.

In FY22, the Group diverted away from landfill (recycled) 50% of the 979.2 tonnes of waste across its stores, distribution centres and support offices. The proportion recycled is expected to increase over the next three years as packaging initiatives to meet the 2025 targets are implemented.

Waste data for FY21 is not available however future years will report year-on-year changes.

Waste from Group[1] stores, distribution centres and support offices (tonnes)

	FY22
Waste to landfill	491.4
Recycled waste	487.8
Total waste (in tonnes)	979.2
Recycle %	49.8%

Note 1: Waste data and analysis is not currently available for Mocka operations in New Zealand. The Company is investigating collecting this data going forward.

4.3. Plastic carry bags

Plastic carry bags are being progressively eliminated from all stores across Australia and New Zealand across the next six months. Customers are instead encouraged to bring their own bag or invited to purchase an in-house designed re-usable bag from an exclusive range, with all profits from the sale of these bags going to Adairs' major charity partner, Orange Sky.

2National Greenhouse and Energy Reporting (2021) 'Methods and measurement criteria guideline'.
3National Greenhouse and Energy Reporting (2021) 'Reporting hydrofluorocarbons and sulphur hexafluoride gases guideline'.

4.4. National Distribution Centre

In FY22, the Adairs business consolidated its four existing distribution centres into a single purpose-built National Distribution Centre which has been designed and built with a number of key environmental attributes, including:

- 100kw in solar panels on the roof;
- a system to capture rainwater for gardens and greywater use (toilets);
- LED and sensor-operated lighting throughout (lights will only power on for fixed periods of time based upon activity being detected);
- a system to separate and compact cardboard waste from general waste; and
- a commitment from our operator, DHL, to reduce emissions from its global logistics operations to zero by 2050.

By consolidating multiple distribution centres into a single purpose-built facility Adairs has reduced the emissions that would have otherwise been generated under its previous model through:

- reduced electricity consumption (Scope 2 emissions) via consolidation and technology efficiencies
- reduced travel required (Scope 3 emissions) to receive products from suppliers, deliver products to customers and replenish stores.

5. PRODUCT

5.1. Product Standards

First and foremost, Adairs' products are designed and made to last – high-quality materials are used to make sure each product lives a long and rewarding life. The overwhelming majority of Adairs' products are designed to incorporate materials capable of being recycled at end-of-life.

Adairs trains its team and is improving sustainable product information to empower and assist its customers to make sustainable product choices. Adairs products are designed and manufactured in accordance with a number of sustainable standards across various product categories including:

OEKO TEX STANDARD 100	**100% of Adairs bedlinen is certified under OEKO TEX Standard 100.** The STANDARD 100 label certifies that every component of the article to which the label is attached (being every thread, button and other accessory) has been independently tested for harmful substances and that the article is harmless to human health.
Responsible Down Standard (RDS)	**100% of Adairs down-filled products, quilts, and cushion inserts are RDS certified.** This standard aims to make sure, to the highest possible extent, that down and feathers do not come from animals in a supply chain that have been subjected to any unnecessary harm. It takes a holistic approach to the animal welfare of the birds, from hatching to slaughter. Any removal of down and feathers from live birds is prohibited, as is force-feeding.
Forest Stewardship Council (FSC) certified timber and sustainable timber	**100% of all Mark Tuckey furniture sold by Adairs is made from FSC certified and/or sustainable timber.** The FSC is a non-profit organisation that sets certain high standards to make sure that forestry is practiced in an environmentally responsible and socially beneficial manner. FSC certification designates that wood has been harvested from forests that are responsibly managed, socially beneficial, environmentally conscious, and economically viable.

Adairs continues to explore the use of alternate fibres to cotton such as flax, hemp, TENCELTM and bamboo that are recognised as being more environmentally friendly by having a lower impact on the environment. Recycled fibres made with waste materials that would otherwise go to landfill are also being investigated.

5.2. Product Safety

Adairs is committed to product safety and has processes in place to ensure its compliance with product safety requirements under Australian and New Zealand consumer laws.

A well-established product testing regime which addresses all applicable regulatory safety standards exists for all products. Product testing is conducted either in-house or at third-party National Association of Testing Authorities (NATA)-accredited facilities and certain products are re-tested at regular intervals.

The Group is not aware of any breach of mandatory standards relating to its products in FY22.

5.3. Sustainable packaging

Adairs is a signatory to the Australian Packaging Covenant (APCO), an agreement between government and businesses to share the responsibility for managing the environmental impacts of packaging in Australia. As a signatory, the company reports on its progress against set targets annually and are scored based on its performance. In FY22, our Overall Performance was rated by APCO as Advanced. Our annual APCO reports are available on our investor relations website.

As a signatory Adairs is committed to achieving the APCO 2025 National Packaging Targets:

- 100% of packaging to be reusable, recyclable or compostable
- 70% of any plastic packaging being recycled or composted
- 50% of packaging content to come from recycled sources
- The phasing out of single-use plastic packaging.

To date c.20% of Adairs products have had their packaging reviewed against the following Sustainable Packaging Principles (SPGs) which provide an industry framework to assist the design and manufacture of packaging to meet the sometimes-conflicting demands of the market, consumer protection and the environment:

- Design for recovery
- Optimise material efficiency
- Design to reduce product waste
- Eliminate hazardous materials
- Use of renewable materials
- Use recycled materials
- Design to minimise litter
- Design for transport efficiency
- Design for accessibility
- Provide consumer information on environmental sustainability

The initial review focus has been on products which are prone to damage through the supply chain and new Supplier Packaging Specifications have been provided to suppliers. This includes the required elimination of any polystyrene, "bubble-wrap", PVC and oxo-fragmentable plastics from all packaging applications.

While transitioning packaging arrangements is a large and complex process, Adairs are well advanced in many of its product lines. For example, the majority of Adairs bedlinen packaging is now 'plastic free', instead using packaging made of the same fabric as the item enclosed. The final bedlinen ranges will be transitioned by the end of 2023.

CORPORATE GOVERNANCE

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 22 August 2022, which are available to be viewed on the Group's investor relations website at: **www.investors.adairs.com.au**

adairs

2022 Financial Report

Adairs Limited

ABN 50 147 375 451

For the 52 weeks ended 26 June 2022

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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 26 June 2022 ("FY22").

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

Michael Cherubino

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Simon West (resigned 24 June 2022)

Information on qualifications and experience of directors is included on pages 38 to 41 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 26 June 2022, an interim dividend of 8.0 cents per share was paid to the holders of fully paid ordinary shares on 22 March 2022 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 6 September 2022 (Record Date) with payment on 22 September 2022 (Payment Date). Both dividends are franked to 100% at the 30% corporate income tax rate. The total dividend for the full year of 18.0 cents per share represents a payout ratio of 68.6% of the reported full year net profit after tax, in line with Adairs' dividend policy.

In response to shareholder feedback the dividend reinvestment plan (DRP) was activated in February 2022 and has operated for both FY22 dividends, with DRP shares sourced from an issue of new shares by the Company.

2022 Operating and Financial Review

The profit from ordinary activities after income tax for FY22 amounted to $44.9 million (FY21: $63.7 million).

This 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 FY22 was $76.4 million (FY21: Underlying EBIT $109.1 million).

Continuing Operations	**FY22 $'000**	**FY21 $'000**
Statutory profit after income tax for continuing operations	44,890	63,742
Add back:		
Finance expenses	8,325	7,457
Interest income	-	(31)
Income tax expenses	19,719	31,548
Statutory EBIT (non-IFRS)	72,934	102,716
Significant items:		
Impact of AASB 16 Leases[1]	(1,662)	(3,930)
Costs associated with the transition to the National Distribution Centre	3,090	2,698
Mocka acquisition costs (including earn-out related adjustments)	860	7,583
Focus acquisition costs	1,160	-
Underlying EBIT (non-IFRS)	**76,382**	**109,067**

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.

The table below sets out the operating results for FY22 compared to the operating results for FY21.

Continuing Operations	**FY22 $'000**	**FY21 $'000**	**Change %**
Revenue	564,476	499,762	12.9%
Gross Profit (Non-IFRS)	308,866	303,293	1.8%
Gross Profit Margin (Non-IFRS)	54.7%	60.7%	(600 bps)
Underlying EBIT (Non-IFRS)	76,382	109,067	(30.0%)
Underlying EBIT Margin (Non-IFRS)	13.5%	21.8%	(830 bps)

Results Summary

While FY22 continued to be impacted by COVID, with widespread store closures in the first half of the year, the strength of the Group's omni-channel business model and a strong contribution from Focus on Furniture (acquired in December 2021) saw the Group deliver another record sales year with revenue up 12.9% to $564.5 million. On a like-for-like basis, removing Focus and adjusting for store closures, sales fell 2.0% reflecting the cautious approach taken by customers in returning to stores once they reopened. The Group's omni-channel strategy continued to progress well with online sales increasing to $195.4 million or c.35% of total Group sales.

Despite the improved sales result the Group's cost base was significantly impacted by COVID disruptions to the supply chain of all three brands and the DC operations of Adairs and Mocka. The Group's cost of doing business increased by 22.1% over FY21 albeit a large proportion of these expenses were one-off or short-term in nature and should not impact profitability in future years.

Underlying Group EBIT fell 30.0% to $76.4 million. While the decline was disappointing the causes are well understood and EBIT remains over 38% ahead of FY20 (pre-COVID) levels. Adairs contributed $55.5 million of this EBIT result, Mocka $3.7 million and Focus on Furniture $17.2 million for its seven months of ownership.

Adairs business

The Adairs result was significantly impacted by government-mandated store closures which saw store sales fall 6.1% to $293.7 million. Management estimate that these store closures reduced sales by c.$35 million. Despite the store closures, Adairs' total sales for the year of $418.7 million remains 16.3% above FY20 levels as a result of continued strength in online sales of $125.0 million (31% higher than achieved in FY20).

As anticipated, Adairs' gross margin softened in FY22 against FY21, finishing at 63.2% due to increases in global supply chain costs, particularly sea freight, and a measured increase in promotional activity contributed. Higher delivery costs to online customers contributed to a 10.5% decline in gross profit.

Linen Lovers Club membership continues to grow strongly (+10% over the last 12 months) and is now over one million members. These are the company's most engaged customers and continue to account for over 80% of all sales. Four new stores were opened and eleven stores were upsized during the year which drove an increase of 6.9% in store floor space as measured by Gross Lettable Area (GLA), which now totals 71,522 square metres.

Adairs' cost of doing business (CODB) was 8.3% higher than FY21 reflecting (i) lower levels of rent rebates, (ii) higher salary and wages costs to support our store teams during periods of store closures, (iii) higher warehouse costs following the decision to temporarily retain one legacy warehouse whilst COVID uncertainty was disrupting warehouse and supply chain operations; and (iv) continued investments in team, marketing, and digital initiatives to drive future growth.

The store closures combined with the CODB increases saw Adairs Underlying EBIT fall 42.5% to $55.5 million.

Focus on Furniture business

In November 2021, Adairs announced the acquisition of Focus on Furniture, a highly profitable vertically integrated omni-channel furniture retailer operating in Australia through a network of 23 stores – all of which are profitable – and a small but growing online channel. The consideration paid represented an enterprise value of $80 million on a debt-free basis and the acquisition is expected to deliver double-digit EPS accretion from FY23 (its first full year of ownership).

Strategically the acquisition increases the Group's exposure to the bulky furniture category (an $8.3 billion+ market) with clear growth opportunities for the brand through store roll-out (c.30+ stores), online growth and category/range expansion. Focus has a complementary customer/product overlap with the Group's existing businesses and provides opportunities to leverage skills in store expansion, product development and last mile delivery capability. The acquisition transforms the Group into a broader portfolio of attractive businesses all targeting the Australian home furnishings and furniture middle market.

For the seven months of ownership, total sales were $81.7 million with online sales accounting for 7.8% of total sales. Underlying EBIT contribution of $17.2 million, represented an Underlying EBIT margin of 21.0%. These results were well ahead of our expectations when the business was acquired.

While all Focus stores are profitable, the company sees scope to enhance and differentiate the in-store experience through a relatively modest capital investment in areas such as lighting, layout and styling. This process will commence in FY23 with the refurbishment of 3-5 existing stores accompanied by 2-3 new store openings most likely in Queensland and New South Wales.

Mocka business

Mocka delivered a poor year from a financial performance perspective due to events which were unexpected and largely outside of the control of the business. This led to FY22 sales of $64.1 million up 6.5% on FY21, but short of the expectations following a strong first half, and EBIT of $3.7 million down 70.4% on FY21.

The year was adversely affected by:

- the failure of Mocka's delivery partner to meet their contracted service levels towards the end of CY21 due to the impact of COVID which resulted in a large number of customer orders being cancelled. This necessitated a complete change of Australian supply chain delivery partners, which was completed in April 2022.

- the business being made aware of some customers finding mould on the bases of their Mocka cot in March 2022, following the extreme weather events that occurred in New South Wales and Queensland. This resulted in reduced sales of cots whilst Mocka initiated an independent investigation and testing by a National Association for Testing Authorities ("NATA") accredited specialist. The results of this investigation found that the mould was not caused by the Mocka cot but was attributable to environmental factors (such as ventilation and air moisture).
- a complete review of the quality of inventory was performed following the change in management and the reopening of borders, which led to a one-off inventory provision of $1.2 million being recognised to deal with inventory that will not be sold in the normal course of operations.

Margins at Mocka were affected by higher import freight costs, higher domestic delivery charges and increased promotional activity, resulting in a decline in gross profit margin (including customer postage) to 30.7% (from 39.6% in FY21). Mocka's operating costs were also higher due to the continued planned investments in team to support the business for long term growth, as well as increased warehousing requirements to support inventory holdings.

The issues of FY22 have been dealt with and the focus for the business is now on restoring customer confidence. We remain confident in the value proposition for customers, especially as we head into a period where we expect value will become more important.

Capital Management

Net cash outflows from the acquisition of Focus and the final Mocka earn-out payment totalled $108.5 million during the year. Cash generation from operations saw net debt finish at $93.2 million, with $120.0 million in drawn debt. The Group has considerable covenant headroom with finance facilities of $135 million available.

We continue to deliberately carry higher inventory levels of core inventory lines and to bring inventory in earlier than occurred pre-COVID to accommodate delays experienced across the global supply chain. We expect this to continue throughout FY23 whilst COVID disruptions remain.

The Group expects to pay the FY22 final dividend $17.1 million in September 2022. This will be funded by existing cash and term debt facilities.

Strategic Update

The Group believes its existing underlying strategies remain appropriate in the current climate and that its performance both operationally and financially in each of FY22 and FY21 given their pandemic-related challenges are evidence of this. The Group 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 key drivers of this growth.

Our proven and resilient business model

- Three strong brands that are owned and controlled. This provides the Group with a lower cost of customer acquisition and retention than peers. Offering exclusive product also delivers higher margins.
- The Adairs brand has a large and loyal customer base with over one million paid up members of its proprietary loyalty program, Linen Lovers. Membership numbers continue to grow strongly each year (with a CAGR of 12.3% over the last 5 years). Linen Lovers are highly engaged, visiting Adairs more often and spending more each visit than non-members (continuing to accounting for over 80% of Adairs sales).
- High exposure to the accelerating trend to online shopping with digital channel shoppers representing c.35% of Group sales. Adairs will continue to win additional market share as more customers transition from store-only 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 in both Adairs and Focus on Furniture. 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.
- Every store in the Group is profitable and the portfolio has relatively short lease terms allowing the company to take advantage of profitable new store and upsizing opportunities whilst optimising the portfolio where appropriate.
- Larger Adairs stores are more profitable and significant upsizing opportunities remain within the current Adairs portfolio. Upsizing stores allows Adairs to showcase more products/categories and typically delivers a c.60% increase in store contribution amount. To date Adairs have upsized 32 Adairs stores and believe a further 15-20 upsize opportunities remain over the next few years.

Our digital transformation

- Being multi-channel delivers a larger total accessible market (TAM), significant synergies across channels, and provides customers with a superior and more flexible shopping experience.
- Being omni is key as customers that engage with our brands across multiple channels make purchases more often and spend more with each purchase than those who only engage via one channel. Mocka is currently a pure online retailer however is expected to establish a physical retail presence over the next few years.
- 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
- There are valuable cross-learnings across all three brands which benefit each other and the broader Group

Focus and Mocka growth potential

- The acquisition of Focus increases the Group's exposure to the bulky furniture category (an $8.3 billion+ market) with clear growth opportunities for the brand through store roll-out (c. +30 new stores), online growth and category/range expansion. Focus has a complementary customer/product overlap with Adairs and Mocka and provides opportunities to leverage skills in store expansion, product development and last mile delivery capability. The acquisition transforms the Group into a broader portfolio of attractive businesses all targeting the Australian home furnishings and furniture middle market.
- In Australia Mocka has low brand awareness and a low market share in a very large category. While FY23 will focus on consolidating and stabilising the business following the externally driven operation challenges of FY22 we expect sales growth to accelerate in subsequent years.

Omni Supply Chain Strategy

- Adairs' new purpose-built National Distribution Centre (NDC) became operational in September 2021 with DHL as 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.

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	While the economic impact of the COVID pandemic appears to have stabilised new macro-economic headwinds have emerged in the form of geopolitical unrest, inflation, rising interest rates and declining consumer confidence. Group sales levels are sensitive to consumer and retail sentiment as many of its products are considered discretionary. If consumer and retail sentiment were to materially decline from existing levels 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.
Group business interruption	As recent history has highlighted, unforeseeable events such as epidemics, wars and natural disasters 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 & 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. Debt is at historically high levels following the acquisition of Focus on Furniture and payment of the final consideration payment to the Mocka founders in late 2021.	The Group has a strong and long-standing relationship with its primary bank and broader banking syndicate. It has Group term debt facilities of $135 million available until July 2023 ($90 million) and January 2025 ($45 million). The Group undertakes detailed short and medium term cashflow forecasts, including stress testing to ensure there is sufficient headroom to accommodate unforeseen material shocks.
Major projects	The Group has a number of major projects underway which need to be delivered on time and within budget. Failure to manage and complete major projects could lead to material business disruption and costs. A major project underway in FY23 is the upgrade of Adairs' digital platform. Given online sales are c.35% of Adairs sales the successful implementation of this upgrade is critical.	Major projects are overseen by a steering committee to appropriately manage costs and resources. The digital platform upgrade has been structured to be delivered through phases that reduce implementation risk.
Customers 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 misjudgments 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.

Risk	Explanation	Mitigation
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 across all three brands. 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 which includes the real-time services of external security specialists. Periodic cyber security audits are undertaken across all three brands.
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 & 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 the business and are readily available.
Environmental, social and governance (ESG) responsibility	The Group's stakeholders (including 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. Sustainability and broader ESG initiatives are coordinated by an internal working group and reported upon annually in the Corporate Governance Statement and Annual Report.
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 & Risk Committee. An external health and safety audit was undertaken in FY22 with no material adverse findings. COVID health management plans have been implemented across the business.

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 which seeks to develop the leadership capabilities of the next-level of talent within the business.
Supply chain risk	Failure by our warehouse operations or delivery partners to scale to meet volume requirements risks reputational damage and subsequent loss of business. 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, geopolitical exposure, raw material supply, and climate risk.	Warehousing and dispatch performance indicators are reviewed daily with real time remedial action taken as required. 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.
Contagion risk	An event originating within a brand resulting in significant regulatory, financial or reputational contagion for the Group. Contagion risk varies across brands reflecting their differing maturities and controls around regulatory, financial and reputational risk management.	The Group has a dedicated Risk & Compliance Manager appointed to identify, monitor and ensure mitigation exists for all material risks. Individual risks registers are maintained by each brand.
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

The Group now operates three attractive businesses. Each is vertically integrated with attractive economics, clear growth pathways and large addressable markets in Australia and New Zealand.

Rising inflationary pressures and higher interest rates will likely lead to a material decline in consumer confidence however we believe the Group will continue to grow market share in a more challenging trading environment owing to its business model, which benefits from consumers becoming more value-orientated and it having a loyal and engaged customer base.

We expect FY23 will see the Group deliver ongoing growth as customers re-engage with our store portfolio, a full year's contribution from Focus and the elimination of costs associated with operating from multiple warehouses. This will be further supported by ongoing growth in our store footprint, continued membership growth in our loyalty program as well as the benefits from enhancements across our digital platforms.

Significant changes in the state of affairs

In November 2021, Adairs announced the acquisition of Focus on Furniture for a total consideration comprised of $75.3 million in cash (funded through new and existing debt facilities) and a $6.0 million placement of ordinary shares in Adairs to the major shareholder and continuing Focus CEO, Rob Santalucia. There have been no other significant changes in the state of affairs of the Group during the 52 weeks ended 26 June 2022.

Matters subsequent to the end of the financial year

On 22 August 2022, the Directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is $17.1 million which represents a fully franked final dividend of 10.0 cents per share. The dividend has not been provided for in the 26 June 2022 financial statements.

No other 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 26 June 2022.

Directors and Directors' Interests

The Directors of Adairs Limited in office at the date of this report are listed below together with details of their relevant interests in the securities of the Company at this date. In addition, Simon West was an Independent Non-Executive Director of Adairs Limited until his resignation on 24 June 2022.

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

66,312 ordinary shares

Other Current Listed Directorships

Tabcorp Holdings Limited (since June 2022)

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

Interest in Adairs Limited shares and options

785,047 ordinary shares

3,815,000 options

Other Current Listed Directorships

None

Former Listed Directorships in the last 3 years

None

Kate Spargo

Independent Non-Executive Director

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

60,000 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)

Former Listed Directorships in the last 3 years

Non-executive director CIMIC Group Ltd (September 2017 to April 2022)

Trent Peterson

Independent Non-Executive Director

Trent has over 20 years of investment and private equity experience, focused primarily on businesses operating in consumer, retail and media sectors. Trent is Managing Director of Catalyst Investment Managers and the founder and Managing Director of 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

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)

Interest in Adairs Limited shares and options

1,540,334 ordinary shares

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 Negociants Fine Wine Distributors) and Perennial Partners.

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

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 25 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

1,875,000 options

Other Current Listed Directorships

None

Former Listed Directorships in the last 3 years

None

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 2022 financial year and the number of meetings attended by the members of the Board or the relevant Committee.

			Meetings of Committees					
	Board		Audit		Nomination		Remuneration	
Director	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**	**Held**	**Attended**
B Chenoweth	16	16	4	4	1	1	2	2
D MacLean	16	16	-	-	1	1	2	2
T Peterson	16	16	4	4	1	1	2	2
M Cherubino	16	16	-	-	1	1	-	-
K Spargo	16	16	4	4	1	1	2	2
M Ronan	16	16	-	-	1	1	-	-
K Grant	16	16	-	-	1	1	2	2
S West	16	15	4	4	1	1	-	-

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 29 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 61.

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 28 June 2021 to 26 June 2022 (FY22). 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.

Name	Position
Non-executive Directors	
Brett Chenoweth	Independent, Non-executive Chair
Kiera Grant	Independent, Non-executive Director
Trent Peterson	Independent, Non-executive Director
Kate Spargo	Independent, Non-executive Director
Simon West	Independent, Non-executive Director (resigned 24 June 2022)
David MacLean	Non-executive Director
Executive Directors	
Mark Ronan	Chief Executive Officer (CEO) and Managing Director
Michael Cherubino	Executive Director Property and Business Development
Other Key Management Personnel	
Ashley Gardner	Chief Financial Officer (CFO)

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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.

In 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).

In November 2021 Adairs announced the acquisition of Focus on Furniture ('Focus'), a highly profitable furniture retailer operating in Australia, with a head office in Melbourne. Focus offers customers a carefully curated range of in-house designed quality furniture products, with high levels of in-stock availability, and attractive value for money. The acquisition increases the Group's exposure to the bulky furniture category (an $8.3 billion+ market). Focus has clear growth opportunities through store roll-out, online growth and category/range expansion. We are pleased with the performance of this business since acquisition and the way the Focus management team have engaged within the Group. They share our passion for high levels of customer service and retail execution excellence.

Operationally FY22 brought significant COVID-19 disruptions to the Group's supply chain and the DC operations of Adairs and Mocka which adversely impacted financial results. Our cost of doing business increased significantly with most of this increase being one-off or short-term in nature so should not impact future years.

From a trading perspective the Group continued to be impacted by COVID, with 16% of trading days lost in FY22 due to government mandated store closures, with the majority of lost in the first half. Despite this, Group revenue grew 12.9% to $564.5 million and on a like-for-like basis (removing the impact of store closures and the Focus acquisition) declined by 2.0% after the Group cycled the record result of FY21. Group online sales grew to $195.4 million and represent 34.6% of total sales.

Underlying Group EBIT[1] fell 30.0% to $76.4 million. While the earnings decline was disappointing, the causes are well understood and EBIT remains over 38% ahead of FY20 (Pre-COVID) levels. Adairs contributed $55.5 million of this EBIT result, Mocka $3.7 million and Focus $17.2 million for its seven months of ownership.

FY22 Remuneration

Remuneration packages: To remain competitive in attracting and retaining key talent during the 2022 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 12%. There were no significant changes made to the remuneration packages of the Senior Executives in relation to their short-term or long-term incentive as a % of their overall salary package, except for the Executive Director of Property and Business Development. The remuneration committee increased Michael Cherubino's short-term incentive by 20% 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 period.

Short term incentive: The Group's short-term incentive ("STI") plan rewards senior executives for performance against financial measures. The FY22 financial targets were not achieved and as a result, there are no short-term incentive entitlements payable to the Senior Executives in relation to FY22.

Long term incentive: Long term incentives ("LTI") issued to Senior Executives in FY22 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 continues to provide an interest free, non-recourse loan to Ashley Gardner. This loan was made in FY20. Details of this arrangement are included in Section 7 of this Remuneration Report.

1. Underlying Group EBIT (unaudited) excludes the impact of (i) AASB 16, (ii) one-off costs associated with the transition to the new National Distribution Centre, and (iii) Focus and Mocka related acquisition costs (including earn-out related adjustments)

Fees for Non-executive Directors: The level of fees paid to Non-executive Directors 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. Fees are set at levels which reflect market conditions and allow the company 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 FY22 review highlighted that despite the added complexity of the Group and the additional call made on Non-executive Director time following the acquisitions of Mocka in FY20 and Focus in FY22, there had been no changes in Non-executive Director fees for the past 2.5 years. Further, several Board committee roles had historically been unpaid roles and had not been provided for in the approved fee pool. As a result, the company obtained approval from shareholders to increase the fee pool to $800,000 per annum and made the following amendments to underlying director fees:

Role	Previous Fee	New Fee[2]
Chairman of the Board	150,000[1]	200,000
Non-Executive Directors	80,000	90,000
Chairman of the Audit and Risk Committee	10,000	12,000

Role	Previous Fee	New Fee
Member of the Audit and Risk Committee	Nil	4,000
Chairman of the Remuneration Committee	Nil	5,000
Member of the Remuneration Committee	Nil	2,000

1. This previous fee level is the level paid to the previous Chairman of the Board.
2. The new fee arrangement commenced on 1 January 2022.

The Board believes the revised fees 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 simple and can be 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 marketplace.

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, processes, and team depth to manage its reliance on any given individual within its leadership team (which includes the KMP). This extends to remuneration, where it seeks to ensure the remuneration architecture and individual arrangements are orderly and considered. Finally, the Group seeks to respond to changes in an individual's circumstance or 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.

In addition, the Board and Remuneration Committee carefully considers the alignment between the Company's values and strategy and the approach to remuneration. We are also mindful of our commitments to meeting and maintaining robust standards of corporate governance and ensuring any material ESG breach has direct implications for executive remuneration.

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 (for example a company restructure or change of role). The Remuneration Committee obtains independent external remuneration advice where appropriate. During the year the Remuneration Committee engaged KPMG to review the Group's LTI scheme given the acquisition of Focus with the view of determining the appropriate scheme design to reflect the Group's multi brand strategy. This engagement is ongoing at the date of this Annual Report and the KPMG fee is quoted at $25,000 to $30,000.

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.

The company has recently engaged KPMG to assist in a review of the company's at-risk remuneration structures and opportunities for the executive teams of each of the group's businesses. This review did not impact the approach to remuneration in FY22. The Company continues to work with KPMG to refine a new LTI plan and our approach to STI for FY23 and beyond. The conclusions of this review include a move to the use of Performance Rights for the FY23 grant and beyond. For KMP, the primary performance measure will be EPS, and the performance period will be 3 years. The FY23 allocation to the CEO is set at 90% of total fixed remuneration (TFR), and for the CFO and the Executive Director Property and Business Development will be 84% and 50% of TFR respectively. No other remuneration consultants or external advisors provided a remuneration recommendation during the 52 weeks ended 26 June 2022.

SECTION 4: COMPANY PERFORMANCE – RELATIONSHIP BETWEEN FINANCIAL PERFORMANCE AND REMUNERATION

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

The FY22 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 FY22 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 FY22 LTI scheme for the issue of share options to certain Executive Directors of the Company was obtained at the Annual General Meeting on 20 October 2021.

The following table shows the Group's financial performance for FY18 to FY22.

Continuing Operations	FY22[1] Performance	FY21 Performance	FY20[2] Performance	FY19 Performance	FY18[3] Performance
Sales ($'000)	$564,476	$499,762	$388,933	$344,430	$314,769
Like for like sales (%)	-2.0%	+16.5%	+12.6%	+7.2%	+14.3%
EBIT ($'000)1	$72,386	$102,716	$59,041	$43,446	$45,261
Net profit before tax ($'000)	$64,609	$95,290	$52,791	$42,286	$43,816
Net profit after tax ($'000)	$44,890	$63,742	$35,281	$29,643	$30,561
Share price at end of year	$1.98	$4.20	$2.25	$1.42	$2.23
Dividends paid per shares	18.0 cents	23.0 cents	11.0 cents	14.5 cents	13.5 cents
Earnings per share	26 cents	38 cents	21 cents	18 cents	18 cents

1. FY22 performance includes Focus for 30 weeks. EBIT is therefore not comparable to prior periods. Like for like sales (Non-IFRS) excludes Focus.
2. FY20 performance includes Mocka for 30 weeks and the adoption of AASB 16 Leases for the first time. EBIT is therefore not comparable to prior periods. Like for like sales excludes Mocka.
3. Due to adoption of AASB 15 in FY19, FY18 is 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 (at risk) components for a Senior Executive is determined having regard to the seniority of the role, the responsibilities of the role for driving business performance and responsibilities for developing and implementing business strategy.

The mix of fixed remuneration, STI and LTI elements as a percentage of total target remuneration for FY22 was as follows:

Figure 1:

	% of total target remuneration for FY22			
Senior Executive	**Fixed remuneration**	**At risk remuneration STI maximum opportunity**	**At risk remuneration LTI – FY22 Tranche[1]**	**At risk remuneration LTI - Prior Year Tranches[2]**
Mark Ronan	45%	32%	4%	19%
Michael Cherubino	51%	32%	3%	14%
Ashley Gardner	45%	32%	4%	19%

1. LTI Options are eligible to vest on 29 June 2025, subject to service and performance conditions.
2. Share based payment expense recorded in FY22 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.

KMP base salaries are reviewed on an annual basis 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. Salaries are benchmarked against the base salary levels for a comparable role in similarly sized public companies operating in the specialty retail industry in Australia, 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.

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 the Company (EBIT benchmark). If the EBIT benchmark is not achieved no STI is payable to any Senior Executive, unless the Board elects to exercise its discretion (which happens rarely). 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**
Performance conditions:	
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, prior year results, and the Boards assessment of the risks and opportunities to deliver certain results in the period. At each tier a prescribed percentage of an individuals maximum STI opportunity is notionally payable. The Remuneration Committee has the ability to subsequently adjust EBIT targets for any significant changes including, but not limited to, material 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 KPI's.
Continuing service conditions	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 FY22

For the STI targets, the Board continues to use underlying EBIT as the primary measure of the Company's performance. EBIT as a financial measure is well understood within the Company, is consistently tracked and reported by the Board and the KMP. Underlying EBIT is regarded as a key indicator of the Group's financial results in the eyes of the investment community and is a reasonable proxy for the operating cash generation of the business. The Board retains discretion to normalise either the EBIT targets or the EBIT outcomes where highly unusual events or circumstances arose in the financial year. However, the Board would only use this discretion in compelling circumstances, specifically where it considers that inappropriate remuneration outcomes were likely to arise in the absence of the use of such discretion.

At the beginning of FY22 the Board set a minimum FY22 EBIT benchmark of $87.4 million and a maximum FY22 EBIT benchmark of $103.6 million. These targets represented a c.17.9% and c.23.3% CAGR respectively on FY18 Underlying EBIT ($45.3 million). The FY22 EBIT targets were set at a time where it was clear that some level of mandated store closures would occur in FY22, however the full extent and duration of these was highly uncertain. The store closures that ultimately occurred in FY22 were significant and had a material and adverse impact on the FY22 financial performance. While these closures were (in all material respects) beyond the control of management and could not be substantially mitigated through their actions, the targets were not adjusted, and the financial outcomes that eventuated were not normalised.

In setting the benchmarks for FY22, the Board considered a range of variables and inputs. The primary input for the FY22 EBIT targets for the STI was the Board approved budget. The Board recognises the scope for error in budgeting and acknowledged that budgeting in FY22 was especially challenging. The Board considered that the uncertainties emerging at the end of FY21 and beginning of FY22 resulted in scope for a wider range of sales and earnings outcomes in FY22 than is the case in a more normal operating environment.

FY21 was a very strong year for the Group with an Underlying EBIT result ($109.1 million) that was considered unlikely to be met or exceeded in FY22. The Board reached this view having regard to the favorable trading conditions seen in FY21, coupled with the difficult trading conditions emerging in FY22. At the time of setting the FY22 budget and STI plan EBIT targets, there was an increasing prospect of periods of store closures in key markets, however the duration, breadth and specific circumstances remained uncertain. Further, it was considered unlikely that the JobKeeper wage subsidy program would continue to operate or be available to Adairs in the instance of store closures. The Board could also see evidence of a tightening labour market, ongoing risk of supply chain disruptions, and elevated freight costs persisting.

To sense test the proposed EBIT benchmarks for FY22 the Board also reviewed:

1. Sell-side analysts' consensus EBIT for FY22; and
2. The four-year CAGR's implied by the EBIT benchmarks

The Board's analysis of the implied four-year EBIT CAGR implied by the EBIT targets was used to look through the short-term distortions to earnings created by COVID-19 in FY20 and FY21.

The table below summarises the FY22 EBIT benchmark tiers and STI participation levels set by the Board:

Tier	FY22 EBIT benchmark	Implied FY22 EBIT CAGR v FY18 Underlying EBIT	Potential Incentive as a % of Maximum Potential Incentive
Level 0	<$87.4m	<17.9%	0%
Level 1	$87.4m	+17.9%	15%
Level 2	$90.4m	+18.9%	30%
Level 3	$93.4m	+19.8%	50%
Level 4	$98.0m	+21.3%	75%
Level 5	$103.6m	+23.0%	100%

Under the above tiers, if the FY22 EBIT was less than $87.4 million no incentive would be payable to any Adairs Senior Executive, regardless of whether they achieved their individual KPI's. If the FY22 EBIT met or exceeded the relevant EBIT benchmark level of $103.6 million, the Senior Executive has a notional entitlement to 100% of their maximum potential incentive, however they can forgo up to 50% of the notional entitlement, dependent upon the achievement of their two individual KPIs (25% each). Explained another way, if a participant's notional entitlement to an STI amount was $1,000 however one of their individual KPIs was not met, the individual would forego $250 (being 25% of their notional STI entitlement) and receive $750 as an STI amount.

Senior Executives were advised that for the purposes of determining if the EBIT benchmark had been met, the FY22 EBIT calculation would be adjusted for the following items ("STI adjustments"):

- Transition costs (one off in nature) in relation to the closure and relocation of the existing Distribution Centres to the new National Distribution Centre would be excluded;
- Any earnings contribution and costs associated with the acquisition of Focus (or any other acquisition) would be excluded; and
- any abnormal items (revenue or expense) as determined by the Board would be excluded.

At the end of FY22, the Remuneration Committee reviewed the performance of the business and the Senior Adairs Executives against their KPIs for the 52-week period from 28 June 2021 to 26 June 2022. The underlying EBIT of the Company was below the minimum threshold of $87.4 million. The Board acknowledged that the largest contributor to this shortfall in FY22 was the financial impact of the prolonged store closures in Victoria, NSW and ACT in the first half of FY22. Having regard to the results over recent years and the outcomes for participants in those years, it was not considered appropriate for the Board to exercise its discretion to pay any bonuses to KMP in relation to FY22. For the avoidance of doubt, the potential financial impact of an acquisition (including Focus) was not contemplated at the time of setting the FY22 EBIT targets. The positive earnings contribution of Focus in the last 30 weeks of FY22 was excluded from the results used to determine the STI outcomes of KMP in FY22. The results of this review were as follows:

Figure 2: Percentage of FY22 STI paid and forfeited for Senior Executives

Given the FY22 EBIT was less than $87.4 million the STI outcomes for FY22 were as follows:

Senior Executive	Target STI (Base) ($)	Actual STI awarded ($)	Actual STI awarded as % of maximum STI	% of maximum STI award forfeited
Mark Ronan	$511,000	$0	0%	100%
Michael Cherubino	$300,000	$0	0%	100%
Ashley Gardner	$385,000	$0	0%	100%

STI arrangements for FY23

Set out in Figure 3 (below) is the maximum STI opportunity for each Senior Executive for FY23. The maximum STI opportunity for Mark Ronan is $585,000 (80.1% of his fixed remuneration) and Ashley Gardner is $440,000 (80.0% of his fixed remuneration). The maximum STI opportunity for Michael Cherubino is $325,000 (66.3% of his fixed remuneration).

The FY23 STI for KMP will be predominantly based on Underlying EBIT. Similar performance targets and service conditions have been set as the FY22 STI (as set out above). The EBIT targets for FY23 have been set to include a full year of ownership of Focus and an expectation of no material periods of store closures. In setting these FY23 EBIT targets the Board has also taken into consideration the lower Australian Dollar and the emergence of a less favourable trading environment and having regard to the continued prospect of rising costs of doing business and increased pressures on household budgets. Details of the FY23 STI and any amounts awarded to Senior Executives will be disclosed in the FY23 Remuneration Report.

Figure 3: FY23 remuneration opportunities

Senior Executive	Fixed remuneration (for FY23)	Maximum STI opportunity for FY23[1]	% of fixed remuneration available as base STI
Mark Ronan	$730,000 (unchanged vs FY22)	$ 585,000	80.1%
Michael Cherubino	$490,000 (unchanged vs FY22)	$325,000	66.3%
Ashley Gardner	$550,000 (unchanged vs FY22)	$440,000	80.0%

1. This is based on the maximum STI opportunity. The actual reward is dependent on the achievement of performance conditions in FY23. 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 FY17. The plan assists in the motivation, retention and reward of Senior Executives. The Board believe that equity ownership and mechanics that allow key Senior Executives to share in shareholder value creation 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, however the Board is currently undertaking a review of the LTI for future years and expects changes to be implemented in relation to the FY23 grant.

LTIs issued to executives in FY22 were 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). As discussed earlier in this report, the review of our LTI plan has resulted in changes to the form of securities used for the FY23 grant, with a move to Performance Rights to be implemented.

LTI vesting and grants for FY22

In FY22, the LTI vesting outcomes for KMPs were as follows:

	LTI Plan/Vesting date	Condition met	Proportion of target LTI (%)	% of LTI Options that vested
Mark Ronan				
EPS performance condition (3 July 2017 to 30 June 2020)	FY18/30 June 2021	Yes	60%	100%
Sales performance condition (3 July 2017 to 30 June 2020)	FY18/30 June 2021	Yes	40%	100%
Service condition	30 June 2021	Yes		
Michael Cherubino				
EPS performance condition (3 July 2017 to 30 June 2020)	FY18/30 June 2021	Yes	60%	100%
Sales performance condition (3 July 2017 to 30 June 2020)	FY18/30 June 2021	Yes	40%	100%
Service condition	30 June 2021	Yes		

Details of the number of LTI Options exercised and lapsed during FY22 are detailed in Section 8 of this report.

On 20 October 2021, Mark Ronan, Michael Cherubino and Ashley Gardner received grants of LTI Options as their FY22 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 FY22.

The performance period is 3 financial years from 28 June 2021 to 30 June 2024. In addition to the performance condition, there is also a service condition which must be satisfied ending on 29 June 2025. 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 30 June 2025, being 3.7 years from the LTI Options grant date. The FY22 share options have a six-year expiry period (until 26 October 2027). After 26 October 2027, any unexercised LTI Options will lapse. On vesting, an exercise price of $3.95 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 2021 Annual General Meeting, rounded up to the nearest whole cent per share, plus 5 cents. LTI Options do not carry any voting or dividend entitlements prior to exercise.

Performance conditions

The LTI Options are subject to two performance conditions:

- **EPS performance condition** – 50% 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 30 June 2024.

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 3-year performance period	% of EPS LTI Options vest
Less than or equal to 0%	0%
Between 0% and 8%	pro-rata between 0% and 100%
Equal to, or greater than, 8%	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 clear 'line of sight' between Senior Executives' actions and outcomes, and the way in which their performance is measured.

The EPS growth performance measure for the FY22 tranche of the LTI was lowered to a range of 0% to 8% growth (from 5% to 15% for the FY21 LTI tranche). The adjustment to the EPS growth target range was made having regard to the fact that FY21 EPS would form the base line for this tranche, and we regarded the FY21 EPS as an elevated level from which to base a growth target for the reasons set out above. We expect EPS targets for future tranches of LTI to be set at higher levels. For the avoidance of doubt, the Board do not normally regard 0% EPS growth as adequate in normal circumstances to trigger vesting of LTI securities.

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.

- **TSR performance condition** – 50% of the LTI Options are subject to a 3-year total shareholder return (TSR) performance condition. This is based on the return a shareholder would obtain from holding a company's share over a 3-year period, taking into account factors such as changes in the market value of shares and dividends paid over that period.

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

TSR CAGR for 3-year performance period	% of TSR LTI Options that vest
Less than or equal to 8%	0%
Between 8% and 15%	pro-rata between 0% and 100%
Equal to, or greater than, 15.0%	100%

The TSR combines both share price appreciation and dividends received to show the total return to shareholders with the result expressed as a percentage of the starting share price. This percentage is then converted into a CAGR for the period 28 June 2021 to 30 June 2024. The starting value for the TSR performance hurdle is $3.76 representing the 5-day volume weighted average market price (VWAP) per share in the 5 days immediately following the release of the Company's FY21 result. The TSR performance period concludes with the closing price based on the 5-day VWAP of the Company's shares following the Company's FY24 full year results announcement.

Prior to FY22 the second performance condition was based upon total sales growth, and prior to that on like-for-like sales growth. The addition of other brands to the Group and the impact of COVID-19 (resulting in ongoing periods of store closures and store re-openings) has resulted in sales growth becoming more difficult to objectively calculate and a less reliable measure of underlying performance and brand health.

The Board believe TSR is a measure which supports alignment between the interests of management and the interests of shareholders. An 8% TSR is a level which approximates the long run average return available to investors in the Australian equity market (for example, the All Ordinaries Accumulation Index). The Board regard a 15% TSR as a level of return which, if met, would represent an attractive outcome for shareholders who owned shares in the Company for the duration of the performance period.

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 29 June 2025).

Treatment on cessation of employment

Where a Senior Executive ceases employment for cause or due to resignation, all unvested LTI Options lapse unless determined otherwise by the Board. 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 3 months after the actual change of control and will lapse after the end of that period (if not exercised).

Service Agreements

Adairs Holdings Australia Pty Ltd (ACN 128 275 838) (a wholly owned subsidiary of the Company) (Adairs 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.

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 $800,000 per annum was approved by shareholders at a general meeting of the Company on 20 October 2021.

Currently, annual base Non-executive Directors' fees (including superannuation where applicable) are $200,000 for the Chairman, $102,000 for the Chairman of the Audit & Risk Committee, $95,000 for the Chairman of the Remuneration Committee and $90,000 for each other Non-executive Director. An additional $4,000 was paid to members of the Audit & Risk Committee and $2,000 for members on the Remuneration Committee. No additional fees were paid to directors for their roles on the Nomination Committee.

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 FY20, 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, with the sum of the loan and his personal investment 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 amounting to $337,500 (assuming continued employment), 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 FY20 and there have been no further costs recognised by the Company in FY22 (FY21: $Nil).

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 26 June 2022	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[3]**	**Non-monetary benefits**	**Super-annuation**	**Other**			**Long Term Incentive Share options**	
Non-executive Directors									
Brett Chenoweth[1]	200,000	-	-	-	-	-	-	-	200,000
Trent Peterson[1]	89,500	-	-	-	-	-	-	-	89,500
Kate Spargo	88,369	-	-	8,837	-	-	-	-	97,206
David MacLean	67,888	-	-	18,294	-	-	-	-	86,182
Kiera Grant	78,348	-	-	7,835	-	-	-	-	86,183
Simon West[2]	79,257	-	-	7,926	-	-	-	-	87,183
Total Non-executive Directors	**603,362**	**-**	**-**	**42,892**	**-**	**-**	**-**	**-**	**646,254**
Executive Directors									
Mark Ronan	686,396	95,294	-	23,604	-	-	-	353,426	1,158,720
Michael Cherubino	456,214	52,941	-	27,536	-	-	-	156,337	693,028
Other Senior Executives									
Ashley Gardner	512,464	74,118	-	27,536	-	-	-	271,922	886,040
Total executive	**1,655,074**	**222,353**	**-**	**78,676**	**-**	**-**	**-**	**781,685**	**2,737,788**
Total 2022	**2,258,436**	**222,353**	**-**	**121,568**	**-**	**-**	**-**	**781,685**	**3,384,042**

1. The Director fees for Trent Peterson and Brett Chenoweth for the period July 2021 to June 2022 were paid to them directly. Until February 2020, director's fees for Trent were paid to Catalyst Investment Managers.
2. Simon West resigned from the Board on 24 June 2022
3. Short term cash incentives relate to the FY21 Deferred STI amortised over the service period.

Details of the remuneration of the Directors and KMP of the Group for the previous 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[3]**	**Non-monetary benefits**	**Super-annuation**	**Other**			**Long Term Incentive Share options**	
Non-executive Directors									
Brett Chenoweth[1,3]	125,000	-	-	-	-	-	-	-	125,000
Michael Butler[2]	44,140	-	-	4,193	-	-	-	-	48,333
Trent Peterson[3]	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
Total Non-executive Directors	**540,050**	**-**	**-**	**43,283**	**-**	**-**	**-**	**-**	**583,334**
Executive Directors									
Mark Ronan	615,992	489,706	-	21,668	-	-	-	545,455	1,672,820
Michael Cherubino	436,250	272,059	-	25,000	-	-	-	292,399	1,025,708
Other Senior Executives									
Ashley Gardner	478,750	380,882	-	25,000	-	-	-	119,142	1,003,774
Total executive	**1,530,992**	**1,142,647**	**-**	**71,668**	**-**	**-**	**-**	**956,996**	**3,702,303**
Total 2021	**2,071,042**	**1,142,647**	**-**	**114,951**	**-**	**-**	**-**	**956,996**	**4,285,636**

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. Until February 2020, director's fees for Trent Peterson were paid to Catalyst Investment Managers.

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 FY22.

No. of Shares	Held at 27 June 2021	Granted as Remuneration	Received on exercise of options	Other net change[1]	Held at 26 June 2022
Non-executive Directors					
Brett Chenoweth	-	-	-	66,312	66,312
Trent Peterson	1,405,334	-	-	135,000	1,540,334
Kate Spargo	41,667	-	-	18,333	60,000
David MacLean	2,993,486	-	-	-	2,993,486
Kiera Grant	170,427	-	-	-	170,427
Simon West	-	-	-	-	-
Executive Directors					
Mark Ronan	681,668	-	103,379	-	785,047
Michael Cherubino	2,117,209	-	-	-	2,117,209
Other Senior Executives					
Ashley Gardner	572,300	-	-	20,000	592,300

1. "Other net change" reflects on market ordinary share purchases made over the course of FY22.

Option issued to Key Management Personnel

The following table discloses the details of option schemes awarded to KMP in FY22 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
Non-executive Directors										
Brett Chenoweth	-	-					-	-		
Trent Peterson	-	-					-	-		
Kate Spargo	-	-					-	-		
David MacLean	-	-					-	-		
Kiera Grant	-	-					-	-		
Simon West	-	-					-	-		
Executive Directors										
Mark Ronan	18 Nov 16	651,000	$0.27				103,379	$2.00	30 Jun 20	18 Nov 22
	2 Nov 17	900,000	$0.39	900,000	100%		-	$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
	20 Oct 21	800,000	$0.88				-	$3.95	29 Jun 25	20 Oct 27
Michael Cherubino	2 Nov 17	510,000	$0.39	510,000	100%		-	$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
	20 Oct 21	350,000	$0.88				-	$3.95	29 Jun 25	20 Oct 27
Other Senior Executives										
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
	20 Oct 21	600,000	$0.88				-	$3.95	29 Jun 25	20 Oct 27

REMUNERATION REPORT (AUDITED) *continued*

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 FY22. This was the sixth year options were granted to Senior Executives as LTI remuneration.

No. of Share Options	Held at 27 June 2021	Quantity Granted	Exercised	Forfeited	Lapsed	Held at 26 June 2022	Vested %	Vested and exercisable as at 26 June 2022
Non-executive Directors								
Brett Chenoweth	-	-	-	-	-	-	-	-
Trent Peterson	-	-	-	-	-	-	-	-
Kate Spargo	-	-	-	-	-	-	-	-
David MacLean	-	-	-	-	-	-	-	-
Simon West	-	-	-	-	-	-	-	-
Kiera Grant	-	-	-	-	-	-	-	-
Executive Directors								
Mark Ronan	3,118,379	800,000	(103,379)	-	-	3,815,000	23.6%	900,000
Michael Cherubino	1,525,000	350,000	-	-	-	1,875,000	27.2%	510,000
Other Senior Executives								
Ashley Gardner	1,225,000	600,000	-	-	-	1,825,000	-	-

For details on the valuation of the options, including models and assumptions used, please refer to Note 27.

Signed in accordance with a resolution of the directors.

On behalf of the Board

Brett Chenoweth
Chair

Mark Ronan
Chief Executive Officer and Managing Director

Melbourne
22 August 2022

AUDITOR'S INDEPENDENCE DECLARATION

Building a better working world

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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 26 June 2022, 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;

b. No contraventions of any applicable code of professional conduct in relation to the audit; and

c. No non-audit services provided that contravene 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 year.

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner
22 August 2022

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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 26 June 2022, 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 26 June 2022 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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Carrying value and existence of inventories

Why significant	How our audit addressed the key audit matter
As at 26 June 2022, the Group held $99.1m in inventories representing 16%of total assets. The Group's Inventories are held at a number of warehouses and through a widely dispersed store network. Some of the Group's inventories are held at third party managed warehouse facilities. 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 judgement 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 and exchange rates. Judgements 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 judgement involved in estimating the value of inventory which may be sold below cost and determining the net realisable value of this inventory. Such judgements include expectations for future sales including consideration of promotions and clearance campaigns. Given the significance of the inventory balance and judgement involved in determining the carrying value of inventories, this was considered a key audit matter.	Our audit procedures included the following: ► Assessed the application of inventory costing methodologies, and whether they were consistent with Australian Accounting Standards. ► Tested the effectiveness of relevant controls in relation to the stores inventory count process, inventory costing process. ► Assessed the accuracy of the Group's inventory costing model on a sample basis. ► For a sample of stores and warehouses, independently counted a sample of inventories on hand at 26 June 2022. Independently confirmed inventories held by third party warehouses at 26 June 2022. ► 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. ► Considered the impact on inventory provisions of retail sales at or subsequent to 26 June 2022 and compared the selling prices with the carrying value of inventories inclusive of costs necessary to complete the sale.

Carrying value of intangible assets

Why significant	How our audit addressed the key audit matter
As at 26 June 2022, 44%of the Group's total assets was represented by goodwill and indefinite life brand names recognised from business combinations. As detailed in Note 2.4(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, Mocka and Focus segment level. The recoverable amounts have been determined based on a value-in-use model referencing discounted cash flow forecasts. This model contains estimates and significant judgements regarding future projections and the achievement of those forecasts which are critical to the assessment of impairment, particularly planned growth rates and gross margins. These estimates are based on conditions existing and emerging as at 26 June 2022. Note 10 of the financial report details the assessment method, including the key underlying assumptions. Carrying value of intangible assets was considered a key audit matter due to the significance of this balance and the judgements involved in the impairment assessment.	Our audit procedures, involving our valuation specialists where necessary, included the following; ► Assessed the Group's methodology for determining recoverable amount. ► Assessed the key inputs and assumptions, including forecasted cash flows, gross margins, discount rates and growth rates adopted in the recoverable amount model. We agreed the forecast cashflows to the Board approved 2023 budget. ► Performed sensitivity analysis on key inputs, assumptions and forecast financial performance to determine whether any reasonably possible change could result in impairment. ► Compared earnings multiples derived from the Group's value in use model to those observable from external market data of comparable listed entities. ► Assessed the adequacy of the related disclosures made in the financial report.

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Acquisition of ReFocus Furniture Pty Ltd

Why significant	How our audit addressed the key audit matter
The Group acquired ReFocus Furniture Pty Ltd ("Focus") on 1 December 2021 for a total consideration of $81.3m. As detailed in Note 2.4(z) and Note 11 of the financial report, business combinations are accounted for using the acquisition method. The Group recognised $40.3m of identifiable net assets at fair value including indefinite life brand names intangible asset of $40.0m. Goodwill arising on acquisition was $41.0m. The acquisition of Focus was considered a key audit matter due to the significance of the transaction and the judgement involved in the valuation and recognition of assets and liabilities, and the resulting goodwill arising from the acquisition.	Our audit procedures, involving our valuation and tax specialists where necessary, included the following; ► We reviewed the Share sale and purchase agreement in assessing management's treatment of the acquisition. ► Assessed management's application of the acquisition method of accounting for business combinations. ► Assessed the completeness of identifiable assets and liabilities recognised by management. ► Assessed the valuation of assets and liabilities recognised including the appropriateness of methods and inputs used to value indefinite life brand names recognised and associated deferred tax balances. ► Tested the cash paid and shares issued as purchase consideration. ► Assessed the adequacy of the related disclosures made in the financial report.

Information other than the financial report and auditor's report thereon

The directors are responsible for the other information. The other information comprises the information included in the Company's 2022 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.

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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 judgement 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.
- 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.

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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.

Report on the audit of the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 43 to 60 of the directors' report for the 52 weeks ended 26 June 2022.

In our opinion, the Remuneration Report of Adairs Limited for the 52 weeks ended 26 June 2022, complies with section 300A of the Corporations Act 2001.

Responsibilities

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

Ernst & Young

Ernst & Young

Tony Morse

Tony Morse
Partner

Melbourne
22 August 2022

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 26 June 2022 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 June 2022 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 26 June 2022.

On behalf of the board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director and Chief Executive Officer

Melbourne
22 August 2022

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE 52 WEEKS ENDED 26 JUNE 2022

	Note	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Revenue from contracts with customers	4(a)	564,476	499,762
Revenues		**564,476**	**499,762**
Cost of sales		(255,610)	(196,469)
Gross profit		**308,866**	**303,293**
Other income	4(b)	465	174
Depreciation and amortisation expenses	4(c)	(51,292)	(44,575)
Finance expenses	4(d)	(8,325)	(7,457)
Salaries and employee benefits expenses	4(e)	(109,520)	(100,868)
Occupancy expenses		(9,356)	(5,059)
Advertising expenses		(17,686)	(15,564)
Other expenses from ordinary activities	4(f)	(46,527)	(27,071)
Costs associated with the acquisition of Subsidiaries	4(g)	(2,016)	(7,583)
Profit before income tax		**64,609**	**95,290**
Income tax expense	5	(19,719)	(31,548)
Profit for the period		**44,890**	**63,742**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	24	26.4 cents	37.7 cents
Diluted earnings per share	24	25.9 cents	36.5 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 26 JUNE 2022

	Note	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Profit for the period		**44,890**	**63,742**
Other comprehensive income			
Items that may be reclassified subsequently to profit and loss (net of tax):			
Net movement of cash flow hedges		13,977	(911)
Income tax relating to the components of other comprehensive income	5	(4,193)	273
Exchange differences on translation of foreign operations		(402)	97
Other comprehensive income/(loss) for the period, net of tax		**9,382**	**(541)**
Total comprehensive income for the period		**54,272**	**63,201**

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 26 JUNE 2022

	Note	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Assets			
Current Assets			
Cash and cash equivalents	6	26,075	25,970
Trade and other receivables	7	5,748	2,276
Inventories	8	99,064	67,996
Current tax receivables		3,577	-
Other assets	7	10,809	10,143
Derivative financial instruments	19	11,583	-
Total Current Assets		**156,856**	**106,385**
Non-Current Assets			
Property, plant and equipment	9	23,554	21,168
Intangibles	10	278,785	197,340
Right-of-use assets	18	166,019	89,579
Derivative financial instruments	19	2,242	357
Total Non-Current Assets		**470,600**	**308,444**
Total Assets		**627,456**	**414,829**
Liabilities			
Current Liabilities			
Trade and other payables	12	51,628	43,811
Other liabilities	14	26,644	15,034
Earn-out liabilities	13	200	44,726
Lease liabilities	18	45,820	33,473
Current tax liabilities		-	14,453
Provisions	16	11,055	7,785
Derivative financial instruments	19	-	507
Total Current Liabilities		**135,347**	**159,789**
Non-Current Liabilities			
Other liabilities	14	1,338	1,460
Earn-out liabilities	13	461	1,012
Deferred tax liabilities	5	24,675	11,037
Borrowings	15	119,233	-
Lease liabilities	18	142,132	73,721
Provisions	16	6,387	3,150
Total Non-Current Liabilities		**294,226**	**90,380**
Total Liabilities		**429,573**	**250,169**
Net Assets		**197,883**	**164,660**
Equity			
Contributed equity	17(a)	81,235	73,823
Share-based payment reserve	17(b)	4,147	2,030
Cash flow hedge reserve	17(d)	9,678	(106)
Foreign currency translation reserve	17(c)	(503)	(101)
Retained earnings	17(e)	103,326	89,014
Total Equity		**197,883**	**164,660**

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 26 JUNE 2022

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 27 June 2021		**73,823**	**2,030**	**(106)**	**(101)**	**89,014**	**164,660**
Profit for the period		-	-	-	-	44,890	44,890
Other comprehensive income for the period		-	-	9,784	(402)	-	9,382
Total comprehensive income for the period		**-**	**-**	**9,784**	**(402)**	**44,890**	**54,272**
Transactions with owners in their capacity as owners:							
Dividends declared	26	-	-	-	-	(30,578)	(30,578)
Dividend reinvestment plan	17(a)	1,205	-	-	-	-	1,205
Exercise of share options	17(a)	207	-	-	-	-	207
Share-based payments	27	-	2,117	-	-	-	2,117
Issued shares	17(a)	6,000	-	-	-	-	6,000
At 26 June 2022		**81,235**	**4,147**	**9,678**	**(503)**	**103,326**	**197,883**

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
At 28 June 2020		**74,098**	**289**	**532**	**(198)**	**65,850**	**140,571**
Profit for the period		-	-	-	-	63,742	63,742
Other comprehensive income for the period		-	-	(638)	97	-	(541)
Total comprehensive income for the period		**-**	**-**	**(638)**	**97**	**63,742**	**63,201**
Transactions with owners in their capacity as owners:							
Dividend declared	26	-	-	-	-	(40,578)	(40,578)
Exercise of share options	17(a)	(275)	-	-	-	-	(275)
Share-based payments	27	-	1,741	-	-	-	1,741
At 27 June 2021		**73,823**	**2,030**	**(106)**	**(101)**	**89,014**	**164,660**

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 26 JUNE 2022

	Note	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		620,826	554,429
Payments to suppliers and employees (inclusive of GST)		(505,903)	(413,709)
Interest received		-	31
Income tax paid		(36,896)	(27,901)
Receipts of Government grants		-	14,898
Repayment of Government grants		-	(6,077)
Interest paid		(7,514)	(4,799)
Payment of employee benefits related to Mocka earn-out(1)		(9,345)	-
Net cash flows from operating activities	6	**61,168**	**116,872**
Cash flows from investing activities			
Acquisition of property, plant and equipment and intangibles		(9,007)	(11,348)
Payment of Mocka earn-out liability(1)		(36,386)	-
Payment for the acquisition of Focus, net of cash acquired	11	(62,762)	-
Net cash flows used in investing activities		**(108,155)**	**(11,348)**
Cash flows from financing activities			
Drawings of borrowings		176,000	12,000
Repayment of borrowings		(56,000)	(38,000)
Payment of borrowing costs		(820)	-
Dividends paid	26	(29,374)	(40,578)
Payment of principal portion of lease liabilities		(42,527)	(36,618)
Net receipt/(payment) from exercise of share options		207	(275)
Net cash flows from/(used in) financing activities		**47,486**	**(103,471)**
Net increase in cash and cash equivalents		499	2,053
Net foreign exchange differences		(394)	(5)
Cash and cash equivalents at beginning of the period		25,970	23,922
Cash and cash equivalents at end of period	6	**26,075**	**25,970**

1. Total payment of Mocka earn-out liability was $45,731,000.

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 26 JUNE 2022

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ended 26 June 2022 were authorised for issue in accordance with a resolution of the directors on 22 August 2022.

Adairs operates on a retail accounting calendar which consists of four 13 week 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 FY2022, there was a 52 week reporting period (the comparative FY2021 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 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. 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 27 June 2021, except as follows:

i. New and amended standards and interpretations

The Group applied for the first-time certain standards and amendments, which are effective for annual periods beginning on or after 1 July 2021 (unless otherwise stated). The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

a. AASB 2020-8 Amendments to AASs – Interest Rate Benchmark Reform – Phase 2

The second phase of the project addressing the financial reporting effects of Interbank offered rates (IBOR) reform has been completed. This phase focuses on issues that might affect financial reporting upon replacement of existing interest rate benchmarks, and amends the requirements in AASB 9 *Financial Instruments*, AASB 139 *Financial Instruments: Recognition and Measurement*, AASB 7 *Financial Instruments: Disclosures*, AASB 4 *Insurance Contracts* and AASB 16 *Leases*.

The objective of the amendments is to minimise the financial reporting consequences of a change in benchmark interest rates that Australian Accounting Standards may otherwise require, such as the derecognition or remeasurement of financial instruments, and the discontinuation of hedge accounting.

Provided that the contractual interest rate remains substantially similar before and after the replacement, the amendments:

- Require changes to future cash flows that are directly required by the IBOR reform to be treated as if they were changes to a floating interest rate. Applying this expedient would not affect the carrying amount of the financial instrument. It also relieves entities of the need to assess whether modification or derecognition accounting applies under AASB 9 and AASB 139.
- Require changes to lease payments that are directly caused by the IBOR reform to be accounted for as a remeasurement of the lease liability using a revised discount rate – being the original discount rate adjusted only for changes caused by the IBOR reform. A corresponding adjustment to the right-of-use-asset follows. This expedient exempts entities from remeasuring the lease liability using a newly determined discount rate otherwise required for lease modifications.

For IBOR reform, entities could alter hedge designation and documentation without discontinuing hedge accounting, provided that the hedge continues to meet other hedge accounting criteria. Permitted changes include redefining the hedged risk and redefining the description of the hedging instruments and/or the hedged items.

Insurers who are still applying AASB 139 would also be subject to the same mandatory reliefs.

Entities are required to provide disclosures that help readers understand the effect of the IBOR reform on the financial statements and risk management strategies, including the progress in completing the transition to alternative benchmark rates and how such transition is being managed.

These amendments apply retrospectively. However, restatement of prior periods is not required and only permitted if such restatement is possible without the use of hindsight. Earlier application of the amendments is permitted.

These amendments had no significant impact on the consolidated financial statements of the Group.

b. AASB 2021-3 Amendments to AASs – COVID-19-Related Rent Concessions beyond 30 June 2021

Due to the COVID-19 pandemic, many lessors have granted rent concessions to lessees that impact lease payments.

From the lessee's perspective, a change in lease payments that was contemplated in the original terms and conditions of the lease would not be accounted for as a lease modification. For example, it might be treated as a variable lease payment, with the effect of the rent concession recognised in profit or loss. In contrast, accounting for a lease modification generally requires a lessee to remeasure the lease liability by discounting the revised lease payments using a new discount rate.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

Concerns were raised that assessing whether COVID-19 rent concessions are lease modifications could be challenging. Consequently, AASB 16 was amended in 2020, allowing lessees to not account for rent concessions as lease modifications, provided certain conditions are met.

In light of many other challenges lessees faced during the COVID-19 pandemic, AASB 16 was further amended to extend the coverage of this practical expedient from 30 June 2021 to 30 June 2022. Accordingly, if specified 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 specified conditions are:

- The change in lease payments results in revised consideration that is substantially the same as, or less than, the consideration immediately preceding the change
- There is no substantive change to other terms and conditions of the lease

A lessee that has previously established an accounting policy that applied the 2020 practical expedient would be required to apply the extended scope of the practical expedient to eligible contracts with similar characteristics and in similar circumstances.

A lessee that did not have eligible lease concessions previously can still decide whether to apply the practical expedient for the first time.

The amendment to AASB 16 is applied retrospectively with the cumulative effect of initial application recognised as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the beginning of the annual reporting period in which the lessee first applies the amendment. Earlier application of the amendment is permitted.

The Group has adopted the extended amendments to AASB 16 COVID-19 Related Rent Concessions.

ii. Accounting standards and interpretations issued but not yet effective

a. AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current

A liability is classified as current if the entity has no right at the end of the reporting period to defer settlement for at least 12 months after the reporting period. The AASB recently issued amendments to AASB 101 to further clarify the requirements for classifying liabilities as current or non-current. Further amendments have been proposed by the AASB:

- Specifying that conditions with which an entity must comply after the reporting period do not affect the classification at the reporting date
- Adding presentation and disclosure requirements for non-current liabilities subject to conditions in the next 12 months
- Clarifying specific situations in which an entity does not have a right to defer settlement for at least 12 months after the reporting date
- Deferring the effective date of the original amendments to no earlier than 1 January 2024

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. 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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

- 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. 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.

c. AASB 2021-5 Amendments to AASs – Deferred Tax related to Assets and Liabilities arising from a Single Transaction

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.

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 twelve months after the reporting period; or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

b. Trade and other receivables

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

c. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 26 June 2022. 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;
- 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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
- receivables and payables, which are stated with the amount of GST included.

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

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

g. Foreign currencies

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

i. Transactions and balances

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

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

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

ii. Group companies

On consolidation, the assets and liabilities of foreign operations are translated into Australian dollars at the rate of exchange prevailing at the reporting date and their statements of profit or loss are translated at exchange rates prevailing at the dates of the transactions. The exchange differences arising on translation for consolidation are recognised in OCI. On disposal of a foreign operation, the component of OCI relating to that particular foreign operation is reclassified to profit or loss.

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

h. Revenue from contracts with customers

Revenue from 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 or upon delivery to the customer.

- **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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 estimated 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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:

Class	Period
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.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 nature 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

All receivables from EFT, credit card and debit card point of sale transactions during the period are classified as cash and cash equivalents.

For the purposes of the Statement of Cash Flows, cash and cash equivalents includes cash on hand and in transit, at bank and on deposit, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

q. Employee benefits

i. Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits 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 Profit or Loss net of any reimbursement.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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

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 27.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 judgements

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 or fair value less costs of disposal 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 26 June 2022. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised at 26 June 2022 is $49,060,735 (2021: $51,017,878), which includes potential lease payments within the next five years of $9,745,747 (2021: $10,461,937) 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 given cancellable leases depend on whether the Group agrees to renew the lease under revised terms or exit the 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 26 June 2022, including management's assessment of the future cashflows. 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 27.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 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 maker, 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 three reportable operating segments.

The following tables present revenue and profit before tax information for the Group's operating segments for the 52 weeks ended 26 June 2022:

	Adairs $'000	Mocka $'000	Focus(1) $'000	Consolidated $'000
52 weeks ended 26 June 2022				
Revenue				
External customer	418,651	64,075	81,750	564,476
Inter-segment	-	-	-	-
Total revenue	**418,651**	**64,075**	**81,750**	**564,476**
Income/(expenses)				
Cost of sales	(168,670)	(44,384)	(42,556)	(255,610)
Other income	299	21	145	465
Depreciation and amortisation expenses	(42,731)	(1,294)	(7,267)	(51,292)
Salaries and employee benefits expense	(92,549)	(6,267)	(10,704)	(109,520)
Occupancy expenses	(7,183)	(417)	(1,756)	(9,356)
Advertising expenses	(13,071)	(3,695)	(920)	(17,686)
Other expenses from ordinary activities	(39,971)	(4,776)	(1,780)	(46,527)
Costs associated with the acquisition of subsidiaries	(2,016)	-	-	(2,016)
Earnings before interest and tax	**52,759**	**3,263**	**16,912**	**72,934**
Finance expenses	(6,979)	(97)	(1,249)	(8,325)
Profit before tax	**45,780**	**3,166**	**15,663**	**64,609**
As at 26 June 2022				
Total assets	**501,608**	**30,256**	**95,592**	**627,456**
Total liabilities	**352,268**	**6,709**	**70,596**	**429,573**

1. Focus was acquired by the Group on 1 December 2021.

	Adairs $'000	Mocka $'000	Consolidated $'000
52 weeks ended 27 June 2021			
Revenue			
External customer	439,605	60,157	499,762
Inter-segment	-	-	-
Total revenue	**439,605**	**60,157**	**499,762**
Income/(expenses)			
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	(24,003)	(3,069)	(27,071)
Costs associated with the acquisition of Mocka	(7,583)	-	(7,583)
Earnings before Interest and Tax	**90,568**	**12,179**	**102,747**
Finance expenses	(7,346)	(111)	(7,457)
Profit before tax	**83,222**	**12,067**	**95,290**
Total assets	**379,486**	**35,343**	**414,829**
Total liabilities	**241,133**	**9,036**	**250,169**

NOTE 4. REVENUES AND EXPENSES

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
(a) Revenue from contracts with customers		
Set out below is the disaggregation of the Group's revenue from contracts with customers:		
Types of goods and services		
Sale of goods and services – stores	369,061	312,718
Sale of goods and services – online	195,415	187,044
Total revenue from contracts with customers	**564,476**	**499,762**
(b) Other Income		
Interest income	–	31
Other	465	143
	465	**174**
(c) Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	7,373	9,204
Depreciation of right-of-use assets	42,687	34,009
Amortisation of computer software	1,232	1,362
	51,292	**44,575**
(d) Finance expenses		
Interest on borrowings and other finance costs	2,200	954
Interest on lease liabilities	5,314	3,866
Amortisation of borrowing costs	811	315
Discount expense on earn-out liabilities	–	2,322
	8,325	**7,457**
(e) Salaries and employee benefits expense		
Wages and salaries	100,225	92,987
Government grant income – wage subsidies	–	(6,077)
Government grant repaid	–	6,077
Defined contribution superannuation expense	7,888	6,140
Share-based payment expense	1,407	1,741
	109,520	**100,868**
(f) Other expenses from ordinary activities		
Credit card and merchant fees	5,993	5,482
Professional fees	3,398	4,104
Third party warehousing related charges	22,288	4,463
Packaging and consumables	1,190	1,965
IT Services	3,258	2,466
Asset, property and maintenance expenses	2,625	1,794
Other	7,775	6,797
	46,527	**27,071**
(g) Costs associated with the acquisition of subsidiaries		
Transaction costs	710	-
Fair value remeasurement of contingent consideration	1,006	164
Employee benefits expense from earn-out arrangement	–	7,600
Other	300	(181)
	2,016	**7,583**

NOTE 5. INCOME TAX

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
The major components of income tax expense are:		
Statement of Profit or Loss		
Current income tax		
Current income tax charge	19,776	32,501
Adjustments in respect of current income tax of previous years	135	(81)
Deferred income tax		
Relating to origination and reversal of temporary differences	(447)	(918)
Adjustments in respect of deferred income tax of previous years	255	46
Income tax expense reported in the Statement of Profit or Loss	**19,719**	**31,548**
Statement of Other Comprehensive Income		
Deferred income tax		
Relating to origination and reversal of temporary differences	4,193	(273)
Income tax expense/(benefit) reported in the Statement of Other Comprehensive Income	**4,193**	**(273)**
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:		
Total accounting profit before income tax	64,609	95,290
At the statutory income tax rate of 30% (2021: 30%)	19,383	28,587
Adjustments in respect of current income tax of previous years	135	(81)
Adjustments in respect of deferred income tax of previous years	255	46
Non-deductible expenses[1]	247	3,214
Effect of foreign tax rates	(82)	(218)
Other	(219)	-
Income tax expense reported in the Statement of Profit or Loss	**19,719**	**31,548**

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

NOTE 5. INCOME TAX *continued*

	Statement of Financial Position		Statement of Profit or Loss and Other Comprehensive Income	
	As at 26 June 2022 $'000	As at 27 June 2021 $'000	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Deferred income tax				
Deferred income tax relates to the following:				
Deferred tax assets				
Inventory	1,044	356		
Lease liabilities	53,970	29,830		
Other liabilities	3,720	3,670		
Provisions	7,663	5,728		
Financial Instruments	246	69		
Carry forward tax losses	133	-		
Unrealised foreign exchange	284	189		
Other	130	249		
Total deferred tax assets	**67,190**	**40,091**		
Deferred tax liabilities				
Other assets	(210)	(181)		
Property, plant and equipment	(3,229)	(1,753)		
Right-of-use assets	(49,898)	(26,774)		
Brand names	(33,425)	(22,329)		
Financial instruments	(4,147)	(24)		
Other payables	(6)	(7)		
Make good	(950)	(60)		
Total deferred tax liabilities	**(91,865)**	**(51,128)**		
Net deferred tax liabilities	**(24,675)**	**(11,037)**		
Amounts credited directly to profit and loss			192	872
Amounts credited directly to other comprehensive income			(4,193)	273
Amounts arising from acquisition of subsidiaries			(9,637)	-
Movement in net deferred tax liabilities			**(13,638)**	**1,145**

NOTE 6. CASH AND CASH EQUIVALENTS

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Cash at bank	25,970	25,882
Cash on hand	105	88
Total cash and cash equivalents	**26,075**	**25,970**

Statement of Cash Flows Reconciliation

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

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Net profit after tax	44,890	63,742
Adjustments and non-cash items		
Depreciation and amortisation expenses	51,292	44,575
Share-based payments expense	2,117	1,741
Costs associated with the acquisition of subsidiaries	1,006	7,583
Discount expense on earn-out liabilities	–	2,322
Amortisation of borrowing costs	811	315
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	(3,222)	673
(Increase)/Decrease in other assets	997	(3,704)
(Increase)/Decrease in inventories	(13,053)	(24,592)
Increase/(Decrease) in payables	2,776	14,040
Increase/(Decrease) in other liabilities	(449)	4,690
Increase/(Decrease) in deferred tax liabilities	(192)	(872)
Increase/(Decrease) in provisions	525	1,834
Increase/(Decrease) in current tax liabilities	(16,985)	4,525
Increase/(Decrease) in earn-out liabilities	(9,345)	-
Net cash flow from operating activities	**61,168**	**116,872**

NOTE 6. CASH AND CASH EQUIVALENTS *continued*

c. Reconciliation of liabilities arising from financing activities

52 weeks ended 26 June 2022	As at 27 June 2021 $'000	Net cash flows $'000	Non-cash changes modification gain $'000	Non-cash changes borrowing costs amortised $'000	Other $'000	As at 26 June 2022 $'000
Interest-bearing liabilities (Note 15)	-	120,000	-	811	(1,578)	119,233
Total liabilities from financing activities	**-**	**120,000**	**-**	**811**	**(1,578)**	**119,233**

52 weeks ended 27 June 2021	As at 28 June 2020 $'000	Net cash flows $'000	Non-cash changes modification gain $'000	Non-cash changes borrowing costs amortised $'000	Other $'000	As at 27 June 2021 $'000
Interest-bearing liabilities (Note 15)	24,927	(26,000)	-	315	758	-
Total liabilities from financing activities	**24,927**	**(26,000)**	**-**	**315**	**758**	**-**

The reconciliation of Lease liabilities is detailed within Note 18.

NOTE 7. TRADE AND OTHER RECEIVABLES AND OTHER ASSETS

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Trade and other receivables		
Other receivables	5,748	2,276
Trade and other receivables	**5,748**	**2,276**
Other assets		
Prepaid expenses	9,876	8,807
Deposits	788	463
Contract assets	145	115
Other	-	758
Other assets	**10,809**	**10,143**
Current	16,557	12,419
Non-current	-	-
Total trade and other receivables and other assets	**16,557**	**12,419**

Other receivables are non-interest bearing and no material provision for impairment (based on expected credit losses) has been recorded as at 26 June 2022 (2021: nil) as the amount is considered to be not material.

NOTE 8. INVENTORIES

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Stock on hand at lower of cost and net realisable value	86,097	58,125
Stock in transit at cost	12,967	9,871
Total inventories	**99,064**	**67,996**

During the 52 weeks ended 26 June 2022, $1,592,000 was recognised as an expense for inventories carried at net realisable value (2021: $39,000 expense). This is recognised in cost of sales.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	Shop Fixtures & Fittings $'000	Leasehold Improvements $'000	Computer Hardware $'000	Plant & Other Equipment $'000	Total $'000
Cost					
As at 28 June 2020	**54,280**	**1,066**	**5,736**	**7,747**	**68,829**
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)
As at 27 June 2021	**58,081**	**1,116**	**6,534**	**9,628**	**75,359**
Acquisition of a subsidiary	583	-	103	3,715	4,401
Additions	2,981	80	379	1,651	5,091
Additions - work in progress	918	-	-	-	918
Disposals	(2,806)	-	(667)	(1,291)	(4,764)
Exchange differences	(72)	-	(1)	(7)	(80)
As at 26 June 2022	**59,685**	**1,196**	**6,348**	**13,696**	**80,925**
Depreciation and impairment					
As at 28 June 2020	**37,922**	**534**	**3,968**	**5,562**	**47,986**
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)
As at 27 June 2021	**41,383**	**551**	**5,008**	**7,249**	**54,191**
Depreciation charge for the year	5,671	81	494	1,127	7,373
Disposals	(2,804)	-	(667)	(671)	(4,142)
Exchange differences	(47)	-	(1)	(3)	(51)
As at 26 June 2022	**44,203**	**632**	**4,834**	**7,702**	**57,371**
Net book value					
As at 27 June 2021	**16,698**	**565**	**1,526**	**2,379**	**21,168**
As at 26 June 2022	**15,482**	**564**	**1,514**	**5,994**	**23,554**

NOTE 9. PROPERTY, PLANT AND EQUIPMENT *continued*

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 26 June 2022 (2021: nil impairment loss was recognised).

NOTE 10. INTANGIBLES

	Software $'000	Brand Names and Trademarks $'000	Goodwill $'000	Total $'000
Cost or fair value				
As at 28 June 2020	**7,055**	**75,826**	**138,246**	**221,127**
Additions	595	-	-	595
Additions – work in progress	1,965	-	-	1,965
Exchange differences	(1)	-	-	(1)
As at 27 June 2021	**9,614**	**75,826**	**138,246**	**223,686**
Acquisition of a subsidiary	613	36,984	40,959	78,556
Additions	2,181	-	-	2,181
Additions – work in progress	2,033	-	-	2,033
Disposals	(58)	-	-	(58)
Exchange differences	(5)	-	-	(5)
As at 26 June 2022	**14,378**	**112,810**	**179,205**	**306,393**
Amortisation and impairment				
As at 28 June 2020	**5,074**	**-**	**19,910**	**24,984**
Amortisation	1,362	-	-	1,362
Disposals	-	-	-	-
Exchange differences	-	-	-	-
As at 27 June 2021	**6,436**	**-**	**19,910**	**26,346**
Amortisation	1,232	-	-	1,232
Disposals	31	-	-	31
Exchange differences	(1)	-	-	(1)
As at 26 June 2022	**7,698**	**-**	**19,910**	**27,608**
Net book value				
As at 27 June 2021	**3,178**	**75,826**	**118,336**	**197,340**
As at 26 June 2022	**6,680**	**112,810**	**159,295**	**278,785**

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 (CGUs) for the purpose of impairment testing.

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

	Adairs $'000	Mocka $'000	Focus $'000
Goodwill	57,532*	38,475*	29,864*
Brand	42,711	33,115	36,984

* 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, $9,934,000 for the Mocka CGU, and $11,095,000 for the Focus CGU.

The Group performed its annual impairment test for the Adairs, Mocka and Focus CGUs as at 26 June 2022, including intangible assets that are not yet available for use. 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 and endorsed by the Board covering a five-year period.

The estimate of the recoverable amount of each CGU is based on conditions existing and emerging as at 26 June 2022, including management's assessment as the Group emerges from the impacts of the COVID-19 pandemic, which continues to impact 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 26 June 2022			As at 27 June 2021		
	Adairs %	Mocka %	Focus %	Adairs %	Mocka %	Focus %
Pre-tax discount rate	13.40%	14.60%	13.80%	12.05%	12.95%	N/A
Long-term (terminal) growth rate	2.25%	2.25%	2.25%	2.25%	2.25%	N/A

NOTE 10. INTANGIBLES *continued*

Key assumptions used in value in use calculations

The calculation of value in use for all CGUs are most sensitive to the following assumptions:

Gross margin	Gross margins are based on average values achieved in the past and adjusted for future expectations.
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.

The Group's experience in recent periods in both Australia and New Zealand evidences its ability to respond and adapt to customers' changing needs and overall operating environment, as reflected in the Group's profitable trading performance for the 52 weeks ended 26 June 2022.

The Group believes that the assumptions adopted in the value-in-use calculations reflect an appropriate balance between its experience to date and the uncertainty associated with the current and expected future economic environment – which considers a higher inflationary environment and trends as the economy emerges from the COVID-19 pandemic. Short-term impacts experienced in recent periods by the Group, including temporary store closures arising from Government restrictions, are not expected to impact the long-term performance of the Group's businesses and results of the impairment testing at 26 June 2022.

Accordingly, no impairment was recorded for the 52 weeks ended 26 June 2022 (2021: 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. 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. 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. The acquisition has been accounted for using the acquisition method. The consolidated financial statements include the results of Focus for the 30 week period from the acquisition date.

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

	Fair value recognised on acquisition $'000
Assets	
Cash and cash equivalents	12,503
Trade and other receivables	250
Inventories	18,015
Current tax receivables	1,048
Derivative financial instruments	274
Other assets	1,664
Property, plant and equipment	4,401
Intangibles – software	613
Intangibles – brand	36,984
Right-of-use assets	61,283
Total assets	**137,035**
Liabilities	
Trade and other payables	8,632
Other liabilities	11,584
Provisions	5,512
Lease liabilities	61,283
Deferred tax liabilities	9,718
Total liabilities	**96,729**
Total identifiable net assets at fair value	**40,306**
Goodwill arising on acquisition	40,959
Purchase consideration transferred	**81,265**
Purchase consideration	
Cash	75,265
Shares issued	6,000
Purchase consideration transferred	**81,265**
Cash flow on acquisition	
Net cash acquired with the subsidiary	12,503
Cash paid	(75,265)
Payment for the acquisition, net of cash acquired	**(62,762)**

NOTE 11. BUSINESS COMBINATIONS *continued*

The net assets recognised in the 26 December 2021 interim financial statements were based on a provisional assessment of their fair value which was subject to finalisation by the Group. Upon finalisation, Goodwill reduced by $477,401 as compared to the provisional accounting. The final goodwill recognised of $40,958,999 represents the fair value of expected future synergies arising from the acquisition.

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.

Acquisition related 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 $81,750,000 to revenue and $15,663,000 to profit before tax from continuing operations of the Group. If the business combination had taken place at the beginning of the year, revenue would have increased by $52,750,000 to $617,226,000 for the Group.

NOTE 12. TRADE AND OTHER PAYABLES

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Trade creditors	33,234	21,321
Accrued expenses	15,188	19,368
Other payables	3,206	3,122
Total current trade and other payables	**51,628**	**43,811**
Current	51,628	43,811
Non-current	–	–
Total trade and other payables	**51,628**	**43,811**

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 13. EARN-OUT LIABILITIES

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Mocka contingent consideration	-	35,381
Mocka vendor remuneration provision	-	9,345
Other	200	-
Total current earn-out liabilities	**200**	**44,726**
Other	461	1,012
Total non-current earn-out liabilities	**461**	**1,012**
Current	200	44,726
Non-current	461	1,012
Total earn-out liabilities	**661**	**45,738**

Earn-out liabilities relate to future payments to be made with respect to brand name asset acquisitions.

NOTE 14. OTHER LIABILITIES

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current other liabilities		
Undelivered customer orders and deposits	16,939	5,062
Other liabilities	9,705	9,972
Total current other liabilities	**26,644**	**15,034**
Non-current other liabilities		
Other liabilities	1,338	1,460
Total non-current other liabilities	**1,338**	**1,460**
Current	26,644	15,034
Non-current	1,338	1,460
Total other liabilities	**27,982**	**16,494**

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, 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 15. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Non-current				
Bank Loan – Facility A	BBSW + 2.05	31 July 2023	75,000	-
Bank Loan – Facility D	BBSW + 2.05	3 January 2025	45,000	-
Principal outstanding borrowings			120,000	-
Capitalised borrowing costs			(767)	-
Total non-current			**119,233**	**-**
Current			-	-
Non-current			119,233	-
Total interest-bearing loans and borrowings			**119,233**	**-**

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:	135,000	90,000
Term debt facilities used at the reporting date:	(120,000)	-
Multi option facilities available at the reporting date:	6,500	6,500
Multi option facilities used at the reporting date*:	(3,745)	(837)
Facilities unused at the reporting date:	**17,755**	**95,663**

* The amount of used multi option facilities of $3,745,000 (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 $6,500,000 subject to an annual review.

NOTE 16. PROVISIONS

a. Make good

	Make good $'000	Total $'000
As at 28 June 2020	**913**	**913**
Arising during the year	756	756
Utilised	(28)	(28)
Unwinding of discount rate and changes in the discount rate	11	11
As at 27 June 2021	**1,652**	**1,652**
Arising during the year	472	472
Acquisition of subsidiary	3,228	3,228
Utilised	(7)	(7)
Unwinding of discount rate and changes in the discount rate	(543)	(543)
As at 26 June 2022	**4,802**	**4,802**
Current	-	-
Non-current	4,802	4,802
Total make good	**4,802**	**4,802**

b. Employee entitlements

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current		
Annual Leave	7,408	5,264
Long service leave	3,647	2,521
Total current	**11,055**	**7,785**
Non-current		
Long service leave	1,585	1,498
Total non-current	**1,585**	**1,498**
Total employee entitlements	**12,640**	**9,283**
Total current	11,055	7,785
Total non-current	6,387	3,150
Total provisions	**17,442**	**10,935**

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.

NOTE 17. ISSUED CAPITAL AND RESERVES

a. Authorised Shares

	As at 26 June 2022 Thousands	As at 27 June 2021 Thousands
Ordinary Shares	171,316	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.

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Balance at the beginning of the period	73,823	74,098
Issue of shares for the acquisition of Focus	6,000	-
Exercise of share options[i]	207	(275)
Dividend reinvestment plan[ii]	1,205	-
Balance at the end of the period	**81,235**	**73,823**

i. New ordinary shares in the Company of 103,379 were issued upon exercise of share options. The Group received $207,000 from the holders of the share options that were exercised.

ii. New ordinary shares in the Company were issued via the dividend reinvestment plan related to the 2022 interim dividend. A total of 426,577 ordinary shares at a price of $2.82 was allotted.

b. Share-based payment reserve

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Balance at the beginning of the period	2,030	289
Share-based payment expense	2,117	1,741
Balance at the end of the period	**4,147**	**2,030**

c. Foreign currency translation reserve

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Balance at the beginning of the period	(101)	(198)
Foreign currency translation of foreign subsidiary	(402)	97
Balance at the end of the period	**(503)**	**(101)**

NOTE 17. ISSUED CAPITAL AND RESERVES *continued*

d. Cash flow hedge reserve

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Balance at the beginning of the period	(106)	532
Transferred to Statement of Profit or Loss		
Net gain on cash flow hedges	–	-
Income tax related the net gain on cash flow hedges	–	-
Recognised in Statement of Other Comprehensive Income		
Net gain on cash flow hedges	13,977	(911)
Income tax related to the net gain on cash flow hedges	(4,193)	273
Balance at the end of the period	**9,678**	**(106)**

e. Retained earnings

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Balance at the beginning of the period	89,014	65,850
Net profit for the period	44,890	63,742
Dividends declared during the period	(30,578)	(40,578)
Balance at the end of the period	**103,326**	**89,014**

NOTE 18. LEASE ARRANGEMENTS AND OTHER COMMITMENTS

As disclosed in the annual report for the 52 weeks ended 27 June 2021, 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 26 June 2022. Other items included within Occupancy expenses are primarily variable lease payments and outgoings.

NOTE 18. LEASE ARRANGEMENTS AND OTHER COMMITMENTS *continued*

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 26 June 2022:

	Right-of-use assets $'000	Lease liabilities $'000
As at 28 June 2020	94,375	114,600
Additions	29,237	29,467
Depreciation expense	(34,009)	-
Interest expense	-	3,866
Payments	-	(40,711)
Foreign currency difference	(24)	(28)
As at 27 June 2021	**89,579**	**107,194**
Additions	57,923	62,156
Additions through subsidiary	61,283	61,283
Depreciation expense	(42,687)	-
Interest expense	-	5,314
Payments	-	(47,841)
Foreign currency difference	(79)	(154)
As at 26 June 2022	**166,019**	**187,952**

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current lease liabilities	45,820	33,473
Non-current lease liabilities	142,132	73,721
	187,952	**107,194**

The following are the amounts recognised in profit and loss:

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Depreciation expense of right-of-use assets	42,687	34,009
Interest expense on lease liabilities	5,314	3,866
Expense relating to short-term leases (included in Occupancy expense)	955	926
Variable lease payments (included in Occupancy expense)	11,147	7,327
COVID-19 rent concessions (included in Occupancy expense)	(2,746)	(3,226)
Total amount recognised in profit or loss	**57,357**	**42,902**

The Group had total cash outflows for leases of $57,197,000 in 2022 (2021: $42,898,000).

The maturity analysis of lease liabilities are disclosed in Note 21.

NOTE 19. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current assets		
Forward currency contracts – cash flow hedges	11,583	-
	11,583	**-**
Non-current assets		
Forward currency contracts – cash flow hedges	2,242	357
	2,242	**357**

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current liabilities		
Forward currency contracts – cash flow hedges	–	(507)
	-	**(507)**

Forward currency contracts – cash flow hedges

The Group buys inventories that are purchased in US Dollars (USD). In order to protect against exchange rate movements and to manage the inventory purchases process, the Group has entered into forward exchange contracts to purchase USD. Outstanding contracts are hedging highly probable forecasted inventory purchases and the contract notional value is forecast to total less than the expected level of total purchases of inventory in USD within 18 months.

Forward currency contracts are timed to mature when payments are scheduled to be made. These derivatives have met the requirements to qualify for hedge accounting with movements recorded in other comprehensive income accordingly.

NOTE 19. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

The Group is holding the following foreign currency contracts:

	Maturity						
	< 1 month	1-3 months	3-6 months	6-9 months	9-12 months	>12 months	Total
As at 26 June 2022							
Forward currency contracts (highly probable forecast inventory purchases)							
– Notional amount ($'000)	5,570	32,180	52,994	35,933	29,415	31,049	**187,141**
– Average forward rate (USD/AUD)	0.7288	0.7439	0.7477	0.7445	0.7411	0.7415	**-**
– Average forward rate (USD/NZD)	-	0.6636	0.6636	0.6636	-	-	**-**
As at 27 June 2021							
Forward currency contracts (highly probable forecast inventory purchases)							
– Notional amount ($'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	-	-	-	**-**

	Notional amount $'000	Carrying amount $'000	Line item in the statement of financial position
As at 26 June 2022			
Forward currency contracts	187,141	13,825	Derivative financial instruments – assets
As at 27 June 2021			
Forward currency contracts	110,561	(150)	Derivative financial instruments – liabilities

	Total hedging gain/(loss) recognised in OCI ($'000)	Total amount reclassified from OCI to the Statement of Financial Position ($'000)	Line item in the Statement of Financial Position
52 weeks ended 26 June 2022			
Highly probable forecast inventory purchases	13,977	(150)	Inventories
52 weeks ended 27 June 2021			
Highly probable forecast inventory purchases	(150)	738	Inventories

There was no material hedge ineffectiveness arising from the Group's forward currency contract hedging strategy during the 52 weeks ended 26 June 2022 (2021: nil). This is due to inventory purchases in USD exceeding the notional amount of forward currency contracts taken out and maturing when payments are scheduled.

NOTE 20. 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 business 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 26 June 2022 $'000	As at 27 June 2021 $'000
Financial instruments		
Cash and cash equivalents	26,075	25,970
Interest-bearing loans and borrowings	(119,233)	-
Net exposure	**(93,158)**	**25,970**

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

As at 26 June 2022, 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:

Judgements of reasonably possible movements:

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
	Profit after tax higher/(lower)	
+3% (300 basis points)	(1,956)	545
+2% (200 basis points)	(1,304)	364
+1% (100 basis points)	(652)	182
-0.5% (50 basis points)	326	(91)

NOTE 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

Significant assumptions used in the interest rate sensitivity analysis include:

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

ii. Foreign currency risk

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

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

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Financial liabilities		
Payables	7,420	6,405

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

As at 26 June 2022, 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:

Judgements of reasonably possible movements:

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
	Profit after tax higher/(lower)	
AUD to USD +15%	677	585
AUD to USD -15%	(917)	(791)

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

- Reasonably possible movements in foreign exchange rates were determined based on a review of the last two years' historical movements and economic forecaster's expectations.
- The net exposure at balance date is representative of what the Group was and is expecting to be exposed to in the next 12 months from reporting date.

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.

NOTE 20. 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 26 June 2022. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for assets/liabilities is based on the contractual terms of the underlying contract.

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 26 June 2022					
Liquid financial assets					
Cash and cash equivalents	26,075	–	–	–	26,075
Trade and other receivables	5,748	–	–	–	5,748
Financial Liabilities					
Trade and other payables	(51,628)	–	–	–	(51,628)
Lease liabilities	(29,250)	(22,182)	(119,400)	(39,946)	(210,778)
Earn-out liabilities	(200)	–	(461)	–	(661)
Interest bearing loans and borrowings	–	–	(120,000)	–	(120,000)
Net outflow	**(49,255)**	**(22,182)**	**(239,861)**	**(39,946)**	**(351,244)**

	< 6 months $'000	6 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 27 June 2021					
Liquid financial assets					
Cash and cash equivalents	25,970	–	–	–	25,970
Trade and other receivables	2,276	–	–	–	2,276
Financial Liabilities					
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)
Net outflow	**(81,137)**	**(16,749)**	**(74,816)**	**(11,952)**	**(184,654)**

NOTE 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

B. Derivative financial assets and 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 – 12 months $'000	1 – 5 years $'000	> 5 years $'000	Total $'000
As at 26 June 2022					
Derivatives – forward currency contracts	6,823	4,760	2,242	–	13,825
Net inflow	**6,823**	**4,760**	**2,242**	**-**	**13,825**

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

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 26 June 2022			As at 27 June 2021		
	Valuation Level 2 $'000	Valuation Level 3 $'000	Total $'000	Valuation Level 2 $'000	Valuation Level 3 $'000	Total $'000
Financial assets						
Forward exchange contracts	13,825	–	13,825	–	–	–
Financial liabilities						
Forward exchange contracts	–	–	–	(150)	–	(150)
Earn-out liabilities	–	(661)	(661)	–	(45,738)	(45,738)
	13,825	**(661)**	**13,164**	**(150)**	**(45,738)**	**(45,888)**

NOTE 20. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

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

	As at 26 June 2022		As at 27 June 2021	
	Carrying Amount $'000	Fair Value $'000	Carrying Amount $'000	Fair Value $'000
Financial assets				
Forward exchange contracts	13,825	13,825	-	-
Financial liabilities				
Forward exchange contracts	-	-	(150)	(150)
Earn-out liabilities	(661)	(661)	(45,738)	(45,738)
Bank loans	(119,233)	(119,233)	-	-
	(106,069)	**(106,069)**	**(45,888)**	**(45,888)**

NOTE 21. 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 26 June 2022 $'000	As at 27 June 2021 $'000
Interest-bearing loans and borrowings	119,233	-
Earn-out liabilities	661	45,738
Less: cash and cash equivalents	(26,075)	(25,970)
Net debt	**93,819**	**19,768**
Equity	197,883	164,660
Capital and net debt	**291,702**	**184,428**
Gearing ratio	32%	11%

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 26 June 2022 and 52 weeks ended 27 June 2021.

NOTE 22. INFORMATION RELATING TO ADAIRS LIMITED ('THE PARENT ENTITY')

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Current assets	2	22
Total assets	137,801	129,227
Current liabilities	(163)	(13,050)
Total liabilities	(327)	(13,464)
Net assets	**137,474**	**115,763**
Issued capital	81,234	73,823
Retained earnings	51,343	39,161
Share-based payment reserve	4,897	2,779
Net Equity	**137,474**	**115,763**
Loss of the parent entity	(3,329)	(2,725)
Total comprehensive loss of the Parent entity	**(3,239)**	**(2,725)**

NOTE 23. 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 26 June 2022. 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 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Short-term employee benefit	2,258	2,070
Short-term incentives	–	1,365
Post-employment benefits	122	115
Termination benefits	–	–
Share-based payments	782	957
Total compensation to key management personnel	**3,162**	**4,507**

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

NOTE 24. 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 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Profit for the year attributable to ordinary equity holders of the Parent	44,890	63,742
Profit attributable to ordinary equity holders of the Parent for basic earnings	**44,890**	**63,742**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**44,890**	**63,742**

	As at 26 June 2022 $'000	As at 27 June 2021 $'000
Weighted average number of ordinary shares for basic EPS	170,204	169,077
Share options	2,899	5,753
Weighted average number of ordinary shares for the effect of dilution	**173,103**	**174,830**

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

NOTE 25. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

		Equity Holding	
Name of Entity	**Country of incorporation**	**As at 26 June 2022 %**	**As at 27 June 2021 %**
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
Refocus Furniture Pty Ltd	Australia	100	-
D. Gallery Pty Ltd	Australia	100	-
Focus On Furniture Pty Ltd	Australia	100	-
Furniture Online Australia Pty Ltd	Australia	100	-
Beds Online Australia Pty Ltd	Australia	100	-

NOTE 26. DIVIDENDS

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Dividends on ordinary shares declared:		
Interim dividend for 2022: 8.0 cents per share (2021: 13.0 cents)	13,671	21,980
Proposed dividends on ordinary shares:		
Final cash dividend for 2022: 10.0 cents per share (2021: 10.0 cents)	17,132	16,908

Proposed dividends on ordinary shares are subject to approval at the annual general meeting and are not recognised as a liability as at 26 June 2022.

Franking credit balance

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

	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
Franking account balance as at the end of the period at 30%	50,742	28,210
Franking credits that will arise from the payment of income tax payable as at the end of the period	3,904	1,968
Franking debits that will arise from the payment of dividends as at the end of the period	(7,342)	(7,246)
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	–
	47,304	**22,932**

NOTE 27. 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.

NOTE 27. SHARE-BASED PAYMENTS *continued*

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:

	2022 Tranche	**2022 Tranche**	**2021 Tranche**	**2020 Tranche**	**2019 Tranche**	**2018 Tranche**
	(EPS component)	**(TSR component)**				
Share option pricing model	Black-Scholes	Monte Carlo	Black-Scholes	Black-Scholes	Black-Scholes	Black-Scholes
Dividend yield	6.00%	6.00%	6.00%	8.00%	5.00%	5.00%
Expected volatility	50.00%	50.00%	60.00%	50.00%	45.00%	45.00%
Risk-free interest rate	1.35%	1.35%	0.31%	0.82%	2.23%	2.23%
Expected life of share options	4.8 years	4.8 years	4.8 years	4.8 years	4.8 years	4.8 years
Exercise share price	$3.95	$3.95	$4.04	$1.86	$2.40	$1.75
Fair value of share options at grant date (per share option)	**$0.96**	**$0.80**	**$0.90**	**$0.38**	**$0.43**	**$0.39**

Further, 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, with valuation inputs utilised consistent with the above where relevant. 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.

NOTE 27. SHARE-BASED PAYMENTS *continued*

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

	As at 26 June 2022 Number	As at 27 June 2021 Number
Outstanding balance at beginning of the period	10,718,378	7,873,447
- Granted	4,535,000	3,000,000
- Forfeited	(550,000)	-
- Lapsed	-	-
- Exercised	(103,378)	(155,069)
- Expired	-	-
Outstanding balance at end of the period	**14,600,000**	**10,718,378**

The weighted average fair value of the share options granted during the 52 weeks ended 26 June 2022 was $0.88 (2021: $0.90).

The weighted average remaining contractual life of share options outstanding as at 26 June 2022 was 3.7 years (2021: 4.1 years).

For the 52 weeks ended 26 June 2022, the Group has recognised $2,117,000 of share-based payment expense in the consolidated Statement of Profit or Loss (2021: $1,741,000), including $710,000 within Costs associated with the acquisition of subsidiaries.

NOTE 28. EVENTS AFTER THE BALANCE SHEET DATE

On 22 August 2022, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2022 financial year. The total amount of the dividend is $17,100,000 which represents a fully franked dividend of 10.0 cents per share. The dividend has not been provided for in the 26 June 2022 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.

NOTE 29. AUDITOR'S REMUNERATION

The auditor of Adairs Limited is Ernst & Young Australia.

Amounts received or due and receivable by Ernst & Young Australia for:	52 weeks ended 26 June 2022 $'000	52 weeks ended 27 June 2021 $'000
• Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	455	313
• Fees for other services:		
- Taxation services	84	49
- Advisory services	-	175
- Other	70	-
Total fees to Ernst & Young Australia	**609**	**537**

Auditor's 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 26 JUNE 2022

The shareholder information set out below was applicable as at 5 August 2022

NUMBER OF SHAREHOLDERS

There were 20,046 shareholders, holding 171,316,433 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	3,667,876	7,929
1,001 - 5,000	20,044,147	7,726
5,001 - 10,000	17,948,899	2,384
10,001 - 100,000	44,986,498	1,925
100,001 and over	84,669,013	82
Total	**171,316,433**	**20,046**

There were 1,754 shareholders holding less than a marketable parcel of ordinary shares ($500).

EQUITY SECURITY HOLDERS

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

	Ordinary Shares	
Name	Number held	Percentage of issued shares
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	20,172,766	11.78
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	14,893,494	8.69
CITICORP NOMINEES PTY LIMITED	11,426,284	6.67
BNP PARIBAS NOMS PTY LTD	4,252,957	2.48
BNP PARIBAS NOMINEES PTY LTD	4,245,837	2.48
NATIONAL NOMINEES LIMITED	3,724,537	2.17
MICHAEL CHERUBINO INVESTMENTS PTY LTD	1,996,135	1.17
REFOCUS FURNITURE NOMINEES PTY LTD	1,709,402	1.00
BOND STREET CUSTODIANS LIMITED	1,586,500	0.93
BOND STREET CUSTODIANS LIMITED	1,406,986	0.82
MR TRENT PETERSON	995,000	0.58
WASHINGTON H SOUL PATTINSON AND COMPANY LIMITED	925,955	0.54
BNP PARIBAS NOMINEES PTY LTD	898,535	0.52
CANDAD PTY LTD	820,000	0.48
SANDHURST TRUSTEES LTD	797,837	0.47
NCH PTY LTD	774,132	0.45
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	772,823	0.45
CITICORP NOMINEES PTY LIMITED	602,999	0.35
JACM GARDNER INVESTMENTS PTY LTD	572,300	0.33
MARK RONAN & EMILY BLACK	557,067	0.33
	73,131,546	**42.69**

SUBSTANTIAL SHAREHOLDINGS

As at 5 August 2022, there are 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:

a. Ordinary Shares

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

ON MARKET SHARE ACQUISITION

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

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CORPORATE INFORMATION

ABN 50 147 375 451

Directors

Brett Chenoweth
Michael Cherubino
Kiera Grant
David MacLean
Trent Peterson
Mark Ronan
Kate Spargo
Simon West (resigned 24 June 2022)

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

Share register

Link Market Services
Locked Bag A14
Sydney South NSW 1235

Phone: 1300 554 474

Auditors

Ernst & Young

Solicitors

Herbert Smith Freehills

adairs