APPENDIX 4E

Preliminary final report

52 WEEKS ENDED 25 JUNE 2023

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

Current period:	27 June 2022 to 25 June 2023 (52 weeks) ('FY23')
Prior corresponding period:	28 June 2021 to 26 June 2022 (52 weeks) ('FY22')

2. RESULTS FOR ANNOUNCEMENT TO THE MARKET

Statutory results

Statutory comparison to previous corresponding period	Increase/ (Decrease)	Change %	$'000
Revenue from continuing operations	Increase	10.1%	621,335
Profit after tax from continuing operations attributable to members	(Decrease)	(15.7%)	37,843
Net profit after tax for the period attributable to members	(Decrease)	(15.7%)	37,843

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* and (ii) costs associated with the transition to the National Distribution Centre. The underlying FY22 financial results were calculated on a comparative basis and further exclude the costs associated with the acquisitions of Focus on Furniture and Mocka (including earn-out related adjustments).

Underlying comparison to previous corresponding period	Increase/ (Decrease)	Change %	$'000
Revenue from continuing operations	Increase	10.1%	621,355
Profit after tax from continuing operations attributable to members	(Decrease)	(22.2%)	40,178
Net profit after tax for the period attributable to members	(Decrease)	(22.2%)	40,178

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
2023 Interim dividend	8.0 cents	8.0 cents
2023 Final dividend	–	–

No final dividend has been declared or proposed for the reporting period.

Brief explanation of the figures reported above

The figures above represent the statutory results and the underlying results of the Group.

For further explanation, refer to the attached Financial Report and accompanying Investor Presentation released to the ASX.

3. STATEMENT OF COMPREHENSIVE INCOME

Refer to the Consolidated Statement of Profit or Loss and Consolidated Statement of Other Comprehensive Income within the attached Financial Report.

4. STATEMENT OF FINANCIAL POSITION

Refer to the Consolidated Statement of Financial Position within the attached Financial Report.

5. STATEMENT OF CASH FLOWS

Refer to the Consolidated Statement of Cash Flows within the attached Financial Report.

6. DIVIDEND DETAILS

Refer to Note 25 of the attached financial statements for further details of dividends paid in current period.

7. DIVIDEND OR DISTRIBUTION REINVESTMENT PLAN DETAILS

As no final dividend has been declared or proposed for the reporting period there is no dividend re-investment plan in operation.

8. STATEMENT OF CHANGES IN EQUITY

Refer to the Consolidated Statement of Changes in Equity within the attached Financial Report.

9. NET TANGIBLE ASSET BACKING PER ORDINARY SECURITY

	Current period	Previous corresponding period
Net tangible asset backing per ordinary security	($0.34)	($0.33)

10. CONTROL GAINED OR LOST OVER ENTITIES IN THE CURRENT PERIOD

There were no entities over which control has been gained or lost during the current period.

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

Not applicable.

12. OTHER SIGNIFICANT INFORMATION

Refer to the attached Financial Report and accompanying Results Announcement and Investor Presentation released to the ASX.

13. FOREIGN ENTITIES

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

14. COMMENTARY

Refer to the attached Financial Report and accompanying Results Announcement and Investor Presentation released to the ASX.

15. AUDIT REPORT

This report is based on financial statements which have been audited. The audit opinion is unqualified.

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ANNUAL REPORT 2023

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.

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.

adairs.com.au

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.

focusonfurniture.com.au

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 Nursery categories. Delivering great product and compelling everyday value-for-money is core to the Mocka customer proposition.

mocka.com.au

2023 ANNUAL GENERAL MEETING

Notice is hereby given that the 2023 Annual General Meeting of members of Adairs Limited will be held at the Hyatt Centric Melbourne, 25 Downie Street, Melbourne on Friday, 24 November 2023 at 11.00 AM (Melbourne time).

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

CONTENTS

GROUP SALES +10.1%

Record $621m with strong contributions from Focus on Furniture and Adairs in a year free of COVID-related store closures

ONLINE SALES 28% OF GROUP SALES

Omni-channel strategy progressing well with new Adairs website launched

UNDERLYING GROUP GROSS MARGIN 58.6%

Gross margin gains at Mocka and Focus offset by Adairs which was impacted by higher supply chain costs and increased promotional activity to drive traffic

UNDERLYING GROUP EBIT OF $63.9M

Impacted by +15.0% increase in cost of doing business reflecting a full year of store operations and NDC inefficiencies

ADAIRS' NATIONAL DISTRIBUTION CENTRE

Move from 3PL to self operation to deliver superior service at a lower cost

FOCUS ON FURNITURE

EBIT contribution of $27.4m, 43% of underlying group EBIT

MOCKA

Gross margin +510bps, inventory optimised, successful operating year with platform performing well

LINEN LOVER MEMBERSHIP

Over 1m paying members at June 2023. Members account for 83% of Adairs sales


YOU
S HOME

CHAIRMAN'S REPORT

Dear Shareholders,

I am pleased to present the 2023 Annual Report of Adairs Limited (the 'Company') and its subsidiaries (the 'Group').

A CHALLENGING YEAR

A full year's contribution from Focus on Furniture, a strong product offering across all three brands, and a year free of COVID-related mandated store closures helped deliver record Group sales of $621 million, up 10.1% on FY22.

While the Group sales result was pleasing, FY23 was a challenging year for all discretionary retailers as rising interest rates and cost of living pressures created a weaker macro trading environment, with customer traffic falling sharply towards the end of the second half.

The full year headlines for the Group were as follows:

- Group sales of $621 million, up 10.1% on FY22
- Group online sales down 10.5% to $175.0 million, contributing 28.2% of Group sales
- Underlying[1] Group EBIT of $63.9 million, down 16.4% on FY22
- Statutory NPAT of $37.8 million delivering EPS of 22.0 cents
- Net debt[2] of $73.6 million ($20 million lower than FY22)
- Given the capital commitments required to take over the operations of the NDC and the importance of maintaining a strong balance sheet the Board have taken the prudent decision to not pay a final dividend in FY23.

Supply chain costs pressures were significant throughout the year, with higher inbound container rates from our offshore suppliers in the first half of the year, industry-wide increases in delivery charges by local carriers, combined with an increase in promotional activity to drive traffic in the second half led to an overall decline in Group gross margin.

The Group's cost of doing business rose 15.0% with costs associated with the store network being fully open, supply chain inefficiencies within the Adairs brand and the investment in stabilising Mocka operations being the key drivers of a 16.4% reduction in the underlying Group EBIT.

Our ability to mitigate many of these external factors in the short term has been limited and our focus has therefore been on those elements within our control – ensuring we continue to deliver outstanding product and service and offering great value for money and closely managing inventory whilst driving operating efficiencies.

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 deferred consideration fair-value adjustments).
2 Net debt calculated as cash less borrowings.

NATIONAL DISTRIBUTION CENTRE

In August 2023, we announced an agreement with DHL whereby Adairs will assume operational control of the National Distribution Centre (NDC) from 6 September 2023. This follows a thorough review of options to address ongoing operating issues which have adversely affected customer experiences and resulted in a significantly higher cost of operations than both the initial business-case expectations and the previous Adairs operated model it replaced.

By taking operational control of the NDC and returning to a self-operated model we can leverage our product and supply chain expertise to deliver a significantly better experience for our stores and customers at a materially lower cost than the current 3PL arrangement.

Acquiring the warehousing operating assets, installing a new warehouse management system, and implementing the transition will involve a significant investment funded from cashflow and existing finance facilities.

The full transition, including the replacement of the warehouse management system (WMS), is expected to take up to 12 months. In the first year Adairs expects to realise annual cost savings of approximately $4.0 million over the current 3PL model, which will increase in year two with the benefits of the new WMS. Adairs expects this initiative will be modestly EPS positive from year one, with payback within four years.

DIVIDEND

The investment associated with transitioning the Adairs NDC to an Adairs managed operating model will increase Group net-debt by c.$20 million in the near term. This, combined with a desire to maintain a strong balance sheet has resulted in the Board making the prudent decision to not pay a final dividend for FY23.

SUSTAINABILITY

Our Sustainability Report on page 16 details the various strategies, goals and initiatives we have underway to manage our impact on the environment, support the communities we serve, and meet growing stakeholder expectations. Our sustainability strategy is coordinated by our People, Product and Planet Committee which includes members from all business units including product, stores, supply chain, marketing, technology, finance and compliance. To hold ourselves accountable we have, where possible, set targets, quantified outcomes and provided examples of our efforts.

While I am proud of our progress to date, much remains to be done in this important area, particularly in embedding the principles of a circular economy (reduce, reuse, repair and recycle) into our operations and decision making; setting interim and long-term emission and waste reduction targets; and in ensuring we meet our near-term sustainable packaging obligations under APCO's 2025 National Packaging Targets.

OUTLOOK

The medium-term outlook for discretionary retailers looks likely to remain challenging given prevailing macro-economic headwinds. At the same time there are significant cost-pressures building from a weaker Australian dollar, higher labour costs, delivery costs and store rents. Given these factors the Board and management teams have implemented material cost reduction initiatives that seek to manage the business appropriately for the prevailing and anticipated trading environment, while preserving our strong service culture and ensuring we continue to delight our customers with new and unique product.

The Board remains confident that the Group is well placed to navigate these challenges given its resilient omni-channel business model, loyal customer base, large addressable market and proven management team.

BOARD CHANGES

Michael Cherubino resigned as a Director of the Group effective on 18 August 2023. Michael has been a director of Adairs since 2011 and has made a significant contribution given his insight and expertise into both the retail and property aspects of the business.

With the acquisition of Focus on Furniture, Michael has taken on a broader property portfolio responsibility as Executive Director – Group Property. In this role Michael continues to play the lead role across the group in building upon our existing store portfolio and driving the Focus on Furniture national store rollout strategy. The Board greatly look forward to continuing to benefit from his experience in this key executive role going forward.

Following Michael's resignation, the Board will have six Directors of which four are independent.

THANK YOU

Finally, on behalf of the Board, I would like to close by thanking our team in what has been a challenging year across all 3 businesses, and you, our shareholders, for your continued support. While we are currently in a challenging economic cycle it is important to note that it is indeed a cycle, and that our long-held strategic pillars remain appropriate and will support us during this time. We remain committed to delivering outstanding products at compelling value to our customers, rewarding careers for our team, and growing returns for our shareholders.

Brett Chenoweth
Chair

MANAGING DIRECTOR AND CEO REPORT

Dear Shareholders,

FY23 delivered our eighth successive year of sales growth since listing on ASX, with Group sales of $621 million, up 10.1% on FY22. A strong product offering across all three brands, together with a full year's contribution from Focus on Furniture and a year free of COVID-related mandated store closures underpinned the strong sales performance.

Unfortunately, the widely anticipated macro-economic headwinds which had not impacted customer behavior in the first half became apparent over the second half. Rising interest rates and broad cost of living increases saw a sharp fall in customer traffic, both instore and online, as household budgets tightened.

The impact of slowing sales on profitability was accentuated by cost-pressures building from higher store related costs, higher customer delivery costs and continuing inefficiencies at the Adairs brand National Distribution Centre operated by DHL.

Underlying Group EBIT[1] fell 16.4% to $63.9 million with Adairs contributing $35.0 million (down 37%), Mocka $1.5 million (down 59%) and Focus on Furniture $27.4 million (up 0.3%).

In response, management have undertaken action to reduce the Group's cost base to size the business appropriately for the weaker trading environment which we anticipate will continue into FY24. In reducing costs we have been careful to preserve our strong service culture and ensure each brand continues to delight customers with new and unique product.

ADAIRS

The Adairs brand delivered another record sales result in FY23, up 2.9% to $430.8 million. Adairs store sales were up +7.0% with no COVID-related closures (16% of trading days were lost in FY22) while online sales were down –6.7% to $116.6 million (27% of total sales) as pandemic concerns eased and customers returned to stores.

Our Linen Lover loyalty program remains a strategic asset and strong mitigant to the tougher trading environment with members accounting for 83% of all sales (82% in FY22). FY23 saw over 450,000 sign-ups (new and renewed memberships) with total memberships finishing broadly unchanged at just over 1 million as the 2-year anniversary of peak COVID sign-ups passed and corresponding expiries offset new member growth.

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 deferred consideration fair-value adjustments).

As anticipated, gross profit margin softened in FY23 against FY22 due to higher average inbound container rates and increases in delivery charges by local carriers. The impact of a weaker Australian dollar across the year was substantially offset by existing hedging arrangements with most of Adairs' USD purchases hedged at c.73.6 cents. Container rates returned to pre-COVID levels in the second half as supply chains normalised although the full benefit of this will come in FY24.

A new Adairs brand website was launched in November. The new website provides an improved customer experience (simpler navigation, better product showcasing, faster page speeds) and importantly provides the foundations and capability for future online business initiatives, a number of which are in development.

Two new stores were opened, three closed, two refurbished and four stores were upsized providing a +2.2% increase in gross lettable area (GLA) over the last 12 months. This is below our targeted GLA growth rate of 5%+ per annum and reflects our discipline in both site selection and landlord negotiations as well as the current scarcity of quality sites at appropriate rents. Our property team continue to proactively seek out opportunities to build our store pipeline and expect that the current trading environment may create further opportunities which we are able to move quickly on should they arise.

Adairs' cost of doing business (CODB) as a percentage of sales increased in FY23 reflecting the return to a fully operating store network combined with the inflated supply chain costs associated with the NDC, including temporary warehousing requirements.

The softer gross margin combined with the increase in the CODB meant that Adairs underlying EBIT declined -37.1% to $35.0 million.

ADAIRS NDC

As previously advised, the operational outcomes at the DHL-operated NDC since its commissioning in September 2021 have been below expectations which has adversely affected customer experiences and resulted in operating costs well in excess of the business case and the costs incurred by Adairs prior to moving to the NDC. Whilst DHL have been able to improve service levels and customer experience in the second half of FY23, they remain below Adairs ongoing requirements and there are limited options under the current 3PL model to materially improve the outcomes further.

Adairs therefore decided to exercise it's 'step in' rights. By taking this action Adairs will assume control of the facility and be able to drive the changes required to deliver the targeted efficiencies and service levels.

Acquiring the warehousing operating assets, installing a new warehouse management system (WMS), and implementing the transition will involve an outlay of c.$20 million, which will be funded from existing cashflow and finance facilities.

The full transition, including the replacement of the warehouse management system (WMS), is expected to take up to 12 months. In the first year Adairs expects to realise annual cost savings of approximately $4.0 million over the current 3PL model, which will increase in year two with the benefits of the new WMS. Adairs expects this initiative will be modestly EPS positive from year one, with payback within four years.

A complete review of the design of the NDC will be undertaken in the first 12 months. This will provide a roadmap to further material productivity improvements and cost savings.

FOCUS ON FURNITURE

Focus on Furniture had another excellent year, delivering a strong FY23 performance with sales +5.3% to $141.9 million. Store sales increased +9.0% to $132.1 million and online sales reduced $3.7 million to $9.8 million (6.9% of total sales) with all stores open throughout the year.

High levels of product availability, short lead times, quality product ranges and a disciplined pricing strategy delivered gross margin gains in FY23 despite the industry-wide supply chain headwinds which prevailed for much of the year. The sales and margin growth, combined with tight cost control, delivered underlying EBIT of $27.4 million, marginally up on the prior year.

FY23 saw the Hoppers Crossing store refurbished with an updated store design supporting the quality and value of the Focus on Furniture product. The new store design enhances and differentiates the in-store experience over existing stores through a relatively modest capital investment in areas such as lighting, layout and styling. New store openings remain a priority with a pipeline of opportunities being built despite the tight market for space in Homemaker centres. The management team continue to see clear growth opportunities through the roll-out of up to 30 new stores nationally, with Queensland and New South Wales the initial priority.

MOCKA

Mocka sales fell –24.1% to $48.6 million as customers returned to physical stores and as the brand moved on from its FY22 operational issues with customer confidence clearly returning as the year progressed. In addition to restoring customer confidence through execution excellence and delivering great product, management's focus in FY23 was on growing gross margin and optimising the inventory range.

Gross profit in the first half of the year was impacted by extensive clearance activities of discontinued ranges, higher delivery costs following a change of the Australian domestic delivery partner, and higher inbound shipping costs. The second half of the year saw a significant improvement in gross margin as inbound shipping costs fell, clearance activities ceased and the operating platform stabilised.

Profitability increased in the second half to finish FY23 with an EBIT contribution of $1.5 million (1H FY23 was $0.3 million). With the business operations stabilised the team are looking at FY24 being a year where we continue to rebuild the profitability of the business whilst executing a step-by-step approach to growing the business both in Australia and New Zealand.

CASHFLOW AND BALANCE SHEET

Cash generation from operations saw net debt finish at $73.6 million, a reduction of $20 million on FY22. The Group has finance facilities of $135 million available until January 2026 ($90 million) and January 2025 ($45 million). Debt reduction remains a priority for the business and will be achieved through tight management of working capital and a disciplined approach to capital investment.

Inventory closed down 11.4% across the Group with Mocka in particular reducing its previously elevated inventory holdings by c.38% over FY23 with excess and underperforming inventory cleared in 1H FY23. Supply chains have stabilised reducing the need to retain inventory buffers to manage the risk of unforeseen interruptions. The majority of inventory across all three brands is in core category lines with lower fashion/seasonal risk.

SUSTAINABILITY

Our FY24 Sustainability Report is included in this Annual Report and highlights the good progress the Group continues to make in this important area. During FY23 almost 2 million plastic bags within our network were diverted from landfill and will instead be recycled by an external recycling partner. We continue to make our product packaging more sustainable and are on target to meet our sustainable packaging obligations under the 2025 National Packing Targets set by the Australian Packaging Covenant Organisation, of which we are a member.

We have quantified our Scope 1 and 2 greenhouse gas emissions since January 2021 and are using this data to set our reduction targets. While we have aspirations to have reduction targets which align with those set by the Australian Retailers Association, further work is required to confirm they are achievable. In particular we are yet to quantify our Scope 3 emissions which relate to indirect emissions within our value chain, both upstream with our suppliers in their production and transport of our products, and downstream with our customers in their use and ultimate disposal of our products.

In terms of corporate social responsibility we remain a proud supporter of Orange Sky who provide free shower and laundry services to those experiencing homelessness across Australia and New Zealand, with a mission to positively connect communities. In FY23 we facilitated over $235,000 in donations to Orange Sky which was an excellent outcome given the financial pressures that many of our customers and team are feeling.

OUTLOOK

There is no question that FY24 will be another difficult year for the Group and that many of the macro headwinds are outside of our control. Equally, there is much that we have done in preparation for this – particularly around cost control, inventory management, driving operating efficiencies and refining our near-term priorities. We remain vigilant to the dynamic market we operate in and are well placed to respond with further initiatives as required.

I've previously spoken about the opportunities as well as the challenges that come with a more difficult trading environment and I continue to firmly believe that we have the right team, business model and culture to take market share in the Home category and ultimately emerge as a stronger and more focussed retailer for the benefit of all shareholders.

GRATITUDE

We are incredibly fortunate to have a passionate and talented team across all three brands. I would like to thank each of them for their continued commitment and support, both to each other and to the business.

Finally, I would like to thank our many customers, both longstanding and new. We know they have choices in where they shop and that our success is conditional on providing them with an outstanding retail experience that both inspires and delights, helping them create and celebrate a home they love.

Thank you for your continued support.

Mark Ronan
Managing Director & CEO

OUR COMMITMENT TO THE FUTURE

"We are committed to reducing waste, our carbon emissions, and creating better outcomes for people throughout our supply chain, business operations, and the communities within which we operate."

SUSTAINABILITY REPORT

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.

FY23 saw the Group make continued progress in its sustainability initiatives as we seek to incorporate sustainability into our daily operations and long-term business strategy. Some initiatives can be implemented relatively quickly, however most are long term or continuing in nature.

Our Scope 1 and 2 greenhouse gas emissions for the year ending 31 December 2022 (the most recent year reviewed) were 8.5% lower in absolute terms than our base year (2021). This was an excellent outcome given the growth in floorspace over the same period and the fact that our 2021 base year emissions were tempered by COVID-related store closures. Adairs has not yet finalised its business plan to reduce its emissions which is a pre-requisite to setting credible reduction targets. This work will be undertaken over the next 12 months and reported upon in next year's report.

Our decision to eliminate single-use plastic carry bags meant we needed to solve for the sustainable disposal of almost 2 million surplus bags which

remained within our store network, distribution centres and bag supplier. Rather than send these to landfill we entered into an agreement with a third-party sustainability specialist who will broker their recycling to ensure the plastic does not go to landfill.

In terms of supporting our community Adairs remains a proud partner of Orange Sky, delivering over $235,000 in donations in FY23. Since the formalisation of our strategic partnership in 2019 Adairs has facilitated donations of over $875,000 in support of those experiencing homelessness in Australia and New Zealand.

Finally, I would like to thank our customers, shareholders, team and business partners for their support and encouragement of Adairs in pursuing its sustainability goals, many of which require a significant investment and a long-term perspective. We look forward to sharing our sustainability journey with you in this and future reports.

Mark Ronan
Managing Director & CEO

SUSTAINABILITY IS CENTRAL TO THE RELATIONSHIP WE HAVE WITH EACH OF OUR STAKEHOLDERS

1. SUSTAINABILITY GOALS

Companies worldwide have a clear 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 the Group's 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	3 GOOD HEALTH AND WELL-BEING 5 GENDER EQUALITY 8 DECENT WORK AND ECONOMIC GROWTH	7 AFFORDABLE AND CLEAN ENERGY 13 CLIMATE ACTION 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 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 17 of the Company's FY23 Corporate Governance Statement.

On a day-to-day basis the Group's sustainability efforts are overseen by the People, Product and Planet Committee (PPP Committee) with representation from all business divisions. The PPP Committee meets monthly, reports to the Chief Executive Officer, and coordinates the identification, development, execution and review of sustainability initiatives across the Group to achieve its sustainability objectives.

Ideas and suggestions for improving our sustainability practices are invited from all team members via the company's intranet, and communicated via internal communication channels include the CEO's quarterly broadsheet and regular townhall meetings.

3. REPORTING BOUNDARY AND SCOPE

This Sustainability Report provides an overview of the Group's sustainability framework, goals and FY23 achievements. It relates to Adairs' wholly owned and operated assets, and the operational aspects of non-Adairs assets such as stores, warehouse facilities and distribution centres where the Company maintained operational control during the reporting period.

4. PEOPLE

4.1. Ethical sourcing

The Group 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 origin[1]				
China (ex HK)	62%	93%	95%	74%
India	11%		3%	8%
Bangladesh	7%			5%
Australia	7%			4%
Vietnam	4%	1%		3%
Malaysia		6%	2%	1%
Turkey	3%			2%
Hong Kong	5%			3%
Indonesia	1%			0%
Total	**100%**	**100%**	**100%**	**100%**
Suppliers[2]				
Number of suppliers	247	35	43	325
Concentration[1]				
Largest supplier	17%	23%	34%	-
Top 10	54%	89%	85%	-
Top 20	67%	98%	95%	-

Note 1: Percentage of total stock purchases by value for that brand (FY23).

Note 2: Suppliers across all tiers as at June 2023. 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.

4.1.1. Supplier Code of Conduct

The Group 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.

4.1.2. Subcontractors

Given the practical limitations on the Group 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.

4.1.3. 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.

4.1.4. 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.315) 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, and this improves on a day-to-day basis. 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.

4.1.5. 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.
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.

4.2. 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.

4.2.1. 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. Their focus is on creating a safe, positive and supportive environment for people who are too often ignored or who feel disconnected from the community. 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 boxes

In FY23, Adairs, together with its customers and team, contributed over $235,000 to Orange Sky which, when added to prior year contributions, had a social impact equivalent to 22,600 laundry washes, 10,800 hot showers and 24,500 hours of genuine conversation for those experiencing homelessness across Australia and New Zealand.

4.2.2. 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.

4.3. 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.

In the last year, to support our team in a post-pandemic environment, we launched a set of flexible work guidelines which gave team members the flexibility to work in ways that enabled their best performance. These guidelines include flexible choices in terms of when, where, and how they work which in turn helps drive empowerment, autonomy and trust.

4.3.1. Team health and safety

The Group 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:

- all physical and psychosocial 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[1]) and Total Recordable Injury Frequency Rate (TRIFR [2]).

Since FY20 the Group[3] has seen a 38% reduction in LTIFR at 21.6 and 54% reduction in TRIFR at 27.3. Adairs acknowledges that these numbers are higher than industry averages, however it attributes this to our broader interpretation of these measurements than that of other retailers. In FY24, Adairs will review its interpretations to achieve better alignment with its industry peers.

1 LTIFR is calculated by the number of Lost Time Injuries divided by the number of hours worked, multiplied by one million. A Lost Time Injury is defined by Adairs as a work-related injury or illness resulting in a team member missing their next rostered shift, regardless of whether a Workcover claim is accepted or not.

2 TRIFR is calculated by the number of Total Recordable Injuries divided by the total number of hours worked, multiplied by 1 million. A Total Recordable Injury is defined by Adairs as a lost time injury, an injury resulting in restricted duties or substitute work and any injury that requires medical treatment by a medical professional.

3 Group results include data for Mocka and Focus on Furniture for FY23 only.

4.3.2. Team engagement and development

Adairs conducts an annual engagement survey of its team supplemented by smaller periodic 'pulse surveys'. In FY23 the participation rate for the engagement survey was over 70% of our workforce. These surveys 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 creating a highly engaged and performing workforce where team members feel connected to, and part of, our business. In response to the FY22 engagement survey feedback, focus was directed to key actions around leadership, communication, enablement and learning & development. Positively, the FY23 engagement survey showed an increase in engagement across the company which helped raise retention of talent and performance output over previous years.

All team members are encouraged to undertake a range of learning and development offerings to build on their existing skills and experiences. Working with a range of leading external learning providers, thousands of hours of on-the-job training was delivered through both face-to-face and online venues. These covered a broad range of topics including leadership and management training, self-awareness, communication and presentation skills, coaching and how to provide effective feedback to others.

4.3.3. Diversity

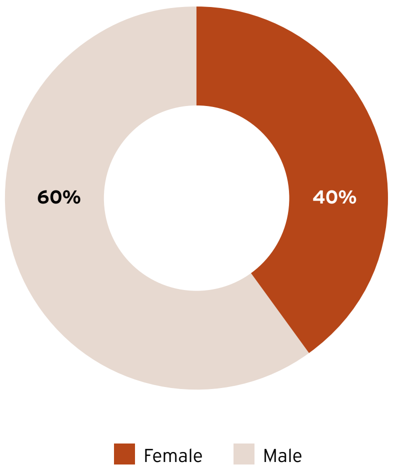
The Board has adopted a Diversity Policy which aims to, among other matters, address the representation of women in senior management positions and on the Board, and to actively facilitate a more diverse and representative management and leadership structure.

In 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. As at 31 March 2023 the Group had already reached this level with 40% of senior executives (as defined below) being women.

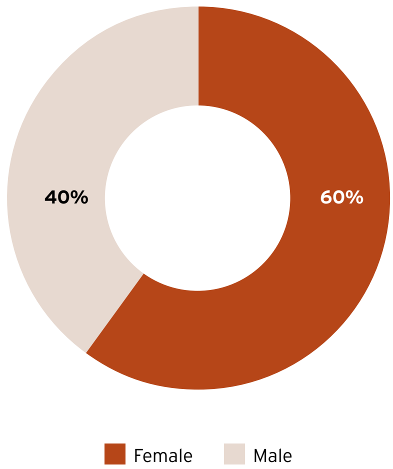
Adairs actively promotes diversity through its hiring and promotion practices, measures gender diversity in the composition of its senior executives and workforce generally, and reports these annually to the Australian Government's Workplace Gender Equality Agency.

As at 31 March 2023, the gender diversity of Group team members was as follows:

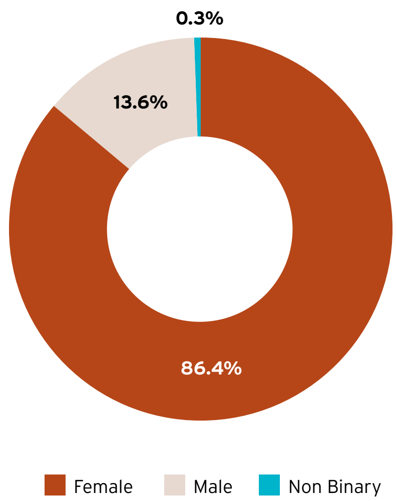
Senior Executives[1]



Senior Management[2]



The Group



Note 1: Senior Executives are defined as all employees classified as "General Managers" or above (15 individuals), as those terms are defined under the Australian Government's Workplace Gender Equality Act.

Note 2: Senior Management are defined as all employees classified as "Other Managers" or above, as those terms are defined under the Workplace Gender Equality Act.

The Company has an overall majority representation of women in senior management positions and across the whole organisation. Board diversity is addressed in section 2.10 of the FY23 Corporate Governance Statement.

The Board has set the following gender diversity targets:

Group	Gender diversity target	FY23 outcome
Board of directors	Not less than 30% of Directors to be women with a longer-term goal of not less than 40% of each gender over the longer term	› Initial target met › Currently 33% woman
Senior executives[1]	Not less than 40% of each gender across the senior executive team by July 2027	› Target met › Currently 40% women
Entire workforce	A majority of women across the Group workforce, reflective of its customer profile	› Target met › Currently 86% women

1 Senior Executives are defined as all employees classified as "General Managers" or above (15 individuals), as those terms are defined under the Australian Government's Workplace Gender Equality Act.

4.4. 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/FY23 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 and can be viewed on its investor relations website. There is no evidence of 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 >$235k in FY23 2. Mocka donated 50 cots and mattresses to flood impacted families in the North Island of New Zealand 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 comprise 33% of directors with the Board committed to increasing this to over 40% 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	Adairs became a signatory to the 40:40 Vision Initiative by HESTA in May 2022. Women currently comprise 40% 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: 21.8 in FY23, down 38% in the last three years TRIFR: 27.3 in FY23, down 54% in the last three years

5. PLANET

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

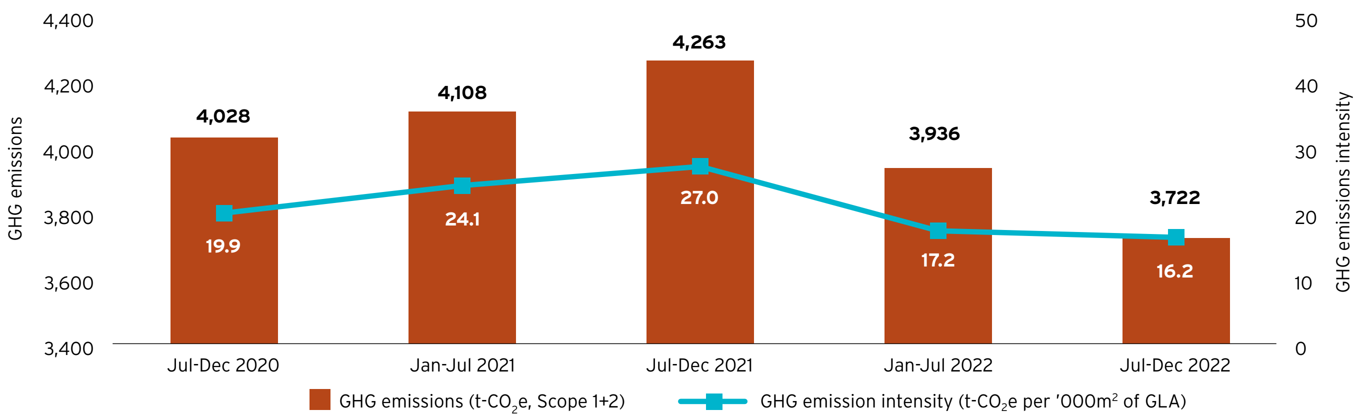
5.1. Greenhouse gas (GHG) emissions

The Group is committed to taking responsibility for its GHG emissions and in FY23 undertook a number of related initiatives, including:

- quantified its Scope 1+2 emissions for the 18 months to 31 December 2022
- surveyed all of its retail stores to understand the ability for each to reduce their electricity consumption having regard to their use of (and direct control over) air-conditioning, internal and external lighting, door automation and other electrical devices; and
- attended the Australian Retailers Association (ARA) Net Zero Accelerator program, a two-day intensive workshop and series of monthly roundtables to share and develop strategies for reducing our carbon footprint with a focus on developing a climate action plan and tackling Scope 3 indirect emissions.

The below chart sets out the Group's GHG emissions by half since July 2020 (when measurements began). While there is typically some seasonality across halves the favourable trend over the last 18 months is clear.

Group greenhouse gas emissions[1] (tonnes CO_2e, Scope 1+2)



Notes:

1. Emissions are measured in metric tonnes of carbon dioxide (CO_2) equivalents
2. Emission intensity refers to emissions per thousand square metres of floor space across retail stores, warehouses and corporate offices (after adjusting for COVID-related store closures)

Scope 1 and 2 greenhouse gas emissions for the year ending 31 December 2022 (the most recent year reviewed) were 8.5% lower in absolute terms than our base year (ending 31 December 2021). This was an excellent outcome given the growth in floorspace within our Adairs store network (from new and upsized stores) over the same period and the fact that our 2021 base year emissions were tempered by COVID-related store closures. Reductions to date reflect grid decarbonisation and individual store-based initiatives driven by raised awareness of the importance of energy conservation amongst store team members.

Approximately 99% of the above emissions are Scope 2, being indirect emissions related to purchased grid electricity. While these figures have been prepared having regard to actual usage data (where available), no assurance has been conducted in relation to these amounts.

Reduction targets

While the Group has quantified its Scope 1 and 2 emissions since July 2020 it has not yet finalised its business plan to reduce these emissions which is a necessary pre-requisite to setting credible reduction targets. This work will be undertaken over the next 12 months and reported upon in next year's report.

Scope 3 emissions

The Group has not yet identified and quantified its Scope 3 emissions. These relate to indirect emissions within the Group's value chain, both upstream with suppliers (in their production and transport of group products) and downstream with customers (in their use and ultimate disposal of its products). As is the case for most retailers, a majority of Adairs' carbon emissions sit within Scope 3. The identification and quantification of these emissions is particularly challenging given it relies on the cooperation of a large number of parties and the availability and reliability of the data provided varies widely. Lowering our Scope 3 emissions is however the most impactful action we can take in reducing our impact on the planet.

Going forward the Group will work with its largest suppliers (many of whom have partnered with it 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. Quantifying Scope 3 emissions and working with suppliers and customers to reduce these is a multi-year undertaking that Adairs is committed to.

Methodology

The Group's greenhouse gas accounting process has followed 'Method 1' within the National Greenhouse and Energy Reporting (NGERs) guidelines[4]. 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 1.7% of the calculated Scope 2 emissions in 2022 are estimates for stores with data gaps. For any store having no electricity data available the electricity consumption has been benchmarked based on stores with similar physical characteristics; and
- Approximately 60% of the stores experienced at least one (1) COVID-19 lockdown period of at least one (1) day within the reviewed period. 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 has been accounted for in the accompanying 'emission intensity' calculations.
- 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.[5]

5.2. Waste and recycling

The majority of Group waste is related to product packaging and, as described in Section 6.3, 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 FY23, the Group generated 1,308.8 tonnes of waste across its stores, distribution centres and support offices. This represented an increase of 2.8% over FY22 which is primarily explained by the fact that all stores were operating for the entire year (16% of store trading days were lost due to COVID-related mandated closures in FY22). Approximately 42% of this was diverted from landfill (able to be recycled) which is unchanged from the prior year. The proportion recycled is expected to increase over the next few years as packaging initiatives to meet the 2025 targets are implemented.

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

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

	FY23	FY22	Change
Waste to landfill	748.5	726.8	3.0%
Recycled waste	560.3	546.6	2.5%
Total waste (in tonnes)	1,308.8	1,273.4	2.8%
Recycle %	42.8%	42.9%	-0.1%

Note 1: Waste data and analysis is not currently available for Mocka operations in New Zealand.

5.3. Elimination of single use plastic carry bags

Single-use plastic carry bags were progressively eliminated from stores with Western Australia becoming "plastic bag" free from 1 July 2022 and other Australian States and New Zealand following in subsequent months. Customers are now instead 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.

These re-usable bags are made of polypropylene ('PP') with a 35% recycled content. While PP is a plastic, it was selected over other materials due to its environmental attributes. For example:

- It takes fewer natural resources to produce and uses less energy than creating paper, cotton, canvas or jute bags.
- It is highly recyclable and generates fewer waste products in production and disposal; and
- It has a low carbon footprint and transmits the lowest carbon dioxide emissions compared to other plastics.

Adairs expects to transition to a PP bag made of 100% recycled content in FY24.

5.4. Recycling of obsolete plastic carry bags

The decision to cease providing single-use plastic carry bags resulted in the Group having almost 2 million surplus bags (30+ tonnes) remaining within its store network, distribution centres and bag supplier. Rather than send these to landfill, the Company has entered into an agreement with a third-party sustainability specialist who will broker their recycling to ensure the plastic does not go to landfill.

5.5. National Distribution Centre

Most of the Adairs-brand products are processed through its dedicated National Distribution Centre which was commissioned in September 2021 with a number of key environmental attributes:

- 100kw in solar panels on its 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); and
- a system to separate and compact cardboard waste from general waste.

6. PRODUCT

6.1. Product Standards

First and foremost, the Group's 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 OEKO-TEX® CONFIDENCE IN TEXTILES 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) RESPONSIBLE DOWN STANDARD R·D·S CERTIFIED ©TextileExchange	**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 distress. 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 FSC FORESTS FOR ALL FOREVER™	**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, TENCEL™ and bamboo that are recognised as being more environmentally friendly by having a lower impact on the environment. Recycled fibres, primarily polyester made from post-consumer waste, are also being investigated.

6.2. Product Safety

The Group 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 FY23.

6.3. 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, Adairs reports on its progress against set targets annually and is scored based on its performance.

Adairs latest report (2022) saw APCO give the company an Overall Performance rating of 'Advanced'. Copies of the most recent annual APCO reports are available on Adairs investor relations website.

As a signatory the Group 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.

In FY23, Adairs completed a review of all its product packaging 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

New Supplier Packaging Specifications have been provided to suppliers however the process of transitioning packaging arrangements across a large and geographically diverse supplier group is a complex and challenging process. Nevertheless, Adairs is 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 and the remaining bedlinen ranges will be transitioned by December 2023. Elsewhere we are working with suppliers to progressively phase out polystyrene and plastics from their packing materials.

CORPORATE GOVERNANCE

Other than as noted below, Adairs has 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 21 August 2023, which are available to be viewed on the Group's investor relations website at: www.investors.adairs.com.au

The only departure from the ASX Corporate Governance Council's Principles and Recommendations related to the Board not having a minimum of 30% of directors being female (Adairs had 29% throughout the year). As set out in the FY23 Corporate Governance Statement this will increase to 33% from 1 September 2023 following the announced resignation of Michael Cherubino as a director of the Company from that date.

ANNUAL FINANCIAL REPORT
FOR THE 52 WEEKS ENDED 25 JUNE 2023

ADAIRS LIMITED
ABN 50 147 375 451

CONTENTS

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 25 June 2023 ("FY23").

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 (resigned: 18 August 2023)

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Information on qualifications and experience of directors is included on pages 47 to 50 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 25 June 2023, an interim dividend of 8.0 cents per share was paid to the holders of fully paid ordinary shares on 6 April 2023. The interim dividend was franked to 100% at the 30% corporate income tax rate.

Having considered the capital commitments required to take over the operations of the National Distribution Centre and the ongoing desire to maintain a strong balance sheet, the Board have taken the prudent decision to not pay a final dividend in FY23.

2023 OPERATING AND FINANCIAL REVIEW

The profit from ordinary activities after income tax for FY23 amounted to $37.8 million (FY22: $44.9 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.

Underlying 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 FY23 was $63.9 million (FY22: $76.4 million).

Continuing Operations	FY23 $'000	FY22 $'000
Statutory profit after income tax for continuing operations	37,843	44,890
Add back:		
Finance expenses	13,677	7,933
Interest income	(405)	–
Income tax expenses	16,360	19,719
Significant items:		
Impact of AASB 16 *Leases*[1]	(3,972)	(1,270)
Costs associated with the transition to the National Distribution Centre	389	3,090
Mocka acquisition costs (including earn-out related adjustments)	–	860
Focus acquisition costs	–	1,160
Underlying EBIT (non-IFRS)	63,892	76,382

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 FY23 compared to the operating results for FY22.

Continuing Operations	FY23 $'000	FY22 $'000	Change %
Revenue	621,335	564,476	10.1%
Gross Profit (Non-IFRS)	285,492	269,765	5.8%
Gross Profit Margin (Non-IFRS)	45.9%	47.8%	-180 bps
Underlying EBIT (Non-IFRS)	63,892	76,382	-16.4%
Underlying EBIT Margin (Non-IFRS)	10.3%	13.5%	-320 bps

RESULTS SUMMARY

FY23 produced another record sales year with Group sales of $621.3 million, up 10.1% on FY22. A strong product offering across all three brands, together with a full year's contribution from Focus on Furniture and a year free of COVID-related mandated store closures underpinned the strong sales performance.

In the second half of the year, rising interest rates and broad cost of living increases drove a sharp fall in customer traffic, both in-store and online, as consumers tightened their household budgets. This was felt by all retailers and especially discretionary retailers. While a more challenging trading environment had been anticipated and provided for in terms of inventory management and planned promotional activity, the impact was nevertheless significant with 2H FY23 sales finishing 8.4% lower than 1H FY23.

The impact of slowing sales on profitability was accentuated by cost pressures building from higher store labour costs reflecting stores open for the full year, higher customer delivery costs, store rents, utilities charges and continuing inefficiencies at the NDC impacting end to end supply chain costs.

Underlying Group EBIT fell 16.4% to $63.9 million with Adairs contributing $35.0 million (down 37% on FY22), Focus on Furniture $27.4 million (up 58.4%) and Mocka $1.5 million (down 58.2%).

Adairs

The Adairs brand delivered another record sales result in FY23, up 2.9% to $430.8 million. Adairs store sales finished up 7.0% aided by a full year of store operations (16% of trading days were lost to COVID-related closures in FY22). While the fully operating store network saw online sales fall 6% in FY23 they continue to represent an important channel for the brand, accounting for 27.1% of total sales and reinforcing the benefits of being an omni-channel retailer. In the last four years online sales as a percentage of total sales have increased from 17.1% to 27.1% while the Adairs store footprint has grown by c.25% over the same period.

The Linen Lover loyalty program remains a strategic asset and strong mitigant to the tougher trading environment with members accounting for 83% of all sales, up from 82% in the prior year. FY23 saw over 450,000 sign-ups (new and renewed memberships) with total memberships finishing broadly unchanged at just over 1 million as the 2-year anniversary of peak COVID sign-ups passed and corresponding expiries offset new member growth.

Gross profit margin softened in FY23 against FY22 as promotional activity increased in response to the more challenging retail environment. The impact of a weaker Australian dollar across the year was substantially offset by existing hedging arrangements with most USD purchases and shipping expenses settled at c.73.6 cents. Market-based container rates returned close to pre-COVID levels in the second half as supply chains normalised, although the full benefit of this will come in FY24. Material increases to domestic delivery charges by local carriers also impacted both customer delivery and store replenishment costs.

A new Adairs brand website was launched in November 2022. The new website provides an improved customer experience (simpler navigation, better product showcasing, faster page speeds) and importantly provides the foundations and capability for future online business initiatives, a number of which are in development.

Two new stores were opened, three closed, two refurbished and four upsized driving a 2.2% increase to gross lettable area (GLA) over the last 12 months. Whilst below our targeted GLA growth rate of 5%+ per annum, this reflects our discipline in both site selection and landlord negotiations as well as the current scarcity of quality sites at appropriate rates. Our property team continue to proactively seek out opportunities to build our store pipeline and expect that the current trading environment may create further opportunities which we are able to move quickly on should they arise.

Adairs' cost of doing business (CODB) increased as a percentage of sales in FY23 reflecting the return to a fully operating store network combined with the inflated supply chain costs associated with the NDC, including temporary warehousing requirements.

The softer gross margin combined with CODB increases meant that Adairs Underlying EBIT declined 37.1% to $35.0 million.

Adairs National Distribution Centre (NDC)

As previously advised to shareholders, operational outcomes at the strategically important Adairs NDC have been below expectations since it opened in September 2021. This has adversely affected customer experiences and resulted in significantly higher costs of operations than both the business-case expectations and the self-operated model it replaced.

On 1 August 2023 Adairs announced an agreement with DHL whereby Adairs will assume operational control of the NDC from 6 September 2023. This comes after a thorough review of the various options available to the Group and is supported by the continued employment of key Adairs team members involved in our warehousing operations prior to the NDC. By returning to a self-operated model we can leverage our product and supply chain expertise to deliver a significantly better experience for our stores and customers at a materially lower cost than the current 3PL arrangement.

Acquiring the warehousing operating assets, installing a new warehouse management system, and implementing the transition is expected to involve an outlay of approximately $20.0 million which will be funded using cash reserves and existing finance facilities. In the first year Adairs expects to realise annual cost savings of approximately $4.0 million over the current 3PL model, which will increase in year two with the benefits of the new warehouse management system (WMS).

The NDC remains a key component of Adairs' integrated omni-channel strategy to better enable customers to shop Adairs how, where and when they choose. 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 enhancing service levels for both customers and stores during peak trading periods.

Focus on Furniture

Focus on Furniture had another excellent year, delivering a strong FY23 performance with sales up 5.3% to $141.9 million. Store sales increased 9.0% to $132.1 million and online sales reduced 27.7% to $9.8 million (6.9% of total sales) with all stores open throughout the year.

High levels of product availability, short lead times, quality product ranges and a disciplined pricing strategy delivered gross margin gains in FY23 despite the industry-wide supply chain headwinds which prevailed for much of the year. The strong sales and gross margin growth, combined with tight cost control, delivered an Underlying EBIT increase of 0.3% to $27.4 million.

FY23 saw the Hoppers Crossing store refurbished with an updated store design supporting the quality and value of the Focus on Furniture product. The new store design enhances and differentiates the in-store experience over existing stores through a relatively modest capital investment in areas such as lighting, layout and styling. Since re-opening the Hoppers Crossing store has delivered 6% better sales results than the balance of the Focus store network. New store openings remain a priority with a pipeline of opportunities being built despite the tight market for space in Homemaker centres. Management expect to open 3-8 new stores across the next 18 months with three of these already confirmed (one of which will open in 1H FY24). The management team continue to see clear growth opportunities through the roll-out of up to 30 new stores nationally, with an initial focus on Queensland and New South Wales.

Mocka

Mocka sales fell 24.1% to $48.6 million for FY23. Shoppers returned to physical stores and the brand rebuilt from the FY22 operational issues with customer confidence clearly returning as the year progressed. In addition to restoring customer confidence through execution excellence and delivering great product, management's focus in FY23 was on growing gross margin and optimising the inventory range.

Gross profit in the first half of the year was impacted by extensive clearance activities of discontinued ranges, higher delivery costs following a change of the Australian domestic delivery partner, and higher inbound shipping costs. The second half of the year saw a significant improvement in gross margin as inbound shipping costs fell, clearance activities materially reduced and the operating platform stabilised.

Profitability increased in the second half to finish FY23 with an Underlying EBIT contribution of $1.5 million (1H FY23 was $0.3 million). With the business operations now stabilised, the team are looking at FY24 being a year where we continue to rebuild the profitability of the business whilst executing a step-by-step approach to growing the business both in Australia and New Zealand.

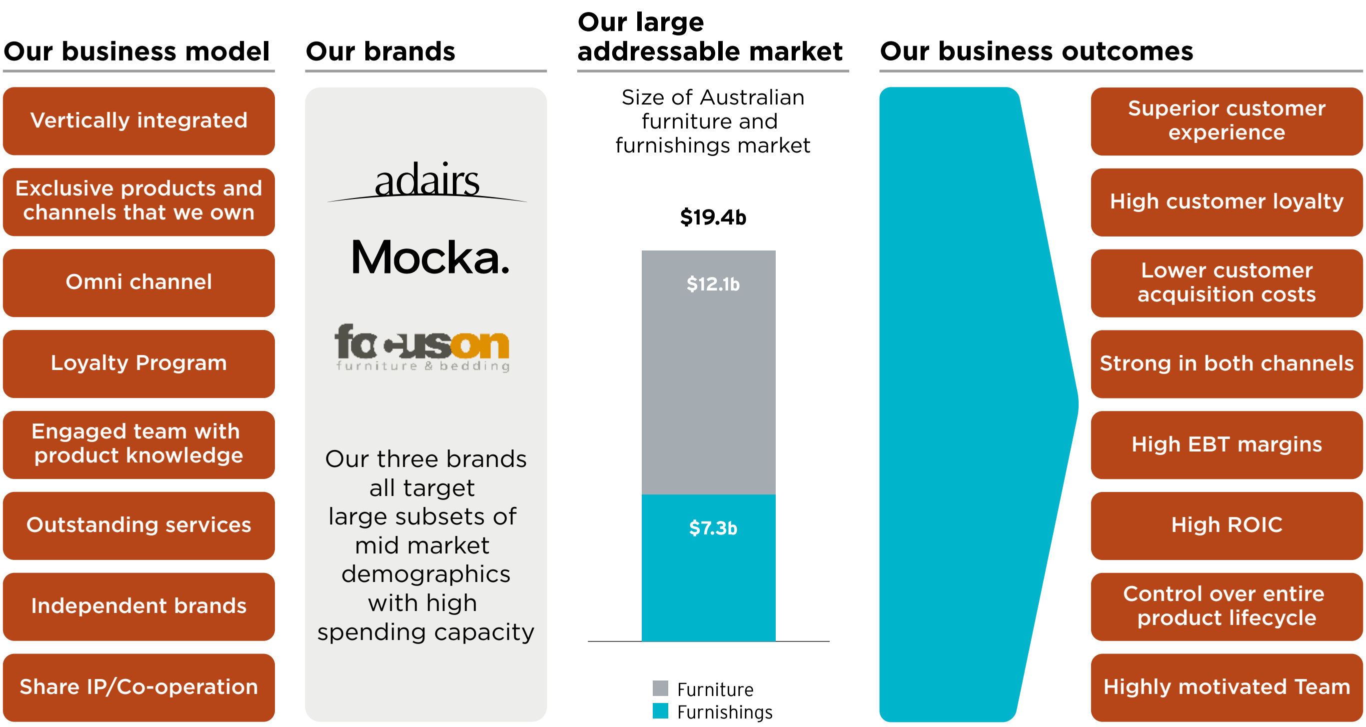
CAPITAL MANAGEMENT

Cash generation from operations saw net debt fall by 21% to finish FY23 at $73.6 million, with $100.0 million in drawn debt. The Group is compliant with covenants and has total finance facilities of $135.0 million available until January 2026 ($90.0 million) and January 2025 ($45.0 million).

Inventory finished FY23 down 11.4% across the Group in-line with expectations. Mocka, in particular, reduced its previously elevated inventory holdings by approximately 38% with excess and underperforming inventory cleared largely in 1H FY23. Supply chains have stabilised reducing the need to retain inventory buffers to manage the risk of unforeseen interruptions. The majority of inventory across all three brands is in core category lines with lower fashion/seasonal risk.

STRATEGIC UPDATE

The Group believes its existing strategies remain appropriate in the current climate and that its underlying performance across a variety of market conditions, including the pandemic, 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.



Source of market size data: ABS (Turnover in Furniture, floor coverings, houseware and textile goods retailing) and management estimates.

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 through channels that we own 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 have grown strongly (with a CAGR[1] of 8.4% over the last 5 years). Linen Lovers are highly engaged, visiting Adairs more often and spending more each visit than non-members (continuing to account for over 80% of Adairs sales).
- High exposure to the accelerating trend to online shopping with digital channel shoppers representing c.28% 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 centric 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 group actively manages its portfolio 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 over 35 stores and believe a further 10-15 upsize opportunities remain over the next few years.

Our digital transformation

- Being multi-channel delivers a larger total addressable market (TAM), significant synergies across channels, and provides customers with a superior and more flexible shopping experience than a single channel retailer.
- Customers that engage with our brands across multiple channels shop with us more often and spend more each time they shop 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

Focus provides exposure to the bulky furniture category with clear growth opportunities for the brand through a national store roll-out program (c.30+ new stores to the existing 23 store network), 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.

1 .Compound annual growth rate.

Mocka has low brand awareness in Australia and a low market share in a very large category. While FY23 saw the business consolidate and stabilise its platform following a number of external operation challenges of FY22 we expect sales growth to accelerate in future years. Over time we see clear opportunities to establish a physical retail presence for the brand.

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 influence 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. The above macro-economic changes are already adversely impacting sales and profits. If consumer and retail sentiment were to materially decline from existing levels, this will likely materially 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 behavior 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.	The Group 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 is undertaken quarterly. Supplier concentration and counter-party risk is monitored and managed as required.

Risk	Explanation	Mitigation
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 elevated levels following the acquisitions of Focus on Furniture and Mocka in recent years.	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 January 2025 ($45 million). January 2026 ($90 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.	Major projects are overseen by a steering committee to appropriately manage costs and resources.
Customers buying habits or seasonal trading patterns may change	Many of the Group's products are discretionary goods, particularly products in the Group's fashion item lines where consumer preferences and tastes can change quickly. Consumer demand for these products is sensitive to the Group's fashion and design selections and product range. A broad-based or series of significant misjudgements in interpreting product and fashion trends and overestimation of the quantum of demand for these products could adversely affect the Group's financial performance.	The Group has highly experienced product development teams who actively monitor and forecast fashion trends domestically and internationally. The Group 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.
Competition may increase or change	The competitive environment in which the Group operates 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 (programs and databases) are the primary defences to new competition.

Risk	Explanation	Mitigation
Cyber security and IT infrastructure	A considerable 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. Given recent high-profile data breaches in Australia and an increase in interest in this topic we have provided further discussion on our approach in addressing this risk below.	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 Group'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 Sustainability Report, which forms part of the Group's 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 FY23 with no material adverse findings.

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 in place for all key management personnel. A senior leadership development program is in place 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 Adairs brand is currently transitioning its National Distribution Centre from a 3PL operator to itself as operator. This is a complex process involving a number of key stakeholders within and exernal to the group. The Group currently sources over 90% 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, modern slavery, and climate risk.	Warehousing and dispatch performance indicators are reviewed daily with real-time remedial action taken as required. The Group regularly assesses suppliers to identify opportunities to consolidate and/or diversify sourcing countries to mitigate risk within its supply chain. The Group has a comprehensive step-in plan that has considered the operating requirements to enable the step-in to occur and to reduce the risk of business disruption. The Group produces and publishes a Modern Slavery Report each year.
Contagion risk	An event originating within a brand may result in significant regulatory, financial or reputational contagion for one of the other brands or 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 risk 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.

CYBERSECURITY AND DATA PROTECTION

The digital economy necessarily involves data. Companies, including Adairs, collect, store, analyse and use data in order to provide customers with more personalised products and services, improve business processes, and develop new revenue streams. With these benefits come issues to be addressed including data usage, transparency, control, security, reliability, and privacy. Recent high-profile data breaches in Australia have highlighted the ever-increasing need to protect all customers, team, and business partners against potential data and cybersecurity risks. A successful cyber-attack could result in reputational damage, financial loss, a loss of operating capacity and competitive advantage, and damage to customer confidence and experience.

Adairs' cybersecurity program is overseen by the Audit & Risk Committee of the Board and the Chief Information Officer is responsible for overseeing information risk governance and privacy functions. The Group uses market leading cybersecurity tools and external partnerships to ensure robust cybersecurity capabilities, continuous monitoring, and an effective response to any security events. In FY23 Adairs continued to develop its cybersecurity framework and strategy, addressing vulnerabilities based on business risk while providing clear pathways to further develop our cybersecurity maturity.

Adairs' information security program is aligned with recognised information security management system standards (ISO/IEC 27001) and cybersecurity frameworks (NIST SP-800 series) and related policies are continuously reviewed and approved annually. All team members across the group participate in an annual targeted security awareness training program to reinforce proper identification and reporting of social engineering attempts.

Adairs is compliant with the Payment Card Industry (PCI) Data Security Standards however it does not keep any customer payment card information.

Annual audits, performed by internal and external resources, and penetration tests are conducted on our systems and applications to continually monitor vulnerability and compliance with governmental and industry regulations.

OUTLOOK

While the Board believes that the Group's business model and existing strategies are appropriate and that all three brands have clear growth pathways, the macro-economic environment is likely to be the dominant driver of financial performance in the FY24 year.

The medium-term outlook for discretionary retailers appears likely to remain challenging given prevailing macro-economic headwinds. Cost of living pressures rose sharply in FY23 prompting the Reserve Bank of Australia to raise cash rates from 0.1% in May 2022 to 4.1% at the date of this report. While this has had a materially adverse impact on consumer spending there are also significant cost-pressures building from a weaker Australian dollar, higher labour costs, delivery costs and store rents. Given these factors the Board and management teams have implemented material cost reduction initiatives that seek to size the business appropriately for the prevailing and anticipated trading environment, while preserving the strong service culture that the company is known for and ensuring it continues to delight customers with new and unique product.

Looking beyond FY24 the Board remains confident that the Group is well placed to navigate these challenges given its resilient omni-channel business model, loyal customer base, large addressable market and strong management team.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

In the opinion of the directors there were no significant changes in the state of affairs of the Group that occurred during the financial year other than those included in this Directors' Report.

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

On 1 August 2023, Adairs announced an agreement with DHL whereby Adairs will assume operational control of its National Distribution Centre from 6 September 2023. Details related to this event are set out on page 39 of this report.

On 18 August 2023, Michael Cherubino resigned as a Director of Adairs Limited. Mr Cherubino will remain a full-time executive of the Group in his capacity as Executive Director – Group Property.

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 25 June 2023.

DIRECTORS AND DIRECTORS' INTERESTS

The Directors of Adairs Limited in office during the period and through to the date of this report are listed below together with details of their relevant interests in the securities of the Company at this date.

Brett Chenoweth

Independent Chair, Non-Executive

Brett was appointed 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 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)

EVT Limited (since December 2022)

Former Listed Directorships in the last 3 years

Janison Education Group (July 2014 to January 2023)

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 was 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

289,427 performance rights

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

80,000 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)

Non-executive director of Bapcor Ltd (since March 2023)

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 the 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 Chair 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 Australian Doctor Group Pty Ltd and Australian Pure Health Pty Ltd (trading as Mr Vitamins).

Special Responsibilities

Chair of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nomination Committee

Interest in Adairs Limited shares and options

1,540,334 ordinary shares

Other Current Listed Directorships

Non-executive director of dusk Group Limited (since February 2015)

Non-executive director of Universal Store Holdings Limited (since September 2018)

Non-executive director of The Shaver Shop Group Limited (since May 2016)

Former Listed Directorships in the last 3 years

None

Kiera Grant

Independent Non-Executive Director

Kiera has extensive board and senior management experience, having spent 15 years working in investment banking. Kiera has extensive financial and strategic assessment knowledge combined with mergers and acquisitions, capital market and corporate governance experience. Kiera is a Trustee of the Art Gallery of New South Wales Trust 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-Independent 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

3,316,216 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 (resigned: 18 August 2023)

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

107,930 performance rights

Other Current Listed Directorships

None

Former Listed Directorships in the last 3 years

None

COMPANY SECRETARY

Fay Hatzis resigned as Company Secretary on 8 August 2023 to take effect from 27 October 2023. A new Company Secretary has not yet been appointed.

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 2023 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	12	11	4	4	1	1	2	2
D MacLean	12	12	–	–	1	1	2	2
T Peterson	12	12	4	4	1	1	2	2
M Cherubino	12	10	–	–	1	1	–	–
K Spargo	12	12	4	4	1	1	2	2
M Ronan	12	12	–	–	1	1	–	–
K Grant	12	12	–	–	1	1	2	2

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

Attended: Number of meetings attended.

NON-AUDIT SERVICES

The Group may decide to engage the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Group are important.

Details of the amount paid to the auditor Ernst & Young Australia for audit and non-audit services provided during the year are set out in Note 28 of the financial statements.

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

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

AUDITORS INDEPENDENCE DECLARATION

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out on page 72.

PROCEEDINGS ON BEHALF OF THE COMPANY

There are currently no proceedings on behalf of the Company.

INDEMNIFICATION AND INSURANCE OF OFFICERS

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

a) in bringing or prosecuting any claim, unless the claim is a claim in the nature of a cross-claim or third-party claim for contribution or indemnity in, and results directly from, any proceedings in respect of which the directors have made a claim under the indemnity;

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 (the Company or Group) present the Remuneration Report for the Group for the 52-week period from 27 June 2022 to 25 June 2023 (FY23). 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
David MacLean	Non-independent, non-executive Director
Executive Directors	
Mark Ronan	Chief Executive Officer (CEO) and Managing Director
Michael Cherubino[1]	Executive Director Property and Business Development
Other Key Management Personnel	
Ashley Gardner	Chief Financial Officer (CFO)

1. Michael Cherubino resigned as a Director of Adairs Limited on 18 August 2023. Mr Cherubino will remain as a KMP in his ongoing capacity as Executive Director – Group Property.

Contents

SECTION 1: REMUNERATION OVERVIEW

The Board continues to focus on building and delivering value to shareholders, progressing its growth plans and selectively pursuing opportunities which are expected to add value having regard to the appropriate associated risks.

Having a robust remuneration and reward framework that supports and encourages sustainable growth, risk management, and retains our people, is critical to the successful execution of our strategy. The remuneration outcomes outlined in this Remuneration Report reflect the 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).

FY23 Remuneration

Remuneration packages: During the 2023 financial year the Board considered the remuneration levels for Senior Executives with reference to external market benchmarks and other factors including Company and individual performance. As a result of this review, a decision was made to change the LTI award from Options to Performance Rights. There were no other changes made to the remuneration packages of the Senior Executives in relation to their short-term or long-term incentive as a percentage of their overall salary package.

Short term incentive: The Group's short-term incentive (STI) plan rewards senior executives for performance against financial measures and individual KPI's. The FY23 financial targets were not achieved and as a result, there are no short-term incentive entitlements payable to the Senior Executives in relation to FY23.

Long term incentive: Long term incentives (LTI) issued to Senior Executives in FY23 are in the form of performance rights (Performance Rights). Each Performance Right entitles the executive to acquire an ordinary share in the Company for no consideration subject to the Performance Rights vesting after meeting specific performance and service conditions. Details of the Performance Rights 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.

Fees for non-executive Directors: Non-executive Director fees are determined within an aggregate non-executive Directors' pool limit of $800,000. The Non-executive Directors' fees are reviewed annually to ensure that the fees reflect market rates. During FY23 there were no changes to the remuneration of non-executive directors. The Board believes the current levels of remuneration are fair and appropriate and reflect the alignment between shareholders' interests and the Group's remuneration policies and practices.

SECTION 2: REMUNERATION STRATEGY AND POLICY

A core belief of the Board is that the attraction, engagement and retention of skilled and culturally aligned leaders and team members provides a competitive advantage which is fundamental to the long-term success of the Group. The maintenance and development of these leaders and fostering a workplace culture that supports this belief are priorities for the Group.

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

Remuneration can include a number of different elements such as fixed remuneration, superannuation, short term incentives, long term incentives and other benefits such as loans to acquire shares in the Company, tools of trade, study and relocation assistance and car lease arrangements. The elements of the total remuneration package may vary according to the job role, team members experience and performance. The Remuneration Committee also has regard for the equity ownership position of the KMPs when setting remuneration packages.

In considering the remuneration arrangements of KMPs, the Remuneration Committee makes recommendations based on seven 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 the alignment of interests between KMPs and shareholders.
3. **Sustainability:** Seek to ensure the material aspects of a KMP's remuneration arrangements are sustainable and could withstand independent scrutiny and 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. They are also mindful of their commitment to meeting and maintaining robust standards of corporate governance and ensuring that 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.

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.

Following the acquisitions of Mocka and Focus on Furniture, the Company engaged KPMG in 2022 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 three businesses. This review did not impact the approach to remuneration in FY22 however refinements were made to the LTI plans for FY23 and beyond as described in Section 5 of this Remuneration Report.

Other than the advice of KPMG discussed above, no remuneration consultants or external advisors provided remuneration advice or recommendations during the 52 weeks ended 25 June 2023.

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

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

The FY23 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 FY23 long term incentive (LTI) plan offered Senior Executives Performance Rights over the ordinary shares of Adairs Limited. Performance Rights are 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 FY23 LTI scheme for the issue of Performance Rights to certain Executive Directors of the Company was obtained at the Annual General Meeting on 21 October 2022.

The following table shows the Group's financial performance for the five years from FY19 to FY23.

Continuing Operations	FY23 Performance	FY22[2] Performance	FY21 Performance	FY20[3] Performance	FY19 Performance
Sales ('000)	$621,335	$564,476	$499,762	$388,933	$344,430
Like for like sales (%)	-10.9%	-2.0%	+16.5%	+12.6%	+7.2%
Underlying EBIT ('000)[1]	$63,892	$76,382	$109,067	$54,012	$43,446
Net profit before tax ('000)	$54,203	$64,609	$95,290	$52,791	$42,286
Net profit after tax ('000)	$37,843	$44,890	$63,742	$35,281	$29,643
Share price at end of year	$1.35	$1.98	$4.20	$2.25	$1.42
Dividends paid per share	8.0 cents	18.0 cents	23.0 cents	11.0 cents	14.5 cents
Earnings per share	22 cents	26 cents	38 cents	21 cents	18 cents

1. Underlying EBIT refers to Net profit before tax, less net finance expenses and other significant items deemed by the Board (including the impact of AASB 16 Leases).
2. FY22 performance includes Focus on Furniture for 30 weeks. EBIT is therefore not comparable to prior periods. Like for like sales (non-IFRS and unaudited) excludes Focus on Furniture in FY22.
2. Refer to Note 2.5(c) for reclassification of prior year financial information.
3. 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 (non-IFRS and unaudited) excludes Mocka.

SECTION 5: SENIOR EXECUTIVE REMUNERATION STRUCTURE

Senior Executives are remunerated under a total reward structure which currently consists of three elements:

- Fixed remuneration, comprising base salary package (inclusive of superannuation contributions, car allowances and other benefits);
- short term incentives (STI); and
- long term incentives (LTI).

The mix of remuneration between fixed and variable (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 FY23 was as follows:

Figure 1:

		% of total target remuneration for FY23		
Senior Executive	**Fixed remuneration**	**At risk remuneration STI maximum opportunity**	**At risk remuneration LTI – FY23 Tranche[1]**	**At risk remuneration LTI – Prior Year Tranches[2]**
Mark Ronan	55%	44%	11%	-10%
Michael Cherubino	61%	40%	7%	-8%
Ashley Gardner	56%	45%	10%	-11%

1. Performance Rights vest on 29 June 2025, subject to service and performance conditions as set out on page 62.
2. Share based payment expense recorded in FY23 with respect to previously issued tranches. A review of the performance and service conditions associated with these tranches resulted in a reversal of prior year expense taken up.

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 Underlying EBIT being achieved by the Company (EBIT benchmark). If the Underlying 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 Underlying 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 Underlying 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 FY23

For the STI targets, the Board continues to use Underlying EBIT as the primary measure of the Company's performance. Underlying 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 FY23 the Board set a minimum FY23 Underlying EBIT benchmark of $81.0 million and a maximum FY23 Underlying EBIT benchmark of $93.0 million. In setting the benchmarks for FY23, the Board considered a range of variables and inputs. The primary input for the FY23 EBIT targets for the STI was the Board approved budget. The Board recognises the scope for error in budgeting and acknowledged that budgeting in FY23 was challenging. The Board considered that the macro-economic uncertainties evident at the end of FY22 and beginning of FY23 resulted in scope for a wider range of sales and earnings outcomes in FY23 than is the case in a more normal operating environment.

The table below summarises the starting, mid-point and maximum FY23 EBIT benchmark tiers and STI participation levels set by the Board:

Tier	FY23 Underlying EBIT benchmark	Implied FY23 Underlying EBIT benchmark v FY22 Underlying EBIT	Potential Incentive as a % of Maximum Potential Incentive
First Tier	$81.0 million	+6.0%	20%
Mid Tier	$87.0 million	+13.9%	50%
Top Tier	Over $93.0 million	≥21.7%	100%

Under the above tiers, if the FY23 Underlying EBIT was less than $81.0 million no incentive would be payable to any Adairs Senior Executive, regardless of whether they achieved their individual KPI's. If the FY23 Underlying EBIT met or exceeded the relevant Underlying EBIT benchmark level of $93.0 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 Underlying EBIT benchmark had been met, the FY23 Underlying EBIT calculation would be adjusted to remove any non-recurring costs associated with investments in subsidiaries, distribution centre transition costs and any abnormal items as determined by the Board.

At the end of FY23, the Remuneration Committee reviewed the performance of the business for the 52-week period from 27 June 2022 to 25 June 2023. The Underlying EBIT of the Company was below the minimum threshold of $81.0 million. It was not considered appropriate for the Board to exercise its discretion to pay any bonuses to KMP in relation to FY23.

The results of this review were as follows:

Figure 2: Percentage of FY23 STI paid and forfeited for Senior Executives

Given the FY23 Underlying EBIT was less than $81.0 million the STI outcomes for FY23 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	$585,000	$0	0%	100%
Michael Cherubino	$325,000	$0	0%	100%
Ashley Gardner	$440,000	$0	0%	100%

STI arrangements for FY24

Set out in Figure 3 (below) is the maximum STI opportunity for each Senior Executive for FY24. 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 FY24 STI for KMP will be predominantly based on Underlying EBIT. Similar individual KPIs and service conditions have been set as the FY23 STI. While new stores openings and the addition of a 53rd trading week in FY24 will assist, the EBIT targets for FY24 have been set with an expectation of no change to the current challenging trading environment. The Board expects that household budgets will remain under pressure due to rising interest rates and cost of living increases. The Board is also mindful that the Company's overall costs of doing business is likely to continue to face upward pressures from higher labour and rent costs, as well as a lower Australian dollar against the US dollar.

Details of the FY24 STI and any amounts awarded to Senior Executives will be disclosed in the FY24 Remuneration Report.

Figure 3: FY24 remuneration opportunities

Senior Executive	Fixed remuneration (for FY24)	Maximum STI opportunity for FY24[1]	% of fixed remuneration available as base STI
Mark Ronan	$730,000 (unchanged vs FY23)	$585,000	80.1%
Michael Cherubino	$490,000 (unchanged vs FY23)	$325,000	66.3%
Ashley Gardner	$550,000 (unchanged vs FY23)	$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 FY24. 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 reassess the LTI plan and its structure to best support and facilitate the long-term growth in shareholder value annually. Following its FY22 review the Board made changes in relation to the grant for FY23 which are also intended to apply in future years whereby future LTI awards will take the form of performance rights (Performance Rights) rather than share options as used in previous LTI grants. These changes and the specific FY23 LTI grants proposed to be made to the Executive Directors were voted upon and approved by shareholders at the FY22 AGM.

The proposed change in the type of securities to Performance Rights is intended to better align the Group's LTI plan with those of peers at other ASX listed retailers and provide participants with more certainty and transparency in relation to the value of the award and the measures and outcomes that need to deliver for the award to have monetary value. The performance measures proposed focus on outcomes that are in the reasonable control of management (such as Earnings Per Share), and over the long-term are expected to correlate strongly with the value created for shareholders. The Performance Rights do not entitle an Eligible Participant to dividends or voting rights however any shares allocated following the vesting and exercise of Performance Rights rank pari passu in all respects with other ordinary shares (including with respect to dividends and voting rights).

LTI vesting during FY23

In FY23 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 (2 July 2018 to 3 July 2022)	FY19/3 July 2022	Yes	60%	100%
Sales performance condition (2 July 2018 to 3 July 2022)	FY19/3 July 2022	Yes	40%	100%
Service condition	3 July 2022	Yes		
Michael Cherubino				
EPS performance condition (2 July 2018 to 3 July 2022)	FY19/3 July 2022	Yes	60%	100%
Sales performance condition (2 July 2018 to 3 July 2022)	FY19/3 July 2022	Yes	40%	100%
Service condition	3 July 2022	Yes		

Details of the number of LTI Options exercised and lapsed during FY23 are detailed in Section 8 of this report.

LTI grants during FY23

On 21 October 2022, Mark Ronan, Michael Cherubino and Ashley Gardner received grants of Performance Rights as their FY23 LTI award. Each Performance Right entitles the Senior Executive to receive an ordinary share in the Company for no cost subject to meeting specific performance and service conditions (as set out below). The Performance Rights were granted at no cost to the Senior Executives as they form part of the Senior Executive's remuneration for FY23. Performance Rights do not carry any voting or dividend entitlements prior to exercise.

The performance period is three financial years from 27 June 2022 to 29 June 2025. In addition to the performance condition, there is also a service condition which must be satisfied ending on 29 June 2025 (unless determined otherwise by the Board). The Performance Rights will vest and be automatically exercised if the relevant performance and service conditions have been met. Subject to these conditions being met, each Performance Right entitles the Senior Executive, upon vesting, to receive, at the discretion of the Board:

- by way of issue or transfer, one fully paid ordinary share in the capital of the Company (Share); or
- a cash payment in lieu of the issue or transfer of a Share equal to the Current Market Value of a Share at the vesting date of the Right, less any Tax required to be withheld and inclusive of any statutory superannuation contributions. The Current Market Value of a Share will be determined by the Board in accordance with the Rules.

Performance conditions

The Board reviewed the LTI performance hurdles in consultation with KPMG in 2022 and this has resulted in changes for the FY23 LTI plan. The FY22 LTI plan included performance conditions for both EPS and Total Shareholder Return (TSR). While a TSR hurdle aligns shareholders and management interests it also introduces a range of factors which are not within the control of KMP including market volatility, short term investor behaviour and the broader macro environment. In the Board's view, long term EPS performance provides a more reliable and consistent measure of executive performance and is a primary driver of shareholder value creation. Accordingly, the FY23 LTI plan is based solely on long-term EPS growth. A three-year EPS measure encourages executives to prioritise longer term initiatives that enhance operational efficiency, cost control, and revenue growth which should in turn lead to improvements in productivity, competitiveness, and overall profitability.

In order for any Performance Rights to vest, a threshold level of performance against the EPS target must be achieved. The percentage of Performance Rights that vest, if any, will be determined over the performance period by reference to the vesting schedule set out below.

Diluted EPS is calculated by dividing the net profit attributable to ordinary equity holders of the Company in FY25 by the weighted average number of ordinary shares outstanding during FY25 plus the weighted average number of ordinary shares that would be issued under existing LTI plans.

The table below sets out the percentage of Performance Rights that can vest depending on the Company's FY25 EPS result. The implied 3-year (FY22-FY25) EPS compound annual growth rate (CAGR) is also provided for reference.

Diluted EPS in FY25	Implied 3-year CAGR (FY22 EPS of $0.264)	% of Performance Rights that vest
Less than $0.35	Less than 9.9%	Nil
From $0.35 to $0.45	Between 9.9% and 19.5%	pro-rata between 30% and 100%
At or above $0.45	At or above 19.5%	100%

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. The Board retains discretion to adjust the EPS in circumstances where the Board determines this to be appropriate.

Service condition

The Performance Rights 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 Performance Rights 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 Performance Rights remaining on foot and subject to the original performance conditions, as if the participant had not ceased employment. The Board expects that such discretion may be exercised where an executive is considered a 'good leaver'.

However, pursuant to the Plan Rules, the Board retains absolute discretion to determine to vest or lapse some or all Performance Rights in all circumstances.

Treatment on change of control

If a change of control event occurs with respect to the Company, the Board may determine, in its discretion, the manner in which all unvested Performance Rights will be dealt with. This may include determining that some or all of the Performance Rights will vest, lapse or remain on foot. Where the Board does not exercise its discretion and a change of control event occurs, unless the Board determines otherwise, any unvested Performance Rights will vest on a pro-rata basis to time, based on the proportion of the relevant performance period that has elapsed at the time of the change of control event.

Service Agreements

Adairs Holdings Australia Pty Ltd (ACN 128 275 838) (a wholly owned subsidiary of the Company) (Adairs Holdings) 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 FY23 (FY22: $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 25 June 2023	Short term employee benefits			Post-employment benefits		Other long-term benefits	Termination benefits	Share-based payments	Total
In AUD	Cash salary and fees	Short Term Incentive Cash bonuses	Non-monetary benefits	Superannuation	Other			Long Term Incentive Share options	
Non-executive Directors									
Brett Chenoweth	$200,000	–	–	–	–	–	–	–	$200,000
Trent Peterson	$99,000	–	–	–	–	–	–	–	$99,000
Kate Spargo	$104,000	–	–	–	–	–	–	–	$104,000
David MacLean	$83,258	–	–	$8,742	–	–	–	–	$92,000
Keira Grant	$83,258	–	–	$8,742	–	–	–	–	$92,000
Total non-executive Directors	**$569,516**	**–**	**–**	**$17,484**	**–**	**–**	**–**	**–**	**$587,000**
Executive Directors									
Mark Ronan	$704,674	–	–	$25,325	–	–	–	$7,638	$737,637
Michael Cherubino	$464,674	–	–	$25,325	–	–	–	($6,384)	$483,615
Other Senior Executives									
Ashley Gardner	$524,674	–	–	$25,325	–	–	–	($2,618)	$547,381
Total executives	**$1,694,022**	**–**	**–**	**$75,975**	**–**	**–**	**–**	**($1,364)**	**$1,768,633**
Total 2023	**$2,263,538**	**–**	**–**	**$93,459**	**–**	**–**	**–**	**($1,364)**	**$2,355,633**

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

52 weeks ended 25 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**	**Superannuation**	**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
Keira 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 executives	**$1,655,074**	**222,353**	**–**	**$78,676**	**–**	**–**	**–**	**$781,685**	**$2,737,788**
Total 2023	**$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.

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 FY23.

No. of Shares	Held at 26 June 2022	Granted as Remuneration	Received on exercise of options	Other net change[1]	Held at 25 June 2023
Non-executive Directors					
Brett Chenoweth	66,312	–	–	–	66,312
Trent Peterson	1,540,334	–	–	–	1,540,334
Kate Spargo	60,000	–	–	20,000	80,000
David MacLean	2,993,486	–	–	–	2,993,486
Kiera Grant	170,427	–	–	–	170,427
Executive Directors					
Mark Ronan	785,047	–	–	–	785,047
Michael Cherubino	2,117,209	–	–	–	2,117,209
Other Senior Executives					
Ashley Gardner	592,300	–	–	–	592,300

1. "Other net change" reflects on market ordinary share purchases made over the course of FY23.

Share Options and Performance Rights issued to Key Management Personnel

The following table discloses the details of share options and performance rights awarded to KMP in FY23 and prior reporting periods.

No. of Share Options/ Performance Rights	Type	Grant date	Quantity Granted	Average fair value per option and rights at Grant Date	Number vested during the year
Non-executive Directors					
Brett Chenoweth		–	–	–	–
Trent Peterson		–	–	–	–
Kate Spargo		–	–	–	–
David MacLean		–	–	–	–
Kiera Grant		–	–	–	–
Executive Directors					
Mark Ronan	Options	2-Nov-17	900,000	$0.39	–
	Options	26-Oct-18	540,000	$0.43	540,000
	Options	25-Oct-19	900,000	$0.38	–
	Options	26-Oct-20	675,000	$0.90	–
	Options	20-Oct-21	800,000	$0.88	–
	Performance Rights	21-Oct-22	289,427	$2.27	–
Michael Cherubino	Options	2-Nov-17	510,000	$0.39	–
	Options	26-Oct-18	315,000	$0.43	315,000
	Options	25-Oct-19	400,000	$0.38	–
	Options	26-Oct-20	300,000	$0.90	–
	Options	20-Oct-21	350,000	$0.88	–
	Performance Rights	21-Oct-22	107,930	$2.27	–
Other Senior Executives					
Ashley Gardner	Options	25-Oct-19	700,000	$0.38	–
	Options	26-Oct-20	525,000	$0.90	–
	Options	20-Oct-21	600,000	$0.88	–
	Performance Rights	21-Oct-22	202,599	$2.27	–

Vested in the period %	Number forfeited during the year	No of options and rights exercised during the year	Exercise price ($)	Vesting date	Expiry date
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	$1.75	30-Jun-21	2-Nov-23
100%	–	–	$2.40	3-Jul-22	26-Oct-24
–	–	–	$1.86	2-Jul-23	25-Oct-25
–	–	–	$4.04	30-Jun-24	26-Oct-26
–	–	–	$3.95	29-Jun-25	20-Oct-27
–	–	–	–	29-Jun-25	29-Jun-25
–	–	–	$1.75	30-Jun-21	2-Nov-23
100%	–	–	$2.40	3-Jul-22	26-Oct-24
–	–	–	$1.86	2-Jul-23	25-Oct-25
–	–	–	$4.04	30-Jun-24	26-Oct-26
–	–	–	$3.95	29-Jun-25	20-Oct-27
–	–	–	–	29-Jun-25	29-Jun-25
–	–	–	$1.86	2-Jul-23	25-Oct-25
–	–	–	$4.04	30-Jun-24	26-Oct-26
–	–	–	$3.95	29-Jun-25	20-Oct-27
–	–	–	–	29-Jun-25	29-Jun-25

Share Options and Performance Rights holdings of Key Management Personnel

The following table details the share option and performance rights holdings and movements for KMP (including their personally related entities) for FY23. This was the sixth year options were granted to Senior Executives as LTI remuneration.

No. of Share Options/ Performance Rights	Type	Held at 26 June 2022	Quantity Granted	Exercised	Forfeited	Lapsed	Held at 25 June 2023	Vested %	Vested and exercisable as at 25 June 2023
Non-executive Directors									
Brett Chenoweth		–	–	–	–	–	–	–	–
Trent Peterson		–	–	–	–	–	–	–	–
Kate Spargo		–	–	–	–	–	–	–	–
David MacLean		–	–	–	–	–	–	–	–
Keira Grant		–	–	–	–	–	–	–	–
Executive Directors									
Mark Ronan	Options	3,815,000	–	–	–	–	3,815,000	37.7%	1,440,000
	Performance Rights	–	289,427	–	–	–	289,427	–	–
Michael Cherubino	Options	1,875,000	–	–	–	–	1,875,000	44.0%	825,000
	Performance Rights	–	107,930	–	–	–	107,930	–	–
Other Senior Executives									
Ashley Gardner	Options	1,825,000	–	–	–	–	1,825,000	–	–
	Performance Rights	–	202,599	–	–	–	202,599	–	–

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

Signed in accordance with a resolution of the directors.

On behalf of the Board

Brett Chenoweth
Chair

Mark Ronan
Chief Executive Officer
and Managing Director

Melbourne
21 August 2023

AUDITOR'S INDEPENDENCE DECLARATION

Ernst & Young
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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 25 June 2023, 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
21 August 2023

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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 25 June 2023, the consolidated statement of profit or loss, consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the 52 weeks then ended, notes to the financial statements, including a summary of significant accounting policies, and the directors' declaration.

In our opinion, the accompanying financial report of the Group is in accordance with the Corporations Act 2001, including:

a. Giving a true and fair view of the consolidated financial position of the Group as at 25 June 2023 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 period. 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 25 June 2023, the Group held $87.8m in inventories representing 15%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 handling and packaging costs, as well as freight, duty and exchange rates. Judgements were involved in the process of allocating these costs to inventories. In determining the net realisable value consideration is given to recent sales and the expectations for future sales. 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 and 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 at or near 25 June 2023 and performed roll back or roll forward procedures. ► 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 25 June 2023 and compared the selling prices with the carrying value of inventories inclusive of costs necessary to complete the sale.

Carrying value of indefinite life intangible assets

Why significant	How our audit addressed the key audit matter
As at 25 June 2023, 46%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 at the Adairs, Mocka and Focus operating 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 25 June 2023. Note 10 of the financial report details the assessment method, including the key underlying assumptions. Note 10 also discloses significant judgements along with sensitivity of changes in these key judgements and the impact on recoverable value specific to the Mocka segment. 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 cashflows, discount rates, revenue growth rates and terminal growth rate adopted in the recoverable amount model. We agreed the forecast cashflows to the Board approved 2024 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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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 2023 annual report, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and accordingly we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the financial report, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial report, or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of the directors for the financial report

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

In preparing the financial report, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the financial report

Our objectives are to obtain reasonable assurance about whether the financial report as a whole is free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the Australian Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this financial report.

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional 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.

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- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial report or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial report, including the disclosures, and whether the financial report represents the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the financial report. We are responsible for the direction, supervision and performance of the Group audit. We remain solely responsible for our audit opinion.

We communicate with the directors regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide the directors with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, actions taken to eliminate threats or safeguards applied.

From the matters communicated to the directors, we determine those matters that were of most significance in the audit of the financial report of the current period 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 53 to 70 of the directors' report for the 52 weeks ended 25 June 2023.

In our opinion, the Remuneration Report of Adairs Limited for the 52 weeks ended 25 June 2023, complies with section 300A of the Corporations Act 2001.

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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

Tony Morse
Partner

Melbourne
21 August 2023

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 25 June 2023 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 25 June 2023 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 25 June 2023.
3. In the opinion of the Directors, as at the date of this declaration, there are reasonable grounds to believe that the members of the Closed Group identified in Note 24 of the financial statements will be able to meet any obligations or liabilities to which they are or may become subject, by virtue of the Deed of Cross Guarantee.

On behalf of the Board

Brett Chenoweth
Independent Chairman
Non-Executive Director

Mark Ronan
Managing Director
and Chief Executive Officer

Melbourne
21 August 2023

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
for the 52 weeks ended 25 June 2023

	Note	52 weeks ended 25 June 2023 $'000	Restated 52 weeks ended 26 June 2022 $'000
Revenue from contracts with customers	4(a)	621,335	564,476
Cost of sales		(335,843)	(294,711)
Gross profit		**285,492**	**269,765**
Other income	4(b)	1,428	465
Depreciation and amortisation expenses	4(c)	(53,683)	(48,144)
Finance expenses	4(d)	(13,677)	(7,933)
Salaries and employee benefits expenses	4(e)	(111,693)	(97,132)
Occupancy expenses	17	(12,128)	(8,987)
Advertising expenses		(18,516)	(17,686)
Other expenses	4(f)	(23,020)	(23,723)
Costs associated with the acquisition of subsidiaries	4(g)	–	(2,016)
Profit before income tax		**54,203**	**64,609**
Income tax expense	5	(16,360)	(19,719)
Profit after tax		**37,843**	**44,890**
Earnings per share attributable to ordinary equity holders of the Parent			
Basic earnings per share	23	22.0 cents	26.4 cents
Diluted earnings per share	23	21.9 cents	25.9 cents

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

CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

for the 52 weeks ended 25 June 2023

	Note	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Profit after tax		**37,843**	**44,890**
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss (net of tax):			
Net movement of cash flow hedges		(8,427)	13,977
Income tax relating to the components of other comprehensive income	5	2,531	(4,193)
Exchange differences on translation of foreign operations		227	(402)
Other comprehensive (loss)/income for the period, net of tax		**(5,669)**	**9,382**
Total comprehensive income for the period		**32,174**	**54,272**

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 25 June 2023

	Note	As at 25 June 2023 $'000	As at 26 June 2022 $'000
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	6	25,898	26,075
Trade and other receivables	7	4,176	5,748
Inventories	8	87,774	99,064
Current tax receivables		2,484	3,577
Other assets	7	7,782	10,809
Derivative financial instruments	18	5,326	11,583
Total Current Assets		**133,440**	**156,856**
NON-CURRENT ASSETS			
Property, plant and equipment	9	22,950	23,554
Intangibles	10	282,269	278,785
Right-of-use assets	17	157,214	166,019
Derivative financial instruments	18	72	2,242
Total Non-Current Assets		**462,505**	**470,600**
Total Assets		**595,945**	**627,456**
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables	11	54,944	51,628
Other liabilities	13	18,819	26,644
Earn-out liabilities	12	200	200
Lease liabilities	17	48,677	45,820
Provisions	15	11,572	11,055
Total Current Liabilities		**134,212**	**135,347**
NON-CURRENT LIABILITIES			
Other liabilities	13	1,275	1,338
Earn-out liabilities	12	261	461
Deferred tax liabilities	5	20,770	24,675
Borrowings	14	99,468	119,233
Lease liabilities	17	131,718	142,132
Provisions	15	6,020	6,387
Total Non-Current Liabilities		**259,512**	**294,226**
Total Liabilities		**393,724**	**429,573**
Net Assets		**202,221**	**197,883**
EQUITY			
Contributed equity	16(a)	84,737	81,235
Share- based payment reserve	16(b)	3,712	4,147
Cash flow hedge reserve	16(d)	3,782	9,678
Foreign currency translation reserve	16(c)	(276)	(503)
Retained earnings	16(e)	110,266	103,326
Total Equity		**202,221**	**197,883**

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 25 June 2023

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
As at 26 June 2022		81,235	4,147	9,678	(503)	103,326	197,883
Profit after tax for the period		–	–	–	–	37,843	37,843
Other comprehensive income for the period		–	–	(5,896)	227	–	(5,669)
Total comprehensive income for the period		**–**	**–**	**(5,896)**	**227**	**37,843**	**32,174**
Transactions with owners in their capacity as owners:							
Dividends declared	25	–	–	–	–	(30,903)	(30,903)
Dividend reinvestment plan	16(a)	3,502	–	–	–	–	3,502
Exercise of share options	16(a)	–	–	–	–	–	–
Share-based payments	16(b)	–	(435)	–	–	–	(435)
As at 25 June 2023		**84,737**	**3,712**	**3,782**	**(276)**	**110,266**	**202,221**

	Note	Ordinary shares $'000	Share-based payment reserve $'000	Cash flow hedge reserve $'000	Foreign currency translation reserve $'000	Retained earnings $'000	Total $'000
As at 27 June 2021		73,823	2,030	(106)	(101)	89,014	164,660
Profit after tax 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	25	–	–	–	–	(30,578)	(30,578)
Dividend reinvestment plan	16(a)	1,205	–	–	–	–	1,205
Exercise of share options	16(a)	207	–	–	–	–	207
Share-based payments	26	–	2,117	–	–	–	2,117
Issued shares	16(a)	6,000	–	–	–	–	6,000
As at 26 June 2022		**81,235**	**4,147**	**9,678**	**(503)**	**103,326**	**197,883**

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 25 June 2023

	Note	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		675,580	620,826
Payments to suppliers and employees (inclusive of GST)		(537,149)	(505,903)
Interest received		405	–
Income tax paid		(16,644)	(36,896)
Interest paid		(13,794)	(7,514)
Payment of employee benefits related to Mocka earn-out[1]		–	(9,345)
Net cash flows from operating activities	6	108,398	61,168
CASH FLOWS FROM INVESTING ACTIVITIES			
Acquisition of property, plant and equipment and intangibles		(12,324)	(9,007)
Payment of Mocka earn-out liability[1]		–	(36,386)
Payment for the acquisition of Focus, net of cash acquired		–	(62,762)
Net cash flows used in investing activities		(12,324)	(108,155)
CASH FLOWS FROM FINANCING ACTIVITIES			
Drawings of borrowings		27,000	176,000
Repayment of borrowings		(47,000)	(56,000)
Payment of borrowing costs		(388)	(820)
Dividends paid	25	(27,401)	(29,374)
Payment of principal portion of lease liabilities		(48,689)	(42,527)
Net receipt from exercise of share options		–	207
Net cash flows (used in)/from financing activities		(96,478)	47,486
Net increase in cash and cash equivalents		(404)	499
Net foreign exchange differences		227	(394)
Cash and cash equivalents at beginning of the period		26,075	25,970
Cash and cash equivalents at end of period	6	**25,898**	**26,075**

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

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

NOTES TO THE FINANCIAL STATEMENTS

for the 52 weeks ended 25 June 2023

NOTE 1. CORPORATE INFORMATION

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ended 25 June 2023 were authorised for issue in accordance with a resolution of the directors on 21 August 2023.

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 FY2023, there was a 52 week reporting period (the comparative FY2022 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. As at 25 June 2023, the Group has a net current asset deficiency of $772,000, after the recognition of $48,677,000 in current lease liabilities. The Group expects to be able to meet its obligations as when they fall due over the next 12 months and beyond through the generation of operating cash flows and available finance facilities.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

2.2. Compliance with International Financial Reporting Standards (IFRS)

The financial report also complies with International Financial Reporting Standards (IFRS) as issued by the International Accounting Standards Board.

2.3. Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the 52 weeks ended 26 June 2022, except as follows:

i) New and amended standards and interpretations

The Group had applied new standards and amendments, which are effective for annual periods beginning on or after 1 July 2022 (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 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 do not have 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
- AASB 134 Interim Financial Reporting, to identify material accounting policy information as a component of a complete set of financial statements
- AASB Practice Statement 2 Making Materiality Judgements, to provide non-mandatory guidance on how to apply the concept of materiality to accounting policy disclosures.

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

c) AASB 2022-6 Amendments to AASs – Non-current Liabilities with Covenants

A consequence of *AASB 2020-1 Amendments to AASs – Classification of Liabilities as Current or Non-current* is that a liability would be classified as current if its repayment conditions failed their test at the reporting date, despite those conditions only becoming effective in the 12 months after the end of the reporting period.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

In response to this possible outcome, in December 2022 the AASB issued AASB 2022-6 Amendments to AASs – Non-current Liabilities with Covenants:

- Clarifying that only covenants with which an entity must comply on or before the reporting date will affect a liability's classification as current or non-current
- Adding presentation and disclosure requirements for non-current liabilities subject to compliance with future covenants within 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.

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

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. Specifically:

- The amendments specify that the conditions which exist at the end of the reporting period are those which will be used to determine if a right to defer settlement of a liability exists
- Management intention or expectation does not affect the classification of liabilities
- In cases where an instrument with a conversion option is classified as a liability, the transfer of equity instruments would constitute settlement of the liability for the purpose of classifying it as current or non-current.

The impact of the amendment will not have a material impact on the Group.

2.4. Summary of significant accounting policies

a) Current versus non-current classification

The Group presents assets and liabilities in the Statement of Financial Position based on current and non-current classification. An asset is current when it is:

- Expected to be realised or intended to be sold or consumed in the Group's normal operating cycle
- Held primarily for the purpose of trading
- Expected to be realised within 12 months after the reporting period; or
- Cash or a cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period.

The Group classifies all other assets as non-current.

A liability is current when:

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

The Group classifies all other liabilities as non-current.

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

b) Trade and other receivables

Other receivables from lessors and suppliers comprise the majority of the trade and other receivables balance. Trade 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.

c) Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 25 June 2023. 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

When the recoverable amount of the cash-generating unit is less than the carrying amount, an impairment loss is recognised.

When goodwill forms part of a cash-generating unit or group of cash generating units and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation.

Goodwill disposed of in this circumstance is measured on the basis of the relative values of the operation disposed of and the portion of the cash-generating unit retained.

Impairment losses recognised for goodwill are not subsequently reversed.

e) Income tax

Current tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognised for all taxable temporary differences except:

- when the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- when taxable temporary differences are associated with investments in subsidiaries, associates or interests in joint ventures, and the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax assets and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference associated with investments in subsidiaries, associates and interests in joint ventures, in which case deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised. Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax relating to items recognised outside profit or loss is recognised outside profit or loss. Deferred tax items are recognised in correlation to the underlying transaction either in OCI or directly in equity.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

Tax consolidation legislation

Adairs Limited and its wholly-owned Australian controlled entities, excluding Mocka Products Pty Ltd, implemented the tax consolidation legislation as of 1 November 2010.

The head entity, Adairs Limited, and the controlled entities in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the group allocation approach in determining the appropriate amount of current taxes and deferred taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the legal entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated group are recognised as amounts receivable from or payable to other entities in the tax consolidated group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

f) Other taxes

Revenues, expenses and assets are recognised net of the amount of GST except:

- when the GST incurred on a purchase of goods and services is not recoverable from the taxation authority, in which case the GST is recognised as part of the cost of acquisition of the asset or as part of the expense item
- 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 Welcome Voucher that can be used within 30 days.

The Group has identified the following performance obligations with respect to the Linen Lovers membership program, that include:

1. Welcome Voucher – satisfied at a point in time upon purchase of membership; and
2. Ongoing membership benefits – satisfied over time on a straight-line basis across the two-year membership period as the customer has the right to utilise the benefits of membership.

The Group has estimated the standalone selling price for each performance obligation based on the estimated value attributed to each performance obligation. Revenue is recognised as each performance obligation is satisfied.

› *Lay-by sales*

The Adairs segment offers a lay-by service to customers, where control of the goods under the lay-by arrangement passes to the customer when the goods have been paid for in full and collected by the customer. It is at this point that revenue is recognised.

› *Rights of return*

When a contract provides a customer with a right to return the goods within a specified period (typically 30–60 days, with extended terms of 60–90 days for Linen Lover members), the consideration received from the customer is variable because the contract allows the customer to return the products. The Group uses the expected value method to estimate the goods that will be returned because this method best predicts the amount of variable consideration to which the Group will be entitled. The Group has deferred revenue for the likelihood of sales to be returned and presents a refund liability and an asset to recover the products from a customer separately in the statement of financial position.

› *Gift card breakage revenue*

Gift card breakage revenue is recognised in proportion to the pattern of rights exercised by the customer and represents a form of variable consideration. In recognising breakage revenue, the Group takes into consideration the estimated breakage, estimated redemption of gift cards, and the breakage to be recognised at the time of redemption.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

› ***Online sales***

Online sales are recognised upon the satisfaction of the Group's performance obligation which is deemed to occur upon delivery of the customer's order.

Furthermore, postage costs incurred to deliver online sales to the customer are classified as a Cost of sales in the Statement of Profit or Loss, being a cost incurred to fulfil the Group's performance obligation.

i) Inventories

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

The value of finished goods includes the purchase cost plus a proportion of the freight, handling and warehouse costs incurred to deliver the goods to the point of sale.

Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

j) Cash dividend and non-cash distribution to equity holders of the Parent

The Parent recognises a liability to pay cash or make non-cash distributions to equity holders of the Parent when the distribution is authorised and the distribution is no longer at the discretion of the Parent. A corresponding amount is recognised directly in equity.

Non-cash distributions are measured at the fair value of the assets to be distributed with fair value re-measurement recognised directly in equity.

Upon distribution of non-cash assets, any difference between the carrying amount of the liability and the carrying amount of the assets distributed is recognised in the Statement of Profit or Loss.

k) Property, plant and equipment

Plant and equipment are stated at historical cost less accumulated depreciation and any accumulated impairment losses.

Depreciation is calculated on either a straight-line or diminishing value basis over the estimated useful life of the asset as follows:

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

l) Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and accumulated impairment losses. Internally generated intangibles, excluding capitalised development costs, are not capitalised and the related expenditure is reflected in profit or loss in the period in which the expenditure is incurred.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at the end of each reporting period. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss as the expense category that is consistent with the function of the intangible assets.

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

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

i) Computer software 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 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 more frequently 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

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).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 electronic funds transfer (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. When drawn, 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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

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.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

i) Cash flow hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss.

The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the Statement of Profit or Loss when the hedged transaction affects profit or loss, such as when hedged income or expenses are recognised or when a forecast sale or purchase occurs. When the hedged item is the cost of a non-financial asset or liability, the amounts taken to equity are transferred to the initial carrying amount of the non-financial asset or liability.

If the forecast transaction is no longer expected to occur, amounts previously recognised in equity are transferred to the Statement of Profit or Loss. If the hedging instrument expires or is sold, terminated or exercised without replacement or rollover, or if its designation as a hedge is revoked, amounts previously recognised in equity remain in equity until the forecast transaction occurs. If the related transaction is not expected to occur, the amount is taken to the Statement of Profit or Loss.

w) Fair value measurement

The Group measures financial instruments such as derivatives at fair value at each reporting date. Fair value related disclosures for financial instruments and non-financial assets that are measured at fair value or where fair values are disclosed are summarised below:

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability; or
- In the absence of a principal market, in the most advantageous market for the asset or liability.

The principal or the most advantageous market must be accessible by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

For assets and liabilities that are recognised in the financial statements at fair value on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by re-assessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

x) Share-based payments

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

Equity-settled transactions

The cost of equity-settled transactions is determined by the fair value at the date when the grant is made using an appropriate valuation model, further details of which are given in Note 26.

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

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

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

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

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

y) 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 of cash generating units that are expected to benefit from the combination.

2.5. Significant accounting judgements, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgements, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgements, 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 judgements, estimates and assumptions.

Significant judgements, estimates and assumptions made by management in the preparation of these financial statements:

a) Significant accounting judgements

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).

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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 at commencement date have been included in the lease liability balance at 25 June 2023. The undiscounted potential future payments at current rental rates under options that are not considered reasonably certain to be exercised at 25 June 2023 is $33,853,000 (2022: $49,061,000), which includes potential lease payments within the next five years of $13,629,000 (2022: $9,746,000) should those options be exercised.

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

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 25 June 2023, 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 26.

Long service leave provision

As discussed in Note 2.4(q), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

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.

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.

c) Reclassification of prior year financial information

The Group now comprises multiple brands operating across various omni-channel revenue streams. The operational significance of the distribution and handling function of the Group is now greater and the nature of arrangements are diverse. The Group has reclassified such costs in the Consolidated Statement of Profit or Loss to record the costs of distribution and handling activities directly relating to the Group's performance obligation to deliver goods to the customer, within Cost of sales. Prior year comparatives have also been reclassified.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES *continued*

This change in classification has resulted in the below adjustments to the presentation in the Consolidated Statement of Profit or Loss for the 52 weeks ended 26 June 2022:

	52 weeks ended 26 June 2022		
	Reported $'000	**Adjustments $'000**	**Restated $'000**
Revenues	564,476	–	564,476
Cost of sales	(255,610)	(39,101)	(294,711)
Gross Profit	308,866	(39,101)	269,765
Other income	465	–	465
Depreciation and amortisation expenses	(51,292)	3,148	(48,144)
Finance expenses	(8,325)	392	(7,933)
Salaries and employee benefits expense	(109,520)	12,388	(97,132)
Occupancy expenses	(9,356)	369	(8,987)
Advertising expenses	(17,686)	–	(17,686)
Other expenses from ordinary activities	(46,527)	22,804	(23,723)
Transaction expenses	(2,016)	–	(2,016)
Profit before tax	64,609	–	64,609
Income tax expenses	(19,719)	–	(19,719)
Profit after tax	44,890	–	44,890

These reclassifications have not resulted in a change to Net profit after tax, as well as no change to the Consolidated Statement of Other Comprehensive Income, Consolidated Statement of Financial Position, Consolidated Statement of Cash Flows and Consolidated Statement of Changes in Equity.

NOTE 3. SEGMENT REPORTING

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

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.

Underlying earnings before interest tax and depreciation (EBIT) is the key measure by which the performance of the segments is monitored. Underlying EBIT excludes the impact of significant items deemed by management and the Board to be items not reflective of normal operating activities:

	Adairs $'000	Mocka $'000	Focus $'000	Consolidated $'000
52 weeks ended 25 June 2023				
Revenue from contracts with external customers	430,823	48,642	141,870	621,335
Underlying EBIT	34,951	1,531	27,410	63,892
Items not included in the segment result:				
Non-underlying items[1]				3,583
Finance expenses				(13,677)
Interest income				405
Profit before income tax				**54,203**
Income tax expense				(16,360)
Profit after tax				**37,843**
As at 25 June 2023				
Total assets	344,521	105,866	145,558	595,945
Total liabilities	306,377	17,394	69,953	393,724

1. Non-underlying items comprise of (i) management's assessment of the EBIT impact of AASB 16 Leases; and (ii) costs associated with the National Distribution Centre (NDC) transition.

NOTE 3. SEGMENT REPORTING *continued*

	Adairs $'000	Mocka $'000	Focus[3] $'000	Consolidated $'000
52 weeks ended 26 June 2022				
Revenue from contracts with external customers	418,651	64,075	81,750	564,476
Underlying EBIT	55,543	3,660	17,179	76,382
Items not included in the segment result:				
Non-underlying items[1]				(3,840)
Finance expenses				(7,933)
Interest income				–
Profit before income tax				**64,609**
Income tax expense				(19,719)
Profit after tax				**44,890**
As at 26 June 2022				
Total assets	342,142	111,780	173,534	627,456
Total liabilities	352,268	6,709	70,596	429,573

1. Non-underlying items comprise of (i) management's assessment of the EBIT impact of AASB 16 Leases; (ii) costs associated with the NDC transition; and (iii) costs associated with the acquisition of subsidiaries (Mocka and Focus).
3. Focus was acquired on 1 December 2021.

NOTE 4. REVENUES AND EXPENSES

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'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	446,346	369,061
Sale of goods and services – online	174,989	195,415
Total revenue from contracts with customers	**621,335**	**564,476**
b) Other income		
Interest income	405	–
Other	1,023	465
Total other income	**1,428**	**465**
c) Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	7,543	7,373
Depreciation of right-of-use assets	49,049	42,687
Amortisation of computer software	1,888	1,232
Total depreciation and amortisation expenses	**58,480**	**51,292**
Included in the Consolidated Statement of Profit or Loss within:		
Cost of sales	4,797	3,148
Depreciation and amortisation expenses	53,683	48,144
d) Finance expenses		
Interest on borrowings and other finance costs	6,234	2,200
Interest on lease liabilities	7,560	5,314
Amortisation of borrowing costs	623	811
Total finance expenses	**14,417**	**8,325**
Included in the Consolidated Statement of Profit or Loss within:		
Cost of sales	740	392
Finance expenses	13,677	7,933

NOTE 4. REVENUES AND EXPENSES *continued*

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
e) Salaries and employee benefits expense		
Wages and salaries	110,832	100,225
Defined contribution superannuation expense	9,551	7,888
Share-based payment (reversal)/expense	(435)	1,407
Total Salaries and employee benefits expense	**119,948**	**109,520**
Included in the Consolidated Statement of Profit or Loss within:		
Cost of sales	8,255	12,388
Salaries and employee benefits expense	111,693	97,132
f) Other expenses from ordinary activities		
Credit card and merchant fees	5,694	5,993
Professional fees	2,003	3,398
Third party warehousing related charges	30,478	22,288
Packaging and consumables	697	1,190
IT services	4,122	3,258
Asset, property and maintenance expenses	2,699	2,625
Other	8,516	7,775
Total other expenses	**54,209**	**46,527**
Included in the Consolidated Statement of Profit or Loss within:		
Cost of sales	31,189	22,804
Other expenses	23,020	23,723
g) Costs associated with the acquisition of subsidiaries		
Transaction costs	–	710
Fair value re-measurement of contingent consideration	–	1,006
Other	–	300
Total costs associated with the acquisition of subsidiaries	**–**	**2,016**

NOTE 5. INCOME TAX

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
The major components of income tax expense are:		
Statement of Profit or Loss		
Current income tax		
Current income tax charge	17,756	19,776
Adjustments in respect of current income tax of previous years	(22)	135
Deferred income tax		
Relating to origination and reversal of temporary differences	(1,374)	(447)
Adjustments in respect of deferred income tax of previous years	–	255
Income tax expense reported in the Statement of Profit or Loss	**16,360**	**19,719**
Statement of Other Comprehensive Income		
Deferred income tax		
Relating to origination and reversal of temporary differences	(2,531)	4,193
Income tax (benefit)/expense reported in the Statement of Other Comprehensive Income	**(2,531)**	**4,193**

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	54,203	64,609
At the statutory income tax rate of 30% (2022: 30%)	16,261	19,383
Adjustments in respect of current income tax of previous years	(22)	135
Adjustments in respect of deferred income tax of previous years	–	255
(Non-assessable income) / Non-deductible expenses	(86)	247
Effect of foreign tax rates	(9)	(82)
Other	216	(219)
Income tax expense reported in the Statement of Profit or Loss	**16,360**	**19,719**

NOTE 5. INCOME TAX *continued*

	Statement of Financial Position		Statement of Profit or Loss and Other Comprehensive Income	
	As at 25 June 2023 $'000	**As at 26 June 2022 $'000**	**52 weeks ended 25 June 2023 $'000**	**52 weeks ended 26 June 2022 $'000**
Deferred income tax				
Deferred income tax relates to the following:				
Deferred tax assets				
Inventories	706	1,044		
Lease liabilities	52,102	53,970		
Other liabilities	3,477	3,720		
Provisions	7,335	7,663		
Equity instruments	75	246		
Carry forward tax losses	374	133		
Unrealised foreign exchange	108	284		
Other	135	130		
Total deferred tax assets	**64,312**	**67,190**		
Deferred tax liabilities				
Other assets	(117)	(210)		
Property, plant and equipment	(2,827)	(4,179)		
Right-of-use assets	(47,088)	(49,898)		
Brand names	(33,425)	(33,425)		
Financial instruments	(1,616)	(4,147)		
Other payables	(7)	(6)		
Total deferred tax liabilities	**(85,082)**	**(91,865)**		
Net deferred tax liabilities	**(20,770)**	**(24,675)**		
Amounts credited directly to profit and loss			1,374	192
Amounts credited directly to other comprehensive income			2,531	(4,193)
Amounts arising from acquisition of subsidiaries			–	(9,637)
Movement in net deferred tax liabilities			**3,905**	**(13,638)**

NOTE 6. CASH AND CASH EQUIVALENTS

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Cash at bank	25,799	25,970
Cash on hand	99	105
Total cash and cash equivalents	**25,898**	**26,075**

a) Reconciliation of net profit after tax to net cash flows from operating activities		
Net profit after tax	37,843	44,890
Adjustments and non-cash items		
Depreciation and amortisation expenses	58,480	51,292
Share-based payments expense	(435)	2,117
Costs associated with the acquisition of subsidiaries	–	1,006
Discount expense on earn-out liabilities	–	–
Amortisation of borrowing costs	623	811
Changes in assets and liabilities		
(Increase)/Decrease in trade and other receivables	1,572	(3,222)
(Increase)/Decrease in other assets	3,027	997
(Increase)/Decrease in inventories	11,290	(13,053)
(Increase)/Decrease in current tax receivables	1,092	(16,985)
Increase/(Decrease) in payables	4,204	2,776
Increase/(Decrease) in other liabilities	(7,888)	(449)
Increase/(Decrease) in deferred tax liabilities	(1,374)	(192)
Increase/(Decrease) in provisions	164	525
Increase/(Decrease) in earn-out liabilities	(200)	(9,345)
Net cash flow from operating activities	**108,398**	**61,168**

NOTE 6. CASH AND CASH EQUIVALENTS *continued*

STATEMENT OF CASH FLOWS RECONCILIATION

b) Reconciliation of liabilities arising from financing activities

52 weeks ended 25 June 2023	As at 26 June 2022 $'000	Net cash flows $'000	Non-cash changes modification gain $'000	Non-cash changes borrowing costs amortised $'000	Other $'000	As at 25 June 2023 $'000
Interest-bearing liabilities (Note 14)	119,233	(20,388)	–	623	–	99,468
Total liabilities from financing activities	**119,233**	**(20,388)**	**–**	**623**	**–**	**99,468**

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 14)	–	120,000	–	811	(1,578)	119,233
Total liabilities from financing activities	**–**	**120,000**	**–**	**811**	**(1,578)**	**119,233**

The reconciliation of Lease liabilities is detailed within Note 17.

NOTE 7. TRADE AND OTHER RECEIVABLES AND OTHER ASSETS

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Trade and other receivables		
Other receivables	4,176	5,748
Trade and other receivables	**4,176**	**5,748**
Other assets		
Prepaid expenses	7,272	9,876
Deposits	407	788
Contract assets	103	145
Other assets	**7,782**	**10,809**
Current	11,958	16,557
Non-current	–	–
Total trade and other receivables and other assets	**11,958**	**16,557**

Other receivables are non-interest bearing and no material provision for impairment (based on expected credit losses) has been recorded as at 25 June 2023 (2022: nil) as the amount is considered to be not material.

NOTE 8. INVENTORIES

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Stock on hand at lower of cost and net realisable value	74,686	86,097
Stock in transit at cost	13,088	12,967
Total inventories	**87,774**	**99,064**

During the 52 weeks ended 25 June 2023, $30,000 was recognised as a reversal of provisions for inventories carried at net realisable value (2022: $1,592,000 expense). This is recognised in cost of sales.

NOTE 9. PROPERTY, PLANT AND EQUIPMENT

	Shop Fixtures and Fittings $'000	Leasehold Improvements $'000	Computer Hardware $'000	Plant and Other Equipment $'000	Total $'000
Cost					
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
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**
Additions	2,974	–	771	1,852	5,597
Work in progress	1,360	–	–	–	1,360
Disposals	(1,678)	–	(455)	(80)	(2,213)
Exchange differences	19	–	–	2	21
As at 25 June 2023	**62,360**	**1,196**	**6,664**	**15,470**	**85,690**
Depreciation and impairment					
As at 27 June 2021	**41,383**	**551**	**5,008**	**7,249**	**54,191**
Depreciation	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**
Depreciation	4,837	59	474	2,173	7,543
Disposals	(1,678)		(449)	(54)	(2,181)
Exchange differences	6	–	–	1	7
As at 25 June 2023	**47,368**	**691**	**4,859**	**9,822**	**62,740**
Net book value					
As at 26 June 2022	**15,482**	**564**	**1,514**	**5,994**	**23,554**
As at 25 June 2023	**14,992**	**505**	**1,805**	**5,648**	**22,950**

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 25 June 2023 (2022: nil).

NOTE 10. INTANGIBLES

	Software $'000	Brand Names and Trademarks $'000	Goodwill $'000	Total $'000
Cost or fair value				
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
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**
Acquisition of a subsidiary				
Additions	2,081	–	–	2,081
Work in progress	3,286	–	–	3,286
Disposals	(2,097)	–	–	(2,097)
Exchange differences	(1)	–	–	(1)
As at 25 June 2023	**17,647**	**112,810**	**179,205**	**309,662**
Amortisation and impairment				
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**
Amortisation	1,888	–	–	1,888
Disposals	(2,104)	–	–	(2,104)
Exchange differences	1	–	–	1
As at 25 June 2023	**7,483**	**–**	**19,910**	**27,393**
Net book value				
As at 26 June 2022	**6,680**	**112,810**	**159,295**	**278,785**
As at 25 June 2023	**10,164**	**112,810**	**159,295**	**282,269**

NOTE 10. INTANGIBLES *continued*

10.1. IMPAIRMENT TESTING

Impairment assessment of goodwill brand names

Goodwill acquired through business combinations and brand names with indefinite lives have been allocated to the cash generating units (CGUs) or group of CGUs for the purpose of impairment testing.

Carrying amounts of goodwill and brand names allocated to the CGUs are as follows:

	Adairs $'000	Mocka $'000	Focus $'000
Goodwill	69,927	48,409	40,959
Brand names	42,711	33,115	36,984

The Group performed its annual impairment tests for the Adairs, Mocka and Focus CGUs as at 25 June 2023. 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 25 June 2023. The calculation of the value-in-use for all CGUs is comprised of assumptions for revenue and EBITDA growth rates. The key estimates applied to determine the recoverable amount of each CGU are as follows:

	As at 25 June 2023			As at 26 June 2022		
	Adairs %	Mocka %	Focus %	Adairs %	Mocka %	Focus %
Pre-tax discount rate	14.40%	16.00%	15.80%	13.40%	14.60%	13.80%
Long term (terminal) growth rate	2.25%	2.25%	2.25%	2.25%	2.25%	2.25%

The results of the impairment tests determined that the recoverable amount for the Adairs and Focus CGUs significantly exceeded the respective carrying values. The recoverable amount calculated for the Mocka CGU had reduced compared to the previous tests, however still exceeded the carrying value. Further details of the Mocka CGU impairment test are outlined below.

As a result of the impairment testing performed, no impairment expense was recorded by the Group during the 52 weeks ended 25 June 2023 (2022: nil).

Mocka CGU

The estimate of the recoverable amount of the Mocka CGU as at 25 June 2023 includes observations of consumer habits emerging from the COVID-19 pandemic which has to date seen a greater shift from eCommerce channels back to 'bricks and mortar' retailing than previously anticipated. The cash flow forecasts reflect a reduction on those applied in the previous impairment tests at 25 December 2022 and 26 June 2022 given the actual operating performance of Mocka for the 52 weeks ended 25 June 2023.

NOTE 10. INTANGIBLES *continued*

Significant judgement and assumptions are required in making estimates of the Mocka CGU's recoverable amount. The cash flow forecasts used in estimating the value-in-use are most sensitive to the following assumptions:

Revenue growth rates	Rates are based on management's best estimate of anticipated growth in revenue, including anticipated growth in website traffic and conversion rates.
EBITDA growth rates	Earnings before interest tax and depreciation and amortisation ("EBITDA") is a function of gross margin and both variable operating costs and fixed overhead costs. Gross margin rates have been applied to revenue based on average values achieved in the past and adjusted for future expectations. Variable operating costs have been allocated to order volumes derived from anticipated revenues. Fixed overhead costs have been assumed based on expectations of necessary overheads to operate the business. Cost growth assumptions have been factored considering both inflationary and business growth.
Discount rates	Discount rate calculation is based on the specific circumstances of the Group and the industry in which the CGU operates 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. Mocka CGU specific risk is incorporated by applying individual risk factors into the WACC.
Terminal value (long-term) growth rates	Long-term growth rate used to extrapolate cash flows in the terminal value beyond the five-year forecast period. The assumption is made based on industry related expectations for long-term growth.

Due to the above factors, actual cash flows and values could vary significantly from forecasted future cash flows and related values derived from discounting techniques.

Sensitivities:

The table below demonstrates the sensitivity of the changes in key variables on the recoverable value of the Mocka CGU:

Assumption		**Impairment test**		**Sensitivity applied**	**Sensitivity impact on recoverable amount as at 25 June 2023**		**Break-even sensitivity**
	25 Jun 2023[2]	**25 Dec 2022**	**26 Jun 2022**		**Decrease**	**Increase**	
Five-year revenue CAGR[1]	7.9%	7.4%	15.3%	−/+ 1%	($6,134)	$6,134	(1.4%)
Five-year EBITDA CAGR[1]	38.4%	25.7%	34.0%	−/+ 3%	($7,726)	$7,881	(3.4%)
Discount rate (pre-tax)	16.0%	14.6%	14.6%	−/+ 0.5%	$4,324	($3,899)	+1.6%
Terminal value growth rate	2.25%	2.25%	2.25%	−/+ 0.25%	($1,350)	$1,421	(1.7%)

1. Compound annual growth rate ("CAGR"). The sensitivity is performed by applying an increase/(decrease) to the specific growth rate applied to the assumption in each forecast year.
2. The performance of the Mocka CGU reduced across FY23 compared to FY22. As a result, the revenue and EBITDA CAGR underpinning the June 2023 impairment model are higher than the December 2022 model. The recoverable amount calculated in the June 2023 impairment model decreased compared to both the December 2022 and June 2022 impairment tests.

The above sensitivities applied in isolation do not result in an impairment of the Mocka CGU at 25 June 2023. However, additional adverse changes to any of the above key assumptions beyond the break-even sensitivity may result in the carrying value of the Mocka CGU exceeding its recoverable amount.

NOTE 11. TRADE AND OTHER PAYABLES

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Trade creditors	34,450	33,234
Accrued expenses	17,917	15,188
Other payables	2,577	3,206
Total trade and other payables	**54,944**	**51,628**
Current	54,944	51,628
Non-current	–	–
Total trade and other payables	**54,944**	**51,628**

Terms and conditions of the above trade and other liabilities:

- Trade payables are non-interest bearing and are normally settled on 30 to 120 day terms.
- Other payables are non-interest bearing and do not have settlement terms.

NOTE 12. EARN-OUT LIABILITIES

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Other	200	200
Total current earn-out liabilities	**200**	**200**
Other	261	461
Total non-current earn-out liabilities	**261**	**461**
Current	200	200
Non-current	261	461
Total earn-out liabilities	**461**	**661**

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

NOTE 13. OTHER LIABILITIES

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Current other liabilities		
Undelivered customer orders and deposits	9,482	16,939
Other liabilities	9,337	9,705
Total current other liabilities	**18,819**	**26,644**
Non-current other liabilities		
Other liabilities	1,275	1,338
Total non-current other liabilities	**1,275**	**1,338**
Current	18,819	26,644
Non-current	1,275	1,338
Total other liabilities	**20,094**	**27,982**

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 14. INTEREST-BEARING LOANS AND BORROWINGS

	Interest rate %	Maturity	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Non-current				
Revolving loan – Facility A	BBSW + 2.15	2 Jan 2026	55,000	75,000
Revolving loan – Facility D	BBSW + 2.05	3 Jan 2025	45,000	45,000
Principal outstanding borrowings			100,000	120,000
Capitalised borrowing costs			(532)	(767)
Total non-current			**99,468**	**119,233**
Current			–	–
Non-current			99,468	119,233
Total interest-bearing loans and borrowings			**99,468**	**119,233**
a) Financing facilities available				
At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:				
Revolving loan facilities available at the reporting date:			135,000	135,000
Revolving loan facilities used at the reporting date:			(100,000)	(120,000)
Multi option facilities available at the reporting date:			6,500	6,500
Multi option facilities used at the reporting date[1]:			(3,576)	(3,745)
Facilities unused at the reporting date:			**37,924**	**17,755**

1. The amount of used multi option facilities of $3,576,000 (June 2022: $3,745,000) represents bank guarantees.

In October 2022, the Group renegotiated the maturity date of Facility A by two years and five months which is now due to expire on 2 January 2026. There were no further material changes to the finance facilities.

NOTE 15. PROVISIONS

a) Make Good

	Make good $'000	Total $'000
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**
Arising during the year	27	27
Utilised	(51)	(51)
Unwinding of discount rate and changes in the discount rate	102	102
As at 25 June 2023	**4,880**	**4,880**
Current	–	–
Non-current	4,880	4,880
Total make good	**4,880**	**4,880**

NOTE 15. PROVISIONS *continued*

b) Employee entitlements

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Current		
Annual leave	7,201	7,408
Long service leave	4,371	3,647
Total current	**11,572**	**11,055**
Non-current		
Long service leave	1,140	1,585
Total non-current	**1,140**	**1,585**
Total employee entitlements	**12,712**	**12,640**
Total current	11,572	11,055
Total non-current	6,020	6,387
Total provisions	**17,592**	**17,442**

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 16. ISSUED CAPITAL AND RESERVES

a) Authorised Shares

	As at 25 June 2023 Thousands	As at 26 June 2022 Thousands
Ordinary Shares	173,051	171,316

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 25 June 2023 $'000	As at 26 June 2022 $'000
Balance at the beginning of the period	81,235	73,823
Issue of shares for the acquisition of Focus	–	6,000
Exercise of share options	–	207
Dividend reinvestment plan[i]	3,502	1,205
Balance at the end of the period	**84,737**	**81,235**

i) New ordinary shares in the Company were issued via the dividend reinvestment plan. This included allotments during the 52 weeks ended 25 June 2023 of 829,759 ordinary shares at $2.06 per share in September 2022 and 904,790 ordinary shares at $1.98 per share in April 2023.

b) Share-based payment reserve

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Balance at the beginning of the period	4,147	2,030
Share-based payment (reversal)/expense	(435)	2,117
Balance at the end of the period	**3,712**	**4,147**

c) Foreign currency translation reserve

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Balance at the beginning of the period	(503)	(101)
Foreign currency translation of foreign subsidiaries	227	(402)
Balance at the end of the period	**(276)**	**(503)**

NOTE 16. ISSUED CAPITAL AND RESERVES *continued*

d) Cash flow hedge reserve

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Balance at the beginning of the period	9,678	(106)
Recognised in Statement of Other Comprehensive Income		
Net (loss)/gain on cash flow hedges	(8,427)	13,977
Income tax related to the net (loss)/gain on cash flow hedges	2,531	(4,193)
Balance at the end of the period	**3,782**	**9,678**

e) Retained earnings

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Balance at the beginning of the period	103,326	89,014
Net profit for the period	37,843	44,890
Dividends declared during the period	(30,903)	(30,578)
Balance at the end of the period	**110,266**	**103,326**

NOTE 17. LEASE ARRANGEMENTS AND OTHER COMMITMENTS

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 25 June 2023:

	Right-of-use assets $'000	Lease liabilities $'000
As at 27 June 2021	89,579	107,194
Additions	57,923	62,156
Acquisition of subsidiaries	61,283	61,283
Depreciation expense	(42,687)	–
Interest expense	–	5,314
Payments	–	(47,842)
Foreign currency difference	(79)	(153)
As at 26 June 2022	**166,019**	**187,952**
Additions	40,223	41,107
Depreciation expense	(49,049)	–
Interest expense	–	7,560
Payments	–	(56,249)
Foreign currency difference	21	25
As at 25 June 2023	**157,214**	**180,395**

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Current lease liabilities	48,677	45,820
Non-current lease liabilities	131,718	142,132
	180,395	**187,952**

The following are the amounts recognised in profit and loss:

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Depreciation expense of right-of-use assets	49,049	42,687
Interest expense on lease liabilities	7,560	5,314
Expense relating to short-term leases (included in Occupancy expense)	967	955
Variable lease payments (included in Occupancy expense)	11,909	10,778
COVID-19 rent concessions (included in Occupancy expense)	(748)	(2,746)
Total amount recognised in profit or loss	**68,737**	**56,988**

Other items included within Occupancy expenses are primarily variable lease payments and outgoings.

The Group had total cash outflows for leases of $69,090,000 during the 52 weeks ended 25 June 2023 (2022: $57,197,000).

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

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Current assets		
Forward currency contracts – cash flow hedges	5,326	11,583
	5,326	**11,583**
Non-current assets		
Forward currency contracts – cash flow hedges	72	2,242
	72	2,242

Forward currency contracts – cash flow hedges

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

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

The Group is holding the following foreign currency contracts:

	Maturity						
	< 1 month	1-3 months	3-6 months	6-9 months	9-12 months	>12 months	Total
As at 25 June 2023							
Forward currency contracts (highly probable forecast inventory purchases)							
– Notional amount ($'000)	1,486	28,977	60,090	27,263	20,617	2,895	**141,328**
– Average forward rate (USD/AUD)	0.7535	0.7130	0.7134	0.6935	0.6817	0.6908	**–**
– Average forward rate (USD/NZD)	0.6220	0.6343	0.6379	–	–	–	**–**
As at 26 June 2022							
Forward currency contracts (highly probable forecast inventory purchases)							
– Notional amount ($'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	–	–	**–**

NOTE 18. DERIVATIVE FINANCIAL INSTRUMENTS *continued*

	Notional amount $'000	Carrying amount $'000	Line item in the Statement of Financial Position
As at 25 June 2023			
Forward currency contracts	141,328	5,398	Derivative financial instruments – assets
As at 26 June 2022			
Forward currency contracts	187,141	13,825	Derivative financial instruments – assets

	Total hedging gain/(loss) recognised in OCI ($'000)	Total amount reclassified from Cash flow hedge reserve to the Statement of Financial Position ($'000)	Line item in the Statement of Financial Position
52 weeks ended 25 June 2023			
Highly probable forecast inventory purchases	(8,427)	13,825	Inventories
52 weeks ended 26 June 2022			
Highly probable forecast inventory purchases	13,977	(150)	Inventories

There was no material hedge ineffectiveness arising from the Group's forward currency contract hedging strategy during the 52 weeks ended 25 June 2023 (2022: 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 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

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

Risk exposures and responses

The Group manages its exposure to key financial risks, including interest rate and currency risk in accordance with the Group's financial risk management policy. The objective of the policy is to support the delivery of the Group's financial targets while protecting future financial security.

With respect to credit risk, the overwhelming majority of the Group's sales are on cash or cash equivalent terms with settlement within 24 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 25 June 2023 $'000	As at 26 June 2022 $'000
Financial instruments		
Cash and cash equivalents	25,898	26,075
Borrowings	(99,468)	(119,233)
Net exposure	**(73,570)**	**(93,158)**

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

As at 25 June 2023, 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 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
	Profit after tax higher/(lower)	
+3% (300 basis points)	(1,545)	(1,956)
+2% (200 basis points)	(1,030)	(1,304)
+1% (100 basis points)	(515)	(652)
-0.5% (50 basis points)	257	326

NOTE 19. 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 twelve months from the reporting date.

ii) Foreign currency risk

As a result of large purchases of inventory denominated in USD, the Group's Statement of Financial Position and Statement of Profit or Loss can be affected significantly by movements in the USD/AUD exchange rates and USD/NZD 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 25 June 2023 $'000	As at 26 June 2022 $'000
Financial liabilities		
Payables	4,992	7,420

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

As at 25 June 2023, 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 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
	Profit after tax higher/(lower)	
AUD to USD +15%	456	677
AUD to USD -15%	(617)	(917)

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 19. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *continued*

A. Non-derivative financial assets and liabilities

The following liquidity risk disclosures reflect all contractually fixed payables, repayments and interest resulting from recognised financial liabilities as well as liquid financial assets as of 25 June 2023. 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 25 June 2023					
Liquid financial assets					
Cash and cash equivalents	25,898	–	–	–	25,898
Trade and other receivables	4,176	–	–	–	4,176
Financial Liabilities					
Trade and other payables	(54,944)	–	–	–	(54,944)
Lease liabilities	(28,560)	(29,041)	(110,039)	(23,023)	(190,663)
Earn-out liabilities	(200)	–	(261)		(461)
Borrowings	–	–	(100,000)	–	(100,000)
Net outflow	**(53,630)**	**(29,041)**	**(210,300)**	**(23,023)**	**(315,994)**

	< 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)
Borrowings	–	–	(120,000)	–	(120,000)
Net outflow	**(49,255)**	**(22,182)**	**(239,861)**	**(39,946)**	**(351,244)**

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 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 25 June 2023					
Derivatives – forward currency contracts	4,316	1,010	72	–	5,398
Net inflow	4,316	1,010	72	–	5,398

	< 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**

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.

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

	As at 25 June 2023			As at 26 June 2022		
	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	5,398	–	5,398	13,825	–	13,825
Financial liabilities						
Earn-out liabilities	–	(461)	(461)	–	(661)	(661)
	5,398	**(461)**	**4,937**	**13,825**	**(661)**	**13,164**

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 25 June 2023		As at 26 June 2022	
	Carrying Amount $'000	**Fair Value $'000**	**Carrying Amount $'000**	**Fair Value $'000**
Financial assets				
Forward exchange contracts	5,398	5,398	13,825	13,825
Financial liabilities				
Earn-out liabilities	(461)	(461)	(661)	(661)
Borrowings	(99,468)	(99,468)	(119,233)	(119,233)
	(94,531)	**(94,531)**	**(106,069)**	**(106,069)**

NOTE 20. CAPITAL MANAGEMENT

For the purpose of the Group's capital management, capital includes issued capital and all other equity reserves attributable to the equity holders of the parent. The primary objective of the Group's capital management is to maximise the shareholder value.

The Group manages its capital structure and adjusts in light of changes in economic conditions and the requirements of the financial covenants. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders, return capital to shareholders or issue new shares. The Group monitors capital using a gearing ratio, which is net debt divided by the sum of total capital and net debt. The Group's objective is to ensure the gearing ratio remains below 50%. Included within the Group's calculation of net debt is borrowings less cash and cash equivalents.

NOTE 20. CAPITAL MANAGEMENT *continued*

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Borrowings	99,468	119,233
Less: cash and cash equivalents	(25,898)	(26,075)
Net debt	**73,570**	**93,158**
Equity	202,221	197,883
Capital and net debt	**275,791**	**291,041**
Gearing ratio	27%	32%

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 borrowings in the current period.

No changes were made in the objectives, policies or processes for managing capital during the 52 weeks ended 25 June 2023 and 52 weeks ended 26 June 2022.

NOTE 21. INFORMATION RELATING TO ADAIRS LIMITED ('the Parent entity')

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Current assets	27	2
Total assets	109,050	137,801
Current liabilities	(164)	(163)
Total liabilities	(528)	(327)
Net assets	**108,522**	**137,474**
Issued capital	84,737	81,235
Retained earnings	19,325	51,342
Share-based payment reserve	4,460	4,897
Equity	**108,522**	**137,474**
Loss of the parent entity	(1,115)	(3,329)
Total comprehensive loss of the Parent entity	**(1,115)**	**(3,239)**

NOTE 22. RELATED PARTY DISCLOSURES

Terms and conditions of transactions with related parties other than KMP

There are no outstanding balances as at the 52 weeks ended 25 June 2023. 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 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Short-term employee benefit	2,264	2,258
Short-term incentives	–	222
Post-employment benefits	93	122
Termination benefits	–	–
Share-based payments (reversal)/expense	(1)	782
Total compensation to key management personnel	**2,356**	**3,384**

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

NOTE 23. EARNINGS PER SHARE

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

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

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Profit for the year attributable to ordinary equity holders of the Parent	37,843	44,890
Profit attributable to ordinary equity holders of the Parent for basic earnings	**37,843**	**44,890**
Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution	**37,843**	**44,890**

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
Weighted average number of ordinary shares for basic EPS	172,147	170,204
Share options	–	2,899
Performance rights	864	–
Weighted average number of ordinary shares for the effect of dilution	**173,011**	**173,103**

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 24. INFORMATION RELATING TO SUBSIDIARIES

The consolidated financial statements of the Group include:

		Equity Holding	
Name of Entity	**Country of incorporation**	**As at 25 June 2023 %**	**As at 26 June 2022 %**
Home & Décor Pty Limited[1]	Australia	100	100
Adairs Holdings Australia Pty Limited[1]	Australia	100	100
Adairs Retail Group Pty Limited[1]	Australia	100	100
Wilder Days Pty Limited[1]	Australia	100	100
Adairs New Zealand Limited	New Zealand	100	100
Mocka Holdings Pty Ltd[1]	Australia	100	100
Mocka Limited	New Zealand	100	100
Mocka Products Pty Ltd	Australia	100	100
Refocus Furniture Pty Ltd[1]	Australia	100	100
D. Gallery Pty Limited[1]	Australia	100	100
Focus On Furniture Pty Ltd[1]	Australia	100	100
Furniture Online Australia Pty Ltd[1]	Australia	100	100
Beds Online Australia Pty Limited[1]	Australia	100	100

1. Entity is party to a Deed of Cross Guarantee.

Deed of Cross Guarantee

The subsidiaries identified above are parties to a Deed of Cross Guarantee under which each party has guaranteed to pay any deficiency in the event of the winding up of any of the members in the Closed Group. By entering into the Deed, the wholly-owned entities have been relieved from the requirement to prepare a financial report and directors' report under *ASIC Corporations (Wholly-owned companies) Instrument 2016/785*.

These subsidiaries and Adairs Limited (together referred to as the 'Closed Group'), either originally entered into the Deed on 29 June 2011, or have subsequently joined the Deed of Cross Guarantee by way of an Assumption Deed.

NOTE 24. INFORMATION RELATING TO SUBSIDIARIES *continued*

The Consolidated Statement of Profit or Loss and Comprehensive Income and retained earnings of the Closed Group is as follows:

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Revenue from contracts with customers	564,744	489,452
Cost of sales	(297,135)	(206,542)
Gross profit	**267,609**	**282,910**
Other income	1,210	364
Depreciation and amortisation expenses	(51,323)	(47,962)
Finance expenses	(13,565)	(7,979)
Salaries and employee benefits expenses	(105,691)	(101,642)
Occupancy expenses	(11,579)	(8,283)
Advertising expenses	(14,128)	(13,742)
Other expenses	(18,315)	(40,232)
Costs associated with the acquisition of subsidiaries	–	(2,016)
Profit before income tax	**54,218**	**61,418**
Income tax expense	(16,247)	(19,204)
Profit after tax	**37,971**	**42,214**
Items that may be reclassified subsequently to profit and loss (net of tax):		
Net movement of cash flow hedges	(8,234)	12,024
Income tax relating to the components of other comprehensive income	2,470	(3,607)
Other comprehensive (loss)/income	**(5,764)**	**8,417**
Total comprehensive income	**32,207**	**50,631**
Retained earnings		
Retained earnings at beginning of period	88,321	76,685
Profit after tax for the period	37,971	42,214
Dividends paid	(30,903)	(30,578)
Retained earnings at end of period	**95,389**	**88,321**

NOTE 24. INFORMATION RELATING TO SUBSIDIARIES *continued*

The Consolidated Statement of Financial Position of the Closed Group is as follows:

	As at 25 June 2023 $'000	As at 26 June 2022 $'000
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	18,096	21,823
Trade and other receivables	6,249	5,391
Inventories	73,364	76,794
Current tax receivables	1,945	2,756
Other assets	6,907	9,666
Derivative financial instruments	3,568	9,928
TOTAL CURRENT ASSETS	**110,129**	**126,358**
NON CURRENT ASSETS		
Property, plant and equipment	21,025	20,999
Intangibles	200,594	197,113
Right-of-use assets	152,186	159,305
Derivative financial instruments	72	1,946
Investment in subsidiaries	84,494	84,494
TOTAL NON CURRENT ASSETS	**458,371**	**463,857**
TOTAL ASSETS	**568,500**	**590,215**
LIABILITIES		
CURRENT LIABILITIES		
Trade and other payables	51,819	46,437
Other liabilities	17,359	24,970
Earn-out liabilities	200	200
Lease liabilities	45,861	43,193
Provisions	11,311	10,783
Related party payables	8,252	2,739
TOTAL CURRENT LIABILITIES	**134,802**	**128,322**
NON CURRENT LIABILITIES		
Other liabilities	1,275	1,338
Earn-out liabilities	261	461
Deferred tax liabilities	12,028	15,934
Borrowings	99,468	119,233
Lease liabilities	128,366	136,616
Provisions	5,915	6,297
TOTAL NON CURRENT LIABILITIES	**247,313**	**279,879**
TOTAL LIABILITIES	**382,115**	**408,201**
NET ASSETS	**186,385**	**182,014**
EQUITY		
Contributed equity	84,736	81,234
Share based payment reserve	3,712	4,147
Cash flow hedge reserve	2,548	8,312
Retained earnings	**95,389**	**88,321**
TOTAL EQUITY	**186,385**	**182,014**

NOTE 25. DIVIDENDS

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Dividends on ordinary shares declared:		
Interim dividend for 2023: 8.0 cents per share (2022: 8.0 cents)	13,771	13,671
Proposed dividends on ordinary shares:		
Final cash dividend for 2023: Nil (2022: 10.0 cents)	–	17,132

Proposed dividends are not recognised as a liability as at 25 June 2023.

Franking credit balance

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

	52 weeks ended 25 June 2023 $'000	52 weeks ended 26 June 2022 $'000
Franking account balance as at the end of the period at 30%	60,294	50,742
Franking credits that will arise from the payment of income tax payable as at the end of the period	2,011	3,904
Franking debits that will arise from the payment of dividends as at the end of the period	–	(7,342)
Franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date	–	–
	62,305	**47,304**

NOTE 26. SHARE-BASED PAYMENTS

Employees of the Group (the "participants") are granted equity instruments in the Company under the Equity Incentive Plan ("EIP"). The grants of equity instruments occur in tranches at different time periods.

2023 Tranche

During the year ended 52 weeks ended 25 June 2023, 1,519,671 performance rights were granted to participants under the EIP for nil consideration. The performance rights 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. The performance rights are subject to an earnings per share (EPS) performance condition. The performance hurdles are expressed as the absolute EPS for the financial year 2025. The proportion of performance rights that vest will be pro-rated from 0-100% based on achieving an EPS 35 cents to above 45 cents.

If these respective conditions are not met, the performance rights will not vest. The effective life of each performance right granted is 2.7 years which reflects the performance period. No dividends or voting rights are attached to performance rights prior to vesting, however shares allocated following the vesting of performance rights will rank equal in all respect with other ordinary shares.

NOTE 26. SHARE-BASED PAYMENTS *continued*

The assumptions underlying the fair value measurement of the equity instruments are:

Tranche	Grant date	Instrument	Pricing model	Exercise price	Expected volatility	Expected dividend yield	Risk-free interest rate	Expected life (years)	Grant date fair value
2018	Nov 2017	Share options	Black-Scholes	$1.75	45.0%	5.0%	2.23%	4.8	$0.39
2019	Oct 2018	Share options	Black-Scholes	$2.40	45.0%	5.0%	2.23%	4.8	$0.43
2020	Dec 2019	Share options	Black-Scholes	$1.86	50.0%	8.0%	0.82%	4.8	$0.38
2021	Nov 2020	Share options	Black-Scholes	$4.04	60.0%	6.0%	0.31%	4.8	$0.90
2022 (EPS)	Oct 2021	Share options	Black-Scholes	$3.95	50.0%	6.0%	1.35%	4.8	$0.96
2022 (TSR)	Oct 2021	Share options	Monte Carlo	$3.95	50.0%	6.0%	1.35%	4.8	$0.80
2022 (Other)	Dec 2021	Share options	Black-Scholes	$3.16	50.0%	6.0%	1.35%	1.8	$0.90
2023	Oct 2022	Performance rights	Black-Scholes	nil	–	9.0%	3.75%	2.7	$1.52

For the 52 weeks ended 25 June 2023, the Group reversed $435,000 of share-based payment expense in the Consolidated Statement of Profit or Loss (2022: $2,117,000 expense, including $710,000 within Costs associated with the acquisition of subsidiaries).

Share options:

The following reconciles the movement in share options during the period:

Tranche	Expiry date	Balance as at 26 June 2022	Granted	Forfeited	Exercised	Lapsed	Balance as at 25 June 2023	Exercisable as at 25 June 2023
2018	Oct 2024	2,280,000	–	–	–	–	2,280,000	2,280,000
2019	Oct 2025	1,935,000	–	(315,000)	–	–	1,620,000	1,620,000
2020	Oct 2026	3,300,000	–	(400,000)	–	–	2,900,000	–
2021	Oct 2027	2,700,000	–	(525,000)	–	(2,175,000)	–	–
2022 (EPS)	Jun 2025	1,800,000	–	(362,500)	–	–	1,437,500	–
2022 (TSR)	Jun 2025	1,800,000	–	(362,500)	–	–	1,437,500	–
2022 (Other)	Sep 2024	785,000	–	–	–	–	785,000	–
Total		**14,600,000**	**–**	**(1,965,000)**	**–**	**(2,175,000)**	**10,460,000**	**3,900,000**

NOTE 26. SHARE-BASED PAYMENTS *continued*

Tranche	Expiry date	Balance as at 27 June 2021	Granted	Forfeited	Exercised	Lapsed	Balance as at 26 June 2022	Exercisable as at 26 June 2022
2017	Oct 2024	103,379	–	–	(103,379)	–	–	–
2018	Oct 2025	2,280,000	–	–	–	–	2,280,000	2,280,000
2019	Oct 2026	1,935,000	–	–	–	–	1,935,000	–
2020	Oct 2027	3,400,000	–	(100,000)	–	–	3,300,000	–
2021	Jun 2025	3,000,000	–	(300,000)	–	–	2,700,000	–
2022 (EPS)	Jun 2025	–	1,875,000	(75,000)	–	–	1,800,000	–
2022 (TSR)	Sep 2024	–	1,875,000	(75,000)	–	–	1,800,000	–
2022 (Other)	Oct 2024	–	785,000	–	–	–	785,000	–
Total		**10,718,379**	**4,535,000**	**(550,000)**	**(103,379)**	**–**	**14,600,000**	**2,280,000**

The weighted average fair value of the share options granted during the 52 weeks ended 25 June 2023 was nil (2022: $0.88).

The weighted average remaining contractual life of share options outstanding as at 25 June 2023 was 3.59 years (2022: 3.7 years).

Performance rights:

The following reconciles the movement in performance rights during the period:

Tranche	Expiry date	Balance as at 26 June 2022	Granted	Forfeited	Exercised	Lapsed	Balance as at 25 June 2023	Exercisable as at 25 June 2023
2023	Jun 2025	–	1,519,671	(246,145)	–	–	1,273,526	–
Total		**–**	**1,519,671**	**(246,145)**	**–**	**–**	**1,273,526**	**–**

The weighted average fair value of the performance rights granted during the 52 weeks ended 25 June 2023 was $1.52 (2022: nil).

The weighted average remaining contractual life of performance rights outstanding as at 25 June 2023 was 2.0 years (2022: nil).

NOTE 27. EVENTS AFTER THE BALANCE SHEET DATE

On 1 August 2023, Adairs announced an agreement with DHL whereby Adairs will assume operational control of it's National Distribution Centre from 6 September 2023.

On 18 August 2023, Michael Cherubino resigned as a Director of Adairs Limited. Mr Cherubino will remain a full-time executive of the Group in his capacity as Executive Director – Group Property.

Other than the above, no matters or circumstances have arisen since 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.

NOTE 28. AUDITOR'S REMUNERATION

The auditor of Adairs Limited is Ernst & Young Australia.

	52 weeks ended 25 June 2023	52 weeks ended 26 June 2022
Amounts received or due and receivable by Ernst & Young Australia for:		
› Fees for auditing the statutory financial report of the parent covering the group and auditing the statutory financial reports of any controlled entities	540,000	455,000
› Fees for other services:		
– Taxation services	98,000	84,000
– Advisory services	–	–
– Other	–	70,000
Total fees to Ernst & Young Australia	**638,000**	**609,000**

Auditor's remuneration disclosed above relates to the audit of the statutory financial report of the Company and any other entity in the consolidated group, fees for tax compliance, due diligence and other services.

SHAREHOLDER INFORMATION

The shareholder information set out below was applicable as at 15 August 2023.

NUMBER OF SHAREHOLDERS

There were 19,421 shareholders, holding 173,050,982 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	3,531,721	7,532
1,001–5,000	19,137,506	7,300
5,001–10,000	17,982,241	2,386
10,001–100,000	50,517,031	2,111
100,001 and over	81,882,483	92
Total	**173,050,982**	**19,421**

There were 2,790 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	21,634,266	12.50
CITICORP NOMINEES PTY LIMITED	9,480,757	5.48
J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	8,251,314	4.77
BNP PARIBAS NOMINEES PTY LTD ACF CLEARSTREAM	3,712,158	2.15
NATIONAL NOMINEES LIMITED	3,580,964	2.07
BNP PARIBAS NOMINEES PTY LTD	3,561,663	2.06
HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	2,103,396	1.22
MICHAEL CHERUBINO INVESTMENTS PTY LTD	1,996,135	1.15
BNP PARIBAS NOMS PTY LTD	1,733,568	1.00
REFOCUS FURNITURE NOMINEES PTY LTD	1,709,402	0.99
BOND STREET CUSTODIANS LIMITED	1,586,500	0.92
BOND STREET CUSTODIANS LIMITED	1,406,986	0.81
BNP PARIBAS NOMINEES PTY LTD	1,300,956	0.75
BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	1,141,681	0.66
NCH PTY LTD	1,038,743	0.60
MR TRENT PETERSON	995,000	0.57
CANDAD PTY LTD	820,000	0.47
JACM GARDNER INVESTMENTS PTY LTD	572,300	0.33
MARK RONAN & EMILY BLACK	557,067	0.32
KENXUE PTY LTD	554,790	0.32
Total	**67,737,646**	**39.14**

SUBSTANTIAL SHAREHOLDINGS

As at 15 August 2023, 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.

CORPORATE INFORMATION

ABN 50 147 375 451

Directors

Brett Chenoweth

Michael Cherubino (resigned 18 August 2023)

Kiera Grant

David MacLean

Trent Peterson

Mark Ronan

Kate Spargo

Company Secretary

Fay Hatzis (resigned 8 August 2023)

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