



adairs

2015
ANNUAL
REPORT

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A dairs is a leading specialty retailer of home furnishings in Australia with a national footprint of stores across a number of store formats. Our strategy is to present customers with a differentiated proposition, combining on-trend fashion products, quality staples, strong value and superior in-store customer service.



Results Highlights



21.6%
LFL SALES
GROWTH

\$210.9_m
Sales ▲ 25.6%

CODB
44.1% OF SALES
DOWN FROM 46.5%

62.0%
GROSS PROFIT
MARGIN

\$33.1_m
EBIT ▲ 51.8%




\$22.0_m
NPAT





Variances refer to pro-forma FY15 highlights compared to pro-forma FY14 highlights

Operational Highlights



Successful repositioning of Adairs Kids and UHR brands/store formats



Keysborough DC opened building capacity for growth

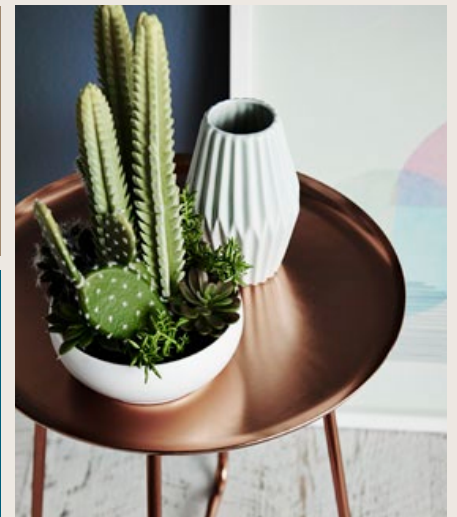


First Urban Home Republic concession stores opened in Myer



Successful ASX listing


New ERP implemented enabling opportunities for the future



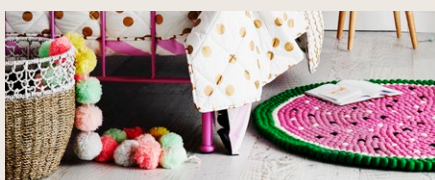
Continued focus on product and range differentiation



Four net new stores opened with ongoing store refurbishments



Online continues to grow significantly above market



Chairman's and CEO's Report



Dear Shareholder,

The directors of Adairs Limited are pleased to present the first annual report since listing on the ASX in June 2015.

Whilst a large amount of time and resources were devoted to the listing, we were very pleased the business continued to grow strongly in the FY15 year, with the business now having delivered 31 consecutive months of like for like sales growth. Pleasingly, the growth is underpinned by a significant increase in transaction numbers, which in-turn reflects a combination of Adairs transacting more often with existing customers, and attracting new customers. We believe Adair's is continuing to gain market share within its category.

Our success is a testament to both the strength of our business model, and the dedication, commitment and passion of all our team of 1,000+ people in our stores, distribution centres and customer support office.

Strong financial performance

Adairs has continued to deliver an impressive financial performance and exceeded our FY15 Prospectus Forecast.

Like for like sales growth was 21.6%, and grew steadily through each quarter of the financial year. This was a key driver of our total sales growth in FY15, with \$210.9 million of sales, up 25.6% on the previous financial year and 3.7% above Prospectus Forecast. All store formats grew like for like sales by double digit percentages.

The combination of strong like for like sales growth and operating leverage saw earnings grow faster than revenues in FY15. Strong productivity gains were reflected in our cost of doing business % (CODB%) reducing to 44.1%, down from 46.5% in the previous financial year. Pro-forma earnings before interest and tax were up 51.8% on the previous year to \$33.1 million, 5.7% above Prospectus forecast. Pro-forma net profit after tax was \$22.0 million compared to the Prospectus Forecast of \$20.7 million.

Superior retail execution and key milestones achieved

Our differentiated proposition in the homewares market combines frequent introduction of new on trend fashionable merchandise to our stores, with quality staple products, and strong customer value. This differentiated product proposition is complemented by our exceptional in-store customer service.

The results achieved in FY15 reflect our continued pursuit and execution of superior product and range differentiation leveraging our proven product design, development and sourcing capabilities. This strategy has been particularly successful in our fast growing Fashion and Decorator product categories which now account for 57% of sales in FY15.

During FY15 Adairs opened four new Adairs Stores and one Adairs Homemaker store, closing one underperforming store. In addition, the Company fully refurbished seven stores and opened three Urban Home Republic concession stores in Myer. Our online store has continued to grow above market, with 35.2% sales growth over FY15. Finally, we continue to build our Linen Lovers customer base, which is a key aspect of our customer engagement strategy.

We made a number of important operational infrastructure investments over FY15:

- Opening a distribution centre in Keysborough in Victoria's south-eastern suburbs to support future store growth, category expansion and growing online sales.
- Successfully implementing a new ERP system across warehouse, merchandise and finance functions with the store point of sale (POS) roll-out on track for completion in FY16.



“Adairs has continued to deliver impressive financial performance and exceeded our FY15 Prospectus Forecast.

Strong financial position supports growth

After adjusting for IPO costs which were paid after year end, net debt was \$39.4 million, modestly below the \$40 million net debt set out in the Prospectus. Adairs is comfortably geared with the funding required to support growth.

Positioned for growth and delivery of FY16 Prospectus Forecasts

The Board and Management remain focused on the continued growth of Adairs, driven by:

1. Continued product and range differentiation in our Fashion and Decorator and Staples categories leveraging the company's proven product design, development and sourcing capabilities
2. Continued store roll-out in Australia, opening 8-12 new stores per annum with the core store formats remaining the largest driver of growth
3. Further improve execution, leveraging investments in infrastructure and team in recent years:
 - Adairs has an exceptionally talented team and outstanding leadership which drives growth and superior retail execution
 - The Company will focus on enriching the online experience and omni-channel marketing
 - From an operational perspective we will leverage the ERP system to further improve the customer experience and in-store efficiencies
4. Disciplined international expansion. Adairs is currently carrying out due diligence on New Zealand and South Africa with the view to potentially open trial stores in one of these markets over the next two years.

Further we are pleased to be announce Adairs has become a Platinum Partner to the National Breast Cancer Foundation in FY16 reinforcing our commitment to social responsibility.

Given the exceptional results of FY15 and growth strategies in place for FY16, the Directors are confident in delivering the key financial metrics set out in the prospectus forecast for FY16. The Directors are pleased with the start the Company has made to the FY16 financial year, and reaffirm the prospectus dividend guidance of 11 cents in relation to FY16 earnings. The Company expects to declare its first interim dividend following the completion of H1 FY2016.

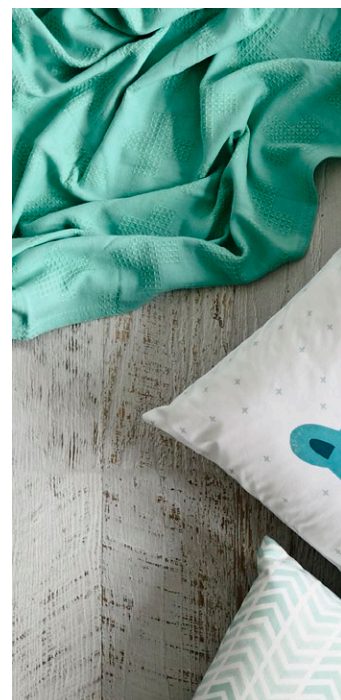
We would like to acknowledge our dedicated team across Australia, whose hard work underpins the growth and development of our business. Further we would like to thank the Board for their guidance and support through our recent transition to being a publicly listed company.

Finally we would like to thank you, our shareholders, for your support. Following our successful ASX listing, we have now entered a new and exciting phase in the Company's development. We have a clear growth strategy and commitment to delivering a great customer experience through excellence in retail execution. Your Directors believe Adairs is well positioned to continue to grow shareholder value.

Michael Butler
Chairman

David MacLean
Chief Executive Officer

“Given the exceptional results of FY15 and growth strategies in place for FY16, the Directors are confident in delivering the key financial metrics set out in the prospectus forecast for FY16.”





Annual Financial Report 2015

For the 52 weeks ending 28 June 2015



Directors' Report

Your Directors submit their report on the consolidated entity (referred to hereafter as "Adairs", "the Group" "Company") for the 52 weeks ended 28 June 2015 ("FY2015").

During the 52 week period ending 28 June 2015, Home & Décor Holdings Pty Ltd changed the company name to Adairs Limited on 28 May 2015. The company went through an initial public offering (IPO) on 29 May 2015 before listing on the Australian Stock Exchange 17 June 2015.

DIRECTORS

The following persons were Directors of Adairs Limited (previously Home & Decor Holdings Pty Ltd) during the period and up to the date of this report unless otherwise stated.

Michael Butler (appointed 8 April 2015)

David MacLean

Michael Cherubino

Trent Peterson

Kate Spargo (appointed 28 May 2015)

David Briskin (appointed 28 May 2015)

Greg Milne (resigned as of 28 May 2015)

Brett Blundy (resigned as of 28 May 2015)

Aaron Hood (resigned as of 28 November 2014)

Information on qualifications and experience of Directors is included on pages 14 to 15 of the annual report.

Principal Activities

During the period, the principal continuing activities of the Company consisted of the retailing of homewares and home furnishings in Australia.

Dividends

In accordance with the disclosures in the prospectus the Directors of the Company have recommended that no dividend be declared for the year ended 28 June 2015.

2015 Operating and Financial Review

The profit from ordinary activities after income tax for FY2015 amounted to \$745K (2014: \$7.5 million).

The Directors' Report includes references to pro-forma results to exclude the impact of Adairs corporate and capital structure following the divestment of Dusk, refinancing of the Company's debt facilities and the costs associated with the IPO results as disclosed in the Company's prospectus dated 29th May 2015. The Directors believe the presentation of non-IFRS financial measures are useful for the users of this financial report as they provide additional and relevant information that reflect the underlying financial performance of the business and can be directly compared to the forecasts given in the Prospectus. Non-IFRS financial measures contained within this report are not subject to audit or review.

The Earnings Before Interest and Tax ("EBIT") of the Group for FY2015 were \$18.4 million (2014: EBIT \$21.9 million).

| | 2015 \$'000 | 2014 \$'000 |
|---|----------------|----------------|
| Profit after income tax for continuing operations | 2,942 | 6,782 |
| <i>Add back:</i> | | |
| Finance expenses | 14,267 | 15,985 |
| Interest income | (446) | (347) |
| Income tax (benefit)/expense | 1,675 | (500) |
| EBIT¹ | 18,438 | 21,920 |

1. Earnings Before Interest and Tax (EBIT) is 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. EBIT is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBIT in a different manner to us. The above EBIT reconciliation has not been audited.

During the reporting period the Group underwent significant structural changes including divestment of the Dusk operating business, amended capital structure and listing on the Australian stock exchange.

The table below reconciles the statutory result to the pro-forma result for FY2015 and FY2014. This shows the full year results from continuing operations if the operating structure that is in place following completion of the IPO was in place since 1 July 2013.

| | Note | Consolidated | |
|---|------|----------------|----------------|
| | | 2015 \$'000 | 2014 \$'000 |
| Statutory Earnings before Interest and Tax (EBIT) from continuing operations | | 18,438 | 21,920 |
| <i>Add back:</i> | | | |
| Transaction costs | 1 | 14,727 | – |
| Other operating adjustments | 2 | (28) | (90) |
| Pro-forma EBIT from continuing operations | | 33,137 | 21,830 |

Notes on pro-forma adjustments:

1. Transaction Costs – Includes the total costs of the IPO relating to the sale of exiting shares. IPO costs directly attributable to the issue of new shares have been offset against equity raised.
2. Other operating adjustments – adjustments have been made for the 2015 year reflecting costs associated with additional directors fees, insurance, ASX listing fees and registry services offset by removal of management fees and other private company costs.

The table below sets out the pro-forma operating results for FY2015 compared to the pro-forma consolidated income statement for FY2014 and the prospectus forecast for FY2015. The pro forma consolidated income statement adjusts the statutory results for FY2015 and FY2014 for the pro forma adjustments as set out in the Table above. Pro forma historical profit before tax and net profit after tax from continuing operations is not illustrated below due to the significant change in funding mix and income tax profile.

| Continued Operations | 2015 ¹ \$'000 | Prospectus ² \$'000 | Change % | 2014 \$'000 | Change % |
|----------------------|-----------------------------|-----------------------------------|-------------|----------------|-------------|
| Revenue | 210,878 | 203,373 | +3.7% | 167,917 | +25.6% |
| Gross Profit | 130,698 | 127,453 | +2.7% | 103,824 | +25.9% |
| Gross Margin | 62.0% | 62.7% | -0.7% | 61.8% | +0.2% |
| EBIT | 33,137 | 31,358 | +5.7% | 21,830 | +51.8% |
| EBIT Margin | 15.7% | 15.4% | +0.3% | 13.0% | +2.7% |

1. The pro forma results has been prepared on the same basis as the forecast pro forma consolidated financial income statement as published in the Adairs Limited IPO prospectus dated 29th May 2015.
2. Prospectus refers to the 2015 prospectus forecast as provided in the Adairs Limited prospectus dated 29th May 2015.

Pro-forma Results Summary

The Company had an exceptional year with growth in EBIT of 51.8% on the prior year and 5.7% above the prospectus forecast.

The growth in EBIT was driven by the revenue growth of 25.6% on the prior year and 3.7% over the prospectus forecast. Revenue growth was largely driven by the strong like for like sales growth of 21.6%.

The strong sales growth was driven primarily by the core store formats of Adairs and Adairs Homemaker delivering like for like sales of 20.4%. Adairs ongoing strategy of product differentiation and growth in fashion and decorator product delivered the sales growth through increased customers and transaction growth across the core store formats. The emerging store formats of Adairs Kids and Urban Home Republic delivered like for like sales growth of 30.5% driven by the businesses ongoing work in improving the product offering in these formats.

Complementing the performance of these formats was the continued strong growth in online sales of 35.2% with the second half being particularly strong delivering 48.3% growth.

Adairs achieved an improved gross margin rate on the prior year (20 basis points) as the business benefited from increased directly sourced product, change in sales mix towards higher margin fashion and decorator product and a cleaner inventory position reducing markdowns offset by the decline in the Australian dollar. The gross margin rate achieved did not meet the prospectus forecast as Adairs focused on ensuring that the inventory held was clean and electing to trade off gross margin rate for sales over the last quarter.

The increased revenue resulted in a further improved EBIT margin as operating leverage achieved on the higher sales resulted in an improved EBIT margin of 15.7% (2014: 13.0%).

Capital Raising and Debt

In June 2015 Adairs raised \$35.6 million (before IPO costs) through the issue of new ordinary shares under the Company's IPO. The funds raised under the IPO were applied towards meeting the costs of the IPO, redemption of existing redeemable preference shares and in partial repayment of existing bank debt.

During the year the number of shares on issue increased from 34,717,855 to 151,022,669 via a 4.35 for 1 share split pre IPO, and a further 14,852,116 new shares were issued as part of the IPO bringing the total number of ordinary shares on issue in the Company to 165,874,785. All redeemable preference shares were redeemed as part of the IPO.

The external debt facility was renegotiated in February 2015 for a term of 3 years. The renegotiated debt facility is \$50 million in aggregate and represents a \$42 million revolving cash advance term facility and an \$8 million multi option revolving working capital facility.

The leverage ratio as at June 2015 was 1.1x actual pro-forma EBITDA. The facility has three key financial covenants, the debt to capital ratio, fixed cover charge ratio and the leverage ratio. Significant headroom exists within all of the financial covenants as at June 2015.

Adairs Strategy

The strategy is aimed at delivering profitable growth with the strategies reflecting the continued evolution of the business' existing proven strategies which have contributed materially to the earnings growth achieved by the business in recent years.

Product and range differentiation to drive above-market like for like sales growth

Adairs product and range differentiation strategy has two key components:

1. **Product differentiation:** Offer customers a range of on trend products at value-for-money prices that are exclusive to Adairs.
2. **Range differentiation:** Offer customers a broader range of co-ordinated decorator products than our competitors. Adairs will continue to expand its range to cover new product areas based on management's assessment of customer demand. Recent examples include the adding of wall art, mirrors, home fragrances, floor rugs, bedroom chairs, bedside tables and lamps to Adairs' product range. A critical aspect of this strategy is to ensure that any range extension is complementary to the existing product categories and range and has similar attributes such as value, quality, styling and fashionability. This helps customers develop a co-ordinated look across product categories and enables store teams to deliver superior service.

Continued store roll-out in Australia

Adairs is targeting 8-12 net new store-openings in Australia each year for the next five years in Australia. Of those stores, 7-10 are expected to be Adairs and Adairs Homemaker stores. Where possible, Adairs will also continue to up-size selected existing Adairs Homemaker stores, with nine stores currently identified for up-sizing.

Adairs believes there remains a significant opportunity to roll-out its Adairs Kids and UHR stores (including in the concession store format) in Australia. Adairs expects that the number of UHR and Adairs Kids stores to be opened over the next two years will be modest, however if these openings deliver the expected financial returns, the roll-out pace can be accelerated from FY2017 and FY2018 onward.

Adairs commenced a three store concession trial with Myer in June 2015 and are monitoring the results of the trial.

Further improve execution by leveraging recent investments

In FY2015 Adairs made a significant investment in the implementation of its ERP system. The key components of the ERP (including warehousing, finance and merchandise modules) are now installed and operating smoothly. New store POS systems are expected to be rolled out in the second half of FY2016.

Adairs has also recently acquired a new DC facility located in Keysborough, Victoria. This facility has provided significant incremental growth capacity for the business, which was increasingly constrained by the operating capacity of the existing Scoresby DC.

These investments are designed to enable Adairs to improve operational outcomes by:

- Increasing product flow and replenishment speed from supplier to store;
- Allowing a larger space for the operation of the pick, pack and dispatch operations for the Adairs online operations;
- Improving inventory flow management during low and high season peaks by eliminating the use of third party overflow facilities; and
- Faster, more accurate and more granular exception reporting, with increased inventory visibility and access to more inventory information including by location, volume, age, and other product attributes, which is not currently easily attainable from a single integrated reporting system.

Implementation of the new ERP system is expected to continue to improve the customer's shopping experience, omni-channel marketing communication and drive online sales growth. The ERP has a number of benefits and capabilities that have not yet been utilised and will become available as part of the POS roll out including click and collect, omni-channel gift registries; improved POS processing and improved customer information.

Evaluating international expansion

Adairs is exploring opportunities to expand into new markets with New Zealand and South Africa each being identified as potentially attractive markets for Adairs to open new stores. The approach to any international expansion incorporates a disciplined attitude to risk and capital allocation.

Adairs continue to evaluate the potential for international expansion and is undertaking further due diligence on these markets. No decision has been made regarding the commencement of operations in either market.

Material Business Risks

The material business risks that are likely to have an effect on the financial prospects of Adairs include:

- The retail environment and general economic conditions may worsen
Consumers consider many of Adairs' products to be discretionary goods, and sales levels are sensitive to consumer and retail sentiment as a result. If consumer and retail sentiment were to decline, this may reduce the demand for Adairs' products, thereby reducing product sales. This would have a flow on affect with regard to like for like sales and have a materially adverse effect on Adairs financial performance.
- Competition may increase and change
The competitive environment in which Adairs operates in is relatively stable, however there is a risk that Adairs may lose market share to new or existing competitors. Adairs' competitive position may deteriorate as a result of increased competition, and Adairs customers may choose to purchase products from its competitors rather than from Adairs and could lead to downward pressure on margins and subsequently have an adverse impact on Adairs financial performance.

- Customers' buying habits or seasonal trading patterns may change
Many of Adairs' products are considered to be discretionary goods, particularly products in Adairs' fashion item lines. Consumer demand for these products is sensitive to Adairs' fashion and design selections and product range. A broad-based or series of significant misjudgements in interpreting product and fashion trends could adversely affect demand for Adairs' products.
- Management may be unable to achieve its growth objectives
Adairs' management has developed a number of growth strategies for the business. The success of growth strategies such as these is key to Adairs' future financial performance, however there is a risk that Adairs' growth strategies are ineffective or are not executed effectively.
- Adairs may be unable to retain and secure suitable store sites
Adairs' store footprint and portfolio is frequently assessed and revised in order to optimise financial and operational performance. Adairs' financial performance and future growth is dependent on its ability to both retain existing store sites and secure new store sites in suitable locations and on acceptable terms. Adairs' ability to achieve this may be impacted by a range of factors including availability of new store sites, profitability of new sites, landlord disputes, potential cannibalisation of existing stores by new store openings as examples.

Outlook

Adairs expects to continue to grow its store network in Australia through the continued roll out of the Adairs and Adairs Homemaker formats. Over the coming years Adairs expects to expand this network through the potential further roll out of Adairs Kids, Urban Home republic including concession stores and internationally. Since July Adairs has opened two stores and has entered into agreements on a further three stores. Adairs has had a solid start to FY2016 and is well positioned to achieve the FY2016 prospectus forecast.

Significant changes in the state of affairs

Prior to 28 December 2014 the Board resolved to divest its subsidiary business, Dusk Australia Pty Ltd and controlled entities, to the existing owners. As a result, the financial performance of the subsidiary business was classified as a discontinued operation for the period ending 28 June 2015 and the related assets and liabilities classified as held for distribution in the consolidated balance sheet as at the same date.

On 23 February 2015, Dusk Australia Pty Ltd and its subsidiaries was divested by the Group to the Group existing shareholders for \$23 million in the form of partial redemption (cancellation) Redeemable Preference Shares on issue, resulting in a reduction of non-current interest bearing liabilities of \$23 million on that date.

On 23 February 2015, the Group also refinanced its external borrowings with financiers. At 28 December 2014, external borrowings were classified as current interest bearing liabilities. The existing external borrowings of \$29.7 million were replaced by a full drawn down \$47.5 million finance facility with \$0.36 million of capitalised borrowing costs being recognised. The derecognition of the existing finance facility resulted in \$0.9 million of previously capitalised borrowing cost being written off. \$30 million of the proceeds were utilised for partial redemption of Redeemable Preference Shares, reducing non-current liabilities on the payment date (23 February 2015).

Matters subsequent to the end of the financial year

Since 28 June 2015 no matters or circumstances have arisen 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 in the future financial years.

Environmental regulation

The Company's operations are not subject to any significant environmental obligations or regulations. No environmental breaches have been notified to the Company during the 52 weeks ended 28 June 2015.

Directors and Directors' Interests

The Directors of Adairs Limited in office at the date of this report are listed below together with details of their relevant interest in the securities of the Company at that date.

Michael Butler *Independent Chair Non-Executive.*

Michael has extensive experience in finance and investments in both executive and board roles. He has over 20 years experience as a non-executive director of ASX listed companies across a broad range of industries including financial services, tourism, logistics, property, resources, and retailing.

Other Current Directorships

Chair and Non-Executive Director of AMP Superannuation Limited

Non-executive director of Metcash Limited

Former Listed Directorships in the last 3 years

None

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 Shares and options

62,500 ordinary shares in Adairs Limited

David MacLean *Managing Director and Chief Executive Officer.*

David was appointed Chief Executive Officer and Managing Director in 2002, following a long career within the Adairs business, progressing from General Manager through to Managing Director.

Other Current Directorships

Non-executive director of Dusk Australia Pty Ltd

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Managing Director and Chief Executive Officer

Member of the Nomination Committee

Interest in Shares and options

4,152,273 ordinary shares in Adairs Limited

Entities associated with David hold 208,334 ordinary shares in Adairs Limited.

Trent Peterson *Non-Executive Director*

Trent has over 15 years' investment and private equity experience, focused primarily on businesses operating in consumer, retail and media sectors. Trent is Managing Director of Catalyst and the founder and Managing Director of Catalyst Direct Capital Management. Trent was Non-executive Chairman of the Board of the Company from 2010 until the IPO, being the period of Catalyst's majority ownership.

Other Current Directorships

Chair and Non-executive director of Dusk Australia Pty Ltd

Chair and Non-executive director of Cirrus Media

Chair and Non-executive director of SkyBus

Non-executive director of Max Fashions

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Chair of the Remuneration Committee

Member of the Audit and Risk Committee

Member of the Nomination Committee

Interest in Shares and options

208,334 ordinary shares in Adairs Limited

Trent also has an indirect interest in 747,204 shares as a result of his employment with, and minority interests in, Catalyst and funds managed or advised by Catalyst Investment Managers.

David Briskin *Non-Executive Director*

David has extensive experience in the fashion and retail sector as a shareholder and Managing Director of Mimco and a shareholder and Chief Executive Officer of sass & bide. David began his professional career as a commercial lawyer at Corrs Chambers Westgrath.

Other Current Directorships

Chairman of Make-A-Wish Australia Foundation
Director of Virgin Australia Melbourne Fashion Festival
Director of MJ Bale Pty Ltd

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Member of the Remuneration Committee
Member of the Nomination Committee

Interest in Shares and options

208,334 ordinary shares in Adairs Limited

Kate Spargo *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.

Other Current Directorships

Chair of UGL
Chair of Suncorp Portfolio Services trustee board
Non-executive director of Sonic Healthcare
Non-executive director of Colinvest
Non-executive director of Fletcher Building
Non-executive director of SMEC

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Chair of the Audit and Risk Committee
Member of the Remuneration Committee
Member of the Nomination Committee

Interest in Shares and options

41,667 ordinary shares in Adairs Limited

Michael Cherubino *Executive Director and Chief Financial Officer*

Michael was appointed Chief Financial Officer in 1996 and has over 19 years experience in the retail sector. Michael's previous roles were with National Australia Bank and Bankwest.

Other Current Directorships

None

Former Listed Directorships in the last 3 years

None

Special Responsibilities

Chief Financial Officer
Member of the Nomination Committee

Interest in Shares and options

2,076,135 ordinary shares in Adairs Limited

Company Secretary

The Company Secretary is Mark Ronan. Mark commenced with Adairs as the Finance Manager in 2007 and was appointed Company Secretary in May 2015.

Meetings of Directors

The number of meetings of the Company's Board of Directors and each Board Committee held during the period from becoming a limited company to 28 June 2015 is set out below. The meetings conducted as a private company have not been included.

| Director | Meetings of Committees | | | | | | | |
|-------------|------------------------|----------|-------|----------|---------------------------|----------|-----------------------------|----------|
| | Board | | Audit | | Nomination ⁽¹⁾ | | Remuneration ⁽¹⁾ | |
| | Held | Attended | Held | Attended | Held | Attended | Held | Attended |
| M Butler | 3 | 3 | 1 | 1 | – | – | – | – |
| D MacLean | 11 | 10 | n/a | n/a | – | – | – | – |
| T Peterson | 11 | 11 | 2 | 2 | – | – | – | – |
| M Cherubino | 11 | 11 | 1 | 1 | – | – | – | – |
| K Spargo | 2 | 1 | 1 | 1 | – | – | – | – |
| D Briskin | 2 | 1 | n/a | n/a | – | – | – | – |
| B Blundy | 9 | 7 | n/a | n/a | – | – | – | – |
| G Milne | 9 | 8 | n/a | n/a | – | – | – | – |
| A Hood | 3 | 3 | n/a | n/a | – | – | – | – |

Held: number of meetings held while a Director was a member

Attended: number of meetings attended

1. The Remuneration Committee and the Nomination Committee were formed on listing (17 June 2015).

Non-Audit Services

The Company may decide to employ the auditor on assignments additional to their statutory audit duties where the auditors' expertise and experience with the Company 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 24 to the financial statements on page 69 of the annual report.

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.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 370C of the Corporations Act 2001 is set out on page 32 of the annual report.

Proceedings on behalf of the Company

There are currently no proceedings on behalf of the Company.

Loans to key management personnel

There are no loans to key management personnel as at 28 June 2015. During the period a loan of \$50,000 to Mark Ronan was forgiven under the terms of the loan agreement.

Indemnification and insurance of officers

The Group 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 Group. 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 willful 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

The total amount of insurance contract premiums paid was \$302,581.

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 Directors' Report and in the financial report have been rounded to the nearest \$1,000 (where rounding is applicable) under the option available to the Company under ASIC Class Order 98/100. The Company is an entity to which the Class Order applies.

Remuneration Report

The Directors of Adairs Limited present the Remuneration Report for the Company for the reporting period of **30 June 2014 to 28 June 2015**. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the Corporations Act 2001.

This Report sets out the remuneration arrangements for Adairs' key management personnel (**KMP**) (listed in the table below) who have been KMP during the reporting period. For the remainder of this Remuneration Report, the KMP are referred to as either Non-executive Directors or Senior Executives.

All Non-executive Directors and Senior Executives have held their positions for the duration of the reporting period unless indicated otherwise.

| Name | Position |
|--------------------------------|---|
| Non-executive Directors | |
| Michael Butler | Independent, Non-executive Chairman (appointed 8 April 2015) |
| David Briskin | Independent, Non-executive Director (appointed 28 May 2015) |
| Trent Peterson | Non-executive Director |
| Kate Spargo | Independent, Non-executive Director (appointed 28 May 2015) |
| Senior Executives | |
| David MacLean | Chief Executive Officer (CEO) and Executive Director |
| Michael Cherubino | Chief Financial Officer (CFO) and Executive Director |
| Mark Ronan | Chief Operating Officer |
| Former KMP | |
| Brett Blundy | Non-executive Director (resigned on 28 May 2015) |
| Greg Milne* | Non-executive Director (resigned on 28 May 2015) |
| Aaron Hood | Non-executive Director (resigned on 28 November 2014) |

* Greg Milne was an executive director of the Company from 30 June 2014 to 23 February 2015, in his role as CEO of the Dusk business, which was divested on the same date.

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Section 2 - Remuneration Strategy and Policy (page 20 of the annual report)

Section 3 - Role of the Remuneration Committee and external advisers (page 21 of the annual report)

Section 4 - Senior Executive Remuneration Structure (page 21 of the annual report)

Section 5 - Non-Executive Directors' Remuneration Structure (page 26 of the annual report)

Section 6 - KMP Disclosures (page 26 of the annual report)

Section 7 - Statutory Remuneration Details and Other Statutory Disclosures (page 27 of the annual report)

Section 1: Introduction

Remuneration Snapshot

The Company's performance over the reporting period has been strong, and the Board is focused on continuing to build and deliver value to shareholders, progress its growth plans and selectively pursue opportunities which we believe will add value in a manner which is appropriate having regard to the associated risks. Having a robust remuneration and reward framework that supports and encourages sustainable growth, risk management, and drives our people, is critical to the successful execution of our strategy.

FY2015 saw the transition of the Company from a proprietary company to a publicly listed company on the ASX on 17 June 2015 (**Listing**). This transition is reflected in the mix of remuneration arrangements in place for the reporting period, which consists of new and legacy remuneration arrangements for Senior Executives. The performance based remuneration arrangements which were in place for the Senior Executives for FY2015 focus on the underlying earnings (EBIT)¹ of the Adairs business, excluding any contribution from the divestment of the Dusk business from the Group (as this business was not managed by any of the Senior Executives), and after adjusting for costs associated with Listing and the ongoing incremental costs associated with our new public company status. In FY2016, the targets for the STI will include an allowance for the incremental costs associated with Listing and the Company's new public company status.

The Company has a cash short term incentive (**STI**) in place for Senior Executives that is based on achieving pre-determined performance conditions. The primary measure used by the Company for award of FY2015 STI is the normalised EBIT of the business. During FY2015, the Company materially exceeded its budget, and the stretch targets set at the commencement of the financial year for the STI scheme. Therefore the Company expects to pay the maximum STI bonuses payable for FY2015.

The Board determined to award an additional discretionary bonus to David MacLean and Michael Cherubino. This bonus reflects the exceptional performance of the Company and the abnormally large workload carried by these individuals through the course of the Listing. Payment of the FY2015 STI and discretionary bonuses to the Senior Executives are only made following completion of the FY2015 audit and confirmation of the relevant measures, which is likely to be in September.

The Company has not implemented a LTI plan post-Listing. Each Senior Executive holds a significant number of shares and the Board believes that they have sufficient exposure to movements in the Company's share price and the Company's performance generally. The Remuneration Committee will continue to review the remuneration arrangements for KMP to ensure that they are relevant, competitive and appropriate for a listed Company. It is expected that an LTI plan for the Senior Executives will be implemented over the course of the next 24 months.

Company Performance

The following table shows the Company's financial performance for FY2015. Comparative numbers for the previous four financial years are not shown as the Company was only listed on ASX on 17 June 2015. The relevant earnings history of the business was set out in the Prospectus provided at the time of listing.

The measures of profitability set out below reflect the Pro forma⁽¹⁾ Result for the Company, calculated applying a methodology consistent with that set out in the Prospectus. The primary differences between the Statutory and Pro forma results relate to the exclusion of the contribution of the Dusk business, and exclusion of costs associated with the Listing.

| Continuing Operations | Pro forma FY15 Performance |
|--|-------------------------------|
| Sales (Pro forma) | \$210,878 |
| EBIT (Pro forma) | \$33,137 |
| Net profit before tax (Pro forma) | \$31,409 |
| Net profit after tax (Pro forma) | \$21,986 |
| Share price on Listing | \$2.40 |
| Share price at end of year | \$2.78 |
| Dividends paid per shares (post Listing) | N/A |
| Earnings per share (Pro forma) | 15 cents |

In addition to the above, we note that the Pro forma EBIT of the Company is 5.7% above that forecast in the Prospectus.

1. Pro forma and EBIT results are non-IFRS financial measures contained within this report are not subject to audit or review.

Remuneration Report continued

Actual Pay for FY2015

Details of Senior Executive remuneration for FY2015, prepared in accordance with statutory obligations and accounting standards, are contained in section 7 of this Report. The remuneration calculations in that table are based on the Accounting Standards principle of 'accrual accounting' and, consequently do not necessarily reflect the amount of compensation a Senior Executive actually realised in a particular year.

To supplement the required disclosure we have included the additional table below which shows the actual compensation realised by the Senior Executives who were KMP at the end of FY2015. The amounts disclosed below are considered more helpful for shareholders in demonstrating the linkages between Company performance and remuneration outcomes. It is important to note that the STI amounts are based on awards that vested and/or were paid in FY2015.

FIGURE 1:

| Executive ⁽²⁾ | Salary Paid | STI Bonus ⁽¹⁾ | Super | Total |
|--------------------------|--------------------|--------------------------|-----------------|--------------------|
| David MacLean | \$484,750 | \$160,000 | \$33,077 | \$677,827 |
| Michael Cherubino | \$389,420 | \$125,000 | \$25,000 | \$539,420 |
| Mark Ronan | \$292,740 | \$100,000 | \$18,798 | \$411,538 |
| Total | \$1,166,910 | \$385,000 | \$76,875 | \$1,628,785 |

1. This does not include the one-off Listing Bonus (see section 5.3.1 of the Prospectus and section 7 of this Report for further details).

2. Excludes former executives.

Section 2: Remuneration Strategy and Policy

A core belief of the Adairs Board is that the attraction, development, 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 Company. The maintenance and development of our leaders and fostering a workplace culture that supports this belief are priorities for the Company.

Adairs is committed to creating a focused and high performance culture. A summary of our philosophy is to provide simple and competitive market based total remuneration arrangements that also are linked in material part to measures of financial performance that we believe best represent the outcomes relevant to the value creation strategy of the Company.

Remuneration can include a number of different elements such as fixed pay, superannuation, short term incentives, long term incentives and other benefits such as 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, and how that position has arisen, when setting remuneration packages.

In considering the remuneration arrangements of KMP, the Remuneration Committee makes recommendations based on seven important concepts;

- 1. Simplicity:** We seek to ensure remuneration arrangements are simple, and can be easily understood by both the KMP and other key stakeholders.
- 2. Alignment:** We seek to ensure material components of the KMP's remuneration arrangements (including their shareholding as appropriate) contribute to alignment of the interests of the KMP with those of the shareholders.
- 3. Sustainability:** We seek to ensure the material aspects of an employee's remuneration arrangements are sustainable and could withstand tests of precedent and transparency within the organisation and market place.
- 4. Competitive:** We seek to ensure our KMP 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 Company 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 our succession planning.
- 6. Company First:** The Company develops systems, policies, processes and team depth to manage its reliance on any given individual within its leadership team. This extends to remuneration, where we seek to ensure the remuneration architecture and individual arrangements are orderly and deliberate. Finally, we seek to respond to changes in an individual's circumstance or market conditions in a measured and sustainable manner.

7. Reward for outcomes and performance: We back ourselves to identify the outcomes that drive sustainable value creation (or value protection), and seek to reward executives who influence those outcomes most significantly and directly.

Section 3: Role of the Remuneration Committee and external advisers

The primary objective of the Remuneration Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy including remuneration components, performance measurements and accountability frameworks, recruitment, engagement, retention, talent management and succession planning.

The Committee also works with the CEO in considering specific situations pertaining to employment terms for individuals, or groups of individuals as needed.

The Committee undertakes an annual review of the Company's remuneration strategy and remuneration policy to facilitate understanding of the overall approach to remuneration and to confirm alignment with the Company's business strategy, high standards of governance and compliance with regulatory standards.

The Committee reviews and recommends to the Board for approval, remuneration arrangements for the CEO and other Senior Executives. The Committee also establishes the policy for the remuneration arrangements for Non-executive Directors. The Committee reviews KMP arrangements on an annual basis against the remuneration policy, external remuneration practices, market expectations and regulatory standards. The Committee also reviews relevant individual's remuneration arrangements in the event that significant circumstances change (e.g. a role or company restructure or change of role). The Committee obtains independent external remuneration advice where appropriate.

The Remuneration Committee exercises caution in interpreting remuneration surveys. While we seek independent data from time to time, we believe benchmarking of salaries requires an intimate knowledge of the details and role and circumstances of the components of reference data set, and this is rarely possible, complex and prone to error. We therefore regard such information as only one component of the balanced consideration of base salaries and other remuneration terms and do not have a stated position regarding a target benchmark. Market information is sourced from internal and external sources.

No external consultants or remuneration advisers were engaged during FY2015.

Section 4: Senior Executive Remuneration Structure

Senior Executives are remunerated under a Total Reward structure which currently consists of two elements:

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

The mix of remuneration between fixed and variable (i.e. at risk) components for a Senior Executive is determined having regard to the seniority of the role, the responsibilities of the role for driving business performance and responsibilities for developing and implementing business strategy.

The mix of fixed and at risk components for each of the Senior Executives as a percentage of total target remuneration for the 2015 financial year, is as follows:

FIGURE 2:

| Senior Executive ⁽²⁾ | % of total target remuneration for FY2015 | |
|---------------------------------|---|---|
| | Fixed remuneration | At risk remuneration (STI) ⁽¹⁾ |
| David MacLean | 65% | 35% |
| Michael Cherubino | 67% | 33% |
| Mark Ronan | 67% | 33% |

1. Excludes Listing Bonus and assumes vesting of 100% of STI performance conditions, but includes discretionary bonuses awarded to David MacLean and Michael Cherubino.

2. Excludes former executives.

Remuneration Report continued

Fixed Remuneration

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

The remuneration policy provides Senior Executives a base salary package that reflects the base salary for a comparable, role in similarly sized companies operating in the retail industry, having regard to the experience and expertise of the Senior Executive, their performance and history with the Company, and other relevant factors. Senior Executives and the Board acknowledge that this requires both quantitative and subjective assessment.

Fixed remuneration is reviewed annually by the Remuneration Committee and recommendations are made to the Board. Any change is usually effective from the commencement of the new financial year. There is no guaranteed salary increase in any Senior Executive's service contract.

STI Arrangements for FY2015

STI offers for FY2015 were made to KMP on 3 August 2014 and will be paid at the end of September 2015, following the sign-off of the audit and confirmation of the relevant financial measures. Set out below is a summary of the terms and conditions of the FY2015 STI.

| What is the Adairs Management Incentive Scheme (STI Scheme)? | An annual incentive scheme under which selected Adairs team members are eligible to receive an annual cash award based on the achievement of performance targets. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
|---|---|-----------|-----------|-----------|--|------|-------|---------|------|------------------------|-------------------|-----|-----|-----|------------------|---------|----------|----------|----------|----------------|---------|----------|----------|----------|----------------|---------|----------|----------|----------|----------------|---------|-----------|-----------|-----------|----------------|-------|-----------|-----------|-----------|----------------|-------|-----------|-----------|-----------|
| Why does the Board consider the STI Scheme an appropriate incentive? | The STI Scheme aligns Senior Executive reward with the achievement of performance targets that are aligned to delivering and protecting sustainable value to shareholders. | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| What are the performance conditions? | <p>The STI Scheme has the following performance conditions:</p> <ul style="list-style-type: none"> • stock turn target • Company EBIT • service condition <p>Gateway condition – stock turn target: for a Senior Executive to be eligible to earn any part or all of their STI in FY2015, the Company's stock turn cannot be less than 3.1x. If the Company's stock turn target is not met, no STI will be awarded.</p> <p>Company EBIT: the STI Scheme is primarily based upon the Company's EBIT result for the financial year. Each year the Board will determine the EBIT benchmark with reference to the annual forecast and prior year results. On achievement of the EBIT benchmark, the Senior Executive will be entitled to an initial incentive and will share in any amount achieved in excess of the EBIT benchmark. For FY2015, the EBIT benchmarks were:</p> <table> <tr> <th></th><th>EBIT</th><th>David</th><th>Michael</th><th>Mark</th></tr> <tr> <td>Below benchmark</td><td>less than \$23.5m</td><td>nil</td><td>nil</td><td>nil</td></tr> <tr> <td>Benchmark</td><td>\$23.5m</td><td>\$30,000</td><td>\$30,000</td><td>\$25,000</td></tr> <tr> <td>Level 2</td><td>\$24.5m</td><td>\$65,000</td><td>\$65,000</td><td>\$50,000</td></tr> <tr> <td>Level 3</td><td>\$25.5m</td><td>\$95,000</td><td>\$95,000</td><td>\$75,000</td></tr> <tr> <td>Level 4</td><td>\$26.4m</td><td>\$120,000</td><td>\$100,000</td><td>\$100,000</td></tr> <tr> <td>Level 5</td><td>\$28m</td><td>\$150,000</td><td>\$125,000</td><td>\$125,000</td></tr> <tr> <td>Level 6</td><td>\$30m</td><td>\$180,000</td><td>\$150,000</td><td>\$150,000</td></tr> </table> <p>Service condition: there is an additional requirement that on the STI payment date (anticipated to be September 2015), the Senior Executive must be employed by Adairs (and not have given notice or be suspended from employment) otherwise no STI will be paid.</p> | | | | | EBIT | David | Michael | Mark | Below benchmark | less than \$23.5m | nil | nil | nil | Benchmark | \$23.5m | \$30,000 | \$30,000 | \$25,000 | Level 2 | \$24.5m | \$65,000 | \$65,000 | \$50,000 | Level 3 | \$25.5m | \$95,000 | \$95,000 | \$75,000 | Level 4 | \$26.4m | \$120,000 | \$100,000 | \$100,000 | Level 5 | \$28m | \$150,000 | \$125,000 | \$125,000 | Level 6 | \$30m | \$180,000 | \$150,000 | \$150,000 |
| | EBIT | David | Michael | Mark | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Below benchmark | less than \$23.5m | nil | nil | nil | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Benchmark | \$23.5m | \$30,000 | \$30,000 | \$25,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 2 | \$24.5m | \$65,000 | \$65,000 | \$50,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 3 | \$25.5m | \$95,000 | \$95,000 | \$75,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 4 | \$26.4m | \$120,000 | \$100,000 | \$100,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 5 | \$28m | \$150,000 | \$125,000 | \$125,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Level 6 | \$30m | \$180,000 | \$150,000 | \$150,000 | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | | |

Why were the performance conditions chosen?

EBIT and stock turn levels were chosen as performance conditions to ensure that the STIs are linked to the achievement of key financial objectives and business drivers.

The Board believes that stock turn is an important measure to support the underlying quality and sustainability of the EBIT result, and ensure underlying cash generation and productivity of the business is also improving.

The Remuneration Committee recommends to the Board annual EBIT targets in consultation with the CEO. In setting these targets, the Committee considers the EBIT projections set out in the Company's approved business plan, and performance (growth) relative to prior year. The Board believes that achieving acceptable levels of growth year on year, and meeting targets set out in the Company's annual business plan are both important.

How are the performance conditions measured and why were these methods chosen?

The Remuneration Committee has ultimate responsibility for assessing whether performance conditions are achieved and for approving STI payments.

Individual stock turn target: the stock turn level is set using Adairs' internal measure of stock turns which is calculated by dividing the total cost of goods sold (excluding distribution costs) by the average level of inventory held by the business through the financial year. Adairs uses this methodology as it ensures that the inventory is better managed throughout the season as opposed to using opening and closing balances.

Company EBIT: for the purpose of determining the Company's achievement of the EBIT benchmark, financial results are extracted by reference to the Company's audited financial statements. The use of financial statements ensures the integrity of the measure and alignment with the true financial performance of the Company.

For FY2015, Company EBIT is based on pro forma earnings before interest and tax, after normalising for costs and capital structure items associated with the IPO, and removing discontinued operations (i.e. the Dusk business). This is consistent with the methodology used in the Prospectus to present the pro forma EBIT of the Company. The Board reviews and may normalise reported earnings in consultation with the Senior Executives, having regard to the delivery of underlying earnings (i.e. the earnings the Committee believe are most relevant to shareholders).

One-off adjustments will only be considered by the Committee in exceptional circumstances and where they occur as a result of matters that are materially outside the control of management. The Board expects such events to be rare. In FY2015, adjustments were made to include normalisations for the divestment of the Dusk business and costs associated with the Listing.

In addition, the Board may decide to pay Senior Executives discretionary bonus amounts in addition to their maximum STI amount under the STI Scheme above.

The Board rarely exercises this discretion, and only does so in exceptional circumstances.

Given the extent of Company's financial outperformance in FY2015, and the unusually high workload undertaken by certain KMP through the course of the Listing, the Board determined to award an additional discretionary cash bonus to David MacLean (an extra \$100,000), and Michael Cherubino (an extra \$50,000) in respect of FY2015.

Remuneration Report continued

FIGURE 3: PERCENTAGE OF STI PAID AND FORFEITED FOR SENIOR EXECUTIVES FOR FY2015

| Senior Executives ¹ | Grant date | Actual Base STI awarded (\$) | Actual Basic STI awarded as % of maximum STI | % of maximum Basic STI award forfeited | Additional Discretionary STI awarded | Total STI awarded |
|--------------------------------|---------------|------------------------------|--|--|--------------------------------------|-------------------|
| David MacLean | 3 August 2014 | \$180,000 | 100% | nil | \$100,000 | \$280,000 |
| Michael Cherubino | 3 August 2014 | \$150,000 | 100% | nil | \$50,000 | \$200,000 |
| Mark Ronan | 3 August 2014 | \$150,000 | 100% | nil | nil | \$150,000 |

1. Excludes former executives.

Changes for FY2016 STI

Set out in Figure 4 (below) is the remuneration arrangements for each KMP based on their fixed remuneration as at 1 July 2015, and their maximum STI bonus for FY2016. All figures include statutory superannuation contributions. Again, the Board reserves the right to pay discretionary bonus amounts to KMP in addition to the maximum amounts set out below, however we reiterate that this is not expected and would only occur in exceptional circumstances.

FIGURE 4: FY2016 REMUNERATION OPPORTUNITIES

| KMP Executive | Fixed remuneration (at 1 July 2015) | Maximum Potential STI for FY2016 ⁽¹⁾ | % of fixed remuneration available under FY2016 STI |
|-------------------|-------------------------------------|---|--|
| David MacLean | \$550,000 | \$275,000 | 50% |
| Michael Cherubino | \$420,000 | \$175,000 | 41.7% |
| Mark Ronan | \$375,000 | \$175,000 | 46.6% |

1. Assumes that a full STI is received by the relevant KMP. The actual reward is dependent on the achievement of performance targets in FY2016.

LTI Arrangements

The Senior Executives currently do not participate in a LTI plan. This is mainly due to the fact that all Senior Executives have significant shareholdings in the Company which have contributed materially to their personal compensation in recent years and served to effectively align their interests with shareholders. The Remuneration Committee intends to review the merits of the development and potential implementation of a LTI program on an annual basis.

The Board believe that equity ownership is an important component of aligning the interests of KMP with shareholders. It is expected that an LTI plan for the Senior Executives will be implemented over the course of the next 24 months.

Legacy Arrangements

a. Executive Exit Bonus Plan

Prior to Listing, Mark Ronan participated in an Executive Exit Bonus Plan. The Company awarded a cash bonus to Mark Ronan on 15 June 2015, based on the achievement of certain financial metrics (mainly aligned to the valuation of the equity of the Company at Listing), to reward his efforts developing the value and enhancing the performance of the business, and in assisting the Company to list on the ASX (**Listing Bonus**). Under the terms of the plan, a minimum of 40% of the before tax proceeds of the Listing Bonus were required to be reinvested in shares in the Company upon IPO at the issue price. Of the shares purchased, 50% of the shares are held under escrow until the FY2016 financial results are released and the other 50% of the shares are escrowed until the FY2017 financial results are released. Further details of the Listing Bonus paid to Mark Ronan can be found in section 5.3.1 of the Prospectus and in section 7 of this Report.

b. Management investment plan

Mark Ronan participated in the legacy management investment plan and on 20 March 2012 was provided with a loan from the Company for the sole purpose of subscribing for series A redeemable preference shares. The loan was interest free and had a term of seven years. A term of the loan was that if certain financial criteria were met (relating to the investment outcomes achieved by the previous majority shareholder (Catalyst)), the loan would be forgiven. At the start of the reporting period \$50,000 was outstanding on the loan. For legal reporting purposes, the amount of interest that would have been charged on the loan on an arms-length basis would have been \$2,062, based on the commercial borrowing rate of Adairs Limited of 4.265%.

Prior to the IPO, the Board determined that the financial metrics were or would be satisfied upon IPO. As a result, the loan was forgiven in full on 17 June 2015. All series A redeemable shares on issue were redeemed prior to Listing. Further details can be found in the statutory remuneration table in section 7.

Service Agreements

Adairs Holding Australia Pty Ltd (ACN 128 275 838) (a wholly owned subsidiary of the Company) (**Adairs Holding**) has entered into service agreements with David MacLean, Michael Cherubino and Mark Ronan 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 service agreements with the Senior Executives are ongoing until terminated by either party. All contracts with the Senior Executives may be terminated early by either party with six months' notice. In either event, Adairs Holding may make payment in lieu of notice. In the event of serious misconduct or other circumstances warranting summary dismissal, Adairs Holding 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 Holding approved the termination arrangements of David MacLean and Michael Cherubino at a general meeting of the Company on 1 June 2015.

After cessation of employment for any reason, for a period of six 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 David MacLean and Michael Cherubino, where the employee has resigned from the Company, the Board may elect to extend this restraint period for further period of up to six months by notifying the employee and paying the employee a further amount for each month (up to a maximum of six months) on a monthly basis.

No contracted retirement benefits are in place with any of the Company's Senior Executives.

Remuneration Report continued

Section 5: 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.

Directors' Fees

Non-executive Director Fees are determined within an aggregate Directors' fee pool approved by shareholders. The current approved fee pool of up to \$450,000 per annum was approved at the general meeting of the Company on 1 June 2015.

This pool provides the capacity to appoint additional Directors to facilitate board succession and regeneration and to apply the Company's remuneration policy. No increase in the fee pool is proposed.

Currently, annual base Non-executive Directors' fees are \$136,875 for the Chairman and \$70,000 for each other Non-executive Director. All Non-executive Director fees include superannuation. No additional fees are paid to the chairs and members of the Audit and Risk Committee, and the Remuneration Committees. The Director fees for Trent Peterson are paid to Catalyst Investment Managers Pty Ltd.

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 share options as part of their remuneration.

Section 6: KMP Disclosures

Material Contracts with the Company

No Director or other KMP has entered into a material contract with the Company during the reporting period.

Loans with the Company

Other than the loan made under the legacy management investment plan to Mark Ronan in FY2012, as disclosed in section 4, no Director or other KMP has entered into a loan made, guaranteed or secured, directly or indirectly, by the Company during the reporting period.

Section 7: Statutory Remuneration Details and Other Statutory Disclosures

Senior Executive Remuneration - statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with Accounting Standards.

| | Short term Employee Benefits | | | Post-employment benefits | Long term employee benefits | Termination benefits | Share-based payments | Total |
|----------------------------------|------------------------------|--------------------------|-----------------------------|--------------------------|-----------------------------|-----------------------|----------------------|--------------------|
| In AUD | Cash Salary | Bonuses ¹ | Non-monetary ⁽²⁾ | Super-annuation benefits | Other | | Shares | |
| Executive Directors | | | | | | | | |
| David MacLean | \$484,750 | \$280,000 | – | \$33,077 | – | – | – | \$797,827 |
| Michael Cherubino | \$389,420 | \$200,000 | – | \$25,000 | – | – | – | \$614,420 |
| Other Senior Executives | | | | | | | | |
| Mark Ronan | \$292,740 | \$2,712,000 ¹ | – | \$18,798 | – | \$50,000 ³ | – | \$3,073,538 |
| Former Executive Director | | | | | | | | |
| Greg Milne ⁽⁴⁾ | \$296,330 | – | – | \$28,151 | – | – | – | \$324,481 |
| Total | \$1,463,240 | \$3,192,000 | – | \$105,026 | – | \$50,000 | – | \$4,810,266 |

1. Includes one-off Listing Bonus \$2,562,000.

2. The amounts disclosed as non-monetary benefits relate to, tools of trade, study and relocation assistance, car lease arrangements, professional fees paid for management services outside the capacity of Director and other similar items.

3. This amount is the loan amount forgiven under the management investment plan.

4. For part of the FY2015, Greg Milne was an executive (CEO) of the Dusk business. In this role he acted as an executive director of Home & Decor Holdings Pty Ltd (renamed Adairs Limited on 28 May 2015) until 23 February 2015 when Dusk was divested by the Group. Greg was appointed a non-executive Director of the Company on 1 March 2015 until his resignation on 28 May 2015.

Remuneration Report continued

Non executive Director Remuneration – statutory disclosures

The following table sets out the statutory disclosures required under the *Corporations Act 2001* (Cth) and in accordance with Accounting Standards.

| In AUD | Short term benefits | | Post-employment benefits | | | Total |
|--------------------------------|--------------------------|------------------------------------|--------------------------|--|-------------------------|-----------|
| | Board and Committee fees | Non-monetary benefits ¹ | Termination Benefits | Other benefits (non-cash) ² | Superannuation Benefits | |
| Non Executive Directors | | | | | | |
| Michael Butler | \$11,409 | – | – | – | \$1,084 | \$12,493 |
| Trent Peterson ³ | \$85,995 | – | – | – | – | \$85,995 |
| Kate Spargo | \$5,835 | – | – | – | \$554 | \$6,389 |
| David Briskin | \$5,835 | – | – | – | \$554 | \$6,389 |
| Former Non Executive Directors | | | | | | |
| Brett Blundy | \$48,077 | – | – | – | – | \$48,077 |
| Greg Milne ⁴ | – | – | – | – | – | – |
| Aaron Hood ³ | \$22,917 | – | – | – | – | \$22,917 |
| Total | \$180,068 | – | – | – | \$2,192 | \$182,260 |

1. No non-monetary benefits were paid during FY15.

2. No non-cash benefits were provided during FY15.

3. The Director fees for Trent Peterson and Aaron Hood are paid to Catalyst Investment Managers Pty Ltd.

4. For part of the FY2015, Greg Milne was an executive (CEO) of the Dusk business. In this role he acted as an executive director of Home & Decor Holdings Pty Ltd (renamed Adairs Limited on 28 May 2015) until 23 February 2015 when Dusk was divested by the Group. Greg was appointed a non-executive Director of the Company on 1 March 2015 until his resignation on 28 May 2015.

KMP Shareholdings

The following table summarises the movements in the shareholdings of KMP (including their personally related entities) for FY2015.

| No. of shares | Held at 30 June 2014 ³ | Share increase caused by IPO share split | Decrease in shareholding prior to IPO | Increase in shareholding prior to IPO | Held on Listing (17 June 2015) | Shares Received as remuneration | Other net change | Held at 28 June 2015 |
|---------------------------------------|-----------------------------------|--|---------------------------------------|---------------------------------------|--------------------------------|---------------------------------|------------------|----------------------|
| Non-Executive Directors | | | | | | | | |
| Michael Butler | – | – | – | – | 62,500 | – | – | 62,500 |
| Trent Peterson ¹ | – | – | – | – | 955,538 | – | – | 955,538 |
| Kate Spargo | – | – | – | – | 41,667 | – | – | 41,667 |
| David Briskin | – | – | – | – | 208,334 | – | – | 208,334 |
| Executive Directors | | | | | | | | |
| David MacLean | 1,909,091 | 6,395,455 | (4,152,273) | – | 4,152,273 | – | – | 4,152,273 |
| Michael Cherubino | 954,545 | 3,197,725 | (2,076,135) | – | 2,076,135 | – | – | 2,076,135 |
| Other Senior Directors | | | | | | | | |
| Mark Ronan | 40,915 | 137,065 | – | 453,688 | 631,668 | – | – | 631,668 |
| Former Non-Executive Directors | | | | | | | | |
| Brett Blundy ² | 6,924,750 | 23,197,912 | (15,061,331) | – | 15,061,331 | – | – | 15,061,331 |
| Greg Milne ⁴ | 695,554 | 2,330,106 | (2,117,962) | – | 907,698 | – | – | 907,698 |
| Aaron Hood | – | – | – | – | – | – | – | – |

In addition to the ordinary shares listed above, certain shareholders hold series A redeemable preference shares prior to Listing. All series A redeemable preference shares were redeemed prior to Listing. There are no series A redeemable preference shares on issue.

1. This excludes the economic interest held by Trent Peterson in shares held by Catalyst Funds as a result of his role at Catalyst Investment Managers Pty Ltd.

2. Share ownership held by BB Retail Capital Pty Ltd owned by Brett Blundy.

3. Shares held at 30 June 2014 are prior to the 4:35:1 share split which occurred as part of the restructure and IPO.

4. For part of the FY2015, Greg Milne was an executive (CEO) of the Dusk business. In this role he acted as an executive director of Home & Decor Holdings Pty Ltd (renamed Adairs Limited on 28 May 2015) until 23 February 2015 when Dusk was divested by the Group. Greg was appointed a non-executive Director of the Company on 1 March 2015 until his resignation on 28 May 2015.

Signed in accordance with a resolution of the Directors.

On behalf of the Board



Michael Butler
Independent Chairman
Non-Executive Director

Melbourne
25 August 2015



David MacLean
Managing Director and Chief Executive Officer

Independent Auditor's Report



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Independent auditor's report to the members of Adairs Limited

Report on the financial report

We have audited the accompanying financial report of Adairs Limited (formerly Home & Decor Holdings Pty Ltd), which comprises the consolidated statement of financial position as at 28 June 2015, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the 52 weeks then ended, notes comprising a summary of significant accounting policies and other explanatory information, and the directors' declaration of the consolidated entity comprising the company and the entities it controlled for the 52 weeks ended or from time to time during the financial year.

Directors' responsibility 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 controls as the directors determine are necessary to enable the preparation of the financial report that is free from material misstatement, whether due to fraud or error. In Note 2, the directors also state, in accordance with Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements comply with *International Financial Reporting Standards*.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. Those standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance about whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal controls relevant to the entity's preparation and fair presentation of the financial report 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 entity's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Independence

In conducting our audit we have complied with the independence requirements of the *Corporations Act 2001*. We have given to the directors of the company a written Auditor's Independence Declaration, a copy of which is included in the directors' report.



Opinion

In our opinion:

- a. the financial report of Adairs Limited is in accordance with the *Corporations Act 2001*, including:
 - i giving a true and fair view of the consolidated entity's financial position as at 28 June 2015 and of its performance for the 52 weeks ended on that date; and
 - ii complying with Australian Accounting Standards and the *Corporations Regulations 2001*; and
- b. the financial report also complies with *International Financial Reporting Standards* as disclosed in Note 2.

Report on the remuneration report

We have audited the Remuneration Report included in pages 18 to 29 of the directors' report for the 52 weeks ended 28 June 2015. 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.

Opinion

In our opinion, the Remuneration Report of Adairs Limited (formerly Home & Decor Holdings Pty Ltd) for the 52 weeks ended 28 June 2015, complies with section 300A of the *Corporations Act 2001*.

Ernst & Young

Ashley Butler
Partner

Melbourne
25 August 2015

Auditor's Independence Declaration



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Auditor's Independence Declaration to the Directors of Adairs Limited

In relation to our audit of the financial report of Adairs Limited (formerly Home & Decor Holdings Pty Ltd) for the 52 weeks ended 28 June 2015, to the best of my knowledge and belief, there have been no contraventions of the auditor independence requirements of the *Corporations Act 2001* or any applicable code of professional conduct.

Ernst & Young

Ashley Butler
Partner
25 August 2015

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 28 June 2015 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 28 June 2015 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 financial year ended 28 June 2015.

On behalf of the Board



Michael Butler
Independent Chairman
Non-Executive Director

Melbourne
25 August 2015



David MacLean
Managing Director and Chief Executive Officer

Consolidated Income Statement

FOR THE 52 WEEKS ENDED 28 JUNE 2015

| | Note | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|------|---|---|
| Continuing Operations | | | |
| Revenues from sale of goods | 3(a) | 210,878 | 167,917 |
| Cost of sales | | (80,180) | (64,093) |
| Gross Profit | | 130,698 | 103,824 |
| Other income | 3(a) | 611 | 446 |
| Depreciation and amortisation expenses | 3(b) | (4,586) | (3,986) |
| Finance expenses | 3(c) | (14,267) | (15,895) |
| Salaries and employee benefits expense | 3(d) | (49,618) | (39,595) |
| Asset, property and maintenance expenses | | (292) | (320) |
| Occupancy expenses | | (29,089) | (26,341) |
| Advertising expenses | | (5,503) | (5,061) |
| Other expenses from ordinary activities | 3(e) | (8,610) | (6,790) |
| Transaction expenses | | (14,727) | – |
| Profit before income tax | | 4,617 | 6,282 |
| Income tax benefit/(expense) | 4 | (1,675) | 500 |
| Profit after income tax from continuing operations | | 2,942 | 6,782 |
| Profit/(Loss) after tax from discontinued operations | 20 | (2,197) | 763 |
| Profit for the year | | 745 | 7,545 |
| Earnings per Share | | | |
| Basic, profit for the year attributable to ordinary equity holders of the Parent | 21 | 0.5 cents | 22 cents |
| Earnings per share for continuing operations: | | | |
| Basic, profit from continuing operations attributable to ordinary equity attributable to ordinary equity holders of the Parent | | 1.9 cents | 20 cents |

Consolidated Statement of Other Comprehensive Income

FOR THE 52 WEEKS ENDED 28 JUNE 2015

| | Note | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|------|---|---|
| Items that may be reclassified subsequently to profit or loss | | | |
| Other comprehensive income from continuing operations | | | |
| Net movement of cash flow hedges | | 2,394 | (71) |
| Income tax relating to the components of other comprehensive income | 4 | (718) | (54) |
| Other comprehensive income from discontinued operations | | | |
| Net movement of cash flow hedges | | – | (191) |
| Income tax relating to the components of other comprehensive income | 4 | – | (143) |
| Other comprehensive income for the period, net of tax | | 1,676 | (459) |
| Total comprehensive income for the period | | 2,421 | 7,086 |

Consolidated Statement of Financial Position

AS AT 28 JUNE 2015

| | Note | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--------------------------------------|------|---|---|
| ASSETS | | | |
| CURRENT ASSETS | | | |
| Cash and cash equivalents | 5 | 9,437 | 24,377 |
| Trade and other receivables | 6 | 4,790 | 4,585 |
| Inventories | 7 | 23,244 | 26,517 |
| Current tax receivable | | – | 99 |
| Derivative financial instruments | 15 | 753 | – |
| TOTAL CURRENT ASSETS | | 38,224 | 55,578 |
| NON-CURRENT ASSETS | | | |
| Trade and other receivables | 6 | – | 115 |
| Property, plant and equipment | 8 | 10,944 | 13,840 |
| Intangibles | 9 | 101,041 | 112,718 |
| Deferred tax assets | 4 | 7,190 | 4,286 |
| TOTAL NON-CURRENT ASSETS | | 119,175 | 130,959 |
| TOTAL ASSETS | | 157,399 | 186,537 |
| LIABILITIES | | | |
| CURRENT LIABILITIES | | | |
| Trade and other payables | 10 | 23,718 | 15,267 |
| Interest bearing liabilities | 11 | (121) | 854 |
| Current tax liabilities | | 6,531 | – |
| Provisions | 12 | 3,523 | 4,576 |
| Derivative financial instruments | 15 | – | 1,277 |
| TOTAL CURRENT LIABILITIES | | 33,651 | 21,974 |
| NON-CURRENT LIABILITIES | | | |
| Deferred tax liabilities | 4 | 326 | 99 |
| Trade and other payables | 10 | – | 6,309 |
| Interest bearing liabilities | 11 | 41,800 | 111,291 |
| Provisions | 12 | 3,670 | 4,600 |
| Derivative financial instruments | 15 | – | 364 |
| TOTAL NON-CURRENT LIABILITIES | | 45,796 | 122,663 |
| TOTAL LIABILITIES | | 79,447 | 144,637 |
| NET ASSETS | | 77,952 | 41,900 |
| EQUITY | | | |
| Contributed equity | 13 | 68,349 | 34,718 |
| Reserves | 13 | 527 | (1,149) |
| Retained earnings | | 9,076 | 8,331 |
| TOTAL EQUITY | | 77,952 | 41,900 |

Consolidated Statement of Changes in Equity

FOR THE 52 WEEKS ENDED 28 JUNE 2015

| | Ordinary shares \$'000 | Cash flow hedge reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|---------------------------|--------------------------------------|-----------------------------|-----------------|
| At 1 July 2014 | 34,718 | (1,149) | 8,331 | 41,900 |
| Profit for the period | – | – | 2,942 | 2,942 |
| Profit from discontinued operations | – | – | (2,197) | (2,197) |
| Other comprehensive income | – | 1,676 | – | 1,676 |
| Total comprehensive income for the period | – | 1,676 | 745 | 2,421 |
| Transactions with owners in their capacity as owners: | | | | |
| Issued shares | 35,645 | – | – | 35,645 |
| Share issue costs capitalised | (2,014) | – | – | (2,014) |
| At 28 June 2015 | 68,349 | 527 | 9,076 | 77,952 |

| | Ordinary shares \$'000 | Cash flow hedge reserve \$'000 | Retained earnings \$'000 | Total \$'000 |
|--|---------------------------|--------------------------------------|-----------------------------|-----------------|
| At 1 July 2013 | 34,740 | (690) | 786 | 34,836 |
| Profit for the period | – | – | 6,782 | 6,782 |
| Profit from discontinued operations | – | – | 763 | 763 |
| Other comprehensive income | – | (125) | – | (125) |
| Other comprehensive income from discontinued operations | – | (334) | – | (334) |
| Total comprehensive income for the period | – | (459) | 7,545 | 7,086 |
| Transactions with owners in their capacity as owners: | | | | |
| Share buy-back | (22) | – | – | (22) |
| At 29 June 2014 | 34,718 | (1,149) | 8,331 | 41,900 |

Consolidated Statement of Cash Flows

FOR THE 52 WEEKS ENDED 28 JUNE 2015

| | Note | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|------|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Receipts from customers (inclusive of GST) | | 231,772 | 185,260 |
| Payments to suppliers and employees (inclusive of GST) | | (194,315) | (159,868) |
| Interest received | | 446 | 354 |
| Income tax (paid)/refunded | | (68) | (391) |
| Interest paid | | (3,478) | (3,600) |
| IPO transaction costs | | (7,597) | - |
| Operating cash flows from discontinued operations | | 5,192 | 4,256 |
| Net cash flows from operating activities | 5 | 31,952 | 26,011 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from sale of property, plant and equipment | | - | - |
| Acquisition of property, plant and equipment | | (6,878) | (4,146) |
| Acquisition of intangible assets | | - | (2,108) |
| Investing cash flows from discontinued operations | | (1,374) | (371) |
| Cash loss attributable to discontinued operation | | (7,044) | - |
| Net cash flows used in investing activities | | (15,296) | (6,625) |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Share buy-back | | - | (11) |
| Proceeds from share issue | | 35,645 | - |
| Proceeds from borrowings | | 47,500 | (2,016) |
| Transaction costs on issue of shares | | (2,878) | - |
| Repayment of borrowings | | (40,387) | (552) |
| Redeemable preference share redemptions paid | | (71,476) | - |
| Financing cash flows from discontinued operations | | - | (1,552) |
| Net cash flows used in financing activities | | (31,596) | (4,131) |
| Net increase in cash and cash equivalents | | (14,940) | 15,255 |
| Cash and cash equivalents at beginning of the period | | 24,377 | 9,122 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | 5 | 9,437 | 24,377 |

Notes to the Financial Statements

FOR THE 52 WEEKS ENDED 28 JUNE 2015

Note 1. Corporate Information

The consolidated financial statements of Adairs Limited and its subsidiaries (collectively, the Group) for the 52 weeks ending 28 June 2015 were authorised for issue in accordance with a resolution of the directors on 25 August 2015.

During the 52 week period ending 28 June 2015, Home & Décor Holdings Pty Ltd changed the company name to Adairs Limited on 28 May 2015 ("Company" and "Group"). The company went through an initial public offering (IPO) on 29 May 2015 before listing on the Australian Stock Exchange 17 June 2015.

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 Stock Exchange.

The Group is principally engaged in comprised of retail operations in the Manchester, Homewares and Home Décor market segments within Australia. The Group's principal place of business is International Court, Scoresby, Australia. Further information on the nature of the operations and principal activities of the Group is provided in the directors' report. The Group's structure consists of on main operational entity and information on other related party relationships is provided in note 19.

Note 2. Summary of Significant Accounting Policies

a. 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 which have been measured at fair value.

The carrying values of recognised assets and liabilities that are designated as hedged items in fair value hedges that would otherwise be carried at amortised cost are adjusted to record changes in the fair values attributable to the risks that are being hedged in effective hedge relationships.

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

The consolidated financial statements provide comparative information in respect of the previous period.

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.

b. 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.

c. Changes in accounting policy, accounting standards and interpretations

The accounting policies adopted in the preparation of the consolidated financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the 52 weeks ended 28 June 2015, except as follows:

i. New and amended standards and interpretations

The Group has adopted all the new and amended Australian Accounting Standards and AASB Interpretations that apply for the first time from 30 June 2014, as noted below:

a. AASB 2014-1 Part A – Amendments to Australian Accounting Standards – Annual Improvements 2010–2012 and 2011–2013 Cycle

This standard sets out amendments to Australian Accounting Standards arising from the issuance by the International Accounting Standards Board (IASB) of International Financial Reporting Standards (IFRSs) Annual Improvements to IFRSs 2010–2012 Cycle and Annual Improvements to IFRSs 2011–2013 Cycle.

Annual Improvements to IFRSs 2010–2012 Cycle addresses the following items:

- AASB 2 – Clarifies the definition of 'vesting conditions' and 'market condition' and introduces the definition of 'performance condition' and 'service condition'
- AASB 3 – Clarifies the classification requirements for contingent consideration in a business combination by removing all references to AASB 137.

Note 2. Summary of Significant Accounting Policies continued

- AASB 8 – Requires entities to disclose factors used to identify the entity's reportable segments when operating segments have been aggregated. An entity is also required to provide a reconciliation of total reportable segments' asset to the entity's total assets.
- AASB 116 and AASB 138 – Clarifies that the determination of accumulated depreciation does not depend on the selection of the valuation technique and that it is calculated as the difference between the gross and net carrying amounts.
- AASB 124 – Defines a management entity providing KMP services as a related party of the reporting entity. The amendments added an exemption from the detailed disclosure requirements in paragraph 17 of AASB 124 for KMP services provided by a management entity. Payments made to a management entity in respect of KMP services should be separately disclosed.

Annual Improvements to IFRSs 2011-2013 Cycle addresses the following items:

- AASB 13– Clarifies that the portfolio exception in paragraph 52 of AASB 13 applies to all contracts within the scope of AASB 139 or AASB 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in AASB 132.
- AASB 140 – Clarifies that judgment is needed to determine whether an acquisition of investment property is solely the acquisition of an investment property or whether it is the acquisition of a group of assets or a business combination in the scope of AASB 3 that includes an investment property. That judgment is based on guidance in AASB 3.

These amendments are effective for annual periods beginning on or after 30 June 2014. The adoption of these amendments had no material impact on the financial position or performance of the Group.

b. AASB 2013-9 Part C – Amendments to Australian Accounting Standards – Financial Instruments

This makes amendments to a number of Australian Accounting Standards, including incorporating Chapter 6 Hedge Accounting into AASB 9 Financial Instruments.

These amendments are effective for annual periods beginning on or after 29 June 2015. The adoption of these amendments had no material impact on the financial position or performance of the Group.

ii. Accounting Standards and Interpretations issued but not yet effective

Certain new Accounting Standards and Interpretations have been published that are not mandatory for the 28 June 2015 reporting period. The Group has assessed the impact of these new Accounting Standards and Interpretations that are relevant to the Group (based on the current and known future activities of the Group), and does not expect any material impact on net assets, net profit, presentation or disclosures when these standards become effective and are adopted.

d. Segment reporting

For management purposes, the Group is organised into business units based on its various store formats, however is aggregated as one reportable segment, being home furnishings.

Operating segments are identified on the basis of internal reports to senior management about components of the company that are regularly reviewed by the directors and senior management who have been identified as the chief operating decision makers, in order to allocate resources to the segment and to assess its performance and for which discrete financial information is available.

Information reported to the directors and senior management for the purposes of resource allocation and assessment of performance is specifically focused on core products and services offered in specific store formats, which when aggregated, forms one reportable operating segment.

The Company's store formats (operating segments) exhibit similar long-term financial performance and economic characteristics, which include:

- a. The nature of the products and services – all store formats provide home furnishings to its customer base;
- b. The nature of the production processes – all store formats utilise common design processes and source from the same or similar suppliers;
- c. The type or class of customer for their products and services – all store formats possess an interchangeable customer base;
- d. The methods used to distribute their products or provide their services – all store formats have product fulfilled from the same two DCs and methodologies; and
- e. No store format has different regulatory or consumer legislation requirements from another.

Group financing (including finance costs and finance income) and income taxes are managed on a Group basis and are not allocated to store formats.

The Company operates in one geographical segment: Australia.

e. Current versus non-current classification

The Group presents assets and liabilities in the statement of financial position based on current/non-current classification. An asset is current when it is:

- Expected to be realised or intended to 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.

f. Trade and other receivables

Lay-by customers make up the majority of trade receivables, which generally have 60 day terms, and are recognised and carried at original invoice amount less an allowance for any uncollectible amounts.

Collectability of trade receivables is reviewed on an ongoing basis. An allowance for lay-by cancellations is made when there is objective evidence that the Group will not be able to collect the debts, based on historical trends and ageing of debts. Bad debts are written off when identified.

g. Basis of consolidation

The consolidated financial statements comprise the financial statements of the Group and its subsidiaries as at 28 June 2015. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, 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 (see note (h) below).

h. 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.

Note 2. Summary of Significant Accounting Policies continued

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances dictate that the carrying value may be impaired.

For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units. Each unit or group of units to which the goodwill is so allocated:

- represents the lowest level within the Group at which the goodwill is monitored for internal management; and
- is not larger than a segment based on either the Group's primary or the Group's secondary reporting format determined in accordance with AASB 8 Operating Segments.

Impairment is determined by assessing the recoverable amount of the cash-generating unit to which the goodwill relates.

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

When goodwill forms part of a cash-generating unit 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.

i. 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.

Income taxes relating to items recognised directly in equity are recognised in equity and not in the Statement of Comprehensive Income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Tax consolidation legislation

Adairs Limited and its wholly-owned Australian controlled entities 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 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, Adairs 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 entities are recognised as amounts receivable from or payable to other entities in the 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.

j. Other Taxes

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

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

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.

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the taxation authority.

k. Discontinued operations

The Group classifies non-current assets and disposal groups held for distribution to equity holders of the parent if their carrying amount will be recovered principally through distribution rather than through continuing use. Such non-current assets and disposal groups classified as held for distribution are measured at the lower of their carrying amount and fair value less cost to distribute. Cost to distribute is the incremental costs directly attributable to the distribution.

The criteria for held for distribution classification is regarded as met only when the distribution is highly probable and the asset or disposal group is available for immediate distribution in its present condition. Actions required to complete the distribution should indicate that it is unlikely that significant changes to the distribution will be made or that the decision to distribute will be withdrawn. Management must commit to the distribution expected within one year from the date of the classification.

Property, plant and equipment and intangible assets are not depreciated or amortised once classified as held for distribution.

Assets and liabilities classified as held for distribution are presented separately as current items in the statement of financial position.

- Represents a separate major line of business or geographical area of operations;
- Is part of a single co-ordinated line to dispose of as separate major line of business or geographical area of operations; or
- Is a subsidiary acquired exclusively with a view to resale.

Discontinued operations are excluded from the results of continuing operations and are presented as a single amount as profit or loss after tax from discontinued operations in the statement of profit or loss.

Additional disclosures are provided in note 20. All other notes to the financial statements include amounts for continuing operations, unless otherwise mentioned.

Note 2. Summary of Significant Accounting Policies continued

l. Foreign currency transactions and balances

i. Functional and presentation currency

Both the functional and presentation currency of Adairs Limited and its Australian subsidiaries is Australian dollars (A\$). Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency.

ii. Transactions and balances

Transactions in foreign currencies are initially recorded in the functional currency by applying a standard exchange rate determined by management. Monetary assets and liabilities denominated in foreign currencies are retranslated at the rate of exchange ruling at the reporting date, and any gains or losses on retranslation are taken to the Statement of Comprehensive Income.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction.

Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

m. Leases

The determination of whether an arrangement is or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalised at the inception of the lease at the fair value of the leased asset or, if lower, at the present value of the minimum lease payments.

Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as an expense in the profit and loss.

Capitalised leased assets are depreciated over the shorter of the estimated useful life of the asset and the lease term if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term.

Operating lease payments are recognised as an expense in the profit and loss on a straight-line basis over the lease term. Operating lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability.

Lease incentives are capitalised in the financial statements when received and credited to revenue over the term of the store lease to which they relate.

Operating lease expenses are recognised on a straight-line basis over the lease term, which includes the impact of annual fixed rate percentage increases.

n. Inventories

Inventories are valued at the lower of cost and net realisable value.

- Finished goods – purchase cost plus a proportion of the purchasing department, freight, handling and warehouse costs incurred to deliver the goods to the point of sale.

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

At the 52 week period end of 28 June 2015, inventory held by the Group was in finished goods condition. In prior periods, the discontinued operation, dusk Australasia Pty Ltd, held raw materials and work in progress inventories.

o. Cash dividend and non-cash distribution to equity holders of the parent

The Company 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 Company. 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 remeasurement 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.

p. Property, Plant and Equipment

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

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

| Class | Method | |
|------------------------------|---------------|-------------------------|
| • Computer Hardware | Straight Line | 2 - 3 years |
| • Plant and Equipment | Straight Line | 5 years |
| • Leasehold Improvements | Straight Line | 5 years |
| • Shop Fixtures and Fittings | Straight Line | Over initial lease term |

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

iii. 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 comprehensive income in the year the asset is derecognised.

q. 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 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 de-recognition 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 de-recognised.

i. Computer Software

The Group record 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.

ii. Brand Names

Brand Names have been determined to have an indefinite life, are not amortised, are acquired and are subject to impairment testing annually or where an indicator of impairment exists. The indefinite-useful life reflects management's intention to continue to operate these brands to generate net cash inflows into the foreseeable future.

At each reporting date or where an indicator of impairment exists, the Group makes a formal estimate of the recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amounts.

Note 2. Summary of Significant Accounting Policies continued

Recoverable amount is the greater of fair value less costs of disposal and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs of disposal and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a post-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

r. Impairment

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's (CGU's) fair value less costs of disposal and its value in use. Recoverable amount is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. When the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs of disposal, recent market transactions are taken into account. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded companies or other available fair value indicators.

The Group bases its impairment calculation on detailed budgets and forecast calculations, which are prepared separately for each of the Group's CGUs to which the individual assets are allocated. These budgets and forecast calculations generally cover a period of five years. For longer periods, a long-term growth rate is calculated and applied to project future cash flows after the fifth year.

Impairment losses of continuing operations, including impairment on inventories, are recognised in the statement of profit or loss in expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at each reporting date to determine whether there is an indication that previously recognised impairment losses no longer exist or have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions used to determine the asset's recoverable amount since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceed the carrying amount that would have been determined, net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the statement of profit or loss unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 October 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 as at 31 October at the CGU level, as appropriate, and when circumstances indicate that the carrying value may be impaired.

s. Borrowing Costs

Borrowing costs are recognised as an expense when incurred.

Where funds are borrowed to finance major developments which extend for greater than one year, the borrowing costs on such funds are included as a capital cost of development up to the date of commissioning and are amortised over the expected useful economic life of the development.

t. Cash and cash equivalents

Cash and cash equivalents in the Statement of Financial Position comprise cash at bank and in hand and short-term deposits with an original maturity of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

For the purposes of the Statement of Cash Flows, cash and cash equivalents consist of cash and cash equivalents as defined above, net of outstanding bank overdrafts. Bank overdrafts are included within interest-bearing loans and borrowings in current liabilities on the Statement of Financial Position.

u. Employee leave benefits

i. Wages, salaries and annual leave

Liabilities for wages and salaries, including non-monetary benefits and annual leave expected to be settled within 12 months of the reporting date are recognised in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulating sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

ii. Long service leave

The liability for long service leave is recognised and measured in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

v. 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. Fees paid on the establishment of loan facilities that are yield related are included as part of the carrying amount of the loans and borrowings.

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.

w. Trade and other payables

Trade payables 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 days of recognition.

x. Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the Statement of Comprehensive Income net of any reimbursement.

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the reporting date.

If the effect of the time value of money is material, provisions are discounted using a pre-tax rate that reflects the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognised as a borrowing cost.

y. Revenue recognition

Revenue is recognised and measured at fair value of the consideration received or receivable to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognised:

Sale of goods

Revenue is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer and the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Note 2. Summary of Significant Accounting Policies continued

Interest income

Interest income is recognised as it accrues.

Dividends

Revenue is recognised when the Group's right to receive the payment is established.

z. 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.

aa. Derivative Financial Instruments

The Group uses derivative financial instruments such as forward currency contracts and interest rate swaps to hedge its risks associated with interest rate and 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. 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 is accounted for as a cash flow hedge.

At the inception of a hedge relationship, the Group formally designates and documents the hedge relationship to which the Group wishes to apply hedge accounting and the risk management objective and strategy for undertaking the hedge. The documentation includes identification of the hedging instrument, the hedged item or transaction, the nature of the risk being hedged and how the entity will assess the hedging instrument's effectiveness in offsetting the exposure to changes in the hedged item's fair value or cash flows attributable to the hedged risk. Such hedges are expected to be highly effective in achieving offsetting changes in fair value or cash flows and are assessed on an ongoing basis to determine that they actually have been highly effective throughout the financial reporting periods for which they were designated.

i. Cash Flow Hedges

Cash flow hedges are hedges of the Group's exposure to variability in cash flows that is attributable to a particular risk associated with a recognised asset or liability or a highly probable forecast transaction and that could affect profit or loss. The effective portion of the gain or loss on the hedging instrument is recognised directly in equity, while the ineffective portion is recognised in profit or loss.

Amounts taken to equity are transferred to the Statement of Comprehensive Income 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 comprehensive income. 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 Comprehensive Income.

bb. Investments and other financial assets

Financial assets in the scope of AASB 139 Financial Instruments: Recognition and Measurement are classified as either financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments, or available-for-sale financial assets. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at fair value through profit or loss, directly attributable transaction costs. The Group determines the classification of its financial assets after initial recognition and, when allowed and appropriate, re-evaluates this designation at each reporting date.

All regular way purchases and sales of financial assets are recognised on the trade date, i.e. the date that the Group commits to purchase the asset. Regular way purchases or sales are purchases or sales of financial assets under contracts that require delivery of the assets within the period established generally by regulation or convention in the Group.

i. Financial assets at fair value through profit or loss

Financial assets classified as held for trading are included in the category 'financial assets at fair value through profit or loss'. Financial assets are classified as held for trading if they are acquired for the purpose of selling in the near term with the intention of making a profit. Derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on investments held for trading are recognised in profit or loss and the related other comprehensive income.

ii. Loans and Receivables

Loans and receivables including loan notes and loans to key management personnel are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortised cost using effective interest method. Gains and losses are recognised in profit or loss when the loans and receivable are derecognised or impaired, as well as through the amortisation process.

iii. Investments in subsidiaries

Investments in subsidiaries are carried at their cost of acquisition in the Parent's financial statements.

cc. 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 in the following notes:

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 measurement directly or indirectly observable
- Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognised 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.

dd. Significant accounting judgments, estimates and assumptions

In applying the Group's accounting policies management continually evaluates judgments, estimates and assumptions based on experience and other factors, including expectations of future events that may have an impact on the Group. All judgments, estimates and assumptions made are believed to be reasonable based on the most current set of circumstances available to management. Actual results may differ from the judgments, estimates and assumptions.

Note 2. Summary of Significant Accounting Policies continued

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

i. Significant accounting judgements

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences as management considers that it is probable that future taxable profits will be available to utilise those temporary differences.

Impairment of non-financial assets other than goodwill

The Group assesses impairment of all assets at each reporting date by evaluating conditions specific to the Group and to the particular assets that may lead to impairment. These include product, manufacturing and retail performance, technology and economic environments and future product expectations. If an impairment trigger exists the recoverable amount of the assets is determined. This involves value in use calculations, which incorporate a number of key estimates and assumptions.

ii. 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 to which the goodwill and intangibles with indefinite useful lives are allocated. The assumptions used in this estimation of recoverable amount and the carrying amount of goodwill and intangibles with indefinite useful lives are discussed in note 9.

Long service leave provision

As discussed in note 2(u), the liability for long service leave is recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at reporting date. In determining the present value of the liability, attrition rates and pay increases through promotion and inflation have been taken into account.

Make good provisions

Provision is made for the anticipated costs of future restoration of leased premises. The provision includes future cost estimates associated with dismantling and removal of shop fittings and cleaning. These future cost estimates are discounted to their present value. The calculation of this provision requires assumptions such as store closure dates, available technologies 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 once per year and considered against the remaining useful life. Adjustments to useful life are made when considered necessary. Depreciation charges are included in note 8.

Loyalty program sales

Loyalty program sales are recognised in full at the point of sale as the fee is non-refundable and as management considers that any customer benefits in the form of discounts and products benefits are accounted for as inventory markdowns at the time of sale, and as specific loyalty marketing programs are variable in nature subject to general market and sales volume conditions at any given time. As Adairs' new ERP and point of sale systems are implemented in future periods, data may be collected to further refine this estimation.

Lay-by sales

A lay-by sale is a contract for the sale of merchandise conditional that the goods are not to pass to the purchaser until the full purchase price is paid. The purchase price of the merchandise is to be paid at some specified future date. Revenue is recognised at the point where the lay-by contract is signed by the customer and a deposit paid. This recognition criteria is based on historical data maintained by the company in relation to the likelihood of defaults or non-collection. An allowance for cancellations expressed as a percentage of lay-by sales is calculated based on historical data and recorded at the time of recognising the related sale.

Lease incentives

Provisions for lease incentives are recognised as a liability when received and subsequently reduced by allocating lease payments between rental expense and reduction of the liability. The liability is unwound on a straight-line basis over the leased term.

Note 3. Revenues and Expenses

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| a. Revenue from sale of goods | | |
| Sales revenue | | |
| Sale of Goods | 210,878 | 167,917 |
| <i>Other income</i> | | |
| Rental income | – | 15 |
| Interest income | 445 | 347 |
| Other | 166 | 84 |
| | 611 | 446 |
| b. Depreciation and amortisation expenses | | |
| Depreciation of property, plant and equipment | 3,858 | 3,414 |
| Amortisation of computer software | 728 | 572 |
| | 4,586 | 3,986 |
| c. Finance expenses | | |
| Interest paid/payable to banks and other financial institutions | 4,950 | 4,101 |
| RPS interest payable/paid | 9,283 | 11,742 |
| Unwinding of provisions | 34 | 52 |
| | 14,267 | 15,895 |
| d. Salaries and employee benefits expense | | |
| Wages and salaries | 46,046 | 36,692 |
| Defined contribution superannuation expense | 3,572 | 2,903 |
| | 49,618 | 39,595 |
| e. Other expenses from ordinary activities | | |
| Bank fees | 1,333 | 1,087 |
| Professional fees | 936 | 585 |
| Storage costs | 410 | 331 |
| Postage and stationery | 2,244 | 1,581 |
| Other | 3,687 | 3,206 |
| | 8,610 | 6,790 |

Note 4. Income Tax

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| The major components of income tax expense are: | | |
| Statement of Comprehensive Income | | |
| <i>Current income tax</i> | | |
| Current income tax charge | 6,598 | 2,500 |
| Adjustments in respect of current income tax of previous years | 99 | (2,698) |
| <i>Deferred income tax</i> | | |
| Relating to origination and reversal of temporary differences taken to income statement | (3,528) | 111 |
| Income tax (benefit)/expense reported in the statement of comprehensive income | 3,169 | (87) |
| <i>Deferred income tax</i> | | |
| Relating to origination and reversal of temporary differences taken to other comprehensive income from continuing operations | (718) | (54) |
| Relating to origination and reversal of temporary differences taken to other comprehensive income from discontinuing operations | – | (143) |
| | 2,451 | (284) |
| A reconciliation of income tax expense and the product of accounting profit before income tax multiplied by the Group's applicable income tax rate is as follows: | | |
| Accounting profit before income tax from continuing operations | 4,617 | 6,282 |
| Accounting profit before income tax from discontinued operations | (704) | 1,176 |
| Total accounting profit before income tax | 3,913 | 7,458 |
| At the statutory income tax rate of 30% (2014: 30%) | 1,174 | 2,237 |
| Adjustments in respect of income tax of previous years | 99 | (2,698) |
| Profit adjustment for tax purposes | (151) | 65 |
| Non-deductible expenses | 29 | – |
| Accounting loss on disposal of Dusk | 1,455 | – |
| Derecognition of previously capitalised tax losses | 554 | 276 |
| Other | 9 | 33 |
| | 3,169 | (87) |
| Aggregate income tax expense is attributable to: | | |
| Continuing operations | 1,675 | (500) |
| Discontinuing operations | 1,494 | 413 |
| Income tax (benefit)/expense reported in the statement of comprehensive income | 3,169 | (87) |

| | Balance Sheet | | Statement of Comprehensive Income | |
|---|----------------|----------------|-----------------------------------|----------------|
| | 2015 \$'000 | 2014 \$'000 | 2015 \$'000 | 2014 \$'000 |
| Deferred income tax | | | | |
| Deferred income tax at period end relates to the following: | | | | |
| Deferred tax liabilities | | | | |
| Provision for make good | (100) | (99) | | |
| Financial instruments | (226) | – | | |
| | (326) | (99) | | |
| Deferred tax assets | | | | |
| Losses available for offset against future taxable income | – | 396 | | |
| Trade and other receivables | 26 | 26 | | |
| Inventory | 330 | 236 | | |
| Property, plant and equipment | 51 | 68 | | |
| Provisions | 2,490 | 2,891 | | |
| Financial instruments | – | 492 | | |
| Tax only assets | 4,293 | 177 | | |
| | 7,190 | 4,286 | | |
| Amounts (charged) or credited directly to equity | | | (718) | (197) |
| Amounts (charged) or credited directly to the income statement | | | (3,528) | 111 |
| Amounts (charged) or credited from Discontinued Operations | | | 997 | – |
| Movement in deferred tax in the Statement of Comprehensive Income | | | (3,249) | (86) |

Note 5. Cash and Cash Equivalents

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Cash at bank | 9,351 | 24,244 |
| Cash on hand | 86 | 133 |
| | 9,437 | 24,377 |
| Reconciliation of Statement of Cash Flows | | |
| For the purposes of the Statement of Cash Flows, cash and cash equivalents comprise the following at period end: | | |
| Cash at bank | 9,351 | 24,244 |
| Cash on hand | 86 | 133 |
| | 9,437 | 24,377 |

Note 5. Cash and Cash Equivalents continued

STATEMENT OF CASH FLOWS RECONCILIATION

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| a. Reconciliation of net profit/(loss) after tax to net cash flows from operations | | |
| Net profit/(loss) after tax | 745 | 7,545 |
| Adjustments and non-cash items | | |
| Depreciation and amortisation from continued operations | 4,586 | 6,663 |
| Depreciation and amortisation from discontinued operations | 1,567 | – |
| Interest expense not paid in cash | – | 12,273 |
| Capitalised borrowing costs written off | 1,306 | – |
| Interest expense not paid in cash – Make good | – | 22 |
| Redeemable preference share interest expensed | 9,283 | – |
| Additions to PPE relating to make good assets | – | (28) |
| Net gain/loss on sale of PPE | – | 23 |
| IPO transaction costs not yet paid in cash | 7,130 | – |
| Unpaid IPO costs held in payables | (7,130) | – |
| Finance costs from discontinued operations | 354 | – |
| Other adjustments – discontinued operations | 506 | – |
| Changes in assets and liabilities | | |
| (Increase) in trade and other receivables | (90) | (724) |
| (Increase)/Decrease in inventories | 3,273 | (1,320) |
| Increase/(Decrease) in payables | 8,451 | 1,490 |
| (Increase)/Decrease in deferred tax assets | (2,676) | (478) |
| (Increase)/Decrease in provisions | (1,983) | 545 |
| (Increase)/Decrease in tax receivables | 99 | – |
| Increase/(Decrease) in tax provisions | 6,531 | – |
| Cash flow from operations | 31,952 | 26,011 |

Note 6. Trade and Other Receivables

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Current | | |
| Lay-by receivables | 1,070 | 882 |
| Allowance for lay-by cancellations | (103) | (85) |
| Net lay-by receivables | 967 | 797 |
| Prepaid expenses | 2,889 | 2,415 |
| Deposits | 201 | 282 |
| Other receivables | 733 | 1,091 |
| Total current receivables | 4,790 | 4,585 |
| Non-current | | |
| Other receivables | – | 115 |
| Total non-current receivables | – | 115 |
| Current | 4,790 | 4,585 |
| Non-current | – | 115 |
| Total trade and other receivables | 4,790 | 4,700 |

Note 7. Inventories

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Raw materials and work in progress | – | 1,133 |
| Finished goods at net realisable value | 23,244 | 25,384 |
| Total inventories at lower of cost and net realisable value | 23,244 | 26,517 |

During the 52 weeks, \$146k (2014: \$225k written back) was recognised as an expense for inventories carried at net realisable value. This is recognised in cost of sales.

Note 8. Property, Plant and Equipment

| | Shop Fixtures and Fittings \$'000 | Leasehold Improvements \$'000 | Computer Hardware \$'000 | Plant and Other Equipment \$'000 | Total \$'000 |
|---------------------------------------|---|-------------------------------------|--------------------------------|--|-----------------|
| Cost or valuation | | | | | |
| At 30 June 2013 | 39,325 | 490 | 4,654 | 11,891 | 56,360 |
| Additions | 4,246 | – | 583 | 565 | 5,394 |
| Disposals | (459) | – | (64) | (254) | (777) |
| At 29 June 2014 | 43,112 | 490 | 5,173 | 12,202 | 60,977 |
| Additions | 6,995 | – | 386 | 715 | 8,096 |
| Disposals | (478) | – | (67) | (295) | (840) |
| Discontinued operations | (16,252) | – | (2,058) | (8,398) | (26,708) |
| At 28 June 2015 | 33,377 | 490 | 3,434 | 4,224 | 41,525 |
| Depreciation and impairment | | | | | |
| At 30 June 2013 | 27,271 | 262 | 4,030 | 10,289 | 41,852 |
| Depreciation charge for the year | 4,839 | 98 | 504 | 582 | 6,023 |
| Disposals | (425) | – | (60) | (253) | (738) |
| At 29 June 2014 | 31,685 | 360 | 4,474 | 10,618 | 47,137 |
| Depreciation charge for the year | 4,396 | 98 | 386 | 446 | 5,326 |
| Disposals | (481) | – | (65) | (293) | (839) |
| Discontinued operations | (11,440) | – | (1,953) | (7,650) | (21,043) |
| At 28 June 2015 | 24,160 | 458 | 2,842 | 3,121 | 30,581 |
| Net book value at 29 June 2014 | 11,427 | 130 | 699 | 1,584 | 13,840 |
| At 28 June 2015 | 9,217 | 32 | 592 | 1,103 | 10,944 |

Note 9. Intangible Assets

| | Computer Software \$'000 | Brand Names with indefinite useful life \$'000 | Goodwill \$'000 | Total \$'000 |
|---------------------------------------|--------------------------------|---|--------------------|-----------------|
| Cost or valuation | | | | |
| At 30 June 2013 | 1,464 | 47,532 | 82,870 | 131,866 |
| Additions | 2,112 | – | – | 2,112 |
| Disposals | – | – | – | – |
| At 29 July 2014 | 3,576 | 47,532 | 82,870 | 133,978 |
| Additions | 776 | – | – | 776 |
| Disposals | – | – | – | – |
| Discontinued operations | (446) | (6,215) | (5,428) | (12,089) |
| At 28 June 2015 | 3,906 | 41,317 | 77,442 | 122,665 |
| Amortisation and impairment | | | | |
| At 30 June 2013 | 710 | – | 19,910 | 20,620 |
| Amortisation | 640 | – | – | 640 |
| At 29 June 2014 | 1,350 | – | 19,910 | 21,260 |
| Amortisation | 775 | – | – | 775 |
| Discontinued operations | (411) | – | – | (411) |
| At 28 June 2015 | 1,714 | – | 19,910 | 21,624 |
| Net book value at 29 June 2014 | 2,226 | 47,532 | 62,960 | 112,718 |
| At 28 June 2015 | 2,192 | 41,317 | 57,532 | 101,041 |

Impairment testing of goodwill and intangibles with indefinite lives

Goodwill acquired through business combinations and brand names with indefinite lives has been allocated to a CGUs for impairment testing.

Carrying amount of goodwill and brands allocated to each of the CGUs:

| | Adairs \$'000 |
|----------|------------------|
| Goodwill | 57,532 |
| Brand | 41,317 |

Adairs CGU

The Group performed its annual impairment test as at 28 June 2015. The Group considers the relationship between its enterprise value and its carrying value, among other factors, when reviewing for indicators for impairment. The recoverable amount of the Adairs CGU has been determined based on the value in use calculation using cash flow projections from financial budgets approved by senior management covering a five year period. The post-tax discount rate applied to cash flow projections is 15.25% (2014: 14.16%) and cash flows beyond the five year period are extrapolated using a 3% growth (2014: 3%). As a result of the analysis, no impairment has been recognised for the period.

Note 9. Intangible Assets continued

Key assumptions used in value in use calculations

The calculation of value in use for both Adairs and Dusk are most sensitive to the following assumptions:

- Gross margin
- Discount rate
- Growth rate

Gross margins – Gross margins are based on average values achieved in the past. These are increased over the budget period for anticipated efficiency improvements.

Discount rate – Discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account both debt and equity. The cost of equity is derived from the expected return of investment by the Group's investors. The cost of debt is based on the interest bearing borrowings the Group is obliged to service. Segment-specific risk is incorporated by applying individual risk factors into the WACC.

Growth rate – Rates are based on management's best estimate of anticipated growth in the short to medium term.

Sensitivity to changes in assumptions

There are reasonable possible changes in key assumptions that could cause the carrying value of the cash generating units (CGUs) to exceed its recoverable amount. The implications of the key assumptions on the recoverable amount are discussed below:

Growth rate – management recognises that future growth rates may vary to what they have estimated. Management notes that the growth rates would need to be (5.42%) for each forecasted year for the recoverable amount of the CGU to fall below their carrying amount.

Note 10. Trade and Other Payables

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| Current | | |
| Trade creditors | 13,588 | 8,896 |
| Accrued expenses | 8,179 | 4,047 |
| Other payables | 1,951 | 2,324 |
| Total current | 23,718 | 15,267 |
| Non-current | | |
| Accrued redeemable preference share interest – non-compounded | – | 6,309 |
| Total non-current | – | 6,309 |
| Current | 23,718 | 15,267 |
| Non-current | | 6,309 |
| Total trade and other payables | 23,718 | 21,576 |

Note 11. Interest-Bearing Loans and Borrowings

| | Interest rate % | Maturity | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|--------------------|------------|---|---|
| Current | | | | |
| Bank Loan – Facility B | BBSW + 3.50 | 12/05/2015 | – | 1,072 |
| Bank Loan – Earn Out Facility | BBSW + 3.25 | 12/05/2015 | – | 549 |
| Capitalised borrowing cost | | | (121) | (767) |
| Total current | | | (121) | 854 |
| Non-current | | | | |
| Bank Loan – Facility A | BBSW + 2.05 | 01/07/2018 | 42,000 | – |
| Bank Loan – Facility B | BBSW + 3.50 | 12/05/2015 | – | 29,373 |
| Bank Loan – Earn Out Facility | BBSW + 3.25 | 12/05/2015 | – | 3,572 |
| Capitalised borrowing cost | | | (200) | (538) |
| | | | 41,800 | 32,407 |
| Redeemable preference shares | 16.00 | 12/06/2019 | – | 50,136 |
| Accrued redeemable preference share interest – compounded | 16.00 | 12/06/2019 | – | 28,748 |
| Total non-current | | | 41,800 | 111,291 |
| Current | | | (121) | 854 |
| Non-current | | | 41,800 | 111,291 |
| Total interest-bearing loans and borrowings | | | 41,679 | 112,145 |

a. Financing facilities available

At reporting date, the following non-shareholder financing facilities had been negotiated with the bank and were available:

| | | |
|---|----------|----------|
| Facilities available at reporting date: | 54,660 | 48,726 |
| Facilities used at reporting date: | (42,000) | (30,445) |
| Facilities unused at reporting date: | 12,660 | 18,281 |

Note 12. Provisions

a. Lease provisions

| | Lease incentives \$'000 | Straight-line lease \$'000 | Make good \$'000 | Total \$'000 |
|---|----------------------------|-------------------------------|---------------------|-----------------|
| At 29 June 2014 | 1,312 | 2,580 | 1,249 | 5,141 |
| Arising during the year | 468 | 654 | 42 | 1,164 |
| Utilised | (433) | (437) | – | (870) |
| Unused amounts reversed | – | – | – | – |
| Unwinding of discount rate and changes in the discount rate | – | – | (19) | (19) |
| Discontinued operations | (498) | (824) | (557) | (1,879) |
| At 28 June 2015 | 849 | 1,973 | 715 | 3,537 |
| Current | 367 | 152 | 169 | 688 |
| Non-current | 482 | 1,821 | 546 | 2,849 |
| Total lease provisions | 849 | 1,973 | 715 | 3,537 |

b. Employee entitlements

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|------------------------------------|---|---|
| Current | | |
| Annual Leave | 1,960 | 2,263 |
| Long service leave | 875 | 905 |
| Total current | 2,835 | 3,168 |
| Non-current | | |
| Long service leave | 820 | 867 |
| Total non-current | 820 | 867 |
| Total employee entitlements | 3,655 | 4,035 |
| Total current | 3,523 | 4,576 |
| Total non-current | 3,670 | 4,600 |
| Total provisions | 7,193 | 9,176 |

Nature and timing of provisions

Refer to note 2(t) and 2(cc) for the relevant accounting policy and a discussion of significant estimations and assumptions applied in the measurement of these provisions.

Note 13. Issued Capital and Reserves

a. Authorised Shares

| | 2015 Thousands | 2014 Thousands |
|--|----------------------|-------------------|
| Ordinary Shares | 165,875 | 34,718 |
| | 2015 Thousands | 2015 \$'000 |
| Ordinary shares issued and fully paid | | |
| At 29 June 2014 | 34,718 | 34,718 |
| Share issue costs capitalised, net of tax | – | (2,014) |
| Share split prior to Initial Public Offering (IPO) | 116,305 ¹ | – ¹ |
| Shares Issued on IPO | 14,852 | 35,645 |
| At 28 June 2015 | 165,875 | 68,349 |

1. Adairs Limited listed on the Australian Stock Exchange at a list price of \$2.40 per share. Prior to the listing Adairs restructured share capital and split each ordinary share by a multiple of 4.35 ordinary shares. The share split caused an additional 116,305,000 shares at zero cost.

b. Other Capital Reserves

| | Cash flow hedge reserve \$'000 | Total \$'000 |
|------------------------------|--------------------------------------|-----------------|
| As at 28 June 2015 | | |
| Forward currency contracts | 527 | 527 |
| Interest rate swap contracts | – | – |
| Total reserves | 527 | 527 |
| As at 29 June 2014 | | |
| Forward currency contracts | (283) | (283) |
| Interest rate swap contracts | (866) | (866) |
| Total reserves | (1,149) | (1,149) |

Note 14. Commitments and Contingencies

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Leases | | |
| Non-cancellable operating lease commitments not provided for in the accounts | | |
| – not later than one year | 19,664 | 28,796 |
| – later than one year and not later than five years | 40,120 | 56,025 |
| – later than five years | 4,036 | 5,749 |
| | 63,820 | 90,570 |

The Group has entered into operating leases for rental of shop premises and distribution centres. These leases have an average life of between three and seven years with renewal options included in the contracts. There are no restrictions placed upon the lessee by entering lease agreement.

Note 15. Derivative Financial Instruments

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| Current assets | | |
| Forward currency contracts – cash flow hedges | 753 | – |
| | 753 | – |
| Current liabilities | | |
| Forward currency contracts – cash flow hedges | – | 404 |
| Interest rate swap contracts – cash flow hedges | – | 873 |
| | – | 1,277 |
| Non-current liabilities | | |
| Interest rate swap contracts – cash flow hedges | – | 364 |
| | – | 364 |

a. Instruments used by the Group

Forward currency contracts – cash flow hedges

The Group buys inventories that are purchased in US Dollars. 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. These contracts are hedging committed purchases and they 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 cash flows are expected to occur between 0-12 months from 28 June 2015.

Interest rate swaps – cash flow hedges

In prior year, the interest rate swap has been repaid as part of the debt restructure exercise on 23 February 2015. Interest-bearing loans of the Group are currently subject to variable interest rate charges.

Note 16. Financial Risk Management Objectives and Policies

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

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.

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.

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---------------------------------|---|---|
| Financial Assets | | |
| Cash and Cash Equivalents | 9,437 | 24,377 |
| Financial Liabilities | – | – |
| Bank Loans (unhedged component) | (41,679) | (2,057) |
| Net Exposure | (32,242) | 22,320 |

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

At 28 June 2015, if interest rates had moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income 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:

| | 2015 \$'000 | 2014 \$'000 |
|--------------------------|--------------------------------|----------------|
| | Post tax profit higher (lower) | |
| +1% (100 basis points) | (228) | 156 |
| -0.5% (100 basis points) | 113 | (78) |

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 year's historical movements and economic forecaster's expectations.
- The net exposure at reporting date is representative of what the Group was and is expecting to be exposed to in the next 12 months from balance date.

ii. Foreign currency risk

As a result of large purchases of inventory denominated in United States Dollars, the Group's Statement of Financial Position can be affected significantly by movements in the US\$/A\$ 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 US\$ foreign currency that is not covered by a designated cash flow.

| | 2015 \$'000 | 2014 \$'000 |
|-----------------------|----------------|----------------|
| Financial Liabilities | | |
| Payables | 858 | (15) |

Note 16. Financial Risk Management Objectives and Policies continued

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

At 28 June 2015, had the Australian Dollar moved, as illustrated in the table below, with all other variables held constant, post tax profit and other comprehensive income would have been affected as follows:

Judgments of reasonably possible movements:

| | 2015 \$'000 | 2014 \$'000 |
|-----------------------|------------------------------|----------------|
| | Post tax profit higher/lower | |
| AUD to US Dollar +15% | 59 | 1 |
| AUD to US Dollar -15% | 227 | (2) |

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.
- The sensitivity does not include financial instruments that are non-monetary items as these are not considered to give rise to currency risk.

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, bank loans, preference shares and committed available credit lines.

A. Non-derivative financial liabilities

The following liquidity risk disclosures reflect all contractually fixed pay-offs, repayments and interest resulting from recognised financial liabilities and financial guarantees as of 28 June 2015. For the other obligations the respective undiscounted cash flows for the respective upcoming fiscal years are presented. The timing of cash flows for 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 |
|---------------------------------------|----------------------|-----------------------|---------------------|---------------------|-----------------|
| 52 weeks ended 28 June 2015 | | | | | |
| Liquid financial assets | | | | | |
| Cash and cash equivalents | 9,437 | – | – | – | 9,437 |
| Trade and other receivables | 4,790 | – | – | – | 4,790 |
| Financial Liabilities | | | | | |
| Trade and other payables | (23,718) | – | – | – | (23,718) |
| Interest bearing loans and borrowings | – | – | (42,000) | – | (42,000) |
| Redeemable preference shares | – | – | – | – | – |
| Net Inflow/(Outflow) | (9,491) | – | (42,000) | – | (51,491) |

| | < 6 months \$'000 | 6 – 12 months \$'000 | 1 – 5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|---------------------------------------|----------------------|-------------------------|-----------------------|---------------------|-----------------|
| 52 weeks ended 29 June 2014 | | | | | |
| Liquid financial assets | | | | | |
| Cash and cash equivalents | 24,377 | – | – | – | 24,377 |
| Trade and other receivables | 4,585 | – | 115 | – | 4,700 |
| Financial Liabilities | | | | | |
| Trade and other payables | (15,267) | – | – | – | (15,267) |
| Interest bearing loans and borrowings | (1,347) | (275) | (32,944) | – | (34,566) |
| Redeemable preference shares | – | – | – | (50,136) | (50,136) |
| Net Inflow/(Outflow) | 12,348 | (275) | (32,829) | (50,136) | (70,892) |

B. Derivative financial liabilities

Due to the unique characteristics and risks inherent to derivative instruments the Group separately monitors the liquidity risk arising from transacting in derivative instruments.

The table below details the liquidity risk arising from the derivative liabilities held by the Group at reporting date:

| | < 6 months \$'000 | 6 – 12 months \$'000 | 1 – 5 years \$'000 | > 5 years \$'000 | Total \$'000 |
|--------------------------------|----------------------|-------------------------|-----------------------|---------------------|-----------------|
| 52 weeks ended 28 June 2015 | | | | | |
| Derivatives | | | | | |
| – Forward currency contracts | 638 | 115 | – | – | 753 |
| Net Inflow/(Outflow) | 638 | 115 | – | – | 753 |
| 52 weeks ended 29 June 2014 | | | | | |
| Derivatives | | | | | |
| – Forward currency contracts | (301) | (103) | – | – | (404) |
| Derivatives | | | | | |
| – Interest rate swap contracts | (437) | (437) | (364) | – | (1,238) |
| Net Inflow/(Outflow) | (738) | (540) | (364) | – | (1,642) |

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. The fair value of the listed equity investments are based on quoted market prices.

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 16. Financial Risk Management Objectives and Policies continued

Financial instruments that use valuation techniques with only observable market inputs or unobservable inputs that are not significant to the overall valuation include interest rate swaps, forward commodity contracts and foreign exchange contracts not traded on a recognised exchange.

| | 52 weeks ending 28 June 2015 | | 52 weeks ending 28 June 2014 | |
|----------------------------------|------------------------------|-------|------------------------------|-------|
| | Valuation Level 2 | Total | Valuation Level 2 | Total |
| Financial assets and liabilities | | | | |
| Forward exchange contracts | (753) | (753) | 404 | 404 |
| Interest rate swaps | – | – | 1,237 | 1,237 |
| | (753) | (753) | 1,641 | 1,641 |

Note 17. 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 makes adjustments 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 policy is to keep the gearing ratio between 20% and 50%. The Group includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short-term deposits, excluding discontinued operations.

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Interest-bearing loans and borrowings other than convertible preference shares | 41,679 | 34,566 |
| Trade and other payables | 23,718 | 21,576 |
| Less: cash and short-term deposits | (9,437) | (24,377) |
| Net debt | 55,960 | 31,765 |
| Convertible preference shares | – | – |
| Equity | 77,951 | 41,900 |
| Capital and net debt | 133,911 | 73,665 |
| Gearing ratio | 42% | 43% |

In order to achieve this overall objective, the Group's capital management, amongst other things, aims to ensure that it meets financial covenants attached to the interest-bearing loans and borrowings that define capital structure requirements. Breaches in meeting the financial covenants would permit the bank to immediately call loans and borrowings. There have been no breaches of the financial covenants of any interest-bearing loans and borrowings in the current period.

No changes were made in the objectives, policies or processes for managing capital during the 52 weeks ended 28 June 2015 and 29 June 2014.

Note 18. Information Relating to Adairs Limited ('the parent entity')

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|--|---|---|
| Current assets | 307 | 33 |
| Total assets | 94,570 | 83,292 |
| Current liabilities | (341) | (195) |
| Total liabilities | (926) | (85,783) |
| Net assets | 93,644 | (2,491) |
| Issued capital | 68,349 | 34,718 |
| Accumulated losses | 25,295 | (37,209) |
| Net Equity | 93,644 | (2,491) |
| Loss of the parent entity | (7,544) | (12,332) |
| Total comprehensive loss of the parent entity | (7,544) | (12,332) |

Note 19. Related Party Disclosures

The following table provides the total amount of transactions and outstanding balances that have been entered into with related parties for the relevant financial year.

Entity with significant influence over the Group:

| | | Purchases from related parties \$'000 | Purchases by related parties \$'000 |
|---|------|---|---|
| BBRC International Pte Ltd ¹ | 2015 | 240 | – |
| | 2014 | 250 | – |
| Key management personnel of the Group: | | | |
| Executive Loans ² | 2015 | – | – |
| | 2014 | – | 115 |

1. BBRC International Pte Ltd held significant influence prior to the ASX listing of the Group.

2. The Executive Loans granted to Key Management Personnel of the Group were forgiven immediately prior to the IPO in accordance with the executive loan agreement.

Terms and conditions of transactions with related parties other than KMP

The purchases from related parties are made on terms equivalent to those that prevail in arm's length transactions. There are no outstanding balances as the 52 weeks ended 28 June 2015. 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 ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|-----------------------------|---|---|
| Short term employee benefit | 2,431 | 2,785 |
| Transaction bonus | 2,562 | – |
| Total compensation | 4,993 | 2,785 |

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

Note 20. Discontinued Operations

In October 2014, the Board and shareholders decided to review the potential divestment of dusk Australasia Pty Ltd, and related refinancing of the Group. dusk Australasia and its subsidiaries had no operational integration or shared tangible assets with other members of the Group, and accordingly the divestment was a financial transaction and had no operational implications for continuing operations. As a result of this review, the divestment of Dusk was completed on 23 February 2015 and as at 28 June 2015 its operations were classified as discontinued. The results of dusk Australasia Pty Ltd for the eight months ended are presented below:

The results for dusk Australasia Pty Ltd to 23 February 2015 are presented below:

| | 23 Feb 2015 \$'000 | 29 June 2014 \$'000 |
|---|-----------------------|------------------------|
| Revenue | 50,603 | 64,312 |
| Expenses | (46,104) | (63,105) |
| <i>Operating income</i> | <i>4,499</i> | <i>1,207</i> |
| Finance costs | (354) | (31) |
| <i>Profit before tax from discontinued operations</i> | <i>4,145</i> | <i>1,176</i> |
| Income tax expense | (1,494) | (413) |
| Profit after tax from discontinued operations | 2,651 | 763 |
| Loss recognised on the disposal of the net assets constituting the discontinued operation | (4,848) | – |
| Profit/(Loss) after tax from discontinued operations | (2,197) | 763 |
| Basic earnings per share, profit for the year from discontinued operations | \$2,651 | \$763 |

Note 21. Earnings Per Share

Basic 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.

No dilutive equity instruments are on issue as at 28 June 2015 (2014: nil). As a result, dilutive EPS equals basic EPS.

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

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| Profit attributable to ordinary equity holders of the Parent: | | |
| Continuing operations | 2,942 | 6,782 |
| Discontinued operations | (2,197) | 763 |
| Profit attributable to ordinary equity holders of the Parent for basic earnings | 745 | 7,545 |
| Interest on convertible preference shares | 9,283 | 11,742 |
| Profit attributable to ordinary equity holders of the Parent adjusted for the effect of dilution | 10,028 | 19,287 |
| | | |
| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
| Weighted average number of ordinary shares for basic EPS ¹ | 151,471 | 34,718 |

1. The weighted average number of shares takes into account the weighted average effect of changes in treasury share transactions during the year.

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.

To calculate the EPS amounts for discontinued operations (note 20), the weighted average number of ordinary shares for both basic and diluted EPS is as per the table above. The following table provides the profit/(loss) amount used:

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| Profit/(loss) attributable to ordinary equity holders of the Parent from a discontinued operations for basic and diluted EPS calculations | (2,197) | 763 |

Note 22. Information Relating to Subsidiaries

The consolidated financial statements of the Group include:

| Name of Entity | Country of Incorporation | Equity Holding | |
|---|-----------------------------|----------------|-----------|
| | | 2015 % | 2014 % |
| Adairs Limited | Australia | 100 | 100 |
| Adairs Holdings Australia Pty Limited | Australia | 100 | 100 |
| Adairs Retail Group Pty Limited | Australia | 100 | 100 |
| Wilder Days Pty Limited | Australia | 100 | 100 |
| dusk Australasia Pty Limited ¹ | Australia | – | 100 |
| Dusk Wholesale & Imports Pty Limited ¹ | Australia | – | 100 |
| Dusk Europe Pty Limited ¹ | Australia | – | 100 |

1. Discontinued operation.

Note 23. Events After the Balance Sheet Date

No matters or circumstances have arisen since the balance date which significantly affected or may significantly affect the operations of the Company, the results of those operations, or the state of affairs of the company in the future financial period.

Note 24. Auditor's Remuneration

The auditor of Adairs Limited is Ernst & Young Australia.

| | 52 weeks ending 28 June 2015 \$'000 | 52 weeks ending 29 June 2014 \$'000 |
|---|---|---|
| <i>Amounts received or due and receivable by Ernst & Young Australia for:</i> | | |
| • An audit or review of the financial report of the entity and any other entity in the consolidated group – continuing operations | 155 | 131 |
| • An audit or review of the financial report of any other entity in the consolidated group – discontinued operations | – | 46 |
| • Other services in relation to the entity and any other entity in the consolidated group: | | |
| Tax compliance | 27 | 46 |
| Other assurance | 11 | 15 |
| IPO due diligence services | 1,177 | – |
| IPO tax consulting services | 139 | – |
| | 1,509 | 238 |

Shareholder Information

ADAIRS LIMITED

FOR THE PERIOD ENDED 28 JUNE 2015

The shareholder information set out below was applicable as at 8 September 2015

Number of shareholders

There were 1,569 shareholders, holding 91,064,990 fully paid ordinary shares.

A. Distribution of equity securities

Analysis of numbers of equity holders by size of holding:

| Range | Ordinary Securities | No. of Security holders |
|------------------|---------------------|-------------------------|
| 1–1,000 | 95,691 | 121 |
| 1,001–5,000 | 2,341,802 | 771 |
| 5,001–10,000 | 2,814,887 | 372 |
| 10,001–100,000 | 7,193,941 | 260 |
| 100,001 and over | 78,618,669 | 45 |
| Total | 91,064,990 | 1,569 |

There were nine holders of less than a marketable parcel of ordinary shares.

B. Equity security holders

The names of the 20 largest holders of quoted equity securities are listed below:

| Name | Ordinary Shares | |
|--|-------------------|-----------------------------|
| | Number held | Percentage of issued shares |
| J P Morgan Nominees Australia Limited | 25,549,972 | 28.06% |
| National Nominees Limited | 10,816,784 | 11.88% |
| HSBC Custody Nominees (Australia) Limited | 9,344,539 | 10.26% |
| Citicorp Nominees Pty Limited | 9,187,373 | 10.09% |
| RBC Investor Services Australia Nominees Pty Limited | 7,343,180 | 8.06% |
| RBC Investor Services Australia Pty Limited | 3,580,000 | 3.93% |
| UBS Wealth Management Australia Nominees Pty Ltd | 1,617,888 | 1.78% |
| HSBC Custody Nominees (Australia) Limited | 914,570 | 1.00% |
| Aust Executor Trustees Ltd | 800,000 | 0.88% |
| BNP Paribas Noms Pty Ltd | 793,488 | 0.87% |
| Rayra Pty Ltd | 681,222 | 0.75% |
| Truebell Capital Pty Ltd | 600,000 | 0.66% |
| UBS Nominees Pty Ltd | 543,639 | 0.60% |
| Mirrabooka Investments Limited | 500,000 | 0.55% |
| Amcil Limited | 500,000 | 0.55% |
| Lingreg Custodians P/L | 453,849 | 0.50% |
| Lingreg Pty Ltd | 453,849 | 0.50% |
| Ellri Investments Pty Ltd | 343,750 | 0.38% |
| Ahrens Group Pty Ltd | 343,750 | 0.38% |
| HSBC Custody Nominees (Australia) Limited – A/C 2 | 311,552 | 0.34% |
| | 74,679,405 | 82.01% |

C. Substantial Shareholdings

As at 8 September 2015, there are seven substantial shareholders that the Company is aware of:

| Name | Number held | Ordinary Shares | |
|---------------------------------|-------------|-----------------------------|----------------------------|
| | | Percentage of issued shares | Date of most recent notice |
| Adairs Limited* | 74,809,795 | 45.10% | 17/06/2015 |
| Catalyst Buyout Fund 2A Pty Ltd | 24,154,278 | 14.56% | 26/08/2015 |
| Catalyst Buyout Fund 2B Pty Ltd | 24,154,278 | 14.56% | 26/08/2015 |
| BB Retail Capital Pty Ltd | 15,061,331 | 9.08% | 17/06/2015 |
| AustralianSuper Pty Ltd | 8,824,049 | 5.32% | 17/06/2015 |
| Bennelong Funds Management | 9,171,635 | 5.53% | 01/07/2015 |
| Platypus Asset Management | 8,329,414 | 5.02% | 31/08/2015 |

* Restriction on disposal of shares under voluntary escrow arrangements disclosed in Adairs Limited's prospectus dated 29 May 2015 gives Adairs Limited a technical 'relevant interest' in its own shares under section 608(1)(c) of the Corporations Act 2001 (Cth). However, Adairs Limited has no right to acquire these shares or to control the voting rights attaching to these shares. Refer Form 603 - Notice of initial substantial holder dated and lodged with ASX on 17 June 2015 for further detail.

D. Voting Rights

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 and upon poll each person present in person or by proxy shall have one vote for each ordinary share held

E. Market buy-back

There is currently no on-market buy-back.

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CORPORATE INFORMATION

ABN 50 147 375 451

Directors

Michael Butler
Trent Peterson
Kate Spargo
David Briskin
David MacLean
Michael Cherubino

Company Secretary

Mark Ronan

Registered office

2 International Court
Scoresby Victoria 3179
Australia

Principal place of business

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Australia
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Share register

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Sydney South NSW 1235
Phone: 1300 554 474

Auditors

Ernst & Young

Solicitors

Herbert Smith Freehills

Bankers

Commonwealth Bank

adairs

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