

**ADAIRES LIMITED**  
**ABN 50 147 375 451**

**APPENDIX 4E**  
**PRELIMINARY FINAL REPORT**  
**FOR THE**  
**52 WEEKS ENDED**  
**28 JUNE 2020**

## APPENDIX 4E

### Preliminary final report

52 weeks ending 28 June 2020

#### 1. Details of the reporting period and the prior corresponding period

Current Period: 1 July 2019 to 28 June 2020 (52 weeks)

Prior corresponding period: 2 July 2018 to 30 June 2019 (52 weeks)

#### 2. Results for announcement to the market

Comparison to previous corresponding period	Increase/(Decrease)	Change %		Amount \$'000
Revenue from continuing operations	Increase	12.9%	to	\$388,933
Profit after tax from continuing operations attributable to members	Increase	19.0%	to	\$35,281
Net profit after tax for the period attributable to members	Increase	19.0%	to	\$35,281

Dividends/distributions	Amount per ordinary share	Franked Amount per ordinary share
2020 Interim dividend	Nil	Nil
2020 Final dividend	11.0	100%
Total FY2020 dividend <sup>1</sup>	11.0	100%
2019 Final dividend	8.0	100%
2019 Interim dividend	6.5	100%
Total FY2019 dividend	14.5	100%

<sup>1</sup> The Directors/ Board have determined to pay a total dividend of 11 cents per fully paid ordinary share. The record date for determining entitlements to the final dividend is 10 September 2020 and the Company expects to pay the dividend on 24 September 2020.

## REVIEW OF OPERATIONS

Despite the challenges and uncertainties associated with the COVID-19 global pandemic in the final quarter of FY20, the group has been able to achieve record sales and profit results.

Adairs (excluding Mocka) achieved total sales growth of 4.5%, with online sales growing 61.4% and contributing 26.5% of total sales. Improved gross margins and cost control resulted in underlying EBIT<sup>2</sup> of \$54m, up 24.3% on the prior year.

Mocka, which was acquired by Adairs in December 2019, contributed sales of \$29m and EBIT of \$6.7m for the 30 weeks in FY20, which was well ahead of expectations.

Total group sales, including Mocka for 30 weeks, were \$389m, up 12.9% on the prior year, with underlying EBIT<sup>2</sup> of \$60.7m, up 39.7% on the prior year.

AASB16 Leases was applied for the first time in FY20. In addition to the recognition of lease liabilities and right of use assets on the balance sheet for the first time, the company's opening retained earnings and net assets were reduced by \$5.1m as part of the transition to the new accounting standard.

Please refer to the ASX Announcement and Investor presentation which accompany this Appendix 4E for further information on the company performance in FY20.

### 3. Statement of Profit or Loss

Please refer to the unaudited Preliminary Final Report for the 52 weeks ended 28 June 2020.

### 4. Balance Sheet

Please refer to the unaudited Preliminary Final Report for the 52 weeks ended 28 June 2020.

### 5. Cash Flow Statement

Please refer to the unaudited Preliminary Final Report for the 52 weeks ended 28 June 2020.

### 6. Statement of Changes in Equity

Please refer to the unaudited Preliminary Final Report for the 52 weeks ended 28 June 2020.

### 7. Dividend or distribution reinvestment plan details

Not applicable

### 8. Net tangible asset backing per ordinary security

	Current Period	Previous corresponding period
Net tangible asset backing per ordinary security (i)	-\$0.26	\$0.06

(i) The net tangible asset backing includes the Right-of-use assets as per AASB 16, however excludes deferred taxes.

<sup>2</sup> Underlying EBIT is used as a measure of financial performance and refers to earnings before interest, tax and depreciation excluding the impacts of AASB16 Leases and costs associated with the acquisition of Mocka Limited.

## **Appendix 4E**

### **9. Entities over which control has been gained or lost during the period**

During the period, Adairs acquired all of the shares in Mocka Limited and its wholly owned subsidiary Mocka Products Pty Ltd for a total consideration of \$84.5m, consisting of an upfront cash payment of \$46.5m, shares issued to the value of \$5.7m and a deferred consideration of \$32.3m payable between September 2021 and September 2023, subject to earnings between FY21 and FY23. Control was transferred to Adairs on 1 December 2019. During the 2020 financial year, Mocka contributed earnings before interest and tax of \$6.7m.

Control has not been lost over any entities during the year ended 28 June 2020.

### **10. Details of aggregate share of profits (losses) of associates and joint venture entities**

Not applicable

### **11. Other significant information**

Refer to the Review of Operations in Section 2

### **12. Events after the reporting period**

On 4 August 2020 the Victorian Government made public health and safety directions that required Adairs to close 43 stores in the Greater Melbourne area for a period of six weeks. Our distribution centre operations and online channel remain operational after complying with the additional restrictions. In most instances our Customer Support Office team have transitioned to working from home where possible. For all other areas Adairs continues to operate its store network with processes and protocols in place to support the safety and wellbeing of our team and customers. Mocka's Australian operations are based in Brisbane and remain unaffected.

On 9 August 2020, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is \$18.6 million which represents a fully franked dividend of 11.0 cents per share. The dividend has not been provided for in the 28 June 2020 Preliminary Final Report.

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

### **13. Foreign Entities**

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

### **14. Commentary**

Please refer to the Review of Operations in Section 2 and the Investor Presentation accompanying this Preliminary Final Report.

### **15. Information on Audit Process**

This report is based on financial statements which are in the process of being audited.

The Appendix 4E should be read in conjunction with the accompanying unaudited Preliminary Financial Report.

### **16. Annual General Meeting**

The Company's 2020 Annual General Meeting will be held on 23 October 2020. Details of the time and location of the AGM will be included in the notice of meeting. In accordance with Adairs' Constitution, the closing date for director candidate nominations is 8 September 2020, being at least 45 business days before the Annual General Meeting.

**ADAIRES LIMITED**  
**ABN 50 147 375 451**

**PRELIMINARY FINAL REPORT**  
**FOR THE**  
**52 WEEKS ENDED**  
**28 JUNE 2020**

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## CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE 52 WEEKS ENDED 28 JUNE 2020

	Note	52 weeks ended 28 June 2020 \$'000	52 weeks ended 30 June 2019 \$'000
Revenues from contracts with customers	3(a)	388,933	344,430
<b>Revenues</b>		<b>388,933</b>	<b>344,430</b>
Cost of sales	4(a)	(166,814)	(147,306)
<b>Gross profit</b>		<b>222,119</b>	<b>197,124</b>
Other income	3(b)	296	347
Depreciation and amortisation expenses		(39,318)	(7,689)
Finance expenses	4(b)	(6,250)	(1,237)
Salaries and employee benefits expenses	4(c)	(78,865)	(78,488)
Occupancy expenses		(10,066)	(42,742)
Advertising expenses		(10,760)	(8,472)
Other expenses from ordinary activities		(20,481)	(16,557)
Costs associated with the acquisition of Mocka	4(d)	(3,884)	-
<b>Profit before income tax</b>		<b>52,791</b>	<b>42,286</b>
Income tax expense		(17,510)	(12,643)
<b>Profit for the period</b>		<b>35,281</b>	<b>29,643</b>
<b>Earnings per share attributable to ordinary equity holders of the Parent</b>			
Basic earnings per share		21.0 cents	17.9 cents
Diluted earnings per share		20.7 cents	17.9 cents

## CONSOLIDATED STATEMENT OF OTHER COMPREHENSIVE INCOME

FOR THE 52 WEEKS ENDED 28 JUNE 2020

	Note	52 weeks ended 28 June 2020 \$'000	52 weeks ended 30 June 2019 \$'000
<b>Profit for the period</b>		<b>35,281</b>	<b>29,643</b>
<b>Other comprehensive income</b>			
<i>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</i>			
Net movement on cash flow hedges		(251)	(771)
Income tax relating to the components of other comprehensive income		74	232
Exchange differences on translation of foreign operations		(171)	(36)
<b>Other comprehensive income for the period, net of tax</b>		<b>(348)</b>	<b>(575)</b>
<b>Total comprehensive income for the period</b>		<b>34,933</b>	<b>29,068</b>

## CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AS AT 28 JUNE 2020

	Note	28 June 2020 \$'000	30 June 2019 \$'000
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	6	23,922	16,708
Trade and other receivables		2,949	1,894
Inventories		43,404	42,782
Other assets		6,754	6,311
Derivative financial instruments		589	1,013
<b>TOTAL CURRENT ASSETS</b>		<b>77,618</b>	<b>68,708</b>
<b>NON CURRENT ASSETS</b>			
Property, plant and equipment		20,843	20,868
Intangibles	8	196,143	113,525
Right of use asset	1(b)(ii)	94,375	-
Derivative financial instruments		149	-
<b>TOTAL NON CURRENT ASSETS</b>		<b>311,510</b>	<b>134,393</b>
<b>TOTAL ASSETS</b>		<b>389,128</b>	<b>203,101</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables		31,257	29,658
Other liabilities		10,721	7,868
Lease liabilities	1(b)(ii)	36,252	-
Current tax liabilities		9,931	2,672
Provisions		6,121	6,419
<b>TOTAL CURRENT LIABILITIES</b>		<b>94,282</b>	<b>46,617</b>
<b>NON CURRENT LIABILITIES</b>			
Other liabilities	8	34,833	1,032
Deferred tax liabilities		12,182	5,721
Interest bearing loans and borrowings	7	24,927	24,949
Lease liabilities	1(b)(ii)	78,348	-
Provisions		3,985	6,465
<b>TOTAL NON CURRENT LIABILITIES</b>		<b>154,275</b>	<b>38,167</b>
<b>TOTAL LIABILITIES</b>		<b>248,557</b>	<b>84,784</b>
<b>NET ASSETS</b>		<b>140,571</b>	<b>118,317</b>
<b>EQUITY</b>			
Contributed equity		74,098	68,349
Share based payment reserve		289	329
Cash flow hedge reserves		532	709
Foreign currency translation reserves		(198)	(27)
Retained earnings		65,850	48,957
<b>TOTAL EQUITY</b>		<b>140,571</b>	<b>118,317</b>



## CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE 52 WEEKS ENDED 28 JUNE 2020

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

- (i) The Group has adopted AASB 16 Leases on a modified retrospective basis. This resulted in a decrease of \$5,118,000 to retained earnings as at 1 July 2019, being the cumulative effect on initial application of the standard (refer to Note 1(b)(i)). The comparative results for the 52 weeks ended 30 June 2019 are not restated as permitted by the standard.

	Ordinary shares \$'000	Share based payment reserves \$'000	Cash flow hedge reserve \$'000	Foreign currency translation reserve \$'000	Retained earnings \$'000	Total \$'000
<b>At 1 July 2018</b>	<b>68,349</b>	<b>217</b>	<b>1,248</b>	<b>9</b>	<b>46,357</b>	<b>116,180</b>
Impact of adoption of new accounting standards (ii)	-	-	-	-	(2,991)	(2,991)
<b>At 1 July 2018 (adjusted)</b>	<b>68,349</b>	<b>217</b>	<b>1,248</b>	<b>9</b>	<b>43,366</b>	<b>113,189</b>
Profit for the period	-	-	-	-	29,643	29,643
Other comprehensive income	-	-	(539)	(36)	-	(575)
<b>Total comprehensive income for the period</b>	<b>-</b>	<b>-</b>	<b>(539)</b>	<b>(36)</b>	<b>29,643</b>	<b>29,068</b>
Dividend payment	-	-	-	-	(24,052)	(24,052)
Share based payments	-	112	-	-	-	112
<b>At 30 June 2019</b>	<b>68,349</b>	<b>329</b>	<b>709</b>	<b>(27)</b>	<b>48,957</b>	<b>118,317</b>

- (ii) The Group has adopted AASB 15 *Revenue from Contracts with Customers* on a modified retrospective basis. This resulted in a decrease of \$2,991,000 to retained earnings as at 2 July 2018, being the cumulative effect on initial application of the standard.

## CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE 52 WEEKS ENDED 28 JUNE 2020

		52 weeks ended 28 June 2020	52 weeks ended 30 June 2019
	Note	\$'000	\$'000
<b>OPERATING ACTIVITIES</b>			
Receipts from customers (inclusive of GST)		430,336	379,236
Payments to suppliers and employees (inclusive of GST)		(323,105)	(330,437)
Interest received		90	77
Income tax paid		(11,340)	(12,666)
Receipts from Government grants		7,136	-
Interest paid		(5,810)	(1,193)
Net cash flows from operating activities		97,307	35,017
<b>INVESTING ACTIVITIES</b>			
Acquisition of property, plant and equipment and intangibles		(7,531)	(6,959)
Acquisition of subsidiary, net of cash acquired	8	(42,509)	-
Net cash flows used in investing activities		(50,040)	(6,959)
<b>FINANCING ACTIVITIES</b>			
Dividends paid		(13,270)	(24,052)
Repayment of borrowings		(47,000)	(19,000)
Proceeds from borrowings		48,000	19,000
Payment of borrowing costs		(865)	(50)
Payment of principal portion of lease liabilities		(26,885)	-
Net cash flows used in financing activities		(40,020)	(24,102)
Net increase in cash and cash equivalents		7,247	3,956
Net foreign exchange difference		(33)	34
Cash and cash equivalents at beginning of the period		16,708	12,718
<b>CASH AND CASH EQUIVALENTS AT END OF PERIOD</b>	6	<b>23,922</b>	<b>16,708</b>

## NOTES TO THE FINANCIAL STATEMENTS

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FOR THE 52 WEEKS ENDED 28 JUNE 2020

### NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### (a) Basis of Preparation

It is recommended that the preliminary final financial report be read in conjunction with the annual report for the 52 weeks ended 30 June 2019 and considered together with any public announcements made by Adairs Limited since that date in accordance with the continuous disclosure obligations of the ASX listing rules.

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

The accounting policies adopted in the preparation of the preliminary final financial report are consistent with those followed in the preparation of the Group's annual consolidated financial report for the year ended 30 June 2019, except for the adoption of AASB 16 *Leases*.

AASB 16 *Leases* ("AASB 16") supersedes AASB 117 *Leases* ("AASB 117"), AASB Interpretation 4 *Determining whether an Arrangement contains a Lease*, AASB Interpretation 115 *Operating Leases-Incentives* and AASB Interpretation 127 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*.

AASB 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model.

The Group adopted AASB 16 using the modified retrospective method of adoption with the date of initial application of 1 July 2019. The reclassifications and adjustments arising from the transition to AASB 16 are therefore recognised in the opening statement of financial position at 1 July 2019. As the Group has adopted the modified retrospective method, there was no restatement of comparative information.

#### (i) Nature of the effect of adoption of AASB 16 *Leases*

The Group is lessee under lease contracts for retail stores, warehouses and office space.

Before the adoption of AASB 16, the Group classified each of its leases at the inception date as an operating lease (the Group was not lessee to any finance leases). In an operating lease, the leased property was not capitalised and the lease payments were recognised within occupancy expenses in the statement of profit or loss on a straight-line basis over the lease term. Any prepaid rent and accrued rent were recognised under Prepayments and Trade and other payables, respectively, with lease incentives and straight-line lease liabilities recorded in Provisions in the statement of financial position.

Upon adoption of AASB 16, the Group applied a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. AASB 16 provides specific transition requirements and practical expedients, which have been applied by the Group.

##### • *Leases previously accounted for as operating leases*

The Group recognised right-of-use assets and lease liabilities for those leases previously classified as operating leases, except for short-term leases and leases of low-value assets. The right-of-use assets for leases were recognised based on the carrying amount as if the standard had always been applied, apart from the use of incremental borrowing rate at the date of initial application of AASB 16. Lease liabilities were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at the date of initial application.

In applying AASB 16 at the initial date of application being at 1 July 2019, the Group has applied the available practical expedients:

- Excluded initial direct costs for the measurement of the right-of-use asset at the date of initial application
- Relied on its assessment of whether leases are onerous immediately before the date of initial application as an alternative to performing an impairment assessment;
- Applied the short-term leases exemptions to leases with a lease term that ends within 12 months at the date of initial application; and
- Used hindsight in determining the lease term where the contract contains options to extend or terminate the lease.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

Based on the foregoing, the effect of adopting AASB 16 was as follows at 1 July 2019:

	<u>\$'000</u>
Impact on the statement of financial position (increase/(decrease)) at 1 July 2019	
<b>Assets</b>	
<b>Non-current assets</b>	
Right-of -use asset	93,010
<b>Total non-current assets</b>	<b>93,010</b>
<b>Total assets</b>	<b>93,010</b>
<b>Liabilities</b>	
<b>Current liabilities</b>	
Interest-bearing loans and borrowings	27,691
Provisions	(1,532)
<b>Total current liabilities</b>	<b>26,159</b>
<b>Non-current liabilities</b>	
Deferred tax liability	(2,399)
Interest-bearing loans and borrowings	79,421
Provisions	(5,053)
<b>Total non-current liabilities</b>	<b>71,969</b>
<b>Total liabilities</b>	<b>98,128</b>
<b>Net assets</b>	<b>(5,118)</b>
<b>Equity</b>	
Retained earnings	(5,118)
<b>Total equity</b>	<b>(5,118)</b>

There is no impact on the statement of profit or loss and other comprehensive income, statement of cash flows, and basic and diluted earnings per share for the comparative period as the Group elected to adopt the modified retrospective approach to transitioning to AASB 16.

The lease liabilities as at 1 July 2019 can be reconciled to the operating lease commitments as of 30 June 2019 as follows:

	<u>\$'000</u>
<b>Operating lease commitments as at 30 June 2019 (under AASB 117)</b>	90,739
Weighted average incremental borrowing rate as at 28 June 2020	3.95%
Discounted operating lease commitments at 28 June 2020	86,895
Add:	
Payments in optional extension periods not recognised as at 28 June 2020	20,217
<b>Lease liabilities as at 1 July 2019 (under AASB 16)</b>	<b>107,112</b>

### (ii) Effect of AASB 16 on the 52 weeks ended 28 June 2020

Set out below are the carrying amounts of the Group's right-of-use assets and lease liabilities and the movements during the 52 weeks ended 28 June 2020:

	<u>Right-of-use assets</u> <u>(\$'000)</u>	<u>Lease liabilities</u> <u>(\$'000)</u>
<b>As at 1 July 2019</b>	<b>93,010</b>	<b>107,112</b>
Additions	30,373	31,841
Additions – through acquisition of subsidiary	2,549	2,745
Depreciation expense	(31,389)	-
Interest expense	-	4,181
Payments	-	(31,066)
FX Difference	(168)	(213)
<b>As at 28 June 2020</b>	<b>94,375</b>	<b>114,600</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### *COVID-19 related rent concessions*

The Group has adopted the practical expedient for rent concessions negotiated as a consequence of COVID-19 prior to 28 June 2020. This allows the Group to elect not to account for changes in lease payments as a lease modification where a change in lease payments to the revised consideration are substantially the same or less than the consideration for the lease preceding the change, the reductions only affect payments which fall due before 30 June 2021 and there has been no substantive change in terms and conditions. Where the practical expedient has been applied, rent concessions are accounted for as a reduction in Occupancy costs in the consolidated statement of profit or loss.

### **(c) Summary of new accounting policies**

Set out below are the new accounting policies of the Group upon adoption of AASB 16, which have been applied from the date of initial application at 1 July 2019:

#### • *Right-of-use assets*

The Group recognizes right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received, plus an estimate of costs to be incurred by the lessee in dismantling and removing the underlying asset, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease. Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, recognized right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term. Right-of-use assets are subject to impairment.

#### • *Lease liabilities*

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate.

The variable lease payments that do not depend on an index or a rate are recognized as an expense in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the in-substance fixed lease payments or a change in the assessment to purchase the underlying asset.

#### • *Short-term leases and leases of low-value assets*

The Group applies the short-term lease recognition exemption to its short-term leases of retail stores, warehouses and head office (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of office equipment that are considered of low value. Lease payments on short-term leases and leases of low-value assets are recognized as expense on a straight-line basis over the lease term.

#### • *Significant judgements and estimates*

##### ○ *Determining the lease term of contracts with renewal options*

The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any periods covered by an option to terminate the lease, if it is reasonably certain not to be exercised.

The Group has the option, under some of its leases to lease the assets for additional terms of six months to eight years. The Group applies judgement in evaluating whether it is reasonably certain to exercise the option to renew. That is, it considers all relevant factors that create an economic incentive for it to exercise the renewal. After the commencement date, the Group reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise (or not to exercise) the option to renew (i.e., a change in business strategy).

The Group has included the renewal period as part of the lease term for some of its leases of retail stores, warehouses and office space due to the significance of these assets to its operations.

##### ○ *Determining the incremental borrowing rate*

The Group has applied judgement to determine the incremental borrowing rate, which affects the amount of lease liabilities or right-of-use asset recognized. The Group reassesses and applies the incremental borrowing rate on a lease by lease basis at the relevant lease commencement date based on the term of the lease (or the remaining term of the lease at the initial date of application).

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### (d) Other accounting policies applied by the Group

The following accounting policies were applied in the preliminary final report that were not outlined in the annual report for the 52 weeks ended 30 June 2019 as the accounting policies were previously not applicable or significant for disclosure.

#### • Business combinations

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at fair value at the acquisition date. Acquisition costs incurred are expensed and included within Transaction expenses in the statement of profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability that is a financial instrument and within the scope of AASB 9 *Financial Instruments*, is measured at fair value with the changes in fair value recognised in the statement of profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to the Group's cash generating units that are expected to benefit from the combination.

Refer to Note 8 with respect to the acquisition of Mocka Limited ("Mocka") during the period.

#### • Government grants

Government grants are recognised where there is reasonable assurance that the grant will be received, and all attached conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the related costs, for which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognised as income in equal amounts over the expected useful life of the related asset.

During the 52 weeks ended 28 June 2020, the Group received subsidies from the Australian and New Zealand governments related to the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs. This government grant income received, or receivable has been recognised within Salaries and employee benefits expense and disclosed in Note 4(c).

#### • Significant judgements and estimates

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

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

##### ○ Measurement of contingent consideration

The fair value of contingent consideration expected to be paid as part of the Mocka business combination is determined with reference to the Sale and Purchase Agreement and an agreed multiple of earnings before interest and tax over the 2021, 2022 and 2023 financial years. The determination of fair value requires estimates by management of future earnings before interest and tax, expected payment periods and discount rates.

## NOTE 2. SEGMENT REPORTING

The Group has two reportable segments as follows:

- Adairs
- Mocka

The following tables present revenue and earnings before interest and tax ("EBIT") information for the Group's operating segments for the 52 weeks ended 28 June 2020:

	Adairs \$'000	Mocka \$'000	Consolidated \$'000
<b>52 weeks ended 28 June 2020</b>			
<i>Revenue</i>			
External customer	359,946	28,987	388,933
Inter-segment	-	-	-
<b>Total revenue</b>	<b>359,946</b>	<b>28,987</b>	<b>388,933</b>
<b>Results</b>			
<b>Earnings before Interest and Tax</b>	<b>52,364</b>	<b>6,677</b>	<b>59,041</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### NOTE 2. SEGMENT REPORTING (continued)

Note: Mocka was acquired by Adairs on 1 December 2019. The results of Mocka are for the 30 weeks ended 28 June 2020. Group other overhead charges are managed and monitored by the Adairs segment and are not allocated to other segments. The Group operated in one geographical segment being Australia and New Zealand. Prior to the acquisition of Mocka on 1 December 2019, the Group operated one reportable segment, being Adairs.

### NOTE 3. REVENUES

#### (a) Revenue from contracts with customers

Set out below is the disaggregation of the Group's revenue from contracts with customers:

	52 weeks ended 28 June 2020	52 weeks ended 30 June 2019
	\$'000	\$'000
<b>Types of goods and services</b>		
Sale of goods and services – stores	264,710	285,413
Sale of goods and services – online	124,223	59,017
<b>Total revenue from contracts with customers</b>	<b>388,933</b>	<b>344,430</b>

#### (b) Other Income

Interest income	90	77
Other	206	270
	<b>296</b>	<b>347</b>

### NOTE 4. EXPENSES

#### (a) Cost of Sales

	52 weeks ended 28 June 2020	52 weeks ended 30 June 2019
	\$'000	\$'000
Cost of goods sold	152,750	140,576
Freight and postage costs for online deliveries	14,064	6,730
	<b>166,814</b>	<b>147,306</b>

#### (b) Finance expenses

Interest paid/payable and other finance costs	1,822	1,237
Interest on lease liabilities	4,181	-
Loan modification gain	(351)	-
Discount expense on deferred purchase price consideration	598	-
	<b>6,250</b>	<b>1,237</b>

#### (c) Salaries and employee benefits expense

Wages and salaries (i)	78,206	73,013
Government grant income - wage subsidies (i)	(5,355)	-
Defined contribution superannuation expense	5,304	5,363
Share based payment expense	710	112
	<b>78,865</b>	<b>78,488</b>

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### NOTE 4. EXPENSES (continued)

- (i) During the 52 weeks ended 28 June 2020, the Group received or was entitled to receive gross government grants under the JobKeeper (Australia) and Wage Subsidy (New Zealand) programs totaling \$11,292,000. Of this total amount:
- \$5,937,000 related to the remuneration of employees who were not working or did not work sufficient hours to be otherwise remunerated more than the subsidy received or receivable. This amount is included within Wages and salaries above.
  - \$5,355,000 related to the remuneration of other employees and is considered a benefit to the Group for employees who were otherwise remunerated more than the subsidy received or receivable. This amount is disclosed separately from Wages and salaries above.

	52 weeks ended 28 June 2020 \$'000	52 weeks ended 30 June 2019 \$'000
<b>(d) Costs associated with the acquisition of Mocka Limited</b>		
Transaction costs	2,139	-
Employee benefits expense from Mocka earn-out arrangement (Note 8)	1,745	-
	<b>3,884</b>	<b>-</b>

### NOTE 5. DIVIDENDS PAID AND PROPOSED

	52 weeks ended 28 June 2020 \$'000	52 weeks ended 30 June 2019 \$'000
<b>Dividends on ordinary shares declared and paid:</b>		
Interim dividend for 2020: Nil (2019 6.5 cents)	-	10,782
<b>Proposed dividends on ordinary shares:</b>		
Final Dividend for 2020: 11.0 cents per share (2019: 8.0 cents)	18,598	13,270

The proposed final dividend for the 2020 financial year has not been provided for in the financial results as at 28 June 2020.

### NOTE 6. CASH AND CASH EQUIVALENTS

	As at 28 June 2020 \$'000	As at 30 June 2019 \$'000
Cash at bank	23,861	16,594
Cash on hand	61	114
	<b>23,922</b>	<b>16,708</b>

### NOTE 7. INTEREST BEARING LOANS AND BORROWINGS

	As at 28 June 2020 \$'000	As at 30 June 2019 \$'000
<i>Non-current</i>		
Bank Loan - Facility A	24,927	24,950
Total non-current	<b>24,927</b>	<b>24,950</b>
<i>Current</i>		
Non-current	-	-
<b>Total interest bearing loans and borrowings</b>	<b>24,927</b>	<b>24,950</b>



NOTES TO THE FINANCIAL STATEMENTS (continued)

**NOTE 7. INTEREST BEARING LOANS AND BORROWINGS (continued)**

<b>(a) Financing facilities available</b>	<b>As at 28 June 2020 \$'000</b>	<b>As at 30 June 2019 \$'000</b>
Facilities available at reporting date	96,500	50,000
Facilities used at reporting date	(26,000)	(25,000)
Facilities unused at reporting date	<u>70,500</u>	<u>25,000</u>

**NOTE 8. BUSINESS COMBINATIONS**

On 1 December 2019, the Group acquired all of the shares of Mocka Limited (“Mocka”), a pure-play online retailer of home and living products operating in Australia and New Zealand. The acquisition has been accounted for using the acquisition method. The Preliminary Final Report include the results of Mocka for the 30 week period from the acquisition date.

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

	<b>Fair value recognised on acquisition \$'000</b>
<b>Assets</b>	
Cash	3,939
Trade receivables	237
Inventories	6,644
Other assets	3,751
Property, plant and equipment	613
Right-of-use assets	2,549
Intangibles	33,114
Deferred tax asset	145
<b>Total Assets</b>	<u><b>50,992</b></u>
<b>Liabilities</b>	
Trade payables	1,749
Interest-bearing loans and borrowings	2,745
Provisions	114
Current tax liability	420
Deferred tax liability	9,934
<b>Total Liabilities</b>	<u><b>14,962</b></u>
<b>Total identifiable net assets at fair value</b>	<u><b>36,030</b></u>
Goodwill arising on acquisition	48,464
<b>Purchase consideration transferred</b>	<u><b>84,494</b></u>
<i>Purchase consideration</i>	
Cash paid	46,448
Shares issued	5,749
Contingent consideration liability	32,297
<b>Purchase consideration transferred</b>	<u><b>84,494</b></u>
<i>Cash flow on acquisition</i>	
Net cash acquired with the subsidiary	3,939
Cash paid	(46,448)
<b>Purchase consideration transferred</b>	<u><b>(42,509)</b></u>

The net assets recognised in the 29 December 2019 interim financial statements were based on a provisional assessment of their fair value which was subject to finalisation by the Group. Upon finalisation, additional goodwill of \$2,547,000 was recognised compared to the provisional accounting.

The Group issued 3,203,000 ordinary shares in the Company as part of the purchase consideration for Mocka. The fair value of the shares is calculated with reference to the quoted price of the shares of the Company at the date of acquisition, which was \$1.80 per share. The fair value of the consideration given was therefore \$5,749,000.

As part of the purchase consideration for Mocka, the Group has agreed to an earn-out arrangement. The Group will make additional cash payments to the vendors of Mocka based on an agreed multiple of earnings before interest and tax over the 2021, 2022 and potentially 2023 financial years.

## NOTES TO THE FINANCIAL STATEMENTS (continued)

### **NOTE 8. BUSINESS COMBINATIONS (continued)**

A portion of the earn-out arrangement is contingent on certain vendors remaining in continuous employment up to 34 months from the acquisition date and this portion will be recognised as an expense in the statement of profit and loss over the relevant period of service (refer to Note 4(d)).

The portion of the earn-out arrangement that is not related to employment conditions is included as contingent consideration in the business combination. The minimum contingent consideration to be paid is \$18,890,000 (NZD \$20,000,000).

As at the acquisition date, the fair value of the contingent consideration (measured using Level 3 techniques) was estimated to be \$29,565,000.

Transaction costs of \$2,140,000 have been expensed and are included in transaction costs in the statement of profit or loss and are part of the operating cash flows in the statement of cash flows.

### **NOTE 9. EVENTS AFTER THE BALANCE SHEET DATE**

On 4 August 2020 the Victorian Government made public health and safety directions that required Adairs to close 43 stores in the Greater Melbourne area for a period of six weeks. Our distribution centre operations and online channel remain operational after complying with the additional restrictions. In most instances our Customer Support Office team have transitioned to working from home where possible. For all other areas Adairs continues to operate its store network with processes and protocols in place to support the safety and wellbeing of our team and customers. Mocka's Australian operations are based in Brisbane and remain unaffected.

On 9 August 2020, the directors of Adairs Limited declared a final dividend on ordinary shares in respect of the 2020 financial year. The total amount of the dividend is \$18.6 million which represents a fully franked dividend of 11.0 cents per share. The dividend has not been provided for in the 28 June 2020 Preliminary Final Report.

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