ADOREBEAUTY
GROUP

Adore Beauty Group Limited
ABN 78 636 138 988

ASX ANNOUNCEMENT

30 September 2021

2021 Annual Report

Adore Beauty Group Limited (ASX: ABY) (**Adore Beauty**) provides its 2021 Annual Report which can also be found on the Adore Beauty website at https://www.adorebeautygroup.com.au/investor-centre/?page=asx-announcements.

The release of this announcement was authorised by Adore Beauty Board.

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About Adore Beauty

Launched in 2000 as Australia's first beauty focused e-commerce website with a vision to help customers feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience personalised to their needs. Adore Beauty has evolved to an integrated content, marketing and e-commerce retail platform that partners with a broad and diverse portfolio of approximately 260 brands and 10,800 products.

Adore Beauty operates in Australia and New Zealand. For further information please visit: www.adorebeautygroup.com.au.

ANNUAL REPORT

2021

ADOREBEAUTY

Adore Beauty Group Limited
ACN 636 138 988

Company Highlights

FY21 was an exceptional year for Adore Beauty. The Company successfully completed an Initial Public Offering, became listed on the Australian Securities Exchange and delivered record revenue and profitability in its first full-year result.

Adore's revenue increased by an impressive 48% over the prior year to $179.3 million, supported by a 39% increase in active customers and multiple record trading days throughout the year. Customer retention also performed strongly, with returning customers growing by 64%.

$179.3M

Revenue
+48% on the prior corresponding period (PCP)

33.1%

Gross Profit Margin
+1.2 PPT's on PCP

$7.6M

EBITDA[1]
+53% on PCP
+116% FY19-FY21 CAGR

$29.0M

Cash[2]
+75% on PCP

818K

Active Customers[3]
+39% on PCP
+51% FY19-FY21 CAGR

+64%

Returning Customers

1. Proforma adjustments are one-off costs related to the Company's IPO and initial listing on the Australian Stock Exchange as well as one-off acquisition, integration and restructuring expenses in current period and PCP.
2. Balance as at 30 June 2021.
3. Active customers refer to customers who have made an order in the last 12 months.

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2021 Annual General Meeting

1.00pm on Friday, 12 November 2021

Due to continuing developments in relation to COVID-19, this year's AGM will be held as a virtual meeting, using technology to facilitate shareholder participation. Full details will be provided to all shareholders in the Notice of Meeting.

Chair's Letter

On behalf of the Board of Directors of Adore Beauty Limited (ASX: ABY) it is with great pleasure that I present to you the Annual Report for the 2021 Financial Year (FY21), a pivotal year in which the Company successfully listed on the Australian Securities Exchange, and outperformed across all key metrics.

Adore Beauty has come a long way from its humble beginnings in co-founder Kate Morris' garage more than two decades ago. Today it is Australia's number one pure play online beauty retailer with 818k active customers generating $179.3 million in annual revenue. Adore has transformed the online beauty shopping experience, creating a destination for beauty discovery with a product offering encompassing approximately 260 brands and 10,800 products across skincare, haircare, makeup, wellness, and fragrance.

Strong market fundamentals

Adore has a significant and growing addressable market, with Australia's beauty and personal care (BPC) category currently valued at $11.2 billion. Online retail currently represents 11.4 per cent of the total market, at $1.3 billion, and this is forecast to grow at a CAGR of 26 per cent to 2024 (Frost and Sullivan, 2021)

Growth in online shopping has been boosted by COVID-19, which accelerated existing retail trends including the shift from bricks and mortar stores to digital and convenience channels. Other online growth drivers for the BPC category include digital-native Millennials and Gen Z entering the market, the increasing importance of digital channels for premium beauty brands, and global beauty trends such as premiumisation and increased focus on skincare.

This structural shift to digital channels is already evident in more mature markets, such as the US and the UK, where online penetration of the beauty and personal care segment is currently at 17.1 and 18.4 per cent, respectively. (Frost and Sullivan, 2021).

Adore positioned for growth

While Adore has benefitted from macro tailwinds over the past year, the Company has a history of growing faster than the market with a loyal, highly engaged customer base that increases in value each year. Every year a customer remains on Adore's platform, they become more valuable with average order frequency and average order value increasing.

Providing an exceptional customer experience is in Adore's DNA with fast free delivery, 4pm same day dispatch, 90-day returns, and complimentary samples in every order. This customer experience focus delivered an active customer retention rate of 61 per cent in FY21 even with acquiring 458k new customers over the year. In addition to increased revenue contribution from our existing customer base, new customers provide an opportunity to create more satisfied, loyal and repeat customers.

Adore is now a household name, with almost 60 per cent of Australian consumers recognising the brand. Increased brand awareness remains a key priority for the Company, with a multi-channel marketing strategy across digital, content, social and offline designed to build trust, drive traffic and sales conversion, and increase awareness to 80 per cent.

Trusted brand partnerships underpin strategy

We're not just focused on building our own brand. Our trusted brand partners are integral to our success and growth strategy, and in FY21 we continued to build out our range authority with new brands and extended brand exclusivity. Adore is unique in the beauty market, supporting brands with a data-enriched integrated content, marketing and e-commerce platform. Over the coming year, we will continue to strengthen and optimise our strategic brand partnerships. I would like to thank our brand partners for their support over the past year and look forward to working closely with them to continue to deliver value in FY22.

Our people, communities and the environment

At Adore, our people and customers are at the heart of everything we do. Our strong FY21 results wouldn't have been possible without the support of our people, who continued to service our customers despite the challenges of COVID-19. On behalf of the Board, I would like to thank our employees, suppliers and courier partners for their tremendous efforts in what has been a challenging year.

Adore Beauty is led by a highly experienced and well-regarded management team, and continues to benefit from the vision and experience of the co-founders who remain active in the business as Executive Directors.

Adore is also passionate about reducing its environmental impact and future-proofing our supply chain. Our packaging and void fill is 100 per cent recycled, we're eliminating plastic bubble wrap, offering larger product sizes for popular products and utilising new sizing technology to reduce cardboard usage. Over the past year, we've also improved the sustainability of our operations with our customer fulfilment centre now using 100 per cent green power.

Outlook for FY22

Adore remains focused on delivering on our strategic priorities, which include growing our customer base by expanding our footprint in the large addressable market, increasing customer retention via our customer-led, data-enriched personalisation and unique content and media channels, and continuing to build our strategic brand partnerships to provide growth in all our key metrics – ultimately driving value for our shareholders.

Lastly, I would like to acknowledge my fellow Board members including Executive Directors and co-founders Kate Morris and James Height, our CEO Tennealle O'Shannessy and business leaders, and the whole Adore team for their hard work and dedication over the past year.

I would also like to thank our valued shareholders for your support and extend a warm welcome to all new shareholders. We look forward to continuing this exciting journey with you. Adore's market leading position ensures we are well-placed to increase market share and revenue in FY22 and beyond.

Yours sincerely,

Justin Ryan

Justin Ryan
Chair, Adore Beauty Group Limited

CEO's Letter

Adore Beauty has had a strong start to listed life, delivering a record result for the 2021 financial year (FY21). We exceeded prospectus forecasts across all key metrics and outperformed guidance with revenues of $179.3 million – an increase of 48 per cent over the year – driven by 458k new active customers and a high customer retention of 61 per cent. We also delivered record profitability of $7.6 million.

As Australia's leading pure play online beauty retailer, Adore is a trusted destination for beauty discovery, offering a unique and compelling beauty range of more than 10,800 products from approximately 260 prestige, professional, niche and masstige brands. In FY21, we fulfilled more than 1.8 million orders across Australia and New Zealand and were proud to be there for our customers when they needed us most.

We are committed to providing a personalised and customer-led beauty discovery and shopping experience underpinned by ease, convenience, and delight. Data-driven personalisation and customer-led engagement enables us to create authentic, trusted content and education to support decision-making.

Key operational highlights

We remain committed to delivering an exceptional online transaction experience for our customers. Over the past year we have expanded our customer service operating hours, extended same day dispatch cut off to 4pm, and launched AI-assisted transactional chat support.

In FY21, COVID-19 physical trading restrictions and evolving consumer preferences enabled Adore to rapidly grow new customers. Encouragingly, customers acquired during COVID are behaving broadly in line with older customer cohorts, where the CAC is recovered within one year, and the Lifetime Value of Customers (LTV) to CAC ratio continues to grow over time. By the fourth year, the lifetime value of the customer is more than six times the acquisition cost.

Delivering on key strategic initiatives

The Board and management team remain focused on growing the business. In addition to strengthening competitive advantage by improving core capabilities, Adore Beauty has developed a clear strategy designed to sustainably grow market share through increased brand awareness, new customer acquisition and returning customer retention. We have made strong progress executing on our strategic priorities, and are ahead of plan.

Brand awareness and owned marketing channels

In FY21, we increased our marketing investment to boost brand awareness, drive new customer acquisition and support existing customer engagement. This investment resulted in a significant increase in brand awareness from 39 to 58 per cent[1]. Importantly, the Company continues to grow its 'Adore Community' by creating owned and integrated marketing and content channels designed to build customer loyalty, which in turn offsets marketing costs. Adore's owned and social media channels include multiple podcasts, Instagram, YouTube, TikTok and Facebook. The 'Beauty IQ Uncensored' podcast grew 273 per cent in FY21 to surpass 2.6 million downloads since launch. This year we also launched a second podcast, 'Skincare School', which featured a hugely popular sell-out 'Best in Class' Adore Beauty curated product pack, showcasing the opportunities to seamlessly integrate content and commerce.

Launch of mobile app

The launch of Adore's native mobile app for both iOS and Android provides a content-first channel to engage, retain and grow the lifetime value of our customers. Launched in November 2020, our app is already driving higher levels of engagement, conversion and average order value, generating about $1 million in revenue in July 2021.

1. Brand Awareness Panel Survey run with partner agency Pureprofile to 1500 randomly selected national female participants 25-44.

CEO's Letter

Launch of customer loyalty program

Over the past year, we successfully delivered on another key strategic initiative to increase customer retention, launching phase one of our loyalty program, 'Adore Society'. Established as a three-tiered loyalty program, Adore Society rewards members with birthday gifts, priority access to new product launches, as well as personalised recommendations based on their purchase history, including favourite brands, products, and beauty needs. Adore Society has resonated with our customer base with high levels of member uptake, including more than 95 per cent of our most valuable customer tier.

Expanding range authority including related adjacencies

We continued to grow our core product range, onboarding 51 new brands during the year. We progressed our expansion into related adjacencies in FY21, with the Fragrance and Korean Beauty categories continuing to scale and strong results from a Mens category pilot. Based on these strong pilot results, we will continue to scale these opportunities.

We have mutually beneficial strategic partnerships with our brand partners, who are increasingly working with us to build their profile and sales volumes through co-marketing support and exclusive product offerings.

I would like to thank our brand partners for their support over the past year, we love working closely with you and value what we have built together. We look forward to growing our businesses together in the coming years.

Adore's private label

We are leveraging our customer knowledge, gained over more than two decades, and data insights to identify gaps in the market, creating private label products to take advantage of these opportunities and compliment our 3rd party brands. Private label at scale will increase our financial margins, and we are on track to launch our first private label offering in FY22.

Summary and outlook

FY21 has been a truly significant year for Adore, representing the first year of trading as a publicly listed company, outperforming prospectus forecasts and strongly executing on all key strategic initiatives.

Our success would not be possible without the ongoing support of our valued customers. We have always strived to provide an empowering and seamless experience, combining personalised and engaging content with commerce to exceed the in-store experience.

Finally, I would like to acknowledge each and every one of our 185 employees for their passion, hard work and commitment during what has been an uncertain year. We are proudly a values-led company and every single team member at Adore Beauty lives by our values, which have guided our culture and team during this challenging period. I am especially proud of the team for continuing to provide our customers with a best-in-class shopping experience despite the ongoing disruption of COVID-19. Adore Beauty's success has absolutely been driven by their passion, hard work, courage and tenacity.

Our strong performance over the past year, coupled with a healthy balance sheet and profitable, cash generating business, ensures we are well placed to execute on our strategic initiatives to drive long-term sustainable growth. As the business continues to scale, operating leverage will increase, and in the mid to long term we expect further improvement in our EBITDA margin.

We have had a strong start to FY22 with YTD revenues to late August increasing 26 per cent over the PCP with ongoing COVID-19 lockdowns boosting new customer growth and returning customer spend. We look forward to delivering value for our customers, brand partners and shareholders in FY22.

Tennealle O'Shannessy
CEO

Board of Directors

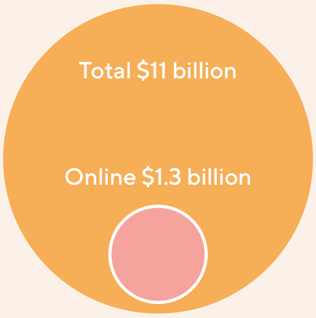
The Directors bring to the Board relevant experience and skills, including industry and business knowledge, financial management and corporate governance experience.

Name	Expertise, experience and qualifications
 **Justin Ryan** *Chair*	Justin was appointed to the board of Adore Beauty as Chair and Non-executive Director in September 2019. Justin was previously Managing Partner of Quadrant Private Equity and in that capacity was Chair and Non-executive director of a number of e-commerce businesses including ModiBodi, Grays and Quad Lock. Prior to that Justin was the Managing Director and CEO of Alesco Corporation. Justin holds a Bachelor of Economics and Bachelor of Laws from the University of Sydney and a Master of Business Administration from The Wharton School, of the University of Pennsylvania. He is a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australia.
 **Kate Morris** *Executive Director*	Kate is a co-founder of Adore Beauty, and was a Director and joint CEO with James Height since the Company's formation in 2000, until 2018 when she became an Executive Director. Kate is currently Chief Innovation Officer at Adore. Kate is a two-time winner of the Telstra Business Women's Awards (2010 and 2014), and the first woman to be awarded the Industry Recognition Award for e-commerce at the StarTrack ORIAs in 2017. Kate holds a Bachelor of Business (Management) from Monash University.
 **James Height** *Executive Director*	James is a co-founder of Adore Beauty, and was Director and joint CEO since the Company's formation in 2000 until 2018 and then sole CEO between 2018 and August 2020. James is currently Chief Data Officer at Adore. James holds a Bachelor of Arts, Bachelor of Laws and a Master of Business Management from Monash University.

Name	Expertise, experience and qualifications
 **Marina Go** *Non-Executive Director*	Marina was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and is Chair of the People and Remuneration Committee. With a background in media, Marina has worked in executive roles across a range of listed and private companies and in non-executive roles across a diverse range of sectors. Marina is the Chair of Netball Australia, Ovarian Cancer Australia and The Walkley Foundation, and is currently a Non-Executive Director on the boards of Booktopia Group Ltd, Transurban Group (effective from 1 December 2021), Energy Australia, 7-Eleven, Autosports Group and Pro-Pac. Marina holds a Bachelor of Arts from Macquarie University and a Master of Business Administration from the University of New South Wales. She is a member of O'Connell Street Associates, the Australian Institute of Company Directors and Chief Executive Women.
 **Sandra Birkensleigh** *Non-Executive Directorr*	Sandra was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and is Chair of the Audit and Risk Management Committee. Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience and retail and resources companies. Sandra serves on the boards of a number of ASX listed entities and chairs a number of audit/audit and risk committees. She is a member of the board of the National Disability Insurance Agency and a member of the Council of the University of the Sunshine Coast. Previously, a partner of PwC for 16 years, Sandra holds a Bachelor of Commerce from UNSW and is a member of the Institute of Chartered Accountants of Australia and New Zealand. She is a Graduate member of the Australia Institute of Company Directors and is a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).

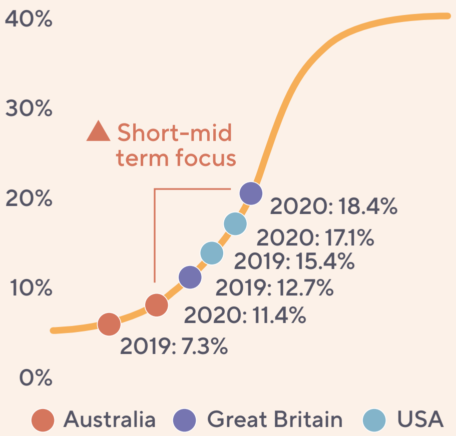
Our Business

Australian Beauty and Personal Care (BPC) market 2020



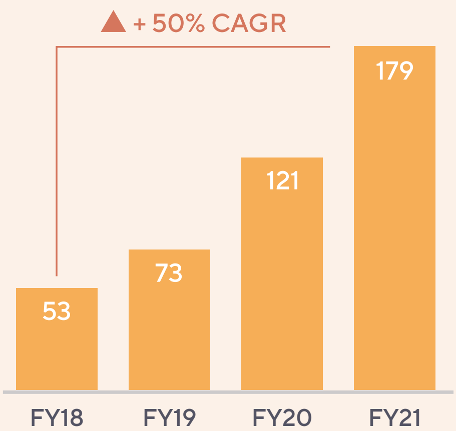
The large addressable market provides significant opportunity for growth

Beauty and Personal Care online adoption curve



Australia is in the early stages of online adoption and undergoing accelerated structural shift

Revenue (A$ million)



Adore is Australia's leading pureplay online beauty retailer with strong track record of growth.

Review of operations

Adore Beauty is Australia's leading pure play online beauty retailer, with an unmatched range, transaction experience and customer-led engagement. It operates within the fastest growing segment of Australia's $11.2 billion beauty and personal care market, and has a strong track record of growth over more than two decades.

Australia still has a very underpenetrated market for online retail in comparison to other international markets, which represents a significant growth opportunity for Adore Beauty.

In its first full-year results as a listed company, Adore Beauty outperformed its prospectus forecast and guidance to deliver record revenue, profitability, and customer numbers.

Record full-year results

In FY21, Adore Beauty increased revenue 48 per cent to $179.3 million, driven by strong new customer growth, high levels of customer retention and multiple record trading days throughout the year.

Active customers increased 39 per cent in FY21 to 818k and included almost half a million new customers. Even with strong growth in new customers, retention remained high with returning customers increasing by 64 per cent. While both new and returning customer cohorts continue to grow, returning customers accounted for 62 per cent of the Company's revenue in FY21.

Adore Beauty's customers are incredibly loyal and become more valuable each year they remain with the platform, increasing both their basket size and order frequency in subsequent years to create subscription-like rates of retention. Annual revenue per active customer rose 7 per cent over the prior year to $219, as Average Order Value increased 1.8 per cent to $102.3. Average Order Frequency remained stable at 2.1 orders per customer annually.

Gross profit margin improved 1.2 percentage points to 33.1 per cent, underpinned by product margin expansion, optimised supplier terms and a change in freight carrier in key freight lanes.

Revenue growth combined with improved gross margins delivered record profitability with EBITDA[1] increasing 53 per cent to $7.6 million. The Company remains well-funded for growth with $29 million cash as of 30 June 2021 with no debt.

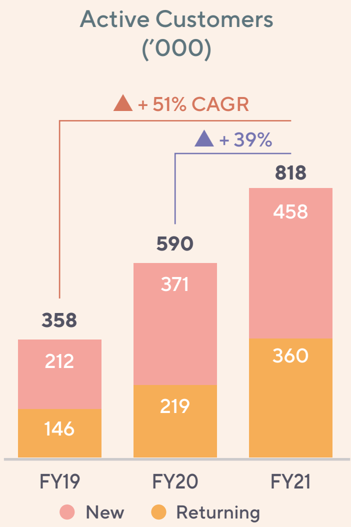
Strategic initiatives

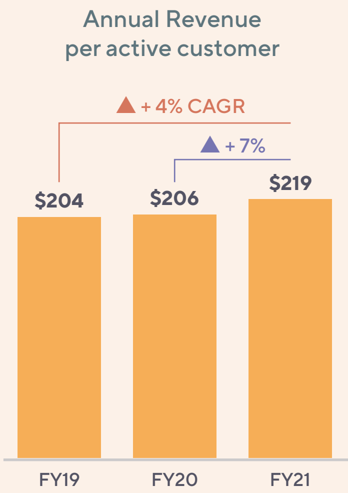
Adore Beauty's strategic initiatives were key to achieving these record financial results. In FY21, the Company delivered on all key strategic initiatives, including launching its native mobile app and loyalty program, increasing brand awareness, expanding into adjacent categories, and piloting its private label offering.

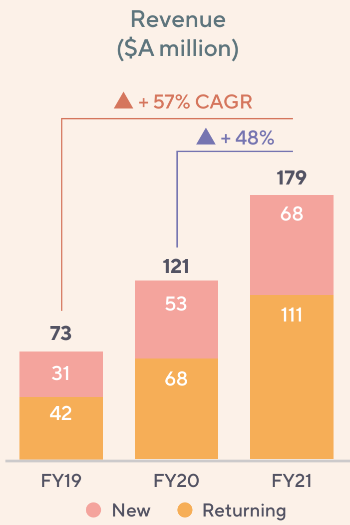
These initiatives ensure Adore Beauty is well-positioned to increase active customers, customer retention, basket size and order frequency in FY22 and beyond.

1. Proforma adjustments are one-off costs related to the Company's IPO and initial listing on the Australian Stock Exchange as well as one-off acquisition, integration and restructuring expenses in current period and PCP.

Our Business







Brand awareness

Over the past year, Adore Beauty increased its marketing investment to build brand awareness, acquire new customers and engage existing customers. This investment included an expanded national TV campaign, which increased brand awareness from 39 per cent to 58 per cent[1].

While marketing as a percentage of sales increased slightly to 12.9 per cent, Adore Beauty's owned and integrated content strategy reduces its reliance on competitive paid marketing channels. The Company continues to recover customer acquisition costs within a year. By the fourth year, the lifetime value of the customer is more than six times the acquisition cost.

Mobile app

Built in a content-first way, Adore Beauty's native iOS and android mobile app enables the Company to engage, retain and grow customer lifetime value. It is an important owned marketing channel that allows Adore Beauty to personalise content and add value to customers even when they aren't shopping.

The app is scaling well, driving higher levels of engagement, conversion, and average order value, delivering ~$1 million in revenue in July 2021.

Loyalty program

In FY21, Adore Beauty launched its tiered loyalty program to increase retention and lifetime value. The initiative is resonating well with customers with more than 95 per cent of Adore Beauty's most valuable customer tier signed up.

Range, adjacencies and private label

During the year, Adore Beauty expanded its industry-leading beauty offering, onboarding 51 new brands including seven in the popular Korean Beauty category. The Company also piloted a Mens adjacent category and expanded its Fragrance, Wellness and Sex offerings. The Company also tested an Adore Beauty branded private label accessories offering, and is on track to launch its first private label in FY22.

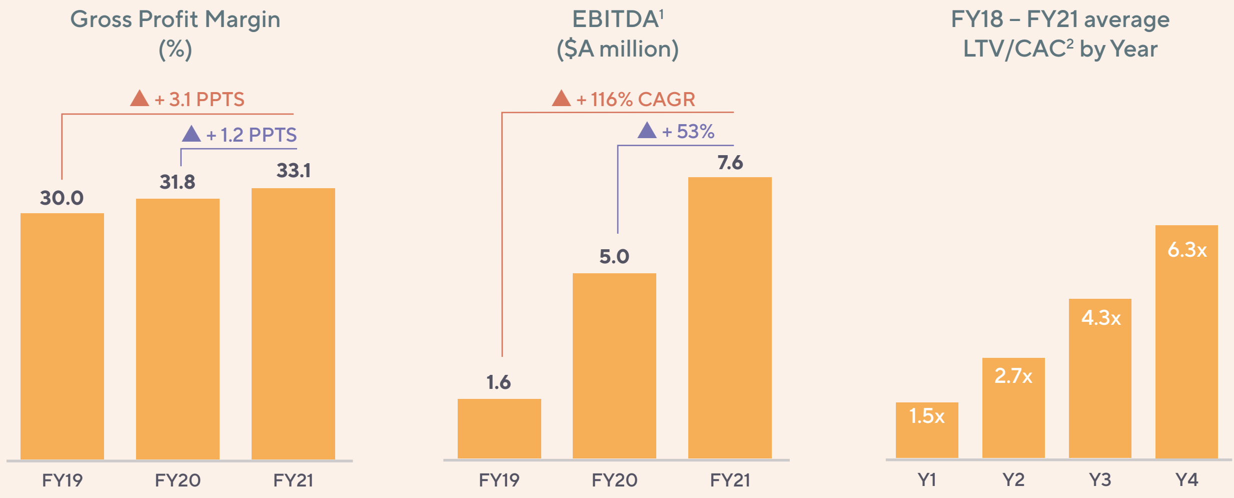
Outlook

Adore Beauty has had a strong start to FY22 as it continues to benefit from the structural shift to online with ongoing COVID-19 lockdowns increasing new customer growth and driving repeat purchases from returning customers.

Adore Beauty is executing its growth strategy to increase its online market leadership within the large and growing BPC market. The Company is reinvesting in the business to sustainably grow topline revenue through an improved online transaction experience, data-driven personalisation, and enhanced competitive advantages, such as its owned content and engagement strategy.

Adore Beauty expects to maintain a 2-4 per cent EBITDA margin in the short to medium term, with operating leverage expected to deliver further EBITDA margin expansion in the long term.

1. Brand Awareness Panel Survey run with partner agency Pureprofile to 1500 randomly selected national female participants 25-44.



1. Proforma adjustments are one-off costs related to the Company's IPO and initial listing on the Australian Stock Exchange as well as one-off acquisition, integration and restructuring expenses in current period and PCP.
2. LTV (Lifetime Value) is calculated as the cumulative contribution margin (where contribution margin is gross profit margin less bank and merchant fees) generated from the relevant customer cohort, net of customer churn for that cohort . CAC (Customer Acquisition Cost) represents the total advertising expense (this is a fully loaded advertising cost, including cost related to acquiring new and retargeting returning customers, and also includes ATL spend) over a period of time per new customer acquired during that period.

Sustainability

Adore Beauty has a strong focus on sustainability across its operations, and believes that taking care of the environment is an important shared responsibility. In 2018, the company recognised the importance of reducing its environmental footprint and future proofing its supply chain, introducing a range of sustainable goals and environmental initiatives. Adore Beauty's day-to-day operations and business practices strive to reduce the Company's impact on the environment, including packaging materials, energy, and recycling.

Over the years, we have introduced many sustainable measures such as Keep Cups for all team members, digital gift cards, and calico gift bags to name a few. All of these initiatives had a focus to reduce plastic and non recyclable waste from our business practices and team.

The Company is incredibly focused and dedicated to continue our sustainability journey and make positive changes.

Packaging materials

All packaging used to ensure the safe arrival of customer orders is carefully sourced from Australian suppliers. The Company selects the most sustainable packaging to reduce impact on the environment and also provide protection of customer goods in the postage network.

Ongoing reduction in box wastage is important to Adore Beauty's operational team. In 2019, we invested in technology solutions which use volumetric calculations to direct the team to use the smallest possible box size for each individual order. Based on individual product measurement knowledge, it assesses the total space required, and ensures the smallest box with least amount of void fill.

How are we doing?

- Outer box packaging made from 53 - 83% recycled content, and 100% recyclable
- Inner package void fill made from 100% recycled content, and recyclable
- Elimination of Adore added plastic bubble wrap
- Cardboard savings from tech solutions.

Energy

To ensure the best possible customer experience through same day dispatch, Adore Beauty's customer fulfilment centre operates 6 days a week.

To reduce our potential future need for energy to cool the customer fulfilment centre, a reflective product has been carefully applied to the customer fulfillment centre roof. This product has proven to reduce internal temperatures of up to 6 degrees in peak summer.

Large industrial fans have been installed throughout the centre, adding additional comfort to the working environment.

Recycling

Adore Beauty is passionate about being as sustainable as possible and responsibly disposing its waste. The Company's strict recycling culture has enabled it to recycle an estimated 1.25 tonnes of cardboard this year.

Adore Beauty acknowledges there is more to do on this front, and is focused on recycling soft plastics that are received through its operations. In FY22, the Company will commit to strong partnerships to implement onsite soft plastic compacting, to be recycled into reusable products.

Adore Beauty is also working with its supplier partners to ensure they are using recyclable packaging around, and in, the Company's purchase orders.

Our team

This year was one of a kind. The impacts of COVID-19 were far reaching, and due to safety measures, some previously planned community initiatives were not possible.

Adore Beauty supported our team through connection based virtual events, additional Employee Assistance Program sessions, and extensive health and safety measures at our customer fulfilment centre. The Company's goals were to keep the team safe and employed.

Our community

The COVID-19 lockdowns created even more danger for women in violent situations. Adore Beauty committed to a continued partnership with Safe Steps family violence crisis centre, a service aiming to support those in violent situations. Adore Beauty supported efforts to ensure those faced with domestic violence have the means to seek safety. Through this partnership, we donated $30,000, which contributed to providing for critical needs of women, children, and victims as the numbers of those in need grew over this time.

COVID-19 impacted many of the community with job losses, with the majority of those being women. Adore Beauty hired 35 new team members during the financial year and partnered with one of our brands, Alpha H, to bring to life the Encoreship program. Through this initiative, Adore Beauty has provided employment to those that struggle to enter into the workforce after a significant break and/or impacted by COVID-19.

Sustainability

Adore Beauty commenced its Women in Tech Scholarships in 2017. The scholarship is open to university students who identify as women to gain valuable insights into a leading beauty ecommerce business. This is an annual program and consists of one month paid internship and $2,000 towards tuition fees. In 2021, we offered two of these positions, including one to an individual who works at the Customer Fulfilment Centre.

Diversity and equal opportunity

Adore Beauty was co-founded by Kate Morris and James Height, who are passionate about ensuring women have equal opportunities, and are supported to grow and develop their careers without bias. Providing women with opportunities to successfully lead is so very important to Adore. The Company listed on the Australian Securities Exchange in October 2020, and we did so proudly with a woman co-founder, woman CEO, majority women Board, majority women Executive Leadership Team, and majority women managers.

Adore Beauty acknowledges the importance of diversity for our team, customers, and community. This year we proudly launched a Global Shades initiative. This initiative calls for the beauty industry to enable retailers to purchase all globally available foundation and concealer shades, so we are able to provide Australians with equal access to shades. Adore Beauty is committed to purchasing all available foundation and concealer shades and to continue to work with its brand partners to bring new shades to Australia, for its customers and team.

Adore Beauty aims to help women feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience. The Company aspires to create a diverse and inclusive experience for all of our customers. In FY21 Adore Beauty was able to showcase diversity in its content and imagery.

This year Adore Beauty established a Diversity and Inclusion committee (D&I committee) with the aim of building a more diverse and inclusive work environment, through listening, asking questions, and being curious. The committee comprises leadership, managers, and team members. They collaborate, develop, implement and support initiatives across the business.

The D&I committee will continue to focus, and make improvements across, three pillars; Our Home, Our Community, and Our Voice.

Our home – Ensure an inclusive work environment where diversity is celebrated and everyone feels they can bring their whole self to work. Adore Beauty aims to provide an environment where the team can feel safe and respected at work, free from harassment and bullying. Through policies and practises, the Company supports caregivers through parental leave and flexible work arrangements, and those in family violence situations through paid leave.

Our community – Supporting every customer to feel comfortable and empowered in their own skin. Through content, Adore Beauty fosters a community built on education, inclusivity and diversity.

Adore Beauty creates content for and featuring BIPOC, the LGBTQIA+ community, catering for all ages and those with medical disabilities. The Company has established a sex category so that all customers have a safe, inclusive and discreet space to shop these products. This provides a safe space to empower individuals. Adore Beauty has promoted conversations around diversity and inclusivity through its podcasts. The Company is also working with its brand partners to ensure it is inclusive and represents diversity in the shaded ranges that Adore Beauty stocks through its Global Shades initiative.

Our voice – Adore Beauty wants to use its voice to make the world a better place. The Company is passionate about empowering women to drive positive change. It advocates for women as leaders and driving equality. This is shown through its charity partnership, Safe Steps, and Women in Tech intern program.

Directors' report

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Adore Beauty Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

Directors

The following persons were directors of Adore Beauty Group Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Justin Ryan

Kate Morris

James Height

Marina Go (appointed 6 October 2020)

Sandra Birkensleigh (appointed 6 October 2020)

Simon Lewis Pither (resigned 6 October 2020)

Youngsoo Kim (resigned 6 October 2020)

Principal activities

Adore Beauty generates its revenue through online sales of third-party beauty and personal care products to Australian and New Zealand consumers. Adore Beauty's business model is based on three key elements which drive a powerful network effect attracting both new customers and new brands to the platform:

- **Range authority**: Adore Beauty offers Australian and New Zealand consumers a broad and compelling range of beauty and personal care products across prestige, professional, niche and masstige brands, with approximately 260 brands and 10,800 products (including exclusives). Adore Beauty provides brands with access to a large, engaged customer base and a strong marketing platform.
- **Best online transaction experience**: Adore Beauty seeks to provide customers with an outstanding online shopping experience by providing customers with instant gratification as a result of a seamless transaction experience.
- **Data-enriched customer engagement**: Adore Beauty engages customers through an integrated content, marketing, and e-commerce retail platform, with personalisation to satisfy customer's beauty and personal care needs, driving loyalty and increasing their frequency and size of spend with Adore Beauty over time.

Dividends

No dividends have been paid during the financial year or since the end of the financial year. During the previous financial year dividends totalling $1,413,856 were paid.

Review of operations

Adore Beauty achieved significant milestones during the financial year, cementing its position as Australia's number one pureplay online beauty retailer[1] and completing a successful capital raising of $40 million and listing on the Australian Stock Exchange.

Revenue for the year was $179.28 million which was an increase of 48% over the previous year and outperformed guidance. Record revenue growth is attributable to the strong growth in active customers, which increased 39% over the previous financial year to 817,806. There were 457,552 new customers acquired. Gross profit margin of 33.1%, up 1.2 percentage points on PCP, underpinned by product margin expansion.

Profit after tax was $845,000 with the result being significantly impacted by costs relating to the IPO and initial listing on the Australian Stock Exchange as well as share-based payments to reward our team prior to and on listing. These costs totalled $6.0 million[2]. Underlying profit before tax excluding these one-off costs was $6,027,000

1. Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates derived from third party industry reports (2019, 2020), supplier data (2019), website traffic data (2020), and internal customer data (2019, 2020).
2. IPO and transaction costs $5.35 million one-off share based payments $0.631 million.

Adore Beauty's Balance Sheet remains strong and reflects the addition of equity of $16.8 million (net of transaction costs and return of capital) during the period. The Company has a cash balance of $29.0 million. Inventory levels have remained steady throughout the period. Borrowings have been reduced to nil and the Company has access to a multi-option finance facility of $10 million primarily for working capital purposes. Adore has significant balance sheet flexibility to continue growing the business and pursue strategic initiatives.

Adore Beauty generated positive net cash inflows of $4.2 million after the inclusion of significant one-off expenses incurred as part of the capital-raising, listing and associated employee share-based payments.

An additional $2.0 million was incurred on investing activities, primarily investment in the Adore Beauty website which is the shop front of the business and the prime interface with its customers.

COVID-19

The impact of COVID-19 has affected the Australian beauty and personal care market in a number of ways including, for example, a shift away from cosmetics to skin care products as the pandemic has emphasised the need for consumers to focus on self-care and health and consumers spending more time at home. In addition, shopping behaviours and preferences have changed driven by government mandated restrictions (including lockdowns and social distancing measures) and consumer aversion to physically visiting retailers due to health concerns. With the recent lock-downs in several states, COVID-19 continues to impact.

Strategic update

Looking ahead, we expect to deliver strong sustainable growth as we leverage our online market leadership position to continue to increase our market share within a growing market driven by a structural shift to online. As the business grows, we expect scale benefits to increase operating leverage over time.

We are pursuing a growth strategy. The drivers of growth and operating leverage are outline below.

1. **Range authority**: Provide a unique and compelling range of products and services. Grow and deepen brand partnerships through providing access to a large, engaged customer base and strong marketing platform.
2. **Best online transaction experience**: Deliver an integrated content, marketing and eCommerce retail platform. Provide an empowering, engaging online customer experience underpinned by data-driven personalisation.
3. **Content led customer engagement**: Build a highly satisfied, engaged, loyal customer community. Build a trusted brand and beauty discovery destination. Expand authentic content and education to grow customer-led engagement.

Significant changes in the state of affairs

Adore Beauty completed a capital-raising of $40 million and listed on the Australian Stock Exchange. 5,925,333 new ordinary shares were issued in accordance with the terms of the prospectus.

There were no other significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

No other matters or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Directors' report

Information on directors

Name:	**Justin Ryan**
Title:	Non-Executive Chairman
Qualifications:	B.Ec., Ba Laws, MBA
Experience and expertise:	Justin was previously Managing Partner of Quadrant Private Equity and in that capacity was Chair and Non-executive director of a number of e-commerce businesses including Modibodi, Grays and Quad Lock. Prior to that Justin was the Managing Director and CEO of Alesco Corporation. Justin joined the Board of Adore Beauty Group Limited as Chair and Non-Executive Director in September 2019. Justin is a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australia.
Other current directorships[3]:	Nil
Former directorships (last 3 years)[4]:	Nil
Special responsibilities:	Chair
Interests in shares:	Nil
Interests in options:	None
Contractual rights to shares:	None
Name:	**Kate Morris**
Title:	Executive Director
Qualifications:	B.Bus. (Management)
Experience and expertise:	Kate is a co-founder of Adore Beauty, and was Director and joint CEO with James Height since the Company's formation in 2000 until 2018 when she became an Executive Director. Kate is a two-time winner of the Telstra Business Women's Awards (2010 and 2014), and the first woman to be awarded the Industry Recognition Award for e-commerce at the StarTrack ORIAs in 2017.
Other current directorships[3]:	Nil
Former directorships (last 3 years)[4]:	Nil
Special responsibilities:	Public face of Adore Beauty and has been jointly responsible for driving strategy and business growth. Chief Innovation Officer at Adore Beauty.
Interests in shares:	10,200,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

3. 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.
4. 'Former directorships (last 3 years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated

Name:	**James Height**
Title:	Executive Director
Qualifications:	B.Arts., B.Law, MBusMgt
Experience and expertise:	James is a co-founder of Adore Beauty, and was Director and joint CEO since the Company's formation in 2000 until 2018 and then sole CEO between 2018 and August 2020. James is currently Chief Data Officer at Adore Beauty.
Other current directorships[5]:	Nil
Former directorships (last 3 years)[6]:	Nil
Special responsibilities:	Chief Data Officer at Adore Beauty. Jointly responsible for the Group's strategy.
Interests in shares:	10,200,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

Name:	**Marina Go (appointed 6 October 2020)**
Title:	Non-Executive Director
Qualifications:	B.Arts, MBA
Experience and expertise:	With a background in media, Marina has worked in executive roles across a range of listed and private companies and in non-executive roles across a diverse range of sectors. Marina is a member of O'Connell Street Associates, The Australian Institute of Company Directors and Chief Executive Women.
Other current directorships[5]:	Non-executive director of Autosports Group Ltd (appointed October 2016) Non-executive director of Pro-Pac Packaging Ltd (appointed 2018, resignation to take effect 23 November 2021) Non-executive director of Booktopia Group Ltd (appointed November 2020) Non-executive director of Transurban Group (appointment effective from 1 December 2021)
Former directorships (last 3 years)[6]:	Nil
Special responsibilities:	Chair of the People and Remuneration Committee
Interests in shares:	7,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

5. 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.
6. 'Former directorships (last 3 years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated

Directors' report

Name:	**Sandra Birkensleigh (appointed 6 October 2020)**
Title:	Non-Executive Director
Qualifications:	B.Com
Experience and expertise:	Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience, retail and resource companies. Sandra was formerly a partner of PwC for 16 years. Sandra is a member of the Institute of Chartered Accountants in Australia and New Zealand, a member of the Australia Institute of Company Directors and a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).
Other current directorships[7]:	Non-executive director of Collection House Ltd (appointed September 2018) Non-executive director of MLC Ltd (appointed October 2016) Non-executive director of Horizon Oil Ltd (appointed February 2016) Non-executive director and Chair of Auswide Bank Ltd (appointed January 2015)
Former directorships (last 3 years)[8]:	Nil
Special responsibilities:	Chair of the Audit and Risk Management Committee
Interests in shares:	7,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None
Name:	**Simon Pither (resigned on 6 October 2020)**
Title:	Non-Executive Director
Qualifications:	BA (Hons), MBA
Experience and expertise:	Over 25 years of experience in the financial services industry in Australia and the UK.
Other current directorships[7]:	Nil
Former directorships (last 3 years)[8]:	Nil
Special responsibilities:	Nil
Interests in shares, options and contractual rights to shares:	Not applicable as no longer a director

7. 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.
8. 'Former directorships (last 3 years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Name:	**Youngsoo Kim (resigned on 6 October 2020)**
Title:	Non-Executive Director
Qualifications:	BCom, MBA
Experience and expertise:	Over eight years in the corporate and financial service industries, with a focus on technology and telecoms M&A.
Other current directorships[9]:	Nil
Former directorships (last 3 years[10]):	Nil
Special responsibilities:	Nil
Interests in shares, options and contractual rights to shares:	Not applicable as no longer a director

Joint company secretaries

Stephanie Carroll (BEc.) has held the role of Company Secretary since October 2020. Stephanie is Chief Financial Officer of the Company. Stephanie is a Certified Practicing Accountant and holds a Bachelor of Economics (Honours) from the University of Sydney.

Melissa Jones has held the role of Company Secretary since October 2020. Melissa is the General Manager of Company Matters, Link Group's governance and company secretarial team. Melissa has over 15 years' experience as a lawyer, company secretary and governance professional. Melissa is admitted as a Solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws (Honours).

Meetings of directors

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2021, and the number of meetings attended by each director were:

	Full board		People and Remuneration Committee		Audit and Risk Management Committee	
	Attended	Held	Attended	Held	Attended	Held
Justin Ryan	13	13	–	–	3	3
Kate Morris	13	13	3	3	–	–
James Height	13	13	–	–	–	–
Marina Go	12	12	3	3	3	3
Sandra Birkensleigh	12	12	3	3	3	3
Simon Pither	1	1	–	–	–	–
Youngsoo Kim	1	1	–	–	–	–

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

9. 'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.
10. 'Former directorships (last 3 years)' quoted above are directorships held in the last three years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Directors' report

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional information
- Additional disclosures relating to key management personnel.

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency.

The People and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

In consultation with external remuneration consultants (refer to the section 'Use of remuneration consultants' below), the People and Remuneration Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- focusing on sustained growth in shareholder value, consisting of growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining skilled executive talent.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder value
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive directors remuneration

Fees and payments to non-executive directors reflect the demands and responsibilities of their role. Non-executive directors' fees and payments are reviewed annually by the People and Remuneration Committee. The People and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive directors' fees and payments are appropriate and in line with the market. The chairman's fees are determined independently to the fees of other non-executive directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive directors do not receive share options or other incentives.

ASX listing rules require the aggregate non-executive directors' remuneration be determined periodically by a general meeting. Initially, and until a different amount is determined, the maximum aggregate Directors' remuneration for the purposes of the ASX Listing Rules and the Constitution is $800,000 per annum of which $440,000 is currently utilised.

The following annual fees are payable to Non-Executive Directors:

- Chair – Justin Ryan $200,000
- Non-executive director – Marina Go $100,000
- Non-executive director – Sandra Birkensleigh $100,000

The following annual committee fees are payable to the Chair of the Audit and Risk Management Committee and the People and Remuneration Committee:

- Audit and Risk Management Committee – Sandra Birkensleigh $20,000
- People and Remuneration Committee – Marina Go $20,000

Directors do not receive any additional fees for being a member of a Board committee. All Directors' fees include superannuation payments required by law to be made.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components.

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentives
- share-based payments
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the People and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Short-term incentives

There were no short-term incentives offered to key management personnel in respect of the year ended 30 June 2021.

Adore Beauty intends to implement a short-term incentive ('STI') program for the year ended 30 June 2022. Short-term incentives will be offered to the Chief Executive Officer and the Chief Financial Officer. The incentive offered to the Chief Executive Officer will be limited to a maximum figure of $100,000. The Chief Financial Officer will be limited to a maximum figure of $61,200. The Executive Directors are not participating in the STI program.

The STI is designed to align the targets of the business units with the performance hurdles of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's can include profit contribution, customer satisfaction, leadership contribution and product management.

Directors' report

Long-term incentives

Long-term incentives ('LTI') were provided to the Chief Executive Officer and the Chief Financial Officer on completion of the IPO and listing on the Australian Stock Exchange. Details are included in the section marked 'Share based compensation'. The long-term incentives ('LTI') are share-based payments. Shares and options to purchase shares were awarded to the Chief Executive Officer and the Chief Financial Officer over a period of four years based on long-term performance hurdles.

The Company will not be issuing any new LTIs during the financial year ending 30 June 2022.

Consolidated entity performance and link to remuneration

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. Cash bonus and incentive payments are at the discretion of the People and Remuneration Committee. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the last three years.

The People and Remuneration Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Use of remuneration consultants

During the financial year ended 30 June 2021, the consolidated entity, through the People and Remuneration Committee, engaged KPMG as remuneration consultants, to review its existing remuneration policies. KPMG was paid $82,600 for these services.

Voting and comments made at the company's Annual General Meeting ('AGM')

The upcoming 2021 AGM will be the first AGM of the listed entity and will be the first time that the entity seeks adoption of the remuneration report and will invite shareholders to make comment.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Adore Beauty Group Limited:

- Justin Ryan – Non-Executive Chair
- Kate Morris – Executive Director
- James Height – Executive Director
- Sandra Birkensleigh – Non-Executive Director
- Marina Go – Non-Executive Director

And the following persons:

- Tennealle O'Shannessy – Chief Executive Officer
- Stephanie Carroll – Chief Financial Officer

There have been no changes since the end of the reporting period.

2021	Short-term benefits: Cash salary and fees $	Short-term benefits: Cash Bonus $	Short-term benefits: Non-monetary $	Post-employment benefits: Super-annuation $	Long-term benefits: Long service leave $	Share-based payments: Equity-settled shares $	Share-based payments: Equity-settled options $	Total $
Non-Executive Directors:								
Justin Ryan (i)	123,671	–	–	3,420	–	–	–	127,091
Marina Go (ii)	80,000	–	–	7,600	–	50,000	–	137,600
Sandra Birkensleigh (ii)	80,000	–	–	7,600	–	50,000	–	137,600
Simon Pither	–	–	–	–	–	–	–	–
Youngsoo Kim	–	–	–	–	–	–	–	–
Executive Directors:								
Kate Morris (iv)	182,170	–	–	17,306	8,212	–	–	207,688
James Height (iv)	182,170	–	–	17,306	8,212	–	–	207,688
Other Key Management Personnel:								
Tennealle O'Shannessy (iii)(iv)	429,344	–	–	21,757	–	228,083	344,436	1,023,620
Stephanie Carroll (iv)	253,436	–	–	22,610	–	22,808	31,030	329,884
	1,330,791	–	–	97,599	16,424	350,891	375,466	2,171,171

(i) Represents fees paid to QPE Growth Management from 6 October 2020 to 31 March 2021, and director remuneration 1 April 2021 to 30 June 2021.
(ii) Represents remuneration from 6 October 2020 to 30 June 2021.
(iii) Represents remuneration from 24 August 2020 to 30 June 2021.
(iv) Cash salary and fees includes working from home allowance paid during COVID-19 lockdown periods.

Directors' report

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
2020	Cash salary and fees $	Cash Bonus $	Non-monetary $	Super-annuation $	Long service leave (i) $	Equity-settled shares $	Equity-settled options $	Total $
Non-Executive Directors:								
Justin Ryan	–	–	–	–	–	–	–	–
Simon Pither	–	–	–	–	–	–	–	–
Youngsoo Kim	–	–	–	–	–	–	–	–
Executive Directors:								
Kate Morris	181,650	–	–	17,257	26,974	–	–	225,881
James Height	181,650	–	–	17,257	26,974	–	–	225,881
Other Key Management Personnel:								
Stephanie Carroll (ii)	245,477	–	–	23,750	–	–	–	269,227
	608,777	–	–	58,264	53,948	–	–	720,989

(i) Provision for long service leave includes service from prior years.
(ii) Represents remuneration from 26 November 2019 to 30 June 2020.

The proportion of remuneration linked to performance and the fixed proportion are as follows:

	Fixed remuneration		At risk – STI		At risk – LTI	
Name	2021	2020	2021	2020	2021	2020
Non-Executive Directors:						
Justin Ryan	100%	100%	–	–	–	–
Marina Go	100%	100%	–	–	–	–
Sandra Birkensleigh	100%	100%	–	–	–	–
Simon Pither	–	–	–	–	–	–
Youngsoo Kim	–	–	–	–	–	–
Executive Directors:						
Kate Morris	100%	100%	–	–	–	–
James Height	100%	100%	–	–	–	–
Other Key Management Personnel:						
Tennealle O'Shannessy	44%	–	–	–	56%	–
Stephanie Carroll	84%	100%	–	–	16%	–

No cash bonuses were paid during the financial year or the previous financial year.

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	**Tennealle O'Shannessy**
Title:	Chief Executive Officer
Agreement commenced:	24 August 2020
Term of agreement:	Ongoing employment
Details:	Base salary for the year ending 30 June 2022 of $510,000 plus superannuation capped at the maximum contribution base as referred to in the *Superannuation Guarantee Administration Act 1992* (Cth). Base salary is reviewed annually by the People and Remuneration Committee. Eligible to participate in short-term incentive programs from 1 July 2021. Eligible to participate in long-term incentive programs. 6-month termination notice by either party, non-solicitation and non-compete clauses.
Name:	**Kate Morris**
Title:	Executive Director (part time)
Agreement commenced:	30 September 2019
Term of agreement:	Ongoing employment.
Details:	Base salary for the year ending 30 June 2022 of $185,287 plus superannuation, reviewed annually by the People and Remuneration Committee. 12-month termination notice by either party, non-solicitation and non-compete clauses.
Name:	**James Height**
Title:	Executive Director (part time)
Agreement commenced:	30 September 2019
Term of agreement:	Ongoing employment
Details:	Base salary for the year ending 30 June 2022 of $185,287 plus superannuation, reviewed annually by the People and Remuneration Committee. 12-month termination notice by either party, non-solicitation and non-compete clauses.
Name:	**Stephanie Carroll**
Title:	Chief Financial Officer
Agreement commenced:	20 April 2020
Term of agreement:	Ongoing employment
Details:	Base salary for the year ending 30 June 2022 of $255,000 plus superannuation capped at the maximum contribution base as referred to in the *Superannuation Guarantee Administration Act 1992* (Cth). Base salary is reviewed annually by the People and Remuneration Committee. Eligible to participate in short-term incentive programs from 1 July 2021. Eligible to participate in long-term incentive programs. 3 month termination notice by either party, non-solicitation and non-compete clauses.

Key management personnel have no entitlement to termination payments in the event of removal for misconduct.

Directors' report

Share-based compensation

Issue of shares

Details of shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Date	Shares	Issue price	$
Marina Go (i)	6/10/2020	7,407	$6.75	50,000
Sandra Birkensleigh (i)	6/10/2020	7,407	$6.75	50,000
Tennealle O'Shannessy (ii)	31/08/2020	868,502	$1.00	868,502
Stephanie Carroll (ii)	31/08/2020	86,850	$1.00	86,850

Vesting conditions

(i) Each non-executive director, other than the Chair received a one-off listing bonus of $50,000 applied by the Company as a subscription payment for shares at the offer price.

(ii) Management shares are loan backed shares pursuant to which the Company has loaned participant monies to fund part or all of the purchase of management shares under a Management Equity Plan. The loan attaching to the shares is limited recourse and must be repaid out of any proceeds from the sale of the loan shares. Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company:

(a) 25% of the loan shares will vest on completion of the IPO,

(b) a further 25% of the loan shares will vest on 30 June 2021,

(c) a further 25% of the loan shares will vest on 30 June 2022, and

(d) the final 25% of the loan shares will vest on 30 June 2023.

Issue of options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of directors and other key management personnel in this financial year or future reporting years are as follows:

Name	Number of options granted	Grant date	Vesting date and exercisable date	Expiry date	Exercise price	Fair value per option at grant date
Tennealle O'Shannessy	555,000	6/10/2020	30/06/2024	30/06/2026	$6.75	$3.52
Stephanie Carroll	50,000	6/10/2020	30/06/2024	30/06/2026	$6.75	$3.52

Options granted carry no dividend or voting rights.

All options were granted over unissued fully paid ordinary shares in the company. The number of options granted was determined having regard to the satisfaction of performance measures and weightings as described above in the section 'Consolidated entity performance and link to remuneration'. Options vest based on the provision of service over the vesting period whereby the executive becomes beneficially entitled to the option on vesting date. Options are exercisable by the holder as from the vesting date. There has not been any alteration to the terms or conditions of the grant since the grant date. There are no amounts paid or payable by the recipient in relation to the granting of such options other than on their potential exercise.

Option vesting conditions

Options will vest based on performance of the Company measured at the end of the performance period.

Of the total number of options granted:

- 50% are subject to the satisfaction of a vesting condition relating to the Company's revenue at the end of the performance period (Revenue component); and
- 50% are subject to the satisfaction of a vesting condition relating to the Company's EBITDA growth during the performance period (EBITDA component).

Revenue component

In order for any options in the Revenue component to vest, a threshold level of performance must be achieved. The percentage of options comprising the Revenue component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's revenue at the end of the performance period and % of options that vest:

- Less than threshold revenue – Nil
- Equal to threshold revenue – 50%
- Between threshold and maximum revenue – Straight line pro-rata vesting between 50% and 100%
- At or above maximum revenue – 100%

Threshold and maximum level of performance set by the Board.

EBITDA component

In order for any options in the EBITDA component to vest, a threshold level of performance must be achieved. The percentage of options comprising the EBITDA component that vest, if any, will be determined over the performance period by reference to the below vesting schedule.

Company's EBITDA at the end of the performance period and % of options that vest.

- Less than threshold EBITDA – Nil
- Equal to threshold EBITDA – 50%
- Between threshold and maximum EBITDA – Straight line pro-rata vesting between 50% and 100%
- At or above maximum EBITDA – 100%

Threshold and maximum level of performance set by the Board.

Performance will not be retested if any of the Vesting Conditions are not satisfied at the end of the performance period. Any options that remain unvested at the end of the performance period will lapse immediately.

Values of options over ordinary shares granted, exercised and lapsed for directors and other key management personnel as part of compensation during the year ended 30 June 2021 are set out below:

Name	Value of options granted during the year $	Value of options exercised during the year $	Value of options lapsed during the year $	Remuneration consisting of options for the year $
Tennealle O'Shannessy	344,436	–	–	34%
Stephanie Carroll	31,030	–	–	9%

Additional information

The key financial metrics of the consolidated entity for the three years to 30 June 2021 are summarised below:

	2021 $'000	2020 $'000	2019 $'000
Sales revenue	179,277	121,142	73,319
Profit/(Loss) before income tax	46	898	1,343

Directors' report

The factors that are considered to affect total shareholders return ('TSR') are summarised below:

	2021
Share price at financial year end ($)	$4.28
Total dividends declared (cents per share)	Nil
Basic earnings per share (cents per share)	0.92c

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ Other (i)	Balance at the end of the year
Ordinary shares					
Kate Morris	17,000,000	–	–	(6,800,000)	10,200,000
James Height	17,000,000	–	–	(6,800,000)	10,200,000
Marina Go	–	7,407	–	–	7,407
Sandra Birkensleigh	–	7,407		–	7,407
Tennealle O'Shannessy	–	868,502		–	868,502
Stephanie Carroll	–	86,850	–	–	86,850
	34,000,000	970,166	–	(13,600,000)	21,370,166

(i) Shares were sold as part of the IPO.

Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Options over ordinary shares					
Tennealle O'Shannessy	–	555,000	–	–	555,000
Stephanie Carroll	–	50,000	–	–	50,000
	–	605,00	–	–	605,000

Other transactions with key management personnel and their related parties

During the financial year, payments for goods from director-related entities of Kate Morris and James Height of $25,684 (2020: $19,170) were made. The current trade payable balance as at 30 June 2021 was $2,163 (2020: $4,809). All transactions were made on normal commercial terms and conditions and at market rates.

This concludes the remuneration report, which has been audited.

Shares under option

Unissued ordinary shares of Adore Beauty Group Limited under option at the date of this report are as follows:

Grant date	Expiry date	Exercise price	Number under option
6/10/2020	30/06/2026	$6.75	605,000

No person entitled to exercise the options had or has any right by virtue of the option to participate in any share issue of the company or of any other body corporate.

Shares issued on the exercise of options

No ordinary shares of Adore Beauty Group Limited were issued during the year ended 30 June 2021 and up to the date of this report on the exercise of options granted.

Indemnity and insurance of officers

The company has indemnified the directors and executives of the company for costs incurred, in their capacity as a director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the company paid a premium in respect of a contract to insure the directors and executives of the company against a liability to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

During the financial year, the company has not paid a premium in respect of a contract to insure the auditor of the company or any related entity.

Proceedings on behalf of the company

No person has applied to the Court under section 237 of the Corporations Act 2001 for leave to bring proceedings on behalf of the company, or to intervene in any proceedings to which the company is a party for the purpose of taking responsibility on behalf of the company for all or part of those proceedings.

Non-audit services

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 29 to the financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The directors are of the opinion that the services as disclosed in note 29 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Directors' report

Officers of the company who are former partners of Grant Thornton Audit Pty Ltd

There are no officers of the company who are former partners of Grant Thornton Audit Pty Ltd.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 is set out immediately after this directors' report.

Auditor

Grant Thornton Audit Pty Ltd continues in office in accordance with section 327 of the Corporations Act 2001.

This report is made in accordance with a resolution of directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the directors.

Justin Ryan

Justin Ryan
Chair

30 August 2021
Melbourne

Auditor's independence declaration

Grant Thornton

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Auditor's Independence Declaration

To the Directors of Adore Beauty Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Adore Beauty Group Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

CGangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 30 August 2021

Contents

General information

The financial statements cover Adore Beauty Group Limited as a consolidated entity consisting of Adore Beauty Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Adore Beauty Group Limited's functional and presentation currency.

Adore Beauty Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business are:

Registered office and principal place of business

Level 1
421 High Street
Northcote VIC 3070

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 30th August 2021. The directors have the power to amend and reissue the financial statements.

Consolidated statement of profit or loss and other comprehensive income

For the year ended 30 June 2021

	Note	Consolidated 2021 $'000	2020 $'000
Revenue	4	179,277	121,142
Cost of sales	6	(120,002)	(82,591)
Gross profit		59,275	38,551
Other income	5	21	39
Expenses:			
Advertising and marketing expense		(23,073)	(14,024)
Employee benefits expense	6	(18,241)	(11,443)
Initial public offering and transaction costs		(5,322)	-
Depreciation and amortisation expense	6	(1,501)	(1,190)
Finance costs	6	(125)	(221)
Other operating expenses		(10,988)	(10,814)
Profit before income tax expense		46	898
Income tax benefit/(expense)	7	799	(2,127)
Profit/(Loss) after income tax expense for the year		845	(1,229)
OTHER COMPREHENSIVE INCOME			
Items that will not be reclassified subsequently to profit or loss		-	-
Items that may be reclassified subsequently to profit or loss			
Foreign currency translation		-	(5)
Other comprehensive income/(loss) for the year, net of tax		-	(5)
Total comprehensive income/(loss) for the year		845	(1,234)

		Cents	Cents
Basic earnings per share	39	0.92	(1.93)
Diluted earnings per share	39	0.92	(1.93)

The above statement of profit or loss and other comprehensive income should be read in conjunction with the accompanying notes.

Consolidated statement of financial position

As at 30 June 2021

		Consolidated	
	Note	2021 $'000	2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	8	29,002	16,558
Trade and other receivables	9	658	2,087
Current tax receivable	19	958	–
Inventories	10	14,945	14,714
Other current assets	11	2,105	1,671
Total current assets		47,668	35,030
NON-CURRENT ASSETS			
Property, plant and equipment	12	889	964
Right-of-use assets	13	1,165	1,078
Intangibles	14	2,592	1,586
Deferred tax	15	4,074	895
Total non-current assets		8,720	4,523
Total assets		56,388	39,553
LIABILITIES			
Current liabilities			
Trade and other payables	16	19,485	17,191
Borrowings	17	–	3,212
Lease liabilities	18	420	589
Income tax	19	–	1,732
Employee benefits	20	1,075	688
Total current liabilities		20,980	23,412
NON-CURRENT LIABILITIES			
Lease liabilities	21	926	672
Employee benefits	22	223	109
Total non-current liabilities		1,149	781
Total liabilities		22,129	24,193
Net assets		34,259	15,360
EQUITY			
Issued capital	23	102,076	85,000
Reserves	24	(67,131)	(68,109)
Accumulated losses	25	(686)	(1,531)
Total equity		**34,259**	**15,360**

The above statement of financial position should be read in conjunction with the accompanying notes.

Consolidated statement of changes in equity

For the year ended 30 June 2021

	Note	Issued capital (Ordinary shares) $'000	Foreign currency translation reserve $'000	Corporate re-organisation reserve $'000	Share-based payments reserve $'000	Retained profits/ (Accumulated losses) $'000	Total equity $'000
Balance at 1 July 2019		**–**	**–**	**–**	**–**	**2,381**	**2,381**
Adjustment on adoption of AASB 16		–	–	–	–	(120)	(120)
Balance at 1 July 2019 – restated		**–**	**–**	**–**	**–**	**2,261**	**2,261**
Transactions with owners							
Contributions of equity, net of transaction costs	23	85,000	–	–	–	–	85,000
Restructure of Adore Beauty Pty Ltd	41	–	–	(68,104)	–	(1,149)	(69,253)
Payments of dividends	26	–	–	–	–	(1,414)	(1,414)
Total transactions with owners		**85,000**	**–**	**(68,104)**	**–**	**(2,563)**	**14,333**
Comprehensive income							
Loss for the period		–	–	–	–	(1,229)	(1,229)
Other comprehensive income/(loss)		–	(5)	–	–	–	(5)
Total comprehensive income		**–**	**(5)**	**–**	**–**	**(1,229)**	**(1,234)**
Balance at 30 June 2020		**85,000**	**(5)**	**(68,104)**	**–**	**(1,531)**	**15,360**
Balance at 1 July 2020		85,000	(5)	(68,104)	–	(1,531)	15,360
Transactions with owners							
Share-based payments		279	–	–	978	–	1,257
Return of capital		(17,000)	–	–	–	–	(17,000)
Contributions of equity, net of transaction costs		33,797	–	–	–	–	33,797
Total transactions with owners	23	**17,076**	**–**	**–**	**978**	**–**	**18,054**
Comprehensive income							
Profit for the period		–	–	–	–	845	845
Total comprehensive income		**–**	**–**	**–**	**–**	**845**	**845**
Balance at 30 June 2021		**102,076**	**(5)**	**(68,104)**	**978**	**(686)**	**34,259**

The above statement of changes in equity should be read in conjunction with the accompanying notes.

Consolidated statement of cash flows

For the year ended 30 June 2021

		Consolidated	
	Note	2021 $'000	2020 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST)		198,779	133,435
Payments to suppliers and employees (inclusive of GST)		(192,377)	(127,652)
		6,402	5,783
Interest received		21	39
Income taxes paid		(2,180)	(1,038)
Net cash from operating activities	36	4,243	4,784
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for intangible assets		(1,791)	(1,155)
Payments for property, plant and equipment		(206)	(444)
Proceeds from sale of property, plant and equipment		9	5
Net cash used in investing activities		(1,988)	(1,594)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares		40,293	10,707
Return of capital		(17,000)	–
Payment for equity raise costs		(9,281)	–
Proceeds from borrowings		–	2,881
Repayment of borrowings		(3,212)	–
Interest and other finance costs paid		(125)	(221)
Repayment of lease liabilities		(486)	(520)
Dividends paid	26	–	(1,414)
Net cash from financing activities		10,189	11,433
Net increase in cash and cash equivalents		12,444	14,623
Cash and cash equivalents at the beginning of the financial year		16,558	1,935
Cash and cash equivalents at the end of the financial year	8	29,002	16,558

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies

The principal accounting policies adopted in the preparation of the financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared under the historical cost convention, except for, where applicable, the revaluation of financial assets and liabilities at fair value through profit or loss, financial assets at fair value through other comprehensive income, investment properties, certain classes of property, plant and equipment and derivative financial instruments.

Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 2.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 33.

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adore Beauty Group Limited ('company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Adore Beauty Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies continued

Non-controlling interests in the results and equity of subsidiaries are shown separately in the statement of profit or loss and other comprehensive income, statement of financial position and statement of changes in equity of the consolidated entity. Losses incurred by the consolidated entity are attributed to the non-controlling interest in full, even if that results in a deficit balance.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

The consolidated entity operates in one segment being the sale of beauty and personal care products through its online platform. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Adore Beauty Group Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into Australian dollars using the exchange rates prevailing at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at financial year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognised in profit or loss.

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

Gift vouchers are considered a prepayment for goods to be delivered in the future. The entity has an obligation to transfer the goods in the future – creating a performance obligation. The entity recognises a current gift voucher liability for the amount of the prepayment and recognises revenue when the customer redeems the gift voucher and the entity fulfils the performance obligation related to the transaction or likelihood of the gift voucher being redeemed by the customer is deemed remote.

Interest

Interest revenue is recognised as interest accrues using the effective interest method. This is a method of calculating the amortised cost of a financial asset and allocating the interest income over the relevant period using the effective interest rate, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the net carrying amount of the financial asset.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

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

Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Adore Beauty Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries, have formed an income tax consolidated group under the tax consolidation regime[1]. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary 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 tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Interpretation 23 – Uncertainty over Income Tax Treatments

Interpretation 23 requires the assessment of whether the effect of uncertainty over income tax treatments should be included in the determination of taxable profit/(loss), tax bases, unused tax losses, unused tax credits and tax rates. The Interpretation outlines the requirements to determine whether an entity considers uncertain tax treatments separately, the assumptions an entity makes about the examination of tax treatments by taxation authorities, how an entity determines taxable profit/(loss), tax bases, unused tax losses, unused tax credits, and tax rates and how an entity considers changes in facts and circumstances.

Current and non-current classification

Assets and liabilities are presented in the statement of financial position based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

1. Northside Brands is not currently included in the income tax consolidated group.

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies continued

A liability is classified as current when: it is either expected to be settled in the consolidated entity'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. All other liabilities are classified as non-current.

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities 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.

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Right of return assets

Right of return assets represents the right to recover inventory sold to customers and is based on an estimate of customers who may exercise their right to return the goods and claim a refund. Such rights are measured at the value at which the inventory was previously carried prior to sale, less expected recovery costs and any impairment.

Inventories

Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Stock in transit is stated at the lower of cost and net realisable value. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

Investments and other financial assets

Investments and other financial assets are initially measured at fair value. Transaction costs are included as part of the initial measurement, except for financial assets at fair value through profit or loss. Such assets are subsequently measured at either amortised cost or fair value depending on their classification. Classification is determined based on both the business model within which such assets are held and the contractual cash flow characteristics of the financial asset unless an accounting mismatch is being avoided.

Financial assets are derecognised when the rights to receive cash flows have expired or have been transferred and the consolidated entity has transferred substantially all the risks and rewards of ownership. When there is no reasonable expectation of recovering part or all of a financial asset, its carrying value is written off.

Financial assets at fair value through profit or loss

Financial assets not measured at amortised cost or at fair value through other comprehensive income are classified as financial assets at fair value through profit or loss. Typically, such financial assets will be either: (i) held for trading, where they are acquired for the purpose of selling in the short-term with an intention of making a profit, or a derivative; or (ii) designated as such upon initial recognition where permitted. Fair value movements are recognised in profit or loss.

Financial assets at fair value through other comprehensive income

Financial assets at fair value through other comprehensive income include equity investments which the consolidated entity intends to hold for the foreseeable future and has irrevocably elected to classify them as such upon initial recognition.

Impairment of financial assets

The consolidated entity recognises a loss allowance for expected credit losses on financial assets which are either measured at amortised cost or fair value through other comprehensive income. The measurement of the loss allowance depends upon the consolidated entity's assessment at the end of each reporting period as to whether the financial instrument's credit risk has increased significantly since initial recognition, based on reasonable and supportable information that is available, without undue cost or effort to obtain.

Where there has not been a significant increase in exposure to credit risk since initial recognition, a 12-month expected credit loss allowance is estimated. This represents a portion of the asset's lifetime expected credit losses that is attributable to a default event that is possible within the next 12 months. Where a financial asset has become credit impaired or where it is determined that credit risk has increased significantly, the loss allowance is based on the asset's lifetime expected credit losses. The amount of expected credit loss recognised is measured on the basis of the probability weighted present value of anticipated cash shortfalls over the life of the instrument discounted at the original effective interest rate.

For financial assets mandatorily measured at fair value through other comprehensive income, the loss allowance is recognised in other comprehensive income with a corresponding expense through profit or loss. In all other cases, the loss allowance reduces the asset's carrying value with a corresponding expense through profit or loss.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Computer equipment	50%
Plant and equipment	2.5% to 20%

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

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss. Any revaluation surplus reserve relating to the item disposed of is transferred directly to retained profits.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies continued

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Product Development

Product development costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Capitalised development costs are amortised on a straight-line basis over the period of their expected benefit, being their finite life of up to 10 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 10 years.

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of four years.

Impairment of non-financial assets

Non-financial assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

Trade and other payables

These amounts represent liabilities for goods and services provided to the consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

Borrowings

Loans and borrowings are initially recognised at the fair value of the consideration received, net of transaction costs. They are subsequently measured at amortised cost using the effective interest method.

Lease liabilities

A lease liability is recognised at the commencement date of a lease. The lease liability is initially recognised at the present value of the lease payments to be made over the term of the lease, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the consolidated entity's incremental borrowing rate. Lease payments comprise of fixed payments less any lease incentives receivable, variable lease payments that depend on an index or a rate, amounts expected to be paid under residual value guarantees, exercise price of a purchase option when the exercise of the option is reasonably certain to occur, and any anticipated termination penalties. The variable lease payments that do not depend on an index or a rate are expensed in the period in which they are incurred.

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of-use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Finance costs

Finance costs attributable to qualifying assets are capitalised as part of the asset. All other finance costs are expensed in the period in which they are incurred.

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Employee benefits

Short-term employee benefits

Liabilities for wages and salaries, including non-monetary benefits, annual leave and long service leave expected to be settled wholly within 12 months of the reporting date are measured at the amounts expected to be paid when the liabilities are settled.

Other long-term employee benefits

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at 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 corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Equity-settled and cash-settled share-based compensation benefits are provided to employees.

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using either the Binomial or Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option, together with non-vesting conditions that do not determine whether the consolidated entity receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

The cost of equity-settled transactions are recognised as an expense with a corresponding increase in equity over the vesting period. The cumulative charge to profit or loss is calculated based on the grant date fair value of the award, the best estimate of the number of awards that are likely to vest and the expired portion of the vesting period. The amount recognised in profit or loss for the period is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies continued

The cost of cash-settled transactions is initially, and at each reporting date until vested, determined by applying either the Binomial or Black-Scholes option pricing model, taking into consideration the terms and conditions on which the award was granted. The cumulative charge to profit or loss until settlement of the liability is calculated as follows:

- during the vesting period, the liability at each reporting date is the fair value of the award at that date multiplied by the expired portion of the vesting period.
- from the end of the vesting period until settlement of the award, the liability is the full fair value of the liability at the reporting date.

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

Market conditions are taken into consideration in determining fair value. Therefore, any awards subject to market conditions are considered to vest irrespective of whether or not that market condition has been met, provided all other conditions are satisfied.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, it is treated as if it has vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on 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; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Assets and liabilities measured at fair value are classified into three levels, using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. Classifications are reviewed at each reporting date and transfers between levels are determined based on a reassessment of the lowest level of input that is significant to the fair value measurement.

For recurring and non-recurring fair value measurements, external valuers may be used when internal expertise is either not available or when the valuation is deemed to be significant. External valuers are selected based on market knowledge and reputation. Where there is a significant change in fair value of an asset or liability from one period to another, an analysis is undertaken, which includes a verification of the major inputs applied in the latest valuation and a comparison, where applicable, with external sources of data.

Acquisition of Adore Beauty Pty Ltd

Adore Beauty Group (formerly Tate TopCo Pty Ltd), through Tate BidCo Pty Ltd completed the acquisition of Adore Beauty Pty Ltd on 30 September 2019. As a result of the acquisition, the former shareholders of Adore Beauty Pty Ltd were issued shares in Tate TopCo Pty Ltd. Tate TopCo Pty Ltd and Tate BidCo Pty Ltd are newly formed entities that did not include a business and Adore Beauty Pty Ltd did not combine with any other business. Accordingly, the consolidated financial statements of Tate TopCo Pty Ltd have been prepared as a continuation of the business operations of Adore Beauty Pty Ltd and the results are from 1 July 2019.

The identifiable net assets are measured at book value. The excess between the purchase consideration and the existing Adore Beauty Pty Ltd book value of the identifiable net assets acquired is allocated to the corporate reorganisation reserve (refer note 41).

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Dividends are recognised when declared during the financial year and no longer at the discretion of the company.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Adore Beauty Group Limited, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the financial year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

Revenues, expenses and assets are recognised net of the amount of associated GST, unless the GST incurred is not recoverable from the tax authority. In this case it is recognised as part of the cost of the acquisition of the asset or as part of the expense.

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the statement of financial position.

Cash flows are presented on a gross basis. The GST components of cash flows arising from investing or financing activities which are recoverable from, or payable to the tax authority, are presented as operating cash flows.

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

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

Notes to the financial statements

30 June 2021

Note 1. Significant accounting policies continued

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2021. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

During the financial year, the International Financial Reporting Interpretations Committee (IFRIC) identified that various approaches to customisation and configuration costs for cloud computing arrangements were utilised by companies depending on internal policy. These policies varied from expensing all costs in full to capitalisation of all costs in full, with most entities taking a more nuanced approach in their capitalisation policy and differentiating between expenditure with different underlying fact patterns.

The Agenda Decision requires that management capitalise those elements of expenditure that meet the definition of an "Intangible Asset" as defined by AASB 138 *Intangible Assets* and recognise any additional amounts as an expense as the entity benefits from the expenditure – either by applying AASB 138 or applying another accounting standard. The impact of this decision has not had a material impact on the consolidated entity's financial statements.

There are no other standards that are not yet effective and that would be expected to have a material impact on the entity in the current or future reporting periods and on foreseeable future transactions.

Note 2. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Note 3. Operating segments

Identification of reportable operating segments

The consolidated entity operates in one segment being the sale of beauty and personal care products through its online platform. This operating segment is based on the internal reports that are reviewed and used by the Board of Directors (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources. There is no aggregation of operating segments.

The operating segment information is the same information as provided throughout the financial statements and therefore not duplicated. The information reported to the CODM is on at least a monthly basis.

Note 4. Revenue

	Consolidated	
	2021 $'000	2020 $'000
Revenue from contracts with customers		
Sale of products	179,277	121,137
Other revenue		
Other revenue	–	5
Revenue	**179,277**	**121,142**

Note 5. Other income

	Consolidated	
	2021 $'000	2020 $'000
Interest revenue calculated using the effective interest method	21	39
Other income	**21**	**39**

Notes to the financial statements

30 June 2021

Note 6. Expenses

	Consolidated	
	2021 $'000	2020 $'000
Profit before income tax includes the following specific expenses:		
Cost of sales		
Cost of sales	120,002	82,591
Depreciation		
Plant and equipment	232	207
Buildings right-of-use assets	484	533
Total depreciation	716	740
Amortisation		
Website	781	445
Patents and trademarks	2	5
Product development	2	–
Total amortisation	785	450
Total depreciation and amortisation	1,501	1,190
Finance costs		
Interest and finance charges paid/payable on borrowings	60	144
Interest and finance charges paid/payable on lease liabilities	65	77
Finance costs expensed	125	221
Net foreign exchange loss		
Net foreign exchange loss	30	63
Employee benefits expense		
Salaries, wages and contractor payments	14,862	9,631
Share-based payments expense	1,257	–
Defined contribution superannuation expense	1,056	847
Annual and long service leave	413	456
Other employee benefits expenses	653	509
	18,241	11,443

Note 7. Income tax expense

	Consolidated	
	2021 $'000	2020 $'000
Income tax expense		
Current tax benefit/(expense)	404	(2,795)
Deferred tax benefit/(expense) – origination and reversal of temporary differences	395	668
Aggregate income tax benefit/(expense)	**799**	**(2,127)**
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	46	898
Tax at the statutory tax rate of 30%	(14)	(270)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenditure	(28)	(14)
Options cancellation payment	–	(455)
Impact of ACA step downs	285	(1,388)
Share-based payments	(377)	–
Prior year overprovision	953	–
Sundry items	(20)	–
Income tax benefit/(expense)	**799**	**(2,127)**
Amounts charged/(credited) directly to equity		
Deferred tax assets (note 15)	2,784	–
	2,784	–

Note 8. Current assets – cash and cash equivalents

	Consolidated	
	2021 $'000	2020 $'000
Cash at bank	**29,002**	**16,558**

Notes to the financial statements

30 June 2021

Note 9. Current assets – trade and other receivables

	Consolidated	
	2021 $'000	2020 $'000
Trade receivables	501	674
Rebates accrued	157	1,245
GST receivable	–	127
Other receivables	–	41
	658	**2,087**

The ageing of the receivables and allowance for expected credit losses provided for above are as follows:

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
Consolidated	2021 %	2020 %	2021 $'000	2020 $'000	2021 $'000	2020 $'000
Not overdue	Nil%	Nil%	446	610	–	–
0 to 3 months overdue	Nil%	Nil%	53	60	–	–
3 to 6 months overdue	Nil%	Nil%	2	–	–	–
Over 6 months overdue	Nil%	Nil%	–	4	–	–
			501	**674**	**–**	**–**

Expected credit losses are nil (2020: Nil).

Note 10. Current assets – inventories

	Consolidated	
	2021 $'000	2020 $'000
Finished goods	**14,945**	**14,714**

Note 11. Current assets – other

	Consolidated	
	2021 $'000	2020 $'000
Prepayments	1,898	1,451
Accrued revenue	207	–
Right of return assets	–	220
	2,105	**1,671**

Note 12. Non-current assets – property, plant and equipment

	Consolidated	
	2021 $'000	2020 $'000
Plant and equipment – at cost	1,480	1,521
Less: Accumulated depreciation	(591)	(557)
	889	**964**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	$'000
Balance at 1 July 2019	733
Additions	444
Disposals	(6)
Depreciation expense	(207)
Balance at 30 June 2020	964
Additions	206
Disposals	(49)
Depreciation expense	(232)
Balance at 30 June 2021	**889**

Refer to note 27 for further information on fair value measurement.

Notes to the financial statements

30 June 2021

Note 13. Non-current assets – right-of-use assets

	Consolidated	
	2021 $'000	2020 $'000
Land and buildings – right-of-use	2,701	2,130
Less: Accumulated depreciation	(1,536)	(1,052)
	1,165	**1,078**

Lease modifications to right-of-use assets during the year were $571,000 (2020: $521,000).

The consolidated entity leases land and buildings for its offices and warehouse under agreements of between one to three years with, in some cases, options to extend. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated.

The consolidated entity leases office equipment under agreements of less than two years. These leases are either short-term or low-value, so have been expensed as incurred and not capitalised as right-of-use assets.

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	$'000
Balance at 1 July 2019	–
Adjustment on adoption of AASB 16	1,611
Depreciation expense	(533)
Balance at 30 June 2020	1,078
Additions	571
Depreciation expense	(484)
Balance at 30 June 2021	**1,165**

Note 14. Non-current assets – intangibles

	Consolidated	
	2021 $'000	2020 $'000
Website – at cost	4,551	2,749
Less: Accumulated amortisation	(2,079)	(1,214)
	2,472	1,535
Patents and trademarks – at cost	110	47
Less: Accumulated amortisation	(6)	(5)
	104	42
Product development – at cost	18	9
Less: Accumulated amortisation	(2)	–
	16	9
	2,592	**1,586**

Reconciliations

Reconciliations of the written down values at the beginning and end of the current and previous financial year are set out below:

Consolidated	Website $'000	Patents and trademarks $'000	Product development $'000	Total $'000
Balance at 1 July 2019	874	7	–	881
Additions	1,106	40	9	1,155
Amortisation expense	(445)	(5)	–	(450)
Balance at 30 June 2020	1,535	42	9	1,586
Additions	1,718	64	9	1,791
Amortisation expense	(781)	(2)	(2)	(785)
Balance at 30 June 2021	**2,472**	**104**	**16**	**2,592**

Notes to the financial statements

30 June 2021

Note 15. Non-current assets – deferred tax

	Consolidated	
	2021 $'000	2020 $'000
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Employee benefits	390	279
Plant and equipment	(387)	–
Lease liability	–	378
Right-of-use asset	(54)	(324)
Capitalised fees	398	537
Accrued expenses	138	9
IPO Costs – blackhole expenditure	795	–
Other items	10	16
	1,290	895
Amounts recognised in equity:		
Transaction costs on share issue	2,784	–
Deferred tax asset	4,074	895
Movements:		
Opening balance	895	176
Credited to profit or loss (note 7)	395	668
Credited to equity (note 7)	2,784	–
Adjustment on adoption of AASB 16	–	51
Closing balance	**4,074**	**895**

Note 16. Current liabilities – trade and other payables

	Consolidated	
	2021 $'000	2020 $'000
Trade payables	15,726	15,441
Gift voucher liability	1,329	1,246
Accrued expenses	2,430	370
Other payables	–	134
	19,485	**17,191**

Refer to note 27 for further information on financial instruments.

Note 17. Current liabilities – borrowings

	Consolidated	
	2021 $'000	2020 $'000
Trade finance facility	**–**	**3,212**
Total secured liabilities		
The total secured liabilities (current and non-current) are as follows:		
Trade finance facility	–	3,212
	–	**3,212**

Adore Beauty has entered into a facility agreement with Commonwealth Bank of Australia (the Lender) for the provision of debt financing of $10 million, comprising a three year multi-option revolving facility (Banking Facility). Funding provided under the Banking Facility will be used to refinance existing facilities and to fund the working capital purposes of the Group Companies. If capital expenditure is funded by the Banking Facility, the annual capital expenditure that may be funded under the Banking Facility is limited to $5 million in any financial year. Subject to customary carve-outs, the Banking Facility will be guaranteed by Adore Beauty and each other wholly-owned subsidiary of Adore Beauty required to meet the guarantor coverage test of 85% of consolidated EBITDA and total assets of the Group Companies. The Lender under the Banking Facility will have a general security over all of the assets of the Group Companies that are guarantors.

Assets pledged as security

Financial facilities are secured by a guarantee by the Company and each of its wholly owned subsidiaries. The lender has general security over all of the assets of the Group Companies that are guarantors.

Notes to the financial statements

30 June 2021

Note 17. Current liabilities – borrowings continued

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	Consolidated	
	2021 $'000	2020 $'000
Total facilities		
Multi-option revolving credit facility	10,000	–
Trade finance facility	–	3,212
	10,000	3,212
Used at the reporting date		
Multi-option revolving credit facility	–	–
Trade finance facility	–	3,212
	–	3,212
Unused at the reporting date		
Multi-option revolving credit facility	10,000	–
Trade finance facility	–	–
	10,000	–

Refer to note 27 for further information on financial instruments.

Note 18. Current liabilities – lease liabilities

	Consolidated	
	2021 $'000	2020 $'000
Lease liability	**420**	**589**

Refer to note 27 for further information on financial instruments.

Note 19. Current assets/Current liabilities – income tax

	Consolidated 2021 $'000	2020 $'000
CURRENT ASSET		
Current tax receivable	958	–
CURRENT LIABILITY		
Provision for income tax	–	1,732

Note 20. Current liabilities – employee benefits

	Consolidated 2021 $'000	2020 $'000
Employee benefits	**1,075**	**688**

Amounts not expected to be settled within the next 12 months

The current provision for employee benefits includes all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount is presented as current since the consolidated entity does not have an unconditional right to defer settlement.

Note 21. Non-current liabilities – lease liabilities

	Consolidated 2021 $'000	2020 $'000
Lease liability	**926**	**672**

Refer to note 27 for further information on financial instruments.

Note 22. Non-current liabilities – employee benefits

	Consolidated 2021 $'000	2020 $'000
Employee benefits	**223**	**109**

Notes to the financial statements

30 June 2021

Note 23. Equity – issued capital

	Consolidated			
	2021 Shares	2020 Shares	2021 $'000	2020 $'000
Ordinary shares – fully paid	**94,124,497**	**85,000,001**	**102,583**	**85,000**

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance at beginning of the period		750,000	–	
Shares relating to Adore Beauty Pty Ltd acquired by parent entity eliminated on consolidation		(750,000)		–
Issue of ordinary shares		85,000,001	$1.00	85,000
Balance	30 June 2020	85,000,001		85,000
Issue of loan shares to key personnel, escrowed until vested	31 August 2020	2,643,820		–
Return of capital	6 October 2020	–		(17,000)
Issue of shares	23 October 2020	555,343		576
Shares gifted to employees on Initial Public Offering	27 October 2020	41,333	$6.75	279
Issue of shares on Initial Public Offering ("IPO")	27 October 2020	5,884,000	$6.75	39,717
Equity-raising costs, net of income tax		–		(6,496)
Balance	**30 June 2021**	**94,124,497**		**102,076**

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Share buy-back

There is no current on-market share buy-back.

Capital risk management

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital. Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt. The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment.

The consolidated entity is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

The capital risk management policy remains unchanged from the 30 June 2020 Annual Report.

Note 24. Equity – reserves

	Consolidated	
	2021 $'000	2020 $'000
Corporate re-organisation reserve	(68,104)	(68,104)
Share based payments reserve	978	–
Foreign currency reserve	(5)	(5)
	(67,131)	(68,109)

Corporate re-organisation reserve

The reserve represents the difference between the fair value of the consideration paid and the book value of assets and liabilities acquired in a business combination. Refer to note 41.

Share-based payments reserve

The reserve is used to recognise share-based payments accrued as part of employee remuneration, including management equity plan shares that have vested but not yet exercised.

Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars. It is also used to recognise gains and losses on hedges of the net investments in foreign operations.

Movements in reserves

Movements in each class of reserve during the current and previous financial year are set out below:

Consolidated	Share-based payments $'000	Foreign currency $'000	Corporate re-organisation $'000	Total $'000
Balance at 1 July 2019	–	–	–	–
Corporate re-organisation of Adore Beauty Pty Ltd	–	–	(68,104)	(68,104)
Foreign currency translation	–	(5)	–	(5)
Balance at 30 June 2020	–	(5)	(68,104)	(68,109)
Share-based payment transactions	978	–	–	978
Balance at 30 June 2021	**978**	**(5)**	**(68,104)**	**(67,131)**

Notes to the financial statements

30 June 2021

Note 25. Equity – Accumulated losses

	Consolidated	
	2021 $'000	2020 $'000
Retained profits/(accumulated losses) at the beginning of the financial year	(1,531)	2,381
Adjustment on adoption of AASB 16: *Leases*	–	(120)
Adjustment due to corporate re-organisation	–	(1,149)
Retained profits/(accumulated losses) at the beginning of the financial year – restated	(1,531)	1,112
Profit/(Loss) after income tax expense for the year	845	(1,229)
Dividends paid (note 26)	–	(1,414)
Retained profits/(accumulated losses) at the end of the financial year	**(686)**	**(1,531)**

Note 26. Equity – dividends

Dividends

	Consolidated	
	2021 $'000	2020 $'000
Dividends paid during the financial year	**–**	**1,414**

No dividend has been declared during or since the end of the financial year.

Franking credits

	Consolidated	
	2021 $'000	2020 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	**2,953**	**474**

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for:

- franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date
- franking debits that will arise from the payment of dividends recognised as a liability at the reporting date
- franking credits that will arise from the receipt of dividends recognised as receivables at the reporting date.

Note 27. Financial instruments

Financial risk management objectives

The consolidated entity's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses derivative financial instruments such as forward foreign exchange contracts to hedge certain risk exposures. Derivatives are exclusively used for hedging purposes, i.e. not as trading or other speculative instruments. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate, foreign exchange and other price risks, ageing analysis for credit risk and beta analysis in respect of investment portfolios to determine market risk.

Risk management is carried out by senior finance executives ('finance') under policies approved by the Board of Directors ('the Board'). These policies include identification and analysis of the risk exposure of the consolidated entity and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the consolidated entity's operating units. Finance reports to the Board on a monthly basis.

Market risk

Foreign currency risk

The consolidated entity undertakes certain transactions denominated in foreign currency and is exposed to foreign currency risk through foreign exchange rate fluctuations.

Foreign exchange risk arises from future commercial transactions and recognised financial assets and financial liabilities denominated in a currency that is not the entity's functional currency. The risk is measured using sensitivity analysis and cash flow forecasting.

Price risk

The consolidated entity is not exposed to any significant price risk.

Interest rate risk

The consolidated entity is not exposed to any significant interest rate risk.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The consolidated entity has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The consolidated entity obtains guarantees where appropriate to mitigate credit risk. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

The consolidated entity has adopted a lifetime expected loss allowance in estimating expected credit losses to trade receivables through the use of a provisions matrix using fixed rates of credit loss provisioning. These provisions are considered representative across all customers of the consolidated entity based on recent sales experience, historical collection rates and forward-looking information that is available.

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than one year.

Liquidity risk

Vigilant liquidity risk management requires the consolidated entity to maintain sufficient liquid assets (mainly cash and cash equivalents) and available borrowing facilities to be able to pay debts as and when they become due and payable.

The consolidated entity manages liquidity risk by maintaining adequate cash reserves and available borrowing facilities by continuously monitoring actual and forecast cash flows and matching the maturity profiles of financial assets and liabilities.

Notes to the financial statements

30 June 2021

Note 27. Financial instruments continued

Financing arrangements

Unused borrowing facilities at the reporting date:

	Consolidated 2021 $'000	Consolidated 2020 $'000
Multi-option revolving credit facility	10,000	–

Subject to the continuance of satisfactory credit ratings, the multi-option revolving credit facility may be drawn at any time and is subject to annual review by the bank.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the statement of financial position.

Consolidated – 2021	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Trade payables	–	15,726	–	–	–	15,726
Lease liabilities	5%	420	376	550	–	1,346
Total		16,146	376	550	–	17,072

Consolidated – 2020	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Trade payables	–	15,441	–	–	–	15,441
Other payables	–	134	–	–	–	134
Bank overdraft	2.85%	3,212	–	–	–	3,212
Lease liabilities	5%	589	420	252	–	1,261
Total		19,376	420	252	–	20,048

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value of financial instruments

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 28. Key management personnel disclosures

Compensation

The aggregate compensation made to directors and other members of key management personnel of the consolidated entity is set out below:

	Consolidated	
	2021 $	2020 $
Short-term employee benefits	1,330,791	608,777
Post-employment benefits	97,599	58,264
Long-term benefits	16,424	53,948
Share-based payments	726,357	–
	2,171,171	**720,989**

Note 29. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Grant Thornton Audit Pty Ltd, the auditor of the company, its network firms and unrelated firms:

	Consolidated	
	2021 $	2020 $
Audit services – Grant Thornton Audit Pty Ltd		
Audit or review of the financial statements	140,000	84,000
Other services – Grant Thornton Audit Pty Ltd		
Due diligence services in respect of IPO	336,600	–
	476,600	**84,000**

Note 30. Contingent liabilities

The consolidated entity has no contingent liabilities as at 30 June 2021 (2020: $nil).

Note 31. Commitments

There were no material capital commitments at reporting date that were not recognised as liabilities.

Notes to the financial statements

30 June 2021

Note 32. Related party transactions

Parent entity

Adore Beauty Group Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 34.

Key management personnel

Disclosures relating to key management personnel are set out in note 28 and the remuneration report included in the directors' report.

Transactions with related parties

The following transactions occurred with related parties:

	Consolidated	
	2021 $	2020 $
Payment for goods and services:		
Purchase of goods from director related entities	25,684	19,170

Receivable from and payable to related parties

The following balances are outstanding at the reporting date in relation to transactions with related parties:

	Consolidated	
	2021 $	2020 $
Current payables:		
Trade payables to director related entities	2,163	4,809

Loans to/from related parties

There were no loans to or from related parties at the current and previous reporting date.

Terms and conditions

All transactions were made on normal commercial terms and conditions and at market rates.

Note 33. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	Parent	
	2021 $'000	2020 $'000
Profit/(Loss) after income tax	(6,716)	–
Total comprehensive income	(6,716)	–

Statement of financial position

	Parent	
	2021 $'000	2020 $'000
Total current assets	1,249	–
Total assets	97,417	85,000
Total current liabilities	122	–
Total liabilities	1,079	–
Equity		
Issued capital	102,076	85,000
Reserves	978	–
Retained profits/(Accumulated Losses)	(6,716)	–
Total equity	**96,338**	**85,000**

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

i. The parent entity has entered into a cross deed of guarantee with the subsidiaries listed in note 42.

ii. The parent entity has provided a guarantee in respect of a facility agreement with Commonwealth Bank of Australia (the Lender) for the provision of debt financing of $10 million. Refer to note 17 for further information in respect of the facility.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2021 and 30 June 2020.

Notes to the financial statements

30 June 2021

Note 33. Parent entity information continued

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 1, except for the following:

- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 34. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following wholly-owned subsidiaries in accordance with the accounting policy described in note 1:

		Ownership interest	
Name	Principal place of business/ Country of incorporation	2021 %	2020 %
Tate Midco Pty Ltd	Australia	100.00%	100.00%
Tate Bidco Pty Ltd	Australia	100.00%	100.00%
Adore Beauty Pty Ltd	Australia	100.00%	100.00%
Northside Brands Pty Ltd	Australia	100.00%	–
Jakat Pte Ltd	Singapore	100.00%	100.00%

Note 35. Events after the reporting period

No other matter or circumstance has arisen since 30 June 2021 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	Consolidated	
	2021 $'000	2020 $'000
Profit/(loss) after income tax expense for the year	845	(1,229)
Adjustments for:		
Depreciation and amortisation	1,501	1,190
Net gain on disposal of non-current assets	41	–
Share-based payments	1,257	–
Foreign exchange differences	–	(5)
Interest expense reclassified to financing activities	125	221
Share option payout and acquisition fee reclassified to financing activities	–	3,248
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	1,429	(1,455)
Decrease in inventories	(231)	(7,586)
Increase in deferred tax assets	(395)	–
Increase in other current assets	(434)	–
Increase in other operating assets	–	(997)
Increase/(decrease) in trade and other payables	2,294	9,851
Increase/(decrease) in provision for income tax	(2,690)	1,758
Increase/(decrease) in deferred tax liabilities	–	(668)
Increase in employee benefits	501	456
Net cash from operating activities	**4,243**	**4,784**

Note 37. Non-cash investing and financing activities

	Consolidated	
	2021 $'000	2020 $'000
Modifications to right-of-use assets	**571**	**–**

Notes to the financial statements

30 June 2021

Note 38. Changes in liabilities arising from financing activities

Consolidated	Bank loans $'000	Lease Liability $'000	Total $'000
Balance at 1 July 2019	1,102	–	1,102
Adoption of AASB 16	–	1,782	1,782
Net cash from/(used) in financing activities	2,110	(521)	1,589
Balance at 30 June 2020	3,212	1,261	4,473
Net cash from/(used in) financing activities	(3,212)	(486)	(3,698)
Lease modification	–	571	571
Balance at 30 June 2021	**–**	**1,346**	**1,346**

Note 39. Earnings per share

	Consolidated	
	2021 $'000	2020 $'000
Profit after income tax attributable to the owners of Adore Beauty Group Limited	**845,000**	**(1,234,000)**

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	91,907,718	63,822,405
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	414,383	–
Weighted average number of ordinary shares used in calculating diluted earnings per share	**92,322,101**	**63,822,405**

Note 40. Share-based payments

(a) Management Equity Plan

(i) Details of the Management Equity Plan of the Company

The Company previously established an equity incentive plan under which key personnel received ordinary shares as part of their incentive arrangements (Management Equity Plan). Equity issued under the Management Equity Plan will be dealt with as follows to ensure that participants continue to be motivated to achieve sustained growth for shareholders following listing on the Australian Stock Exchange (Listing). Key personnel were entitled to convert their existing management shares into ordinary shares immediately prior to the Company Listing. The existing management shares are loan backed shares pursuant to which the Company has loaned participants monies to fund part or all of the purchase of management shares under a Management Equity Plan. The ordinary shares issued on conversion of the management shares (Loan Shares) will continue to be subject to loan repayment and may also be subject to vesting conditions.

A summary of the material terms and conditions of the Loan Shares is as follows:

- The loan attaching to Loan Shares is limited recourse and must be repaid out of any proceeds from the sale of the Loan Shares.
- The Loan Shares are subject to the Company's Securities Trading Policy and to escrow arrangements as part of the Listing.

(ii) Management Equity Plan shares issued during the period

During the period, the Company granted 2,643,820 Loan Shares to eligible personnel.

(iii) Movements in Management Equity Plan Shares during the period

The following reconciles the management equity plan shares outstanding at the beginning and end of the period.

	Year ended 30/6/21 No.	Year ended 30/6/20 No.
Balance at the beginning of the period	–	–
Granted during the year	2,643,820	–
Balance at the end of the period	**2,643,820**	**–**

(iv) The following Management Equity Plan Shares were in existence at the end of the period.

No.	Grant date	Vesting date	Exercise price
1,688,468	30/7/2020	Listing date	$1.00
21,712	31/8/2020	Listing date	$1.00
217,126	31/8/2020	Listing date	$1.00
21,713	31/8/2020	30/6/2021	$1.00
217,125	31/8/2020	30/6/2021	$1.00
21,712	31/8/2020	30/6/2022	$1.00
217,126	31/8/2020	30/6/2022	$1.00
21,713	31/8/2020	30/6/2023	$1.00
217,125	31/8/2020	30/6/2023	$1.00

2,166,144 of the Management Equity Plan Shares have vested, but have not been exercised as at the end of the reporting period.

(b) Long-term Incentive Plan

(i) Details of the Long-Term Incentive Plans of the Company

The Company has established a long term incentive plan (LTIP) to assist in the motivation, retention and reward of eligible employees. The LTIP is designed to align the interests of employees with the interests of Shareholders by providing an opportunity for employees to receive an equity interest in the Company. The LTIP provides flexibility for the Company to grant options to acquire Shares, rights to acquire Shares and/or Shares as Incentives, subject to the terms of individual offers.

(ii) Long-Term Incentive Plan options issued during the period:

Under the LTIP, the Directors have made initial grants of long term incentives in the form of New Options to selected Key Management Personnel and other key employees of the Company prior to listing. The New Options will vest based upon performance of the Company measured at the end of the performance period which commences on the date of the grant and which ends on 30 June 2024.

Notes to the financial statements

30 June 2021

Note 40. Share-based payments continued

Of the total number of options granted to the LTIP offer:

- 50% will be subject to the satisfaction of a Vesting Condition relating to the Company's revenue at the end of the performance period (Revenue Component); and
- 50% will be subject to the satisfaction of a Vesting Condition relating to the Company's EBITDA growth during the performance period (EBITDA Component).

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
New options	605,000	6/10/2020	30/06/2024	30/06/2026	$6.75	$3.52

(iii) Fair value of share options granted during the period

The fair value of the share options granted during the financial period is $3.52. Options were valued using the Binomial pricing model. Where relevant, the expected life used in the model has been adjusted based on management's best estimate for the effects of non-transferability, exercise restrictions (including the probability of meeting market conditions attached to the option), and behavioural considerations.

Inputs into the model:

Grant date share price:	$6.75	Exercise price:	$6.75
Expected volatility:	50%	Options life:	5.5 years
Dividend yield:	Nil	Risk-free interest rate:	1.0%

(iv) Share options exercised during the year

There were no share options exercised during the period year or the prior corresponding period.

(v) Movements in share options during the period

The following reconciles the share options outstanding at the beginning and end of the period.

	Year ended 30/6/21	Year ended 30/6/21	Year ended 30/6/20	Year ended 30/6/20
	Number of options	Weighted average exercise price	Number of options	Weighted Average Exercise Price
Balance at the beginning of the year	–	–	–	–
Granted during the year	605,000	$6.75	–	–
Forfeited during the year	–	–	–	–
Balance at the end of the year	**605,000**	**$6.75**	**–**	**–**

(vi) The following share-based payment options were in existence at the end of the current period

Option series	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
New options	605,000	6/10/2020	30/06/2024	30/06/2026	$6.75	$3.52

No options have vested to date.

(vii) Employee gift shares

Eligible employees were gifted an allocation of $1,000 worth of shares as part of the IPO. The total amount of share based payments relating to gifted shares was $278,564.

Note 41. Corporate reorganisation and business combination

On 19 September 2019 Tate TopCo Pty Ltd, Tate MidCo Pty Ltd and Tate BidCo Pty was incorporated in order to facilitate the purchase of Adore Beauty Pty Ltd. Effective 30 September 2019, Tate BidCo Pty Ltd acquired 100% of the ordinary shares of Adore Beauty for the total consideration transferred $69,252,224. As a result of the acquisition, the former shareholders of Adore Beauty Pty Ltd were issued shares in Tate Topco Pty Ltd. At the date of the transaction, it was determined that Tate TopCo Pty Ltd ("ultimate parent entity") or Tate BidCo Pty Ltd was not a business. For accounting purposes, the acquisition has been accounted for under the predecessor value method. Accordingly, the consolidated financial statements of Tate TopCo Pty Ltd have been prepared as a continuation of the business and operations of Adore Beauty Pty Ltd.

Under the acquisition, Tate BidCo Pty Ltd acquired all the shares in Adore Beauty Pty Ltd by issuing 34,000,000 shares in Tate TopCo Pty Ltd and paying $34,802,221 to the original shareholders of Adore Beauty Pty Ltd. The pre-acquisition equity balances of Adore Beauty Pty Ltd were eliminated against the increase in share capital upon consolidation. The identifiable net assets are measured at book value. The excess between the purchase consideration and the book value of the identifiable net assets acquired is allocated to the corporate reorganisation reserve.

Details of the corporate reorganisation are as follows:

	Cost $'000
Cash and cash equivalents	1,346
Trade and other receivables	1,656
Inventories	9,544
Property, plant and equipment	1,012
Right-of-use assets	1,478
Intangible assets	678
Deferred tax asset	229
Trade and other payables	(11,071)
Employee benefits	(402)
Bank loans	(1,664)
Lease liability	(1,657)
Net assets acquired	**1,149**
Representing:	
Investment	(85,000)
Corporate restructure reserve	68,104
Acquisition costs	1,858
Repayment of borrowings	1,664
Share options cancellation fee	1,518
Net assets acquired	1,149
Net cash acquired	**(10,707)**

Notes to the financial statements

30 June 2021

Note 42. Deed of cross guarantee

The following entities are party to a deed of cross guarantee under which each company guarantees the debts of the others:

Adore Beauty Group Ltd

Adore Beauty Pty Ltd

Tate Midco Pty Ltd

Tate Bidco Pty Ltd

Jakat Pte Ltd

By entering into the deed, the wholly-owned entities have been relieved from the requirement to prepare financial statements and directors' report under Corporations Instrument 2016/785 issued by the Australian Securities and Investments Commission.

The above companies represent a 'Closed Group' for the purposes of the Corporations Instrument, and as there are no other parties to the deed of cross guarantee that are controlled by Adore Beauty Group Limited, they also represent the 'Extended Closed Group'.

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

Statement of profit or loss and other comprehensive income	2021 $'000	2020 $'000
Revenue	179,277	121,142
Cost of sales	(120,001)	(82,591)
Other income	21	39
Advertising and marketing expense	(23,073)	(14,024)
Employee benefits expense	(18,241)	(11,443)
Initial public offering and transactions costs	(5,322)	–
Depreciation and amortisation expense	(1,501)	(1,190)
Finance costs	(125)	(221)
Other operating expenses	(10,985)	(10,814)
Profit before income tax expense	**50**	**898**
Income tax expense	799	(2,127)
Profit after income tax expense	**849**	**(1,229)**
Other comprehensive income		
Other comprehensive income for the year, net of tax	–	(5)
Total comprehensive income for the year	**849**	**(1,234)**

	2021 $'000	2020 $'000
EQUITY – RETAINED PROFITS		
Retained profits/(Accumulated losses) at the beginning of the financial year	(1,531)	1,112
Profit after income tax expense	849	(1,229)
Dividends paid	–	(1,414)
Retained profits/(Accumulated losses) at the end of the financial year	(682)	(1,531)
STATEMENT OF FINANCIAL POSITION		
Current assets		
Cash and cash equivalents	29,002	16,558
Trade and other receivables	665	2,087
Current tax receivable	958	–
Inventories	14,945	14,714
Other	2,105	1,671
	47,675	35,030
Non-current assets		
Property, plant and equipment	889	964
Right-of-use assets	1,165	1,078
Intangibles	2,589	1,586
Deferred tax	4,074	895
	8,717	4,523
Total assets	**56,392**	**39,553**
CURRENT LIABILITIES		
Trade and other payables	19,485	17,191
Borrowings	–	3,212
Lease liabilities	420	589
Income tax	–	1,732
Employee benefits	1,075	688
	20,980	23,412
Non-current liabilities		
Borrowings		
Lease liabilities	926	672
Employee benefits	223	109
	1,149	781
Total liabilities	**22,129**	**24,193**
Net assets	**34,263**	**15,360**
EQUITY		
Issued capital	102,076	85,000
Reserves	(67,131)	(68,109)
Retained profits/(Accumulated losses)	(682)	(1,531)
Total equity	**34,263**	**15,360**

Directors' declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2021 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable; and

The directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

Justin Ryan

Justin Ryan
Chair

30 August 2021

Independent auditor's report

Grant Thornton

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Independent Auditor's Report

To the Members of Adore Beauty Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Adore Beauty Group Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the financial report in Australia. We have also fulfilled our other ethical responsibilities in accordance with the Code.

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

Independent auditor's report

Grant Thornton

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Revenue recognition Note 1 & Note 4	
Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery and the performance obligation is satisfied. Revenue is only recognised when delivery is made to the customer which requires an assessment at the end of the reporting period for all orders shipped but not yet delivered. This area is a key audit matter due to the judgement involved in this assessment and the volume of online retail transactions processed on a daily basis.	Our procedures included, amongst others: • understanding and testing the operating effectiveness of controls over the process to enter into, measure and record revenue transactions; • performing an assessment of revenue transactions recorded at year end to ensure revenue has been recorded in the correct period and for sales transactions that were not delivered to the customer were appropriately included as a contract liability; • selecting a sample of sales recorded throughout the year and obtained supporting documentation to validate occurrence and accuracy; • considered whether customer returns, and credit notes issued post year end that related to sales recognised in the 2021 financial year were recorded in the correct period; • assessing whether the revenue recognition policy applied to the terms and conditions of sale were in accordance with AASB 15 *Revenue from Contract with Customers*; and • reviewing the adequacy of related disclosures in the financial report.

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

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon.

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

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

Responsibilities of the Directors for the financial report

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

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

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Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: https://www.auasb.gov.au/auditors_responsibilites/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 6 to 15 of the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of Adore Beauty Group Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

egangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 30 August 2021

Shareholder information

Voting rights

Ordinary Shares: On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote for each fully paid share held by the member.

There are currently 94,124,497 Ordinary Fully Paid Shares on issue.

Holders of options have no voting rights.

The below information is current as at 7 September 2021.

Distribution of equity securities

Analysis of number of equity security holders (fully paid ordinary shares) by size of holding:

Range	Number of holders	% of holders	Number of securities	% of securities
1 to 1,000	4,145	76.76	1,330,010	1.41
1,001 to 5,000	963	17.83	2,220,067	2.36
5,001 to 10,000	172	3.19	1,291,559	1.37
10,001 to 100,000	99	1.83	2,339,988	2.49
100,001 and over	21	0.39	86,942,873	92.37
Total number of security holders	**5,400**	**100.00**	**94,124,497**	**100.00**
Holders holding less than a marketable parcel of shares*	**522**	**9.67**	**37,037**	**0.039**

*marketable parcel of shares calculated based on closing market price on 7 September 2021 of $5.080

Restricted securities and voluntary escrow

There are no restricted securities (as defined by the ASX Listing Rules) on issue and no securities are currently subject to voluntary escrow arrangements.

On-market buy back

There is no current on-market buy back.

Total of quoted and restricted securities

Fully paid ordinary shares (quoted securities)	**94,124,497**
Total number of shares	**94,124,497**

Unquoted securities

Type of security	Number of holders	Number of securities
Options	2	605,000

Option shares

Range	Number of holders	% of holders	Number of securities	% of securities
1 to 1,000	0	0	0	0
1,001 to 5,000	0	0	0	0
5,001 to 10,000	0	0	0	0
10,001 to 100,000	1	50	50,000	8.26
100,001 and over	1	50	555,000	91.74
Total number of security holders	**2**	**100**	**605,000**	**100.00**

Twenty largest quoted equity security holders

No.	Shareholder	Number of Shares	% of issued equity
1	QPE GROWTH, LP	30,600,001	32.51
2	CITICORP NOMINEES PTY LIMITED	17,151,223	18.22
3	KATY ANN MORRIS	10,200,000	10.84
3	JAMES ALEXANDER HEIGHT	10,200,000	10.84
4	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	6,150,459	6.53
5	J P MORGAN NOMINEES AUSTRALIA PTY LIMITED	3,258,573	3.46
6	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,444,852	1.54
7	BNP PARIBAS NOMS PTY LTD	922,222	0.98
8	TENNEALLE O'SHANNESSY	868,502	0.92
9	BNP PARIBAS NOMINEES PTY LTD	840,611	0.89
10	MRS SARAH MARY MENZIES MULLEN	823,192	0.87
11	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED - A/C 2	818,407	0.87
12	SKIP ENTERPRISES PTY LTD	627,296	0.67
13	DANIEL ANDREW FERGUSON	619,452	0.66
14	GARETH WILLIAMS	597,427	0.63
15	NATIONAL NOMINEES LIMITED	509,403	0.54
16	CS THIRD NOMINEES PTY LIMITED	498,612	0.53
17	WARBONT NOMINEES PTY LTD	273,701	0.29
18	HAJA HOLDINGS PTY LTD ACN 642 738 172	203,740	0.22
19	CITICORP NOMINEES PTY LIMITED	183,061	0.19
20	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	152,139	0.16
	Total	**86,942,873**	**92.37**
	Balance of register	**7,181,624**	**7.63**
	Grand total	**94,124,497**	**100.00**

Shareholder information

Substantial holders

Shareholder	Date of notice	Number of shares	% of issued equity[1]
QPE Growth, LP	27/10/2020	30,600,001	32.51
Kate Morris	27/10/2020	20,400,000	21.67
James Height	27/10/2020	20,400,000	21.67
Morgan Stanley and its subsidiaries	3/12/2020	7,181,319	7.63
Mitsubishi UFJ Financial Group, Inc.	4/12/2020	7,181,319	7.63
Challenger Limited and entities	26/11/2020	4,929,496	5.24
Greencape Capital Pty Ltd	26/11/2020	4,929,496	5.24

1. Percentage of issued equity held as disclosed in the substantial holding notices provided to the Company.

Corporate Governance Statement

Adore Beauty is committed to achieving and demonstrating the highest standards of corporate governance to protect and enhance stakeholder interests.

Adore Beauty has adopted and has substantially complied with the ASX Corporate Governance Principles and Recommendations (Fourth Edition) (‘**Recommendations’**) to the extent appropriate to the size and nature of its operations.

Adore Beauty’s Corporate Governance Statement, which sets out further details of the corporate governance practices and identifies and explains any Recommendations that have not been followed can be found at the Adore Beauty website (https://www.adorebeautygroup.com.au/investor-centre/?page=corporate-governance).

Corporate Directory

Directors

Justin Ryan – Non-executive Chair

Kate Morris – Executive Director

James Height – Executive Director

Sandra Birkensleigh – Non-executive Director

Marina Go – Non-executive Director

Company secretaries

Stephanie Carroll

Melissa Jones

Registered office

Level 1
421 High Street
Northcote VIC 3070
Phone: (03) 9344 1671

Principal place of business

Level 1

421 High Street

Northcote VIC 3070

Share register

Link Market Services
Level 12
680 George Street
Sydney NSW 2000
Phone: 1300 554 474

Auditor

Grant Thornton Audit Pty Ltd
Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3008

Solicitor

Gilbert + Tobin
Level 35
International Towers Sydney
200 Barangaroo Avenue
Sydney NSW 2000

Stock exchange listing

Adore Beauty Group Limited shares are listed on the Australian Securities Exchange (ASX code: ABY)

Website

www.adorebeautygroup.com.au

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