

# ADOREBEAUTY



## ADORE BEAUTY GROUP LIMITED

### APPENDIX 4E & FINANCIAL STATEMENTS FOR THE YEAR ENDED 30 JUNE 2022

ACN: 636 138 988  
ASX Code: ABY

**Adore Beauty Group Limited**  
**Appendix 4E**  
**Preliminary final report**

**1. Company details**

Name of entity:	Adore Beauty Group Limited
ABN:	78 636 138 988
Reporting period:	For the year ended 30 June 2022
Previous period:	For the year ended 30 June 2021

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

			<b>\$'000</b>
Revenues from ordinary activities	up	11 % to	199,660
Profit from ordinary activities after tax attributable to the owners of Adore Beauty Group Limited	up	181 % to	2,377
Profit for the year attributable to the owners of Adore Beauty Group Limited	up	181 % to	2,377

*Dividends*

No dividends were paid during the year ended 30 June 2022.

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

*Comments*

The profit for the consolidated entity after providing for income tax and non-controlling interests amounted to \$2,377,000 (30 June 2021: \$845,000).

Revenue for the year was \$200 million which was an increase of 11% over the previous year. Revenue growth is attributable to the strong growth in Active customers, which increased 7% over the previous financial year to 871,697. There were 399,470 new customers acquired.

Further commentary on the operating results can be found in the 'Review of Operations' section within the Directors' Report of the Annual Financial report.

**3. Net tangible assets**

	<b>Reporting period cents</b>	<b>Previous period cents</b>
Net tangible assets per ordinary security	<u>36 cents</u>	<u>33 cents</u>

**4. Control gained over entities**

Not applicable.

**5. Loss of control over entities**

Not applicable.

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**6. Details of associates and joint venture entities**

Not applicable.

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**7. Audit qualification or review**

*Details of audit/review dispute or qualification (if any):*

The financial statements have been audited and an unmodified opinion has been issued.

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**8. Attachments**

*Details of attachments (if any):*

The Annual Financial Report of Adore Beauty Group Limited for the year ended 30 June 2022 is attached.

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**9. Signed**



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Marina Go  
Chair  
29 August 2022

# **Adore Beauty Group Limited**

**ABN 78 636 138 988**

## **Annual Financial Report 30 June 2022**

**Adore Beauty Group Limited**  
**Corporate directory**  
**30 June 2022**

Directors	Marina Go – Non-Executive Chair (appointed 6 October 2020, appointed Non-Executive Chair 1 November 2021) Kate Morris – Executive Director James Height – Executive Director Sandra Birkenleigh – Non-Executive Director Lisa Hennessy – Non-Executive Director (appointed 3 June 2022) Justin Ryan – Non-Executive Chair (resigned 1 November 2021)
Company secretary	Stephanie Carroll Melissa Jones
Registered office	Level 1 421 High Street Northcote VIC 3070
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
Solicitors	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	<a href="http://www.adorebeauty.com.au">www.adorebeauty.com.au</a>

**Adore Beauty Group Limited**  
**Directors' report**  
**30 June 2022**

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 2022.

**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:

Marina Go  
Kate Morris  
James Height  
Sandra Birkenleigh  
Lisa Hennessy (appointed 3 June 2022)  
Justin Ryan (resigned 1 November 2021)

**Principal activities**

Adore Beauty generates its revenue through online sales of 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:

- **Product Offering:** 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 270 brands and 12,000 products (including exclusives). Adore Beauty provides brands with access to a large, engaged customer base and a strong marketing platform;
- **Exceptional customer experience:** Adore Beauty seeks to provide customers with an outstanding online shopping experience through personalisation and fulfilment through a seamless transaction experience;
- **Content, Loyalty and Owned Media:** Adore Beauty combines media and e-commerce in an integrated platform providing engaging content and cost effectively driving traffic to owned channels. The loyalty program and the mobile app drive retention, increased frequency and increasing 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. No dividends were paid in the previous financial year.

**Review of operations**

Revenue for the year was \$200 million which was an increase of 11% over the previous year and 28% on a 2-year CAGR basis. Revenue growth was driven by returning customers which grew 31% on prior year and 47% on a 2-year CAGR basis. Active customers were 872k which was an increase of 7% over the previous year and 22% on a 2-year CAGR basis. Gross profit margin of 33.3%, up 0.3 percentage points on PCP, underpinned by improved supplier terms and increased brand co-funding.

Adore Beauty continues to execute on longer-term strategic initiatives to grow revenue, acquire and retain customers with higher lifetime value, improve gross profit margin and reduce marketing expense. Adore Beauty's mobile app is scaling well, contributing 11.3% of revenue in FY22. The Company's loyalty program is also contributing to growth with members accounting for 60% of revenues in FY22 with continued strong member sign-ups. In June 2022, Adore Beauty launched its first owned skincare brand, Viviology.

Profit after tax was \$2,377,000 (FY21: \$845,000).

Adore Beauty drove positive cash flows, with an ending cash balance of \$29.8 million as at 30 June 2022, which was up \$0.8 million on prior year. This includes the increase in inventory levels, which was above the prior year to support continued growth. However, inventory turnover was 8.2x which was in line with the prior year. Investment was also made into our owned brand label, and website and mobile app development. With balance sheet flexibility, Adore Beauty will step up its investment in key strategic initiatives that drive margin expansion. In FY23, Adore Beauty will double its investment in owned brands to support scaling revenue and margin expansion.

### **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 long-term strategy to drive earnings accretion. The drivers of earnings accretions are outlined below:

1. **Grow product offering:** Increase core skincare, haircare, makeup product offering. Expand adjacencies in new and emerging categories. Find new addressable markets.
2. **Personalisation and mobile app:** Scale mobile app to approximately 30% of revenues. Increase data-driven personalisation. Improve the user experience, site speed and conversion.
3. **Content, loyalty and owned media:** Expand content and owned media channels. Increase brand co-funding. Expand loyalty program. Grow brand awareness.
4. **Owned brands and international:** Launch, scale and acquire owned brands providing international expansion and new distribution channels. Increase footprint in New Zealand. Expand to new geographic regions.

### **Significant changes in the state of affairs**

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

### **Matters subsequent to the end of the financial year**

On 10 August 2022, it was announced the consolidated entity's Chief Executive Officer, Tennealle O'Shannessy has resigned and will leave Adore Beauty by February 2023. An executive search is currently underway for a replacement.

No other matters or circumstance has arisen since 30 June 2022 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.

**Adore Beauty Group Limited**  
**Directors' report**  
**30 June 2022**

**Information on directors**

<b>Name:</b>	<b>Marina Go</b>
Title:	Non-Executive Chair
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 <sup>1</sup> :	Non-executive director of Autosports Group Ltd (appointed October 2016), Non-executive director of Transurban Group (appointed 1 December 2021).
Former directorships (last 3 years) <sup>2</sup> :	Non-executive director of Pro-Pac Packaging Ltd (appointed 2018, resigned 23 November 2021), Non-executive director of Booktopia Group Ltd (appointed November 2020, resigned 31 March 2022)
Special responsibilities:	Chair of the People and Remuneration Committee (until 3 June 2022) Member of the Audit and Risk Management Committee
Interests in shares:	27,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

<b>Name:</b>	<b>Kate Morris</b>
Title:	Executive Director (part-time)
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 ORIs in 2017.
Other current directorships <sup>1</sup> :	Nil
Former directorships (last 3 years) <sup>2</sup> :	Nil
Special responsibilities:	Chief of Innovation Member of the People and Remuneration Committee
Interests in shares:	10,400,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

<b>Name:</b>	<b>James Height</b>
Title:	Executive Director (part-time)
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 <sup>1</sup> :	Nil
Former directorships (last 3 years) <sup>2</sup> :	Nil
Special responsibilities:	Chief of Data and Analytics Member of the Audit and Risk Management Committee (between 5 November 2021 and 3 June 2022)
Interests in shares:	10,400,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None



**Adore Beauty Group Limited**  
**Directors' report**  
**30 June 2022**

<b>Name:</b>	<b>Sandra Birkenleigh</b>
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 <sup>1</sup> :	Non-executive director of Collection House Ltd (appointed September 2018) 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) <sup>2</sup> :	Nil
Special responsibilities:	Chair of the Audit and Risk Management Committee Member of the People and Remuneration Committee
Interests in shares:	7,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

<b>Name:</b>	<b>Lisa Hennessy</b>
Title:	Non-Executive Director
Qualifications:	B.Sci (Electrical Engineering), MBA, GAICD
Experience and expertise:	Lisa has extensive non-executive director experience across listed, private and not-for-profit organisations. Lisa is currently Lead Independent and Non-Executive Director of ASX listed Nitro Software Limited and a Non-Executive Director of Cleanspace Holdings Limited. Previously, Ms Hennessy has held executive roles within global organisations and enterprise software businesses, including Bain, General Electric and Del Monte Foods working across the USA, Australia and EMEA. Lisa is a graduate of Australian Institute of Company Directors
Other current directorships <sup>1</sup> :	Non-executive director of Cleanspace Holdings Ltd (appointed December 2021) Non-executive director of Nitro Software Ltd (appointed November 2019)
Former directorships (last 3 years) <sup>2</sup> :	Nil
Special responsibilities:	Chair of the People and Remuneration Committee (from 3 June 2022) Member of the Audit and Risk Management Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None

<b>Name:</b>	<b>Justin Ryan</b>
Title:	Non-Executive Chairman (resigned 1 November 2021)
Qualifications:	B.Ec., B.Law, 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 <sup>1</sup> :	Nil

**Adore Beauty Group Limited**  
**Directors' report**  
**30 June 2022**

Former directorships (last 3 years) <sup>2</sup> :	Nil
Special responsibilities:	Chair
Interests in shares:	Nil
Interests in options:	None
Contractual rights to shares:	None

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

**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 Practising 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 20 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 2022, 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
Marina Go	14	14	4 <sup>1</sup>	4	5	5
Kate Morris	13	14	5	5	-	-
James Height	14	14	-	-	4 <sup>2</sup>	4
Sandra Birkenleigh	14	14	5	5	5	5
Lisa Hennessy	2 <sup>3</sup>	2	1	1	1	1
Justin Ryan	6 <sup>4</sup>	6	-	-	2	2

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

The Board also convenes special committee meetings from time to time as may be required. There were two special purpose Board committee meetings held during the year. The Director attendees of these meetings were Justin Ryan and Sandra Birkenleigh for the first meeting and Marina Go and Sandra Birkenleigh for the second meeting.

<sup>1</sup> Marina Go was Chair and a member of the People and Remuneration Committee until 3 June 2022.

<sup>2</sup> James Height was a member of the Audit and Risk Management Committee between 5 November 2021 and 3 June 2022.

<sup>3</sup> Lisa Hennessy was appointed as a Director on 3 June 2022.

<sup>4</sup> Justin Ryan ceased as a Director on 1 November 2021.

## **Remuneration Report**

Dear Shareholder,

On behalf of the Board, we are pleased to present Adore Beauty's Remuneration Report for the financial year ended 30 June 2022.

### **Overview**

- **Financial Performance**

The 2022 financial year saw the delivery of \$200 million in revenue, which was an increase of 11% over the previous year and 28% on a 2-year CAGR basis. This was achieved even though FY22 saw the continued presence of global supply chain challenges, which meant a number of key brands and their products were out of stock for periods of time. Revenue growth was driven by returning customers which grew 31% on prior year and 47% on a 2-year CAGR basis. Gross profit margin of 33.3%, up 0.3 percentage points on PCP, underpinned by improved supplier terms and increased brand co-funding. In addition to these financial outcomes, management has also executed strongly on a number of key strategic initiatives aimed at driving long term growth for Adore. These include the launch of our Mobile App that contributed 11.3% of revenue in FY22, the introduction of Adore's first ever incubator brand, Viviology and increased retention and customer lifetime value through the development of a leading loyalty program, Adore Society.

- **Talent Landscape**

In recent times, across all sectors, there has been an unprecedented job market where turnover has been constant and the supply of quality talent quite constrained. In this environment, we, like most employers, have experienced some key talent turnover. Our ability to maintain high-quality talent is greatly increased by maintaining a strong reputation, compelling employee value proposition and a strong culture of diversity and inclusion. Adore Beauty was proud to be recognised for its strong, values based and diverse culture by the Diversity Council of Australia bestowing us their Inclusive Employer recognition award for 2022. In 2022, we also published our first Modern Slavery Statement and the business successfully implemented Modern Slavery training for team members.

- **Key Management Personnel (KMP) Changes**

Justin Ryan resigned as Chair of the Board and Non-Executive Director on 1 November 2021 and Lisa Hennessy was appointed as an Independent Non-Executive Director on 3 June 2022.

Marina Go was appointed as Chair of the Board on 1 November 2021.

Upon joining the Board in June 2022, Lisa Hennessy was appointed as Chair of the People and Remuneration Committee, replacing Marina Go who was Chair of the People and Remuneration Committee until 3 June 2022.

- **Remuneration Changes during the financial year**

**STI**

Financial Year 22 saw the introduction of a short-term incentive plan for Executive Management KMP<sup>5</sup>. Performance targets are linked directly to company financial results for FY22 and individual performance including alignment with values and behaviors. This plan was introduced to retain and incentivise Executive Management KMP and provides them an 'at risk' incentive to remain clearly focused on the elements of the strategic plan that mostly impact profitable growth.

FY22 outcomes for Executive Management KMP were based on the above company results, with the overlay of an individual performance modifier. The CFO received payment at 45% of target (37.5% of maximum). The Board approved an STI payment for the CEO at 42.5% of target (35.4% of maximum).

**Fixed Remuneration**

In 2021, The People and Remuneration Committee agreed to limit the increase in base salary to 2% for all Executive KMP for the year ended 30 June 2022.

- **Looking ahead to FY23**

As Adore is building out its remuneration structure since listing on the ASX in October 2020, we are undertaking a comprehensive remuneration benchmarking exercise at fixed and total remuneration levels. This will consider the relative size, revenue and industry of comparator companies within Australia, to ensure market benchmarking is relevant to Adore Beauty and enables us to attract and retain highly performing talent. It is also intended that a new Long Term Incentive Plan will be implemented in FY23, with awards to be made to Executive Management KMP and selected senior employees. These awards will complete the planned remuneration structure including Fixed Remuneration, Short Term Incentive and Long Term Incentive (refer section 2e - Looking ahead to FY23) and further increase the 'at risk' proportion of remuneration to enhance alignment with shareholder interests.

In the absence of a long term incentive grant during FY22 and to provide a bridge until the initial vesting of the proposed FY23 LTIP grant, a cash award has been structured for Executive Management KMP. This award is structured as 'at risk' payments due in FY23 and FY24, based on tenure and provides a retention mechanism for our key talent.

**Conclusion**

FY22 has been another successful year for Adore Beauty, one in which we delivered record revenue, multiple record trading days, and strong growth across key customer metrics, while continuing to re-invest in the business. It was also a year that has seen an incredibly competitive talent market, so we have also focused on ensuring our remuneration framework is market competitive, supports our business strategy, effectively aligns pay and performance and reinforces our strong company values, whilst maintaining alignment to the expectations of our stakeholders.

Sincerely,



Lisa Hennessy, Marina Go  
People and Remuneration Committee

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<sup>5</sup> Please see page 12 for definition of Executive KMP

## **The Contents**

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

- 1. Reward Overview**
  - a. What does this report cover**
  - b. Who does this report cover**
  - c. Role of the People & Remuneration Committee**
  - d. Governance framework**
  - e. Remuneration framework**
  - f. Reward principles**
- 2. Executive Remuneration**
  - a. Fixed remuneration**
  - b. Short-term remuneration**
  - c. Long-term remuneration**
  - d. Service agreements**
  - e. Looking ahead to FY23**
- 3. Non-Executive Remuneration**
- 4. Share-based Compensation**
- 5. Company performance and remuneration outcomes**
- 6. Additional disclosures relating to key management personnel**

- 1. Reward Overview**
  - a. What does this report cover**

The remuneration report provides a summary of remuneration arrangements for the consolidated entity's Key Management Personnel (KMP) for the financial year ended 30 June 2022. This report has been prepared in accordance with the requirements of the Corporations Act 2001 and its Regulations and subsequently audited by Adore Beauty's external Auditor.

### **b. Key Management Personnel (KMP)**

In this Report we refer to 'Executive KMP' which includes the CEO, CFO, the Executive Director & Chief of Data and Analytics, and the Executive Director & Chief of Innovation. Whilst the term 'Executive Management KMP' refers to the CEO and CFO only.

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

**Adore Beauty Group Limited**  
**Remuneration report**  
**30 June 2022**

The KMP of the consolidated entity are outlined in the following table:

<b>Name</b>	<b>Title</b>	<b>Independent</b>	<b>Term</b>
<b><i>Non-Executive Directors</i></b>			
Marina Go	Non-Executive Chair	Yes	Chair of the Board from 1 November 2021 - was appointed as a Non-Executive Director on 6 October 2020
Sandra Birkenleigh	Non-Executive Director	Yes	Appointed as a Non-Executive Director on 6 October 2020
Lisa Hennessy	Non-Executive Director	Yes	Appointed as a Non-Executive Director on 3 June 2022
Justin Ryan	Non-Executive Director	No	Resigned as Chair of the Board on 1 November 2021
<b><i>Executive Directors</i></b>			
James Height	Executive Director & Chief of Data and Analytics	No	Appointed as an Executive Director on 30 September 2019
Kate Morris	Executive Director & Chief of Innovation	No	Appointed as an Executive Director on 30 September 2019
<b><i>Executive Management</i></b>			
Tennealle O'Shannessy	Chief Executive Officer		Full year
Stephanie Carroll	Chief Financial Officer		Full year

**c. Role of the People and Remuneration Committee**

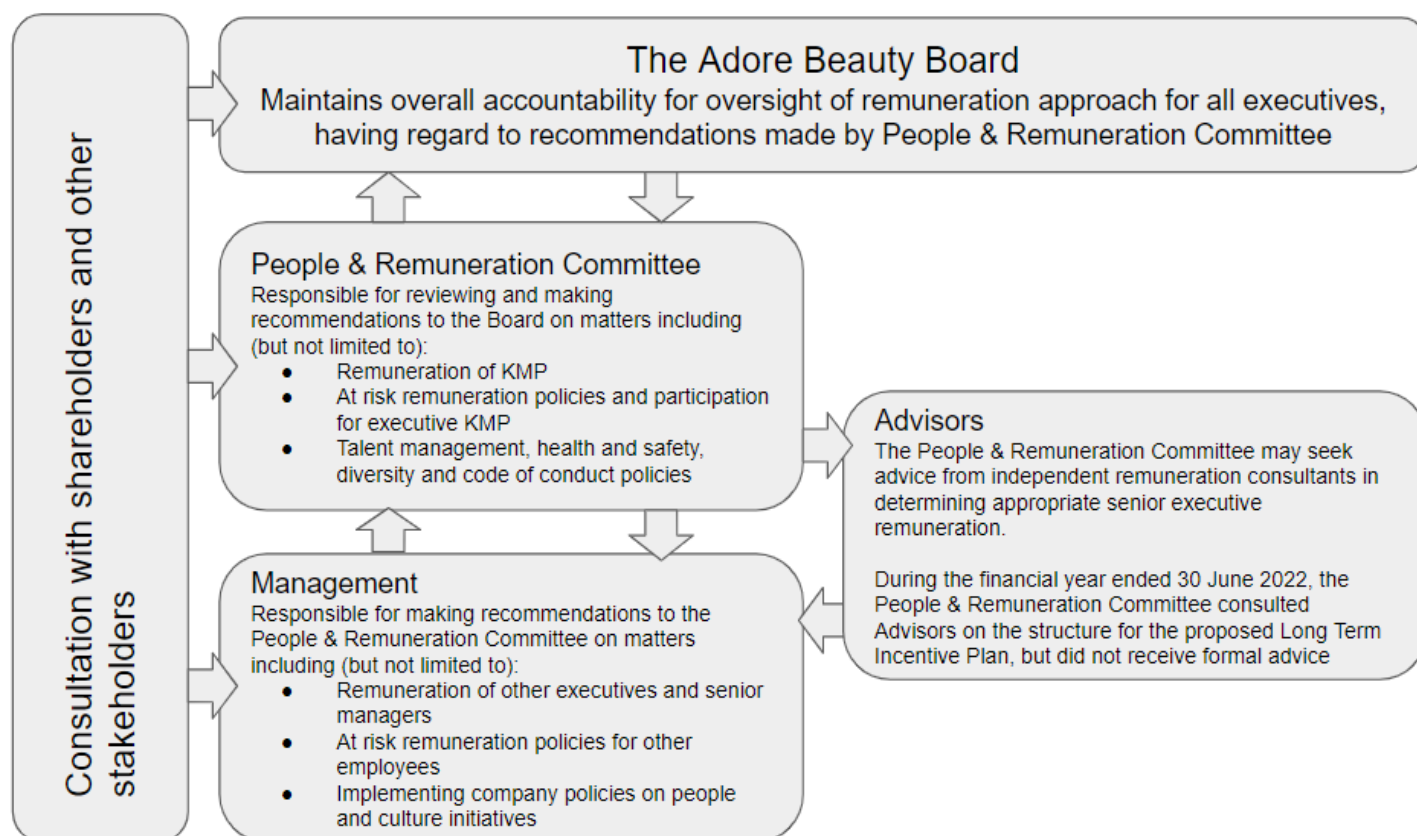
The People and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The remuneration philosophy is to attract, motivate and retain experienced and high performing personnel.

#### **d. Governance framework**

The reward framework is designed to align executive reward to shareholders' interests. The Board maintains overall accountability for the oversight of the remuneration approach for all Adore Beauty Executives and Non-Executive Directors (NED), having regard to the recommendations made by the People and Remuneration Committee. More information on the Board's role and Adore Beauty corporate governance policies for KMP can be found on Adore Beauty's website at:

<https://www.adorebeautygroup.com.au/investor-centre/>

In accordance with best practice corporate governance, the structure of Non-Executive Director, Executive Director, and Executive KMP remuneration is separate.



During the financial year ended 30 June 2022, the People and Remuneration Committee did not obtain advice or a recommendation from any remuneration consultants, but did enter discussions with external advisors relating to the development of Adore Beauty's variable remuneration plans.

**e. Remuneration framework**

The executive reward framework consists of the following components:

- fixed remuneration, comprising base salary and company contributions to superannuation;
- short-term performance incentive;
- long term performance incentive; and
- non-monetary benefits, such as leave

In combination, these components comprise the executive's total reward as outlined in the table below. As part of their development, the KMP remuneration at Adore Beauty has been evolving so that for FY23, the table below reflects our remuneration framework.

Remuneration Component		Payment Vehicle	Benchmark	Performance Measures	Link to Strategy
<b>Fixed Remuneration</b>		Cash Salary and Retirement Benefits (i)	Reference to the market median remuneration for similar roles in ASX listed companies of similar size to Adore Beauty.	Scope and responsibilities of role; together with skills, experience, and performance of individual.	Market competitive fixed remuneration is paid to attract, motivate, and retain Executive KMP with the appropriate experience and talent to drive Adore Beauty's strategy.
+					
Variable Remuneration	<b>Short-term Incentive (STI)</b>	Any award achieved will be delivered, following the release of end of year results as a cash payment.	Target opportunity based on a % of base salary (varies by role). Maximum opportunity of 120% of target.	Key Adore Beauty financial measures are used to determine any STI award payable. These measures represent the key priority areas for the current year. The measures relate to profit, revenue and growth. An individual performance overlay applies.	Provides a reward linked to the delivery of short-term (1 year) objectives.
	+				
	<b>Retention Incentive</b>	Cash award, with deferred payment in FY23 and FY24.	Award based on a % of base salary, payable in 2 tranches.	Tenure together with ongoing satisfactory (or better) performance.	In the absence of an Executive LTI grant in FY22, this one-off award provides a bridge to the proposed FY23 LTI grant.
	+				
	<b>Long-Term Incentive (LTI)</b>	Performance Rights with vesting based on the delivery of set performance measures over a 3-year performance period. Grants are made using market value.	Grant based on a % of base salary.	External Measure: Relative Total Shareholder Return (50%) + Internal Measure: Revenue Growth (with EBITDA margin underpin) 50%	The LTI builds Executive KMP equity ownership. It aligns the interests of KMP with shareholders.
=					
<b>Total Remuneration</b>			On-target level based on market median for companies of similar size to Adore Beauty.		

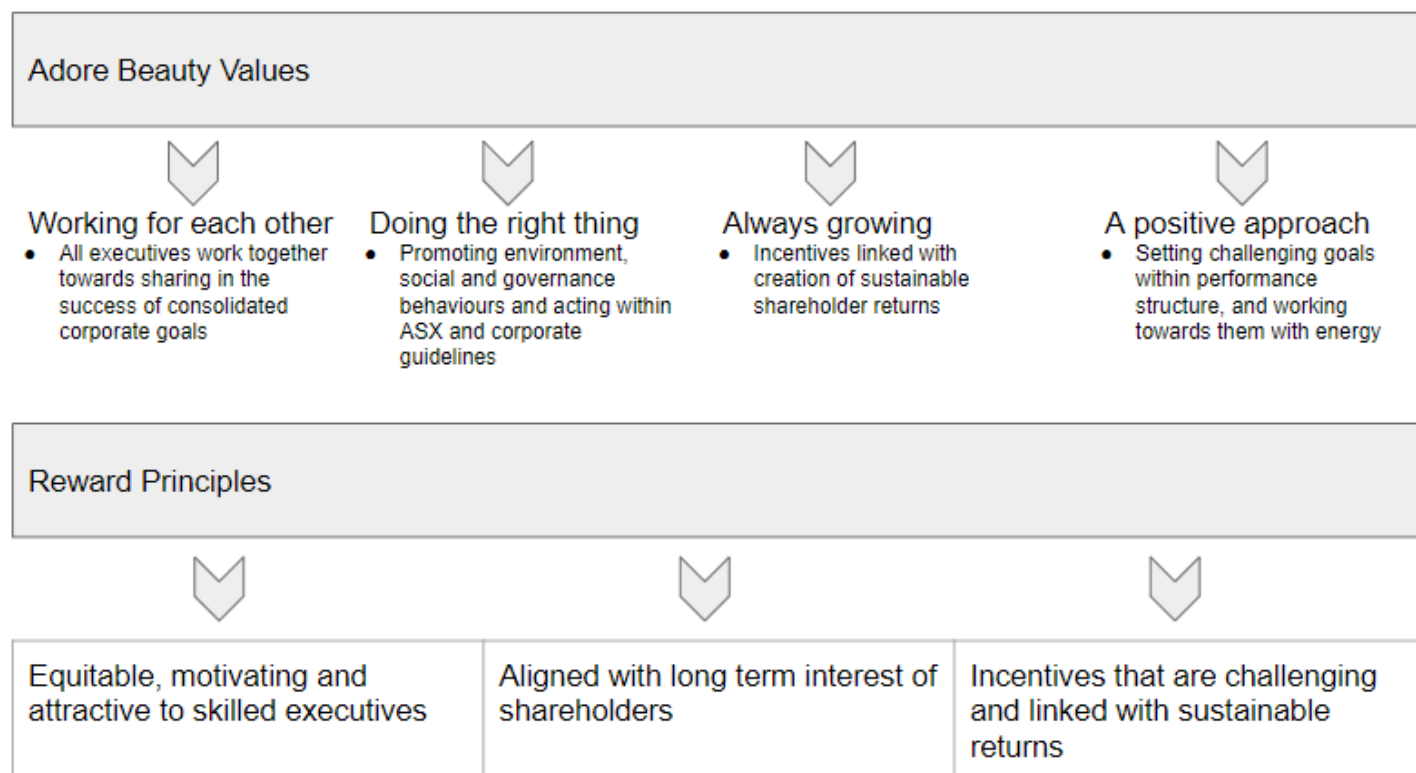
(i) Retirement Benefits are delivered under defined contribution superannuation funds for all KMP. Retirement benefits are set by reference to relevant legislation.



**f. Reward principles**

The structure of Adore Beauty remuneration is aligned to business outcomes that deliver value to shareholders. Systems of evaluation for performance of senior executives are based on predetermined KPIs, including alignment with our values.

The Board retains discretion on variable remuneration to mitigate the risk of unintended consequences and to alter outcomes in certain circumstances.



**2. Executive Remuneration**

**a. Fixed remuneration**

The People and Remuneration Committee agreed to limit the increase in base salary to 2% for Executive KMP for the year ended 30 June 2022. In addition, an adjustment was made in July 2021 for Executive KMP to align their superannuation with the increased Superannuation Guarantee rate effective 1 July 2021.

**b. Short-term remuneration**

The company's initial short-term Incentive Plan was introduced for the Executive Management KMP for FY22. The maximum incentive offered to the Chief Executive Officer was limited to \$100,000. The maximum for the Chief Financial Officer was limited to \$61,200. The Executive Directors did not participate in the STI program.

**Adore Beauty Group Limited**  
**Remuneration report**  
**30 June 2022**

Who participates?	The CEO and CFO are the only KMP who participated in FY22. The Executive Directors did not participate. Other members of senior management are also eligible to participate, provided they were employed on 1 January 2022 (minimum of 6 months service).
What is the performance period?	1 July 2021 - 30 June 2022
What are potential earnings?	<p>Participants have a target opportunity based on a percentage of base salary that varies by role. The STI opportunities for KMP participants are set out below:</p> <ul style="list-style-type: none"> <li>• CEO: 16.34% of base salary at target (19.6% at maximum, ie \$100,000 at maximum)</li> <li>• CFO: 20% of base salary at target (24% at maximum, ie \$61,200 at maximum)</li> </ul> <p>For FY22 the maximum STI opportunity was 120% of the target opportunity.</p>
How is it paid?	The CEO and CFO receive their rewards in cash. Superannuation may be payable, subject to the Superannuation Guarantee and Maximum Contribution Base.
Is there a gateway?	Yes, there is a minimum level of financial performance that must be reached to ensure alignment with shareholder interests.
How is performance measured?	<p>The STI is based on two components: financial results and individual performance.</p> <ul style="list-style-type: none"> <li>• Financial Results: Subject to achievement of the EBITDA gateway, the company revenue target determines the pool available.</li> <li>• Individual Performance: The individual performance rating may reduce the payment. The maximum individual performance modifier is 100%.</li> </ul> <p>Performance between threshold and target is a cliff, there is no linear interpolation. The Board reserves the right to exercise discretion.</p>
When is it paid?	The STI award is determined after the end of the financial year following a review of performance against measures. Payments are made in September, following the release of statutory audited results.
What happens if a participant leaves?	<p>If a participant resigns or is terminated prior to payment, no STI is awarded.</p> <p>The Board reserves the right to apply discretion in the case of a participant leaving due to ill health, death, redundancy or other circumstances.</p>

At the end of the 2022 financial year, the Board met to review performance against the established STI targets and consequent payments.

While the company had delivered on the EBITDA gateway, it was determined that revenue was marginally below target. Extraneous factors relating to supply chain shortages were considered to have impacted revenue, and so the Board exercised their discretion to approve STI payments at minimum (threshold) level.

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Individual performance was based on goals (financial and non-financial) and specific initiatives that were set at the beginning of the year. When the modifier relating to individual performance was applied to the minimum award, actual STI payments approved by the Board are outlined in the table below.

Name	STI maximum % of base salary	Actual Outcome		Actual Earned as % of Maximum Opportunity
		STI earned as % of base salary	Total STI earned \$	
Tennealle O'Shannessy	19.6%	6.9%	\$35,417	35.4%
Stephanie Carroll	24%	9%	\$22,950	37.5%

In the absence of an LTIP grant in FY22 to retain senior critical talent (including KMP), and following the resignations of key senior managers (not KMP), the Board approved a retention payment of 30% of the base salary for KMP, with 2/3rds of that amount payable in September 2022, and 1/3rd payable in September 2023. This retention arrangement is intended to act as a bridge until the FY23 LTIP plan (refer section 2e) creates a significant retention link for executives. No retention payment will be made if the executive does not achieve at least satisfactory individual performance, or resigns, or their employment is terminated prior to 30 September 2022. In respect of the payment due in 2023, no amount will be paid if they resign or their employment is terminated before 30 September 2023, or if they do not achieve at least satisfactory performance during FY23. The amounts accrued to 30 June 2022 are included in the Remuneration Report in section 5. The amounts paid under this retention arrangement will be included in the FY23 and FY24 Remuneration Reports.

**c. Long-term remuneration**

There were no Long-Term Incentives awarded to Key Management Personnel in respect of the year ended 30 June 2022.

**d. Service agreements**

Remuneration and other terms of employment for Executive KMP are formalised in service agreements. Details of these agreements are as follows:

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: 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.

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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.

**e. Looking ahead to FY23**

Following the listing of Adore Beauty in October 2020, the KMP remuneration mix has developed from purely fixed remuneration, to a balance of fixed and variable remuneration. In FY23, we will:

- introduce LTI as a regular element of the reward mix, alongside STI and fixed remuneration. With the introduction of LTI into the remuneration mix for Executive KMP in FY23, the target remuneration mix will reflect a greater proportion of remuneration at risk.
- evolve the performance targets of the STIP for KMP to place greater weighting on EBITDA.
- finalise reward strategy for the company to ensure remuneration is applied proactively, consistently and prudently, targeting clear market benchmarks to bring the reward charter to life.
- refine variable remuneration targets to ensure appropriate relativity against market benchmarks as part of a holistic reward mix.

Adore Beauty will implement a long-term incentive (LTI) programme in FY23. This will complete the planned remuneration mix for KMP and other senior managers at Adore Beauty, increasing the proportion of remuneration at risk, and encouraging senior managers to think as a shareholder, and act in the best interests of shareholders. Details of the FY23 LTI plan are outlined below:

Who participates?	The CEO and CFO are the only KMP who will participate in FY23. The Executive Directors will not participate. Other members of senior management will also be invited to participate.
How is it paid?	Awards will be in the form of performance rights. Each performance right is a right to acquire one ordinary share at no cost to the participant, subject to meeting vesting conditions over the performance period.
What is the performance period?	3 years: 1 July 2022 – 30 June 2025
What are potential earnings?	The CEO opportunity will be determined upon appointment of a new incumbent. The CFO has the opportunity of up to 40% of base salary.
How is performance measured?	<p>Awards are determined by performance against two equally weighted measures:</p> <ul style="list-style-type: none"> <li>• Relative Total Shareholder Return (rTSR) against a peer group determined by the Board prior to the offer.</li> <li>• Revenue Growth, subject to an EBITDA margin hurdle.</li> </ul> <p>Performance is measured for each of the above measurements at the end of the three-year performance period.</p>

<p>How are payouts determined?</p>	<p>Awards are subject to two equally weighted measures: a market measure – Relative TSR; and a non-market measure – Compound Annual Growth Rate, with an EBITDA margin hurdle.</p> <ul style="list-style-type: none"> <li>• Relative TSR (50% weighting)  The company's TSR over the performance period will be assessed against selected companies in retail and ecommerce (TSR Peer Group) at 30 June 2025 to assess performance.  The proportion of performance shares that will vest will be determined by calculating the percentile ranking of the company's TSR performance relative to the TSR performance of the TSR Peer Group in line with the following vesting schedule: <ul style="list-style-type: none"> <li>○ Below 50th %ile - no vesting</li> <li>○ At 50th %ile - 50% vesting</li> <li>○ 75th %ile or above - full (100%) vesting <ul style="list-style-type: none"> <li>■ If the RTSR ranking is between 50th and 75th %ile, pro-rata straight line vesting will occur between 50% and 100%</li> </ul> </li> </ul> </li> <li>• Revenue growth (50% weighting) with minimum EBITDA margin gateway  If the EBITDA margin hurdle has been achieved at the end of the performance period (as defined in the company's long term plan), revenue growth targets will be tested. The proportion of performance shares that will vest will be determined by the revenue CAGR targets in line with the following vesting schedule: <ul style="list-style-type: none"> <li>○ Less than target revenue CAGR - nil vesting</li> <li>○ At target revenue CAGR - 50% vesting</li> <li>○ At or above stretch revenue CAGR - full (100%) vesting <ul style="list-style-type: none"> <li>■ If the CAGR% is between target and stretch, pro-rata straight line vesting will occur between 50% and 100%</li> </ul> </li> </ul> </li> </ul>
<p>Are there any malus or clawback provisions?</p>	<p>Malus and clawback apply to any awards made under this plan</p>
<p>What happens if a participant leaves?</p>	<p>If a participant is classified as a 'bad leaver' (resigns or is terminated with cause or due to poor performance), all unvested awards will be forfeited or lapse.  The Board reserves the right to apply discretion in the case of a 'good leaver' (leaving due to ill health, death, redundancy or other circumstances). In this case, a pro-rated portion of unvested awards may remain 'on foot' and be subject to applicable vesting provisions.</p>

While retaining the STI performance metrics of Revenue and EBITDA, the Board has made EBITDA both a gateway and a target for FY23. This lifts the importance of EBITDA from purely a gateway to amplify the focus on profitable growth in FY23.

The Board is currently undertaking a comprehensive benchmarking exercise to explore the peer group relativity of fixed remuneration, as well as consideration of market position at target remuneration. This considers the relative size, revenue and industry of comparator companies within Australia. The roles have changed since the listing so the Board thought it prudent to review benchmarks now to ensure that Executive KMP of the appropriate calibre and experience are retained and attracted as Adore Beauty builds out its growth strategy in an ASX listed environment.

In compliance with the increase in the Superannuation Guarantee rate, a further adjustment was made in July 2022 for Executive KMP that was effective from 1 July 2022. For clarification, all contributions to superannuation for KMP are made in line with the Superannuation Guarantee rate, limited by the Maximum Contribution Base.

### 3. Non-Executive 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 Chair's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chair is not present at any discussions relating to the determination of their own remuneration. Non-Executive Directors do not receive cash or equity incentives.

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 – Marina Go \$200,000
- Non-Executive Director - Sandra Birkenleigh \$100,000
- Non-Executive Director - Lisa Hennessy \$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 Birkenleigh \$20,000
- People and Remuneration Committee – Lisa Hennessy \$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.

Details of the Non-Executive Directors' remuneration during the reporting period are given in the table below:

	Year	Cash Salary and Fees	Superannuation	Equity Settled Shares	Total
<b>Non-Executive Directors:</b>					
Marina Go	<b>2022</b>	<b>\$171,612</b>	<b>\$17,161</b>	-	<b>\$188,773</b>
	2021 (i)	\$80,000	\$7,600	\$50,000	\$137,600
Sandra Birkenleigh	<b>2022</b>	<b>\$112,727</b>	<b>\$11,273</b>	-	<b>\$124,000</b>
	2021 (i)	\$80,000	\$7,600	\$50,000	\$137,600
Lisa Hennessy	<b>2022 (ii)</b>	<b>\$8,264</b>	<b>\$826</b>	-	<b>\$9,090</b>
	2021	-	-	-	-
Justin Ryan	<b>2022 (iv)</b>	<b>\$61,295</b>	<b>\$7,276</b>	-	<b>\$68,571</b>
	2021 (iii)	\$123,671	\$3,420	-	\$127,091
<b>Total of Non-Executive Directors</b>	<b>2022</b>	<b>\$353,898</b>	<b>\$36,536</b>	-	<b>\$390,434</b>
	2021	\$283,671	\$18,620	\$100,000	\$402,291

(i) Represents remuneration from 6 October 2020 to 30 June 2021.

(ii) Represents remuneration from 3 June 2022 to 30 June 2022.

(iii) Represents fees paid to QPE Growth Management from 6 October 2020 – 31 March 2021, and director remuneration 1 April 2021 – 30 June 2021.

(iv) Represents remuneration from 1 July 2021 - 1 November 2021.

#### **4. Share-based Compensation**

##### *Issue of shares*

There were no new share-based awards issued to directors and other personnel as part of compensation during the year ended 30 June 2022.

##### *Issue of options*

There were no options over ordinary shares issued to KMP during the year ended 30 June 2022.

#### **5. Overview of group performance and remuneration outcomes**

##### *Consolidated entity performance and link to remuneration*

Remuneration for certain individuals is directly linked to the performance of the consolidated entity. Incentive Payments are at the discretion of the People and Remuneration Committee. Refer to the tables below for details of the earnings and total shareholders return for the last two years.

The key financial metrics of the consolidated entity for the two years to 30 June 2022 are summarised below:

	<b>2022</b> <b>\$'000</b>	<b>2021</b> <b>\$'000</b>
Sales revenue	199,660	179,277
EBITDA <sup>(i)</sup>	5,337	7,600
Profit before income tax	3,307	46

(i) EBITDA represents Earnings Before Interest, Tax, Depreciation and Amortization.

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

	<b>2022</b>	<b>2021</b>
Share price at financial year end (\$)	\$1.05	\$4.28
Total dividends declared (cents per share)	Nil	Nil
Basic earnings per share (cents per share)	2.53c	0.92c

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Details of the Executive Directors' remuneration during the reporting period are given in the table below:

		Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments		
	Year	Cash salary and fees	Cash Bonus	Non-monetary	Superannuation	Long service leave	Equity settled shares	Equity settled options	Total
<b>Executive Directors:</b>									
Kate Morris (i)	<b>2022</b>	<b>\$185,803</b>	-	<b>\$3,617</b>	<b>\$18,580</b>	<b>\$4,020</b>	-	-	<b>\$212,020</b>
	2021	\$182,170	-	\$812	\$17,306	\$8,212	-	-	\$208,500
James Height (i)	<b>2022</b>	<b>\$185,803</b>	-	<b>\$12,751</b>	<b>\$18,580</b>	<b>\$4,865</b>	-	-	<b>\$221,999</b>
	2021	\$182,170	-	\$3,843	\$17,306	\$8,212	-	-	\$211,531
<b>Executive Management:</b>									
Tennealle O'Shannessy (i) (ii) (iv)	<b>2022</b>	<b>\$510,520</b>	<b>\$35,417</b>	<b>\$27,664</b>	<b>\$23,568</b>	-	<b>\$104,081</b>	<b>\$520,960</b>	<b>\$1,222,210</b>
	2021	\$429,344	-	\$31,255	\$21,757	-	\$228,083	\$344,436	\$1,054,875
Stephanie Carroll (i) (iii) (iv)	<b>2022</b>	<b>\$255,520</b>	<b>\$48,450</b>	<b>\$11,643</b>	<b>\$23,568</b>	-	<b>\$10,408</b>	<b>\$46,933</b>	<b>\$396,522</b>
	2021	\$253,436	-	\$14,599	\$22,610	-	\$22,808	\$31,030	\$344,483
<b>Total of Executive KMP</b>	<b>2022</b>	<b>\$1,137,646</b>	<b>\$83,867</b>	<b>\$55,675</b>	<b>\$84,296</b>	<b>\$8,885</b>	<b>\$114,489</b>	<b>\$567,893</b>	<b>\$2,052,751</b>
	2021	\$1,047,120	-	\$50,509	\$78,979	\$16,424	\$250,891	\$375,466	\$1,819,389

(i) Cash salary and fees includes working from home allowance paid during COVID-19 lockdown periods.

(ii) Represents remuneration from 24 August 2020 to 30 June 2021.

(iii) Cash bonus includes accounting accrual for the retention incentive outlined in section 2b.

(iv) Share based payments reflect statutory accruals in relation to options issued to KMP on 6 October 2020 that are due to vest on 30 June 2024, subject to performance vesting conditions outlined in section 6.



## **6. 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:

	<b>Balance at the start of the year</b>	<b>Received as part of remuneration</b>	<b>Additions (ii)/ Vested</b>	<b>Disposals/ Other</b>	<b>Balance at the end of the year</b>
Kate Morris	10,200,000	-	200,000	-	10,400,000
James Height	10,200,000	-	200,000	-	10,400,000
Marina Go	7,407	-	20,000	-	27,407
Sandra Birkenleigh	7,407	-	-	-	7,407
Tennealle O'Shannessy (i)	868,502	-	-	-	868,502
Stephanie Carroll (i)	86,850	-	-	-	86,850
Lisa Hennessy	-	-	-	-	-
	<b>21,370,166</b>	-	<b>420,000</b>	-	<b>21,790,166</b>

(i) 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 (6 October 2020),
- (b) a further 25% of the loan shares vested on 30 June 2021,
- (c) a further 25% of the loan shares vested on 30 June 2022, and
- (d) the final 25% of the loan shares will vest on 30 June 2023.

(ii) Shares were purchased on market. No awards were made or vested during the year.

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*Reconciliation of options movement (detailing awards, vested outcome, and expiry during the year)*

		Movement									At Year End			
Executive	Plan	Year	Grant Date	Fair Value at Grant	Exercise Price	Expiry Date	1-Jul-21	Granted (awards)	Exercised	Other changes	30-Jun-22	Vested	Unvested	Exercisable
Tennealle O'Shannessy	Options	2021	6-Oct-20	\$3.52	\$6.75	30-Jun-26	555,000	0	0	0	555,000	0	555,000	0
Stephanie Carroll	Options	2021	6-Oct-20	\$3.52	\$6.75	30-Jun-26	50,000	0	0	0	50,000	0	50,000	0

**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.

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*Summary of Loan Funded Management Equity (detailing awards, vested outcome, and changes during the year)*

Executive	Number of Loan Shares Held	Grant Date	Loan amount	Vesting	At 30 June 2022 Vested	At 30 June 2022 Unvested
Tennealle O'Shannessy	868,502	31-Aug-20	\$868,502	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.	651,377	217,125
Stephanie Carroll	86,850	31-Aug-20	\$86,850	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.	65,137	21,713

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.

Note: treatment of Loan Shares in the event that the participant ceases employment with the Company. If either participant: is a "Bad Leaver" she will be entitled to retain her vested Loan Shares and her unvested Loan Shares will be forfeited in accordance with the terms of the Loan Funded Share Plan Deed. The participant will be considered a "Bad Leaver" in circumstances where she is terminated as a result of gross misconduct, criminal activity, fraud, material breach of her employment contract, due to becoming disqualified from managing a corporation, poor performance or resignation by the participant other than where such resignation was caused by a material reduction in the compensation payable to the participant, a material reduction in the responsibilities of the participant or a material breach by Adore Opco of the terms of the participant's employment contract

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*Management Equity - Future Vesting profile*

Executive	Plan	Grant Year	Grant Amount	% Vesting Previous Periods	Vesting in FY22	% Incentive at Risk	Vesting % FY23	Vesting % FY24	Vesting % FY25	Comments
Tennealle O'Shannessy	Options	2021	555,000	0%	0%	100%	0%	100%		Subject to performance hurdles and vesting conditions being met as detailed on p25
	Loan Funded Mgt Equity Plan	2021	868,502	50%	25%	25%	25%			
Stephanie Carroll	Options	2021	50,000	0%	0%	100%	0%	100%		Subject to performance hurdles and vesting conditions being met as detailed on p25
	Loan Funded Mgt Equity Plan	2021	86,850	50%	25%	25%	25%			

*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 \$25,092 (2021: \$25,684) were made. The current trade payable balance as at 30 June 2022 was \$5,170 (2021: \$2,163). 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:

<b>Grant date</b>	<b>Expiry date</b>	<b>Exercise price</b>	<b>Number under option</b>
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 2022 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 22 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.

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The directors are of the opinion that the services as disclosed in note 22 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.

**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



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Marina Go  
Chair

29 August 2022  
Melbourne

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**Grant Thornton Audit Pty Ltd**

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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 2022, 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 Audit Pty Ltd  
Chartered Accountants



C S Gangemi  
Partner – Audit & Assurance

Melbourne, 29 August 2022

**[www.grantthornton.com.au](http://www.grantthornton.com.au)**  
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**Adore Beauty Group Limited**  
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**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 & 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 29th August 2022. The directors have the power to amend and reissue the financial statements.



**Adore Beauty Group Limited**  
**Consolidated statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2022**

	Note	Consolidated 2022 \$'000	2021 \$'000
Revenue	4	199,660	179,277
Cost of sales		(133,117)	(120,002)
Gross profit		66,543	59,275
Other income		26	21
Expenses:			
Advertising and marketing expense		(28,204)	(23,073)
Employee benefits expense	5	(20,044)	(18,241)
Initial public offering and transaction costs		(205)	(5,322)
Depreciation and amortisation expense	5	(1,856)	(1,501)
Finance costs	5	(200)	(125)
Other operating expenses	5	(12,753)	(10,988)
<b>Profit before income tax expense</b>		3,307	46
Income tax benefit/(expense)	6	(930)	799
<b>Profit after income tax expense for the year</b>		2,377	845
<b>Other comprehensive income</b>			
Other comprehensive income for the year, net of tax		-	-
<b>Total comprehensive income for the year</b>		<u>2,377</u>	<u>845</u>
		<b>Cents</b>	<b>Cents</b>
<b>Earnings per share</b>			
Basic earnings per share	32	2.53 cents	0.92 cents
Diluted earnings per share	32	2.51 cents	0.92 cents

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

**Adore Beauty Group Limited**  
**Consolidated statement of financial position**  
**As at 30 June 2022**

	Note	Consolidated 2022 \$'000	2021 \$'000
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents		29,766	29,002
Trade and other receivables		1,049	658
Current tax receivable		2,253	958
Inventories	7	17,491	14,945
Other current assets		1,042	2,105
Total current assets		<u>51,601</u>	<u>47,668</u>
<b>Non-current assets</b>			
Property, plant and equipment	8	763	889
Right-of-use assets	9	992	1,165
Intangibles	10	3,242	2,592
Deferred tax asset	11	2,630	4,074
Total non-current assets		<u>7,627</u>	<u>8,720</u>
<b>Total assets</b>		<u>59,228</u>	<u>56,388</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	12	18,482	18,156
Contract liability	13	1,034	1,329
Lease liabilities		548	420
Employee benefits	15	1,061	1,075
Total current liabilities		<u>21,125</u>	<u>20,980</u>
<b>Non-current liabilities</b>			
Lease liabilities		624	926
Employee benefits		161	223
Total non-current liabilities		<u>785</u>	<u>1,149</u>
<b>Total liabilities</b>		<u>21,910</u>	<u>22,129</u>
<b>Net assets</b>		<u>37,318</u>	<u>34,259</u>
<b>Equity</b>			
Issued capital	16	102,076	102,076
Reserves	17	(66,449)	(67,131)
Accumulated profit/(losses)	18	1,691	(686)
<b>Total equity</b>		<u>37,318</u>	<u>34,259</u>

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

**Adore Beauty Group Limited**  
**Consolidated statement of changes in equity**  
**For the year ended 30 June 2022**

	Note	Issued capital \$'000	Foreign currency translation reserve \$'000	Corporate re- organisation reserve \$'000	Share based payments reserve \$'000	Retained profits/ (Accumulated losses) \$'000	Total equity \$'000
<b>Balance at 1 July 2020</b>		<b>85,000</b>	<b>(5)</b>	<b>(68,104)</b>	<b>-</b>	<b>(1,531)</b>	<b>15,360</b>
<b>Transactions with owners</b>							
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
<b>Total transactions with owners</b>	<b>16</b>	<b>17,076</b>	<b>-</b>	<b>-</b>	<b>978</b>	<b>-</b>	<b>18,054</b>
<b>Comprehensive income</b>							
Profit for the year		-	-	-	-	845	845
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>845</b>	<b>845</b>
<b>Balance at 30 June 2021</b>		<b>102,076</b>	<b>(5)</b>	<b>(68,104)</b>	<b>978</b>	<b>(686)</b>	<b>34,259</b>
 Balance at 1 July 2021		 102,076	 (5)	 (68,104)	 978	 (686)	 34,259
<b>Transactions with owners</b>							
Share-based payments		-	-	-	682	-	682
<b>Total transactions with owners</b>	<b>16</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>682</b>	<b>-</b>	<b>682</b>
<b>Comprehensive income</b>							
Profit for the year		-	-	-	-	2,377	2,377
<b>Total comprehensive income</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,377</b>	<b>2,377</b>
<b>Balance at 30 June 2022</b>		<b>102,076</b>	<b>(5)</b>	<b>(68,104)</b>	<b>1,660</b>	<b>1,691</b>	<b>37,318</b>

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

**Adore Beauty Group Limited**  
**Consolidated Statement of cash flows**  
**For the year ended 30 June 2022**

	Note	Consolidated 2022 \$'000	2021 \$'000
<b>Cash flows from operating activities</b>			
Receipts from customers (inclusive of GST)		219,235	198,779
Payments to suppliers and employees (inclusive of GST)		(215,135)	(192,377)
		<u>4,100</u>	<u>6,402</u>
Interest received		26	21
Interest and other costs of finance		(135)	(60)
Income taxes paid		(781)	(2,180)
Net cash from operating activities	29	<u>3,210</u>	<u>4,183</u>
<b>Cash flows from investing activities</b>			
Payments for intangible assets	10	(1,781)	(1,791)
Payments for property, plant and equipment	8	(106)	(206)
Proceeds from sale of property, plant and equipment		-	9
Net cash used in investing activities		<u>(1,887)</u>	<u>(1,988)</u>
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares		-	40,293
Buy back of shares		-	(17,000)
Payment for equity raise costs		-	(9,281)
Repayment of borrowings		-	(3,212)
Repayment of lease liabilities		(494)	(486)
Payments of finance charges on lease liabilities		(65)	(65)
Net cash from/ (used in) financing activities		<u>(559)</u>	<u>10,249</u>
Net increase in cash and cash equivalents		764	12,444
Cash and cash equivalents at the beginning of the financial year		<u>29,002</u>	<u>16,558</u>
Cash and cash equivalents at the end of the financial year		<u><u>29,766</u></u>	<u><u>29,002</u></u>

*The above consolidated statement of cash flows should be read in conjunction with the accompanying notes*

**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.

*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 26.

**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 2022 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.

**Note 1. Significant accounting policies (continued)**

Non-controlling interest 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.

**Revenue recognition**

*Sale of goods*

The Group's contracts with customers generally include one performance obligation. 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. Cash payment is generally received at the point of sale.

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.

A right of return is held by customers. Adore Beauty has assessed the value of this right of return as immaterial.

*Interest income*

Interest income 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 income*

Other income 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.

**Note 1. Significant accounting policies (continued)**

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. 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.

The Group has determined that any uncertainty over Income Tax Treatment is expected to have no material impact.

**Note 1. Significant accounting policies (continued)**

**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.

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.

**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 is comprised 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 necessary to make the sale.

**Other financial assets**

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.

*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. 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.



**Note 1. Significant accounting policies (continued)**

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.

**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% - 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.

**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.

**Note 1. Significant accounting policies (continued)**

*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 and mobile app*

Website and mobile app 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. 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 4 years.

**Impairment of non-financial assets**

Non-financial assets are tested 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.

The 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 as a result of 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.

**Note 1. Significant accounting policies (continued)**

**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 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.

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.

**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.

**Note 1. Significant accounting policies (continued)**

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.

**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.

**Note 1. Significant accounting policies (continued)**

**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.

**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 2022. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

There are no 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.

*Lease term*

The lease term is a significant component in the measurement of both the right-of-use asset and lease liability. Judgement is exercised in determining whether there is reasonable certainty that an option to extend the lease will be exercised, when ascertaining the periods to be included in the lease term. In determining the lease term, all facts and circumstances that create an economical incentive to exercise an extension option, or not to exercise a termination option, are considered at the lease commencement date. Factors considered may include the importance of the asset to the consolidated entity's operations; comparison of terms and conditions to prevailing market rates; incurrence of significant penalties; existence of significant leasehold improvements; and the costs and disruption to replace the asset. The consolidated entity reassesses whether it is reasonably certain to exercise an extension option, if there is a significant event or significant change in circumstances.

*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.

**Note 2. Critical accounting judgements, estimates and assumptions (continued)**

*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.

*Estimation of useful lives of intangible assets*

The consolidated entity determines the estimated useful lives and related amortisation charges for its finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or assets that have been abandoned or sold will be written off or written down.

**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. Sales are predominantly through the Australian geographical region, with New Zealand sales being immaterial. 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**

*Revenue from contracts with customers*

Sale of goods – point in time

Revenue

Consolidated	
2022	2021
\$'000	\$'000
199,660	179,277
<u>199,660</u>	<u>179,277</u>

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**Note 5. Expenses**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Plant and equipment	232	232
Buildings right-of-use assets	493	484
Total depreciation	<u>725</u>	<u>716</u>
<i>Amortisation</i>		
Website	1,118	781
Patents and trademarks	11	2
Product development	2	2
Total amortisation	<u>1,131</u>	<u>785</u>
Total depreciation and amortisation	<u>1,856</u>	<u>1,501</u>
<i>Finance costs</i>		
Interest and finance charges paid/payable on borrowings	135	60
Interest and finance charges paid/payable on lease liabilities	65	65
Finance costs expensed	<u>200</u>	<u>125</u>
<i>Other operating expenses</i>		
Bank and merchant fees	4,738	4,320
Website, software, other IT costs	4,004	2,766
Net foreign exchange loss	270	59
Other	3,741	3,843
Total other operating expenses	<u>12,753</u>	<u>10,988</u>
<i>Employee benefits expense</i>		
Salaries, wages and contractor payments	17,407	14,862
Share-based payments expense	682	1,257
Defined contribution superannuation expense	1,300	1,056
Annual and long service leave	(75)	413
Other employee benefits expenses	730	653
	<u>20,044</u>	<u>18,241</u>

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**Note 6. Income tax expense**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Income tax expense</i>		
Current tax benefit/(expense)	514	404
Deferred tax benefit/(expense) - origination and reversal of temporary differences	(1,444)	395
Aggregate income tax benefit/(expense)	<u>(930)</u>	<u>799</u>
 <i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Profit before income tax expense	<u>3,307</u>	<u>46</u>
 Tax at the statutory tax rate of 30% (2021: 30%)	(992)	(14)
 Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenditure	(77)	(28)
Impact of ACA step downs	286	285
Share based payments	(205)	(377)
Prior year overprovision	-	953
Sundry items	58	(20)
Income tax benefit/(expense)	<u>(930)</u>	<u>799</u>
 <i>Amounts charged/(credited) directly to equity</i>		
Deferred tax assets (note 11)	<u>-</u>	<u>2,784</u>
	<u>-</u>	<u>2,784</u>

**Note 7. Current assets – inventories**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Finished goods	17,389	14,733
Less provision for stock obsolescence	(100)	-
Goods in transit	202	212
	<u>17,491</u>	<u>14,945</u>



**Note 8. Non-current assets - property, plant and equipment**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Plant and equipment - at cost	1,586	1,480
Less: Accumulated depreciation	(823)	(591)
	<u>763</u>	<u>889</u>

*Reconciliations*

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

<b>Consolidated</b>	<b>\$'000</b>
Balance at 1 July 2020	964
Additions	206
Disposals	(49)
Depreciation expense	(232)
Balance at 30 June 2021	<u>889</u>
Additions	106
Disposals	-
Depreciation expense	(232)
Balance at 30 June 2022	<u><u>763</u></u>

Refer to note 20 for further information on fair value measurement.

**Note 9. Non-current assets - right-of-use assets**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Land and buildings - right-of-use	2,334	2,701
Less: Accumulated depreciation	(1,342)	(1,536)
	<u>992</u>	<u>1,165</u>

Lease modifications to right-of-use assets during the year were \$320,000 (2021: \$571,000).

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.

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**Note 9. Non-current assets - right-of-use assets (continued)**

*Reconciliations*

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

<b>Consolidated</b>	<b>\$'000</b>
Balance at 1 July 2020	1,078
Additions	571
Depreciation expense	(484)
Balance at 30 June 2021	1,165
Additions	320
Depreciation expense	(493)
Balance at 30 June 2022	992

**Note 10. Non-current assets - intangibles**

	<b>Consolidated</b>	
	<b>2022 \$'000</b>	<b>2021 \$'000</b>
Website and mobile app – at cost	6,330	4,551
Less: Accumulated amortisation	(3,197)	(2,079)
	3,133	2,472
Patents and trademarks - at cost	112	110
Less: Accumulated amortisation	(17)	(6)
	95	104
Product development - at cost	18	18
Less: Accumulated amortisation	(4)	(2)
	14	16
	3,242	2,592

*Reconciliations*

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

<b>Consolidated</b>	<b>Website &amp; mobile app \$'000</b>	<b>Patents &amp; trademarks \$'000</b>	<b>Product development \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 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
Additions	1,779	2	-	1,781
Amortisation expense	(1,118)	(11)	(2)	(1,131)
Balance at 30 June 2022	3,133	95	14	3,242

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**Note 11. Non-current assets - deferred tax**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
<i>Deferred tax assets/(liabilities) comprises temporary differences attributable to:</i>		
Employee benefits	367	390
Plant and equipment	(763)	(387)
Right-of-use asset	(54)	(54)
Capitalised fees	293	398
Accrued expenses	67	138
IPO Costs – blackhole expenditure <sup>(a)</sup>	2,684	3,579
Other items	36	10
Deferred tax asset	<u>2,630</u>	<u>4,074</u>
<i>Movements:</i>		
Opening balance	4,074	895
Credited/ (debited) to profit or loss (note 6)	(1,444)	395
Credited to equity (note 6)	-	2,784
Closing balance	<u>2,630</u>	<u>4,074</u>

(a) Blackhole expenditure is capital expenditure that is not otherwise deductible and that relates to a business carried on for a taxable purpose. It is deductible under ITAA 1997 s40-880 over 5 years at the rate of 20%, provided the deduction is not denied by some other provision.

**Note 12. Current liabilities - trade and other payables**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Trade payables	16,037	15,726
Accrued expenses	1,111	2,430
Other payables	1,334	-
	<u>18,482</u>	<u>18,156</u>

Refer to note 20 for further information on financial instruments.

**Note 13. Current liabilities – contract liability**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Gift voucher liability	<u>1,034</u>	<u>1,329</u>

**Note 14. Non-current liabilities - borrowings**

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). 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.

*Financing arrangements*

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

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Total facilities		
Multi-option revolving credit facility	10,000	10,000
	<u>10,000</u>	<u>10,000</u>
Used at the reporting date		
Multi-option revolving credit facility	-	-
	<u>-</u>	<u>-</u>
Unused at the reporting date		
Multi-option revolving credit facility	10,000	10,000
	<u>10,000</u>	<u>10,000</u>

Refer to note 20 for further information on financial instruments.

**Note 15. Current liabilities - employee benefits**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Employee benefits	1,061	1,075
	<u>1,061</u>	<u>1,075</u>

*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 16. Equity - issued capital**

	2022 Shares	Consolidated 2021 Shares	2022 \$'000	2021 \$'000
Ordinary shares - fully paid	94,124,497	94,124,497	102,076	102,076

*Movements in ordinary share capital*

Details	Date	Shares	\$'000
Balance at beginning of the period	30 June 2021	94,124,497	102,076
Balance at end of the period	30 June 2022	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 and going concern 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 2021 Annual Report.

**Note 17. Equity – reserves**

	Consolidated	
	2022 \$'000	2021 \$'000
Corporate re-organisation reserve	(68,104)	(68,104)
Share based payments reserve	1,660	978
Foreign currency reserve	(5)	(5)
	<u>(66,449)</u>	<u>(67,131)</u>

*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.

*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 2020	-	(5)	(68,104)	(68,109)
Share-based payment transactions	978	-	-	978
Balance at 30 June 2021	978	(5)	(68,104)	(67,131)
Share-based payment transactions	682	-	-	682
<b>Balance at 30 June 2022</b>	<b>1,660</b>	<b>(5)</b>	<b>(68,104)</b>	<b>(66,449)</b>

**Note 18. Equity – retained earnings**

	Consolidated	
	2022 \$'000	2021 \$'000
Accumulated losses at the beginning of the financial year	(686)	(1,531)
Profit after income tax expense for the year	2,377	845
<b>Retained profits/(accumulated losses) at the end of the financial year</b>	<b>1,691</b>	<b>(686)</b>

**Note 19. Equity - dividends**

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

*Franking credits*

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Franking credits available for subsequent financial years based on a tax rate of 30%	4,743	2,953

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 20. 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.

**Note 20. Financial instruments (continued)**

**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 1 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.

*Financing arrangements*

Unused borrowing facilities at the reporting date:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Multi-option revolving credit facility	10,000	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.

	<b>Weighted average interest rate %</b>	<b>1 year or less \$'000</b>	<b>Between 1 &amp; 2 years \$'000</b>	<b>Between 2 &amp; 5 years \$'000</b>	<b>Over 5 years \$'000</b>	<b>Remaining contractual maturities \$'000</b>
<b>Consolidated - 2022</b>						
Trade and other payables	-	18,482	-	-	-	18,482
Lease liabilities	5%	548	482	142	-	1,172
<b>Total</b>		<b>19,030</b>	<b>482</b>	<b>142</b>	<b>-</b>	<b>19,654</b>



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**Notes to the financial statements**  
**30 June 2022**

**Note 20. Financial instruments (continued)**

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 and other payables	-	18,156	-	-	-	18,156
Lease liabilities	5%	420	376	550	-	1,346
Total		18,576	376	550	-	19,502

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 21. 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	
	2022 \$	2021 \$
Short-term employee benefits	1,631,086	1,381,300
Post-employment benefits	120,832	97,599
Long-term benefits	8,885	16,424
Share-based payments	682,382	726,357
	<u>2,443,185</u>	<u>2,221,680</u>

**Note 22. 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	
	2022 \$	2021 \$
<i>Audit services – Grant Thornton Audit Pty Ltd</i>		
Audit or review of the financial statements	<u>127,000</u>	<u>140,000</u>
<i>Other services – Grant Thornton Australia Limited</i>		
Tax advisory services	8,000	-
Due diligence services in respect of IPO	-	336,600
	<u>135,000</u>	<u>476,600</u>

**Note 23. Contingent liabilities**

The consolidated entity has no contingent liabilities as at 30 June 2022 (2021: \$nil).

**Note 24. Commitments**

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

**Note 25. Related party transactions**

*Parent entity*

Adore Beauty Group Limited is the parent entity.

*Subsidiaries*

Interests in subsidiaries are set out in note 27.

*Key management personnel*

Disclosures relating to key management personnel are set out in note 21 and the remuneration report included in the directors' report.

*Transactions with related parties*

The following transactions occurred with related parties:

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Payment for goods and services:		
Purchase of goods from director related entities	<u>25,092</u>	<u>25,684</u>

*Receivable from and payable to related parties*

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

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Current payables:		
Trade payables to director related entities	<u>5,170</u>	<u>2,163</u>

*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 26. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	<b>Parent</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit/(Loss) after income tax	<u>(1,986)</u>	<u>(6,716)</u>
Total comprehensive income	<u>(1,986)</u>	<u>(6,716)</u>

**Note 26. Parent entity information (continued)**

*Statement of financial position*

	<b>Parent</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Total current assets	2,538	1,249
Total assets	96,760	97,417
Total current liabilities	69	122
Total liabilities	1,726	1,079
Equity		
Issued capital	102,076	102,076
Reserves	1,660	978
Retained profits/(accumulated losses)	(8,702)	(6,716)
Total equity	95,034	96,338

*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 27.
- (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 14 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 2022 and 30 June 2021.

*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 27. 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:

<b>Name</b>	<b>Principal place of business / Country of incorporation</b>	<b>Ownership interest</b>	
		<b>2022</b>	<b>2021</b>
		<b>%</b>	<b>%</b>
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%	100.00%
Jakat Pte Ltd	Singapore	100.00%	100.00%

**Note 28. Events after the reporting period**

On 10 August 2022, it was announced the consolidated entity's Chief Executive Officer, Tennealle O'Shannessy has resigned and will leave Adore Beauty by February 2023. An executive search is currently underway for a replacement.

No other matter or circumstance has arisen since 30 June 2022 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 29. Reconciliation of profit after income tax to net cash from operating activities**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Profit after income tax expense for the year	2,377	845
Adjustments for:		
Depreciation and amortisation	1,856	1,501
Net gain on disposal of non-current assets	-	41
Share-based payments	682	1,257
Interest expense reclassified to financing activities	65	65
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(390)	1,429
Increase in inventories	(2,547)	(231)
Increase in current tax receivable	(1,295)	(2,690)
Decrease/(increase) in deferred tax assets	1,444	(395)
Decrease/(increase) in other current assets	1,063	(434)
Increase in trade and other payables	31	2,294
(Decrease)/increase in employee benefits	(76)	501
Net cash from operating activities	3,210	4,183

**Adore Beauty Group Limited**  
**Notes to the financial statements**  
**30 June 2022**

**Note 30. Non-cash investing and financing activities**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$'000</b>	<b>\$'000</b>
Modifications to right-of-use assets	320	571

**Note 31. Changes in liabilities arising from financing activities**

<b>Consolidated</b>	<b>Bank loans \$'000</b>	<b>Lease Liability \$'000</b>	<b>Total \$'000</b>
Balance at 1 July 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
Net cash from/(used in) financing activities	-	(494)	(494)
Lease modification	-	320	320
Balance at 30 June 2022	-	1,172	1,172

**Note 32. Earnings per share**

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>\$</b>	<b>\$</b>
Profit after income tax attributable to the owners of Adore Beauty Group Limited	2,377,000	845,000
	<b>Number</b>	<b>Number</b>
Weighted average number of ordinary shares used in calculating basic earnings per share	94,124,497	91,907,718
Adjustments for calculation of diluted earnings per share:		
Options over ordinary shares	605,000	414,383
Weighted average number of ordinary shares used in calculating diluted earnings per share	94,729,497	92,322,101

### Note 33. 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 nil 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 30/6/22 No.	Year ended 30/6/21 No.
Balance at the beginning of the period	2,643,820	-
Granted during the year	-	2,643,820
<b>Balance at the end of the period</b>	<b>2,643,820</b>	<b>2,643,820</b>

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

Shares	Number	Grant date	Vesting date	Expiry date	Exercise price	Fair value at grant date
MEP shares	1,688,468	31/8/2020	Listing date	30/06/2023	\$1.00	\$0.29
MEP shares	21,712	31/8/2020	Listing date	30/06/2023	\$1.00	\$0.29
MEP shares	217,126	31/8/2020	Listing date	30/06/2023	\$1.00	\$0.29
MEP shares	21,713	31/8/2020	30/06/2021	30/06/2023	\$1.00	\$0.36
MEP shares	217,125	31/8/2020	30/06/2021	30/06/2023	\$1.00	\$0.36
MEP shares	21,712	31/8/2020	30/06/2022	30/06/2023	\$1.00	\$0.52
MEP shares	217,126	31/8/2020	30/06/2022	30/06/2023	\$1.00	\$0.52
MEP shares	21,713	31/8/2020	30/06/2023	30/06/2023	\$1.00	\$0.55
MEP shares	217,125	31/8/2020	30/06/2023	30/06/2023	\$1.00	\$0.55

2,404,982 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

**Note 33. Share-based payments (continued)**

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:

There were no options issued during the period.

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

There were no options issued during the period.

(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 30/6/22	Year ended 30/6/22 Weighted average exercise price	Year ended 30/6/21	Year ended 30/6/21 Weighted Average Exercise Price
Balance at the beginning of the year	605,000	\$6.75	-	-
Granted during the year	-	-	605,000	\$6.75
Forfeited during the year	-	-	-	-
<b>Balance at the end of the year</b>	<b>605,000</b>	<b>\$6.75</b>	<b>605,000</b>	<b>\$6.75</b>

(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.

**Note 34. 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'.

As at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group' is the same as per this financial report.

In the prior year the 'Closed Group' was per the above excluding Adore Beauty Group Ltd. The results of the 'Closed Group' are as follows:

	<b>2021</b>
	<b>\$'000</b>
<b>Statement of profit or loss and other comprehensive income</b>	
Revenue	179,277
Cost of sales	(120,002)
Other income	21
Advertising and marketing expense	(23,073)
Employee benefits expense	(18,241)
Initial public offering and transactions costs	(129)
Depreciation and amortisation expense	(1,501)
Finance costs	(125)
Other operating expenses	(9,891)
	<hr/>
<b>Profit before income tax expense</b>	6,336
Income tax expense	(1,325)
	<hr/>
<b>Profit after income tax expense</b>	5,011
<b>Other comprehensive income</b>	
Other comprehensive income for the year, net of tax	<hr/> -
<b>Total comprehensive income for the year</b>	<hr/> <hr/> 5,011



**Note 34. Deed of cross guarantee (continued)**

	2021 \$'000
<b>Equity - retained profits</b>	
Accumulated losses at the beginning of the financial year	(1,531)
Profit after income tax expense	5,011
Retained profits/(Accumulated losses) at the end of the financial year	<u>3,480</u>
<b>Statement of financial position</b>	
<b>Current assets</b>	
Cash and cash equivalents	29,002
Trade and other receivables	658
Inventories	14,945
Other	1,841
	<u>46,446</u>
<b>Non-current assets</b>	
Property, plant and equipment	889
Right-of-use assets	1,165
Intangibles	2,592
Deferred tax	458
	<u>5,104</u>
<b>Total assets</b>	<u>51,550</u>
<b>Current liabilities</b>	
Trade and other payables	19,390
Lease liabilities	420
Employee benefits	1,075
	<u>20,885</u>
<b>Non-current liabilities</b>	
Other payables	92,888
Lease liabilities	926
Employee benefits	223
	<u>94,037</u>
<b>Total liabilities</b>	<u>114,922</u>
<b>Net assets</b>	<u>(63,372)</u>
<b>Equity</b>	
Issued capital	0
Other contributed equity	1,257
Reserves	(68,109)
Retained profits/(Accumulated losses)	3,480
<b>Total equity</b>	<u>(63,372)</u>

**Adore Beauty Group Limited**  
**Directors' declaration**  
**30 June 2022**

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 2022 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.

On behalf of the directors



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Marina Go  
Chair

29 August 2022

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**Grant Thornton Audit Pty Ltd**

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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 Consolidated Entity), which comprises the consolidated statement of financial position as at 30 June 2022, 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 Consolidated Entity is in accordance with the *Corporations Act 2001*, including:

- a giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2022 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 Consolidated Entity 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.

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## 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
<b>Revenue recognition – Note 1 and Note 4</b>	
<p>For the year ended 30 June 2022, the Consolidated Entity recognised revenue of \$199,660,000 (2021: \$179,277,000) from the sale of goods. Revenue is recognised in accordance with AASB 15 <i>Revenue from Contracts with Customers</i>.</p> <p>Revenue is recognised at a point in time when the Consolidated Entity transfers the promised goods to the customer upon delivery.</p> <p>To determine whether revenue is recognised appropriately, an assessment is required at the end of the reporting period for all orders shipped but not yet delivered.</p> <p>Due to the timing of revenue recognition in conjunction with daily voluminous transactions, this is determined to be a key audit matter.</p>	<p>Our procedures included, amongst others:</p> <ul style="list-style-type: none"><li>• Updating our understanding of internal processes and controls around revenue recognition, including the use of BigCommerce, a third-party retail point-of-sale system;</li><li>• Reviewing the Consolidated Entity's revenue recognition policies for compliance with AASB 15;</li><li>• Using data analytics to select and test a sample of revenue transactions pre and post-year-end and throughout the year, ensuring revenue was accurately recorded and occurred in the appropriate period by validating the transaction to supporting documentation;</li><li>• Validating management's assessment of the contract liability at year-end;</li><li>• Reviewing management's assessment of the refunds liability and right-of-return assets based on customer terms and percentage of actual returns during the year; and</li><li>• Reviewing the adequacy of disclosures for compliance in accordance with the Australian Accounting Standards.</li></ul>

## 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 Consolidated Entity's annual report for the year ended 30 June 2022, 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 Consolidated Entity'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 Consolidated Entity or to cease operations, or have no realistic alternative but to do so.

### **Auditor's responsibilities for the audit of the financial report**

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1\\_2020.pdf](http://www.auasb.gov.au/auditors_responsibilities/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 10 to 27 of the Directors' report for the year ended 30 June 2022.

In our opinion, the Remuneration Report of Adore Beauty Group Limited, for the year ended 30 June 2022 complies with section 300A of the *Corporations Act 2001*.

### **Responsibilities**

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



Grant Thornton Audit Pty Ltd  
Chartered Accountants



C S Gangemi  
Partner – Audit & Assurance

Melbourne, 29 August 2022