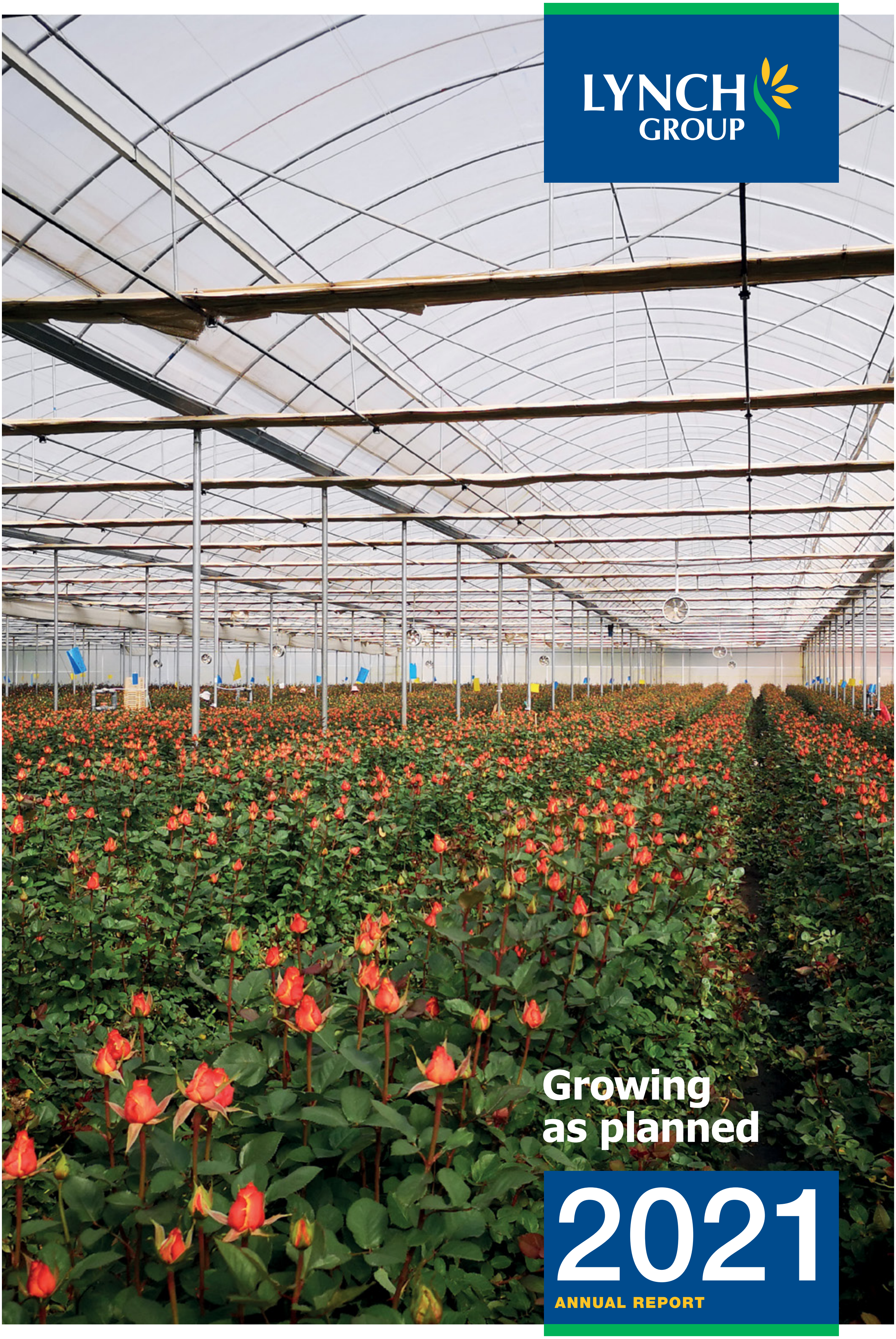
LYNCH GROUP
Growing as planned
2021
ANNUAL REPORT

LYNCH GROUP

Contents

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Welcome to our inaugural annual report

Lynch Group Holdings Limited (ASX:LGL) ABN (35 608 543 219) is Australia's leading vertically integrated wholesaler and grower of flowers and potted plants. Since listing on the ASX on 6 April 2021, the Group has experienced continued strong momentum in both its key markets of Australia and China.

The Group's successful delivery of its largest floral event of the year, Mother's Day, has seen the Australian division exceed its forecast financial performance.

The smooth integration of China's Van den Berg Asia Holding Ltd into the Lynch business continued as planned. The China division is expected to exceed its financial performance as well.

As a result of its recent trading achievements, Lynch Group is pleased to report that its operating performance exceeded the guidance outlined in the Prospectus.

2021 Highlights

Top and bottom line growth above expectations

- Revenue +4.7%, EBITDA +12.0%, NPATA +12.7% to prospectus forecast
- Successful listing on ASX on 6th April 2021
- Settlement of VdB transaction with integration continuing to plan
- Key operational objectives delivered in Australia and China
- Performance underpinned by targeted merchandising
- Successful delivery of high volume major customer events in Australia despite COVID-19
- Sale or return store conversions exceed forecast, now approximately 20% of Australian store network
- Additional approximately 10ha of greenhouses in China bringing total area under greenhouse cultivation to approximately 61ha
- Further strengthened our leading market position in China, including new supermarket customers

FY21 Pro-Forma Revenue

$331m

+4.7% to prospectus forecast.
– Australia ↑**3%** on prospectus forecast.
– China ↑**18%** on prospectus forecast.

FY21 Pro-Forma EBITDA

$58.6m

+12% to prospectus forecast.
– Australia ↑**3%** on prospectus forecast.
– China ↑**32%** on prospectus forecast.

FY21 Pro-Forma NPATA

$32.4m

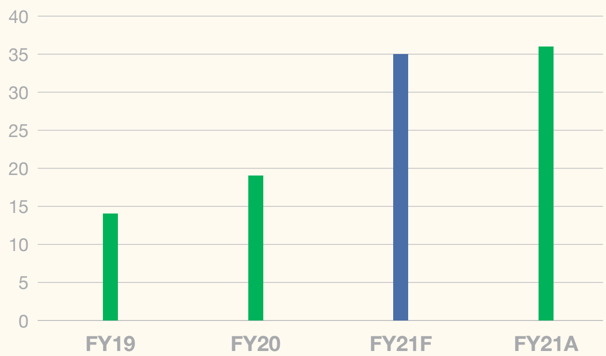
+12.7% to prospectus forecast.

Australia: Executing on key strategic initiatives

Stable, high cash conversion platform business

- Revenue growth driven by increased unit volumes and average selling price; innovation and demand for gifting and potted lines
- All key customer events in the period successfully delivered despite ongoing COVID-19 restrictions
- Supermarket channel continues to grow share due to improved customer experience, value and convenience
- Merchandising effectiveness and reach continue to build
- Flexibility in operating model delivered stable margins

Australia Pro-Forma EBITDA ($m)



Revenue up 27% on prior year and 3% on prospectus forecast

EBITDA up 92% on prior year and 3% on prospectus forecast

Ongoing progress across strategic initiatives

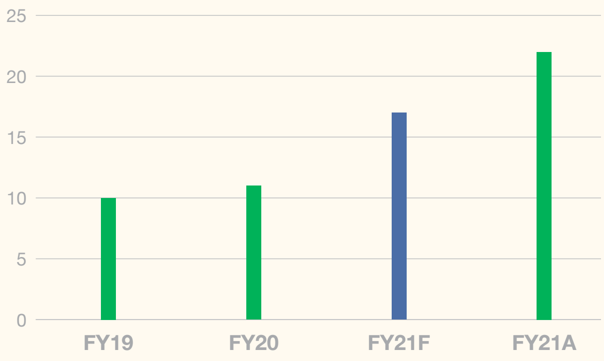
A year of significant growth, exceeding prospectus forecasts

China:
Farm upgrades on track as demand increases

High growth with increasing margins and positive market dynamics

- Domestic demand across winter and spring supported a lift in year on year market pricing
- Domestic channels to market continue to develop favourably – now supplying seven retail platform customers
- Export volumes were increased to support growth in our Australian operations
- Farm production volumes increased with crop maturity and an extended heating program
- Integration of our China team, operations and systems is progressing to plan

China Pro-Forma EBITDA ($m)



Revenue up 49% on prior year and 18% on prospectus forecast

EBITDA up 95% on prior year and 32% on prospectus forecast

Productive land now ~61ha across 4 farms

Chair and CEO's Report

Dear Shareholder,

A warm welcome to all new shareholders of the company and to our first annual report since our public listing on 6 April 2021.

Lynch Group has been in continuous operation for over one hundred years servicing Australian customers with great floral product. Today the Group's operations in Australia and China rival that of any operator in the world.

Australian Operations

The core of the Australian business is the national supply of floral and potted product to our supermarket customers. Whilst Lynch Group has been supplying the grocery channel for over 30 years, it remains relatively undeveloped when compared to other markets. In the UK for instance, 55% of all floral products are sold through supermarkets. In Australia, that share is 19% but growing quickly. Lynch Group is changing the way Australians buy flowers and potted plants. Our scale, innovation, worldwide sourcing capability and merchandising field force have greatly changed the perception of supermarket flowers which is why the grocery channel is rapidly growing its share of the overall floral industry. Over time we expect the grocery channel to approach share of the total floral market that is currently achieved in the UK.

The value Lynch Group brings to its supermarket customers is our ability to plan and manage a complex category. We trade in a highly perishable seasonal product that is sourced from Tier 1 growers in Australia and from around the world. Growing conditions can often vary season to season and supply chains are prone to disruption. The flexibility of our supplier base and agility in reacting to inevitable changes, ensures a consistent year-round supply of high-quality product to our customers. This is exemplified by the Group's support of key events such as Mother's Day where 15 million stems are sourced from Australian and international growers, processed and displayed in store for what is largely a three-day sales window.

Our scale and longevity in the market is critical to securing supply from the very best growers. In many cases we are the growers' largest customer and therefore mutual trust and support is critical. Locking in the highest quality supply not only improves the offering (and vase life) to the customer but also minimises the risk of rejection of imported product by Australian Biosecurity. Our in-house quality team works closely with Australian Biosecurity to ensure that imported product is effectively treated and screened to protect Australia from damaging pests and disease.

'The flexibility of our supplier base and agility in reacting to inevitable changes, ensures a consistent year-round supply of high-quality product to our customers.'

Our product team continues to explore opportunities to deliver new and attractive products to customers. This not only allows us to take advantage of seasonal product, but to create beautiful offerings for household consumption, and increasingly for use as gifts. Lynch Group's supply of bouquets and arrangements and certain potted product is increasing our average selling price and allowing us to give customers broader choice and value. The lower retail price of supermarket products with improving perceptions of quality has underwritten the growth of the channel.

Lynch Group employs one of the largest merchandising field forces in the country. This team of dedicated professionals assist local store management with ranging whilst ensuring the presentation of product remains fresh to drive sell through. In addition to the normal supply of product to customer distribution centres, Lynch Group also manages an increasing number of Sale or Return stores (SOR). The buying plan (and wastage) for these stores is more closely managed by Lynch Group, allowing us to invest more heavily in stock depth, and ranging can reflect current buying opportunities sourced by our procurement team. SOR stores outperform core stores by a factor of 2 to 1 on average, although any waste is born by the Group.

Our three Australian farms support the Group with potted plants and Australian native flowers that are difficult to otherwise source at required specification, quality and volumes. This vertical integration of supply (including our farms in China) is a competitive advantage in maintaining consistency of service to our customers.

Lynch Group is the largest importer of floral product into Australia. Our fast-growing Markets sites distribute locally sourced products alongside imported lines to other wholesalers and florists. With our hub operation in Flemington and two satellite sites in Newcastle and Canberra this volume adds to our procurement scale and provides additional flexibility in how we manage product flow. In September 2021, we have completed the acquisition of a further site in Rocklea markets in Brisbane, which will form a strong base for further expansion into Queensland over time.

For the year ended 27 June 2021, the Australian operations achieved a record sales and earnings result notwithstanding the impacts of the pandemic. Pro-Form Revenue of $288m was 27% up on 2020 with pro-forma EBITDA of $36m, 92% up on 2020. The pandemic has highlighted the strength of the business model that has fully tested our flexibility and agility. We are fortunate that our supermarket customers have been able to operate through lockdowns, despite minor disruptions. Lockdowns have been announced with little or no notice requiring us to manage the initial sharp drop in sales (and corresponding increase in waste) until a full recovery to pre lockdown metrics several weeks later.
Our production facilities are fully COVID compliant, and we thank our dedicated workforce for all their efforts through this period and continuing into FY22.

Imported floral product has traditionally been air freighted to Australia. With the closure of Australia's international borders in March 2020, air freight capacity dropped dramatically, and rates increased accordingly – in some cases to several times pre pandemic levels. Over a number of years, we have developed a reliable pathway for the import of particular products via sea freight from some geographies. As air freight rates continued to escalate, we were able to increase our sea freight volumes and adjust our sourcing to those locations (including local growers) best able to facilitate supply in the new conditions. To manage this disruption whilst maintaining high levels of customer service, record sales growth and expanding margins is a real credit to the team.

Lynch Group has been in continuous operation for over one hundred years servicing Australian customers with great floral product. Today the Group's operations in Australia and China rival that of any operator in the world.

Chair and CEO's Report cont.

China Operations

Lynch Group has been active in China since 2004, building its first processing facility in 2008, and developing its first farm in 2012. The intention then was to provide a consistent source of high-quality floral product at competitive pricing to meet supermarket price points. Located in the Kunming region of Yunnan province in South West China, the area benefits from an ideal growing environment, with consistent rainfall, elevation (important for product quality) and good access to airport facilities. The Chinese government has been very supportive of the Group's expansion of farming operations as part of a national strategy to improve agricultural productivity, rural incomes and retain a skilled workforce in the inland provinces.

A second and larger farm commenced development in 2018 with the product of both initial farms largely being exported to support the Australian operations. Own production was supplemented with locally sourced product to provide counter seasonal product into Australia.

'Lynch Group's access to premium floral genetics, investment in advanced growing infrastructure and systems, and direct distribution via its own contracted cool chain logistics, provides year-round supply of a high quality and unique product range to Chinese consumers at affordable prices.'

Following a 10-year association with Van den Berg Roses (VdB) in China, Lynch Group acquired a 20% shareholding in 2019. VdB operated two large farms servicing the Chinese domestic market via a dedicated sales team. The IPO of Lynch Group in April 2021 funded the buyout of the 80% of VdB not already owned.

Today, Lynch Group in China is the largest grower of premium flowers in the country. Due to product quality issues associated with a fragmented and developing grower base, coupled with multi-layer ambient product distribution networks, the consumer market for floral products has been slow to develop. Today, the floral market in China is many times the size of most western markets, is growing strongly, and consumer buying trends centred around self-consumption and gifting, particularly during key event periods, is emerging rapidly. Per capita spend rates on floral products still remains comparatively low.

Valentine's Day event – Australia

Lynch farm greenhouse facility – China

Lynch Group's access to premium floral genetics, investment in advanced growing infrastructure and systems, and direct distribution via its own contracted cool chain logistics, provides year-round supply of a high quality and unique product range to Chinese consumers at affordable prices. Today over 50% of farm production is sold to various retail platforms including supermarkets at fixed prices, suppressing the volatility of market prices. We continue to invest in value added products. The opening of the Shanghai processing facility in early 2021 was an important first step in bringing fresh, value-added product closer to the customer.

FY21 was also a record year for the Chinese operation. Pro-Form Revenue of $64m was 49% up on 2020 with pro-forma EBITDA of $22m, 95% up on 2020. Greenhouse space increased by 10ha to end the year at 61ha of total greenhouse production area. Better than expected pricing, particularly in the winter months, allowed us to extend our heating program thereby over achieving on our production volumes.

The demand for our product in China will exceed our ability to supply for many years to come. We are building a further 15ha of greenhouse facilities in FY22. With our long history of building and growing, there is high confidence in the returns that will be generated from this incremental investment. Return on Invested Capital (ROIC) is expected to exceed 25% once crops reach maturity over 2 to 3 years. Operating leverage should support increasing operating margins.

To complete an IPO, the VdB acquisition and set a record in sales and profit in both Australia and China in a single year would be an outstanding achievement. To have accomplished this in the context of the pandemic reflects the skills and dedication of your management and operations teams. We would like to extend our thanks to all stakeholders and look forward to another successful year across FY22.

Patrick Elliott
Chair

Hugh Toll
CEO

Performance Highlights

FY21 Pro-Forma Revenue up on FY20

29.7%

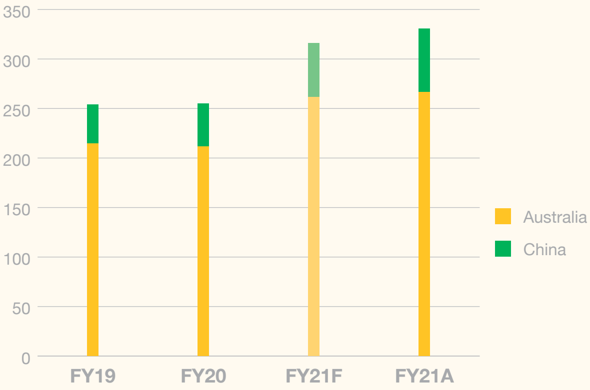
Pro-Forma Revenue of $331.0m
4.7% ahead of prospectus forecast and
29.7% up on COVID-19 affected FY20

FY21 Pro-Forma EBITDA up on FY20

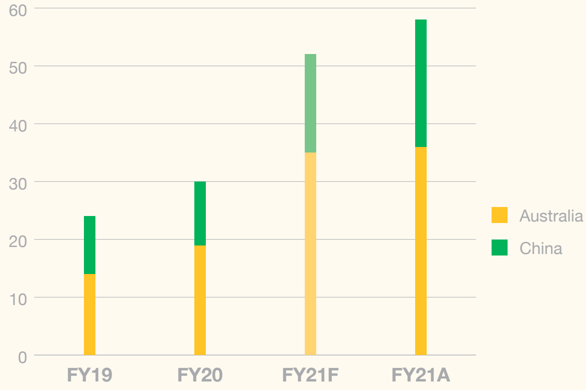
93.0%

Pro-Forma EBITDA of $58.6m
12.0% ahead of prospectus forecast and
93.0% up on COVID-19 affected FY20

Pro-Forma Revenue FY19-FY21



Pro-Forma EBITDA FY19-21

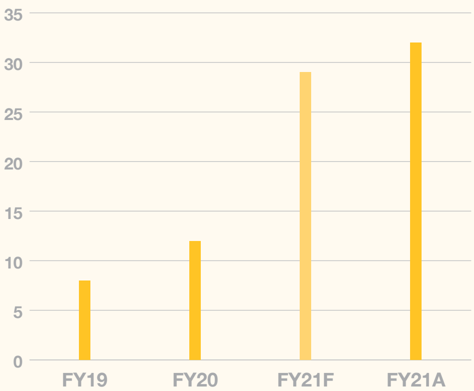


FY21 Pro-Forma NPATA up on FY20

$32.4m

12.7% ahead of prospectus forecast and
167% up on COVID-19 affected FY20

Pro-Forma NPATA FY19-21



1. Australia revenue shown net of intersegment eliminations.
2. FY21F shows prospectus forecasts.

Lynch Group Production Facility

Directors' Report

For the financial year ended 27 June 2021

The directors present their report, together with the consolidated financial statements, of Lynch Group Holdings Limited (company) and its controlled entities (Group) for the financial year ended 27 June 2021. In order to comply with the provisions of the *Corporations Act 2001* (Cth), the directors report as follows:

Reporting periods

The current reporting period is the financial year ended 27 June 2021. This is the 52-week period from 29 June 2020 to 27 June 2021 and is referred to as June 2021 throughout the Directors' Report, consolidated financial statements and notes to the consolidated financial statements.

The comparative reporting period is the financial year ended 28 June 2020. This is the 52-week period from 1 July 2019 to 28 June 2020 and is referred to as June 2020 throughout the Directors' Report, consolidated financial statements and notes to the consolidated financial statements.

Directors and Secretary

The names and expertise, experience and qualifications of the directors and secretary of the company during and since the end of the financial year are set out below:

Name	Expertise, experience and qualifications
Patrick Elliott *Non-Executive Chair* **Period of Service** 06 November 2015 – Current 	Patrick was appointed to the Board of the company as Chair and Non-Executive Director in 2015. Patrick is a Partner of Next Capital and co-founded the firm in 2005. In this capacity, Patrick sits on a number of Next Capital portfolio company boards. Patrick has previously served as Chair of the Australian Investment Council previously called Australian Venture Capital Association Limited (AVCAL) and was formerly Non-Executive Chair of ASX-listed Scottish Pacific (between May 2013 and December 2018) and JB Hi-Fi (between 2000 and 2012). Prior to his role at Next Capital, Patrick was an Executive Director of Macquarie Bank having joined the private equity division in 1997. Before joining Macquarie, Patrick was a Partner with Australia's leading insolvency and restructuring specialist, Ferrier Hodgson. Patrick holds a Bachelor of Commerce and Bachelor of Laws from the University of New South Wales, and a Master of Business Administration from the IMD International Institute for Management Development.
Elizabeth Hallett *Independent Non-Executive Director* **Period of Service** 16 February 2021 – Current 	Elizabeth was appointed to the Board in February 2021 as a Non-Executive Director. Elizabeth is an experienced Non-Executive Director in the Australian corporate sector, bringing legal and regulatory, corporate governance, international business, and risk management skills and experience to the Board. Elizabeth is currently a Non-Executive Director of SunSuper, NPP Australia Limited, the Civil Aviation Safety Authority and NSW Land Registry Services. She is also a current reappointed member of the Australian Takeovers Panel. Elizabeth was formerly a partner with international law firm Norton Rose Fulbright for 22 years, including more than 3 years as senior Australian partner in the firm's affiliated Jakarta office. At Norton Rose Fulbright, Elizabeth held global and national leadership roles (including membership of the global firm's Group Executive Committee). Elizabeth holds a Bachelor of Commerce and Bachelor of Laws from the University of Melbourne, is a member of the Australian Institute of Company Directors (AICD), and a Graduate of the AICD Company Directors' Course. Elizabeth is Chair of the Remuneration and Nomination Committee, and is a Member of the Audit and Risk Committee.

Name	Expertise, experience and qualifications
Peter Clare *Independent Non-Executive Director* **Period of Service** 16 February 2021 – Current 	Peter was appointed to the Board in February 2021 as a Non-Executive Director. With an extensive corporate career in banking and broad industry experience, Peter has served on a variety of boards in the technology and finance industries in Australia and New Zealand. Peter is currently a Non-Executive Director of Heritage Bank, SilverChef and Zagga amongst others. Peter is currently also Chair of ASX-listed Dubber where he has been on the Board since December 2017. Peter was formerly the CEO of Westpac New Zealand and prior to that, held numerous roles within Westpac and St. George and Commonwealth Bank and as a Non-Executive Director at Scottish Pacific (between December 2014 and December 2018) and a Non-Executive Director at Change Financial Limited (between April 2015 and August 2018). Peter's career began as an Insolvency Practitioner and also included a number of years as a management consultant. Peter holds a Bachelor of Commerce from the University of New South Wales and a Master of Business Administration from Macquarie University. Peter is also a member of the Australian Institute of Company Directors (AICD), Governance Institute of Australia and a fellow of CPA Australia and the Financial Services Institute of Australasia (FINSIA). Peter is Chair of the Audit and Risk Committee, and is a Member of the Remuneration and Nomination Committee.
Peter Arkell *Independent Non-Executive Director* **Period of Service** 16 February 2021 – Current 	Peter was appointed to the Board in February 2021 as a Non-Executive Director. Peter is currently the Managing Director of Carrington Day, a consulting company based in China which assists international companies to operate effectively in China. He was previously Non-Executive Director of the Group's China operations between January 2018 and February 2021. Peter has been based in Shanghai since 2004. He is an active member of the international business community in China, having been on the board of directors and Chair of AustCham Shanghai, the Australian Chamber of Commerce. He is the Chair of the Global Mining Association of China, the representative body of the international mining community in China. Peter is also a founder and Non-Executive Director of the GE Morrison Institute, a China-Australia business focused think tank. He was appointed for 2019-2024 to the panel of mediators of the Shenzhen International Mediation and Arbitration Centre of China Mining. In addition, Peter was a Board Member of the China International Mining Cooperation Committee, a sounding board for the Chinese Ministry of Commerce on outbound investment. Peter has an extensive network at the most senior levels of international and Chinese business and government in China. Peter is a member of each of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Directors' Report Continued

For the financial year ended 27 June 2021

Name	Expertise, experience and qualifications
Hugh Toll *Group Chief Executive Officer* *Executive Director* **Period of Service** 16 February 2021 – Current 	Hugh was appointed as Group Chief Executive Officer of the Lynch Group in 2019 and sits on the Board of the company as an Executive Director. Hugh began his career at Lynch Group in 2017 as General Manager Business Development, before moving into the role of Group Chief Financial Officer in 2018. Hugh has a deep understanding of the operational, financial and marketing functions of the Lynch Group and has overall responsibility for the Lynch Group's strategy. Hugh has an extensive investment banking background spanning over 20 years, having previously been an Investment Director at Next Capital, an Executive Director at Goldman Sachs Principal Investment Area and a Division Director at Macquarie Direct Investment. Hugh holds a Bachelor of Commerce from the University of New South Wales and a Master of Commerce from the University of New South Wales.
Steve Wood *Group Chief Financial Officer and Company Secretary* **Period of Service** 29 August 2019 – Current 	Steve is the current Group Chief Financial Officer and Company Secretary, having joined the Lynch Group in 2018 as Group Finance Manager. Steve has held senior finance positions in the retail, media and manufacturing sectors over the last 15 years. These include financial controller position at Network Ten (in its out of home media subsidiary) for over 6 years and at Toys R Us for over 5 years. Steve is a qualified Chartered Accountant and is accredited with both CAANZ (Chartered Accountants Australia and NZ) and ICAEW (Institute of Chartered Accountants in England and Wales). Prior to the commercial accounting roles, Steve qualified as a Chartered Accountant in London in the early 2000s before transferring to Sydney in 2003 and continuing in the professional services sector until 2005. Steve holds a Bachelor of Arts from Canterbury Christ Church University.
Leo Lynch *Non-Executive Director* **Period of Service** 06 November 2015 – 15 February 2021	Leo was previously Chief Executive Officer of the company and transitioned to an Executive Director role in 2018. Leo is from a 3rd generation flower and potted growing family with more than 40 years' experience and extensive involvement in the global floral and potted industry. Leo is a member of the family that founded the original Lynch business in 1915 and was instrumental in its growth in Australia. Leo resigned from the Board on 15 February 2021.

Name	Expertise, experience and qualifications
John Khalil *Executive Director* **Period of Service** 06 November 2015 – 16 February 2021 	John has led the development and expansion of the Group's operations for over 30 years. John has been instrumental in building the Group's business in Australia and its national operating footprint, the development of the Group's global import program and established and led the Group's business in China from 2004. John has an extensive background of over 50 years in the global floral and potted industry, and is a recognised leader and innovator across all aspects of the industry supply chain. John resigned from the Board on 16 February 2021 but remains an integral part of the Group's Senior Executive team.
Chris Coudounaris *Non-Executive Director* **Period of Service** 06 November 2015 – 14 February 2021	Chris is a former Partner at Gadens specialising in corporate and business law and a former director of Keating Associates, a policy and advisory firm advising on various projects in Australia and overseas. Chris has held previous roles as Chair of Stathfield Group, Lake Technology, and Pocketmail Group all of which were listed on the ASX. He holds a Bachelor of Commerce and a Bachelor of Laws from the University of New South Wales and is a member of the Law Society of New South Wales and the Law Council of Australia. Chris resigned from the Board on 14 February 2021.
Riad Tayeh *Non-Executive Alternate Director* **Period of Service** 06 November 2015 – 16 February 2021	Riad began his career at Coopers & Lybrand, moving to Ferrier Hodgson Sydney, and then Ferrier Hodgson Hong Kong. For 10 years he specialised in insolvency, corporate restructure, financial investigation and turnaround strategy. In the Hong Kong market Riad restructured listed companies, managed major liquidations, undertook fraud investigations and provided litigation support. He has also assisted various companies in restructuring, obtaining equity, acquiring businesses and implementing exit strategies. Riad has over 30 years insolvency and accounting experience and holds qualifications of Bachelor of Economics from the Sydney University, Fellow of Chartered Accountants Australia & New Zealand and former President of the Turnaround Management Association of Australia (TMA). Riad resigned from the Board on 16 February 2021.
James Murphy *Non-Executive Alternate Director* **Period of Service** 29 June 2020 – 13 November 2020	James is currently a Partner at Next Capital. James was formerly with UBS Investment Bank M&A team. At UBS, he executed transactions including the privatisation of DCA Group, the merger of SFE and ASX, the sale of P&O Cold Logistics for P&O, the sale of Amatek Group for CVC, the acquisition of Guardian Healthcare by DCA Group and the acquisition of ALSTOM Australian and New Zealand assets by United Group. Previously, James was a member of Grant Samuel's corporate advisory team and a strategy consultant at Accenture, the global consulting firm. James has served Directorships or Alternate Directorships at a range of Next Capital's investments. He holds a Bachelor of Commerce from the University of New South Wales. James resigned from the Board on 13 November 2020.

Directors' Report Continued

For the financial year ended 27 June 2021

Directors' Meetings

The number of meetings of the Board and of each Board Committee held during the current year, and the number of meetings attended by each director were:

	Board		Remuneration & Nomination		Audit & Risk	
	Attended	Held[1]	Attended	Held	Attended	Held
Patrick Elliott	12	12	–	–	–	–
Elizabeth Hallett	5	5	1	1	1	1
Peter Clare	5	5	1	1	1	1
Peter Arkell	5	5	1	1	1	1
Hugh Toll	5	5	–	–	–	–
Leo Lynch	7	7	–	–	–	–
John Khalil	7	7	–	–	–	–
Chris Coudounaris	7	7	–	–	–	–
Riad Tayeh	7	7	–	–	–	–
James Murphy[2]	–	4	–	–	–	–

1 Represents the number of meetings held during the time the director held office or was a member of the relevant Committee.

2 James Murphy acted as alternate director for Patrick Elliott and as such was not required to attend any meetings.

Directors' interests in the company

Name	Fully paid ordinary shares			Share Options		
	Direct	Indirect	Total	Direct	Indirect	Total
Patrick Elliott	–	342,639	342,639	–	–	–
Elizabeth Hallett	27,777	–	27,777	–	–	–
Peter Clare	–	69,443	69,443	–	–	–
Peter Arkell	16,666	–	16,666	–	–	–
Hugh Toll	639,999	–	639,999	83,333	–	83,333

Share Options

Unissued ordinary shares under Options

Unissued ordinary shares of the company under Option at the date of this report are:

Number of unissued ordinary Shares under Option	Issue Price	Expiry Date of Option
1,059,093	$3.60	June 2027

All unissued shares will be converted into ordinary shares in the company immediately after exercise of the relevant Option. No Option holder has the right under Options to participate in any other share issue of the company.

Shares issued on exercise of Options

During the year, the company issued 145,943 (2020: 73,023) shares as a result of the exercise of Options by members of the company's Senior Executive team.

Diversity Policy

The Group is committed to establishing and maintaining an inclusive workplace that embraces and promotes diversity. There is a wide mix of cultural diversity within the Group in recognition of the value that individuals with diverse skills, values, backgrounds and experiences bring and that the promotion of diversity, at all organisational levels, enhances creativity and innovation. The Group also recognises the strategic and personal advantages that arise from a workplace where decisions are based on merit and where all employees are treated equally and that organisational performance is linked to an inclusive environment that embraces and promotes diversity.

The Group has adopted a Diversity Policy to ensure a work environment where people are treated fairly and with respect, notwithstanding their gender, ethnicity, disability, age or educational experience. The Diversity Policy is approved by the Board and sets out the Group's commitment to diversity and inclusion in the workplace and provides a framework to achieve diversity goals. The Remuneration and Nomination Committee oversees the Diversity Policy, recommends annual, diversity-related measurable objectives and assesses the progress in achieving them.

For the current reporting period, the Group has set and met the following measurable objectives:

- the minimum composition of Non-Executive Directors having regard to gender diversity is 25%; and
- the minimum composition of the workplace having regard to gender diversity is 25%.

The Diversity Policy is available on the Group's website (https://lynchgroup.com.au/investor-centre) and, as such, is available to all employees at any time. Employees responsible for employment and promotion were reminded of the Policy and these objectives during the reporting period. All employment positions within the Group, whether Board, Executive or other employee, are filled by the best candidates available without discrimination. The Group is committed to ensuring that it interviews a balance of genders for each new hire position. Where the requirements of a role permit, the Group will consider the provision of flexible work arrangements to balance family and other commitments with the role.

The Group is a relevant employer under the Workplace Gender Equality Act and reported on its Gender Equality Indicators in accordance with the *Workplace Gender Equality Act 2012*.

Corporate Governance Statement

A copy of the Group's Corporate Governance Statement is available on the Group's website https://lynchgroup.com.au/investor-centre.

Principal activity

The principal activity of the Group is the horticultural production and wholesale of flowers and plants. The Group is a for profit entity. No significant change in the nature of the principal activity of the Group occurred during the financial year.

Dividends

In respect of the financial year ended June 2020, no dividends were paid or declared by the company.

In respect of the year financial ended June 2021:

- a dividend of 79.7c cents per share ($56.5m in total) franked to 100% at 30% corporate income tax rate was declared on 12 March 2021 and paid to holders of ordinary shares of the company on 6 April 2021; and
- a dividend of 2.3c cents per share ($1.7m in total) unfranked was declared on 12 March 2021 and paid to holders of ordinary shares of the company on 6 April 2021.

These dividends were subject to the Initial Public Offer (IPO) of the company which occurred on the same date.

No further dividends have been paid or declared since the start of the current financial year, and the directors do not intend to declare any further dividends in respect of the current financial year.

Operating and Financial Review

The Board presents its operating and financial review for the financial year ended June 2021, which is intended to provide shareholders with an overview of the Group's operations, its financial performance and position and prospects for the future. This review is intended to complement the financial report.

Review of Operations

The Group traces its origin back to 1915, when it was founded in Australia by the Lynch Family. The business has grown over time by leveraging its strong, long-term relationships with participants along the supply chain including breeders, growers (both domestically and globally) and retail partners, and its deep expertise in large-scale production of delicate and short vase life products.

The results of the Group are disclosed in the financial statements. The profit for the year of the Group after providing for income tax amounted to $24.9m (2020: $5.8m).

Integration of Van den Berg Asia Holding Ltd

Following its acquisition effective April 2021, the integration of Van den Berg Asia Holding Ltd and its associated subsidiaries (VdB Group) into the broader Group's business continues smoothly. Production and supply of cut flowers for the Chinese domestic market continues to increase as does the construction of additional growing capacity in line with the business strategies.

Trading Performance

In early May 2021, the Group successfully delivered its largest floral event of the year in Australia, Mother's Day. For this event, the Group made a record investment in chartered freight and merchandising hours in the field to cater to strong consumer demand, amid significant disruption to international logistics. More broadly, the Group continues to benefit from improving consumer perceptions of supermarket floral quality through Lynch-led product innovation and merchandising.

In recent trading, the Lynch China division has benefited from stronger than expected domestic pricing allowing it to increase production above forecasted rates to meet this demand. While the Group expects pricing to return to normal levels in the near term, the underlying demand growth continues to be a significant driver in this region.

Funding

The Group has separate debt funding in place in Australia and China. In Australia, the Group has a $75.0m debt facility from the Commonwealth Bank of Australia available. At the balance sheet date $50.0m was fully drawn, $1.5m was utilised for bank guarantees and the remaining $23.5m was undrawn. In China, $5.0m of debt from the Bank of China was fully drawn at the balance sheet date. The directors believe this level of funding is appropriate to support the business to deliver its future strategies.

Principal Risks

There are a number of factors, both specific to the Group and of a general nature, which may threaten both the future operating and financial performance of the Group. There can be no guarantee that the Group will achieve its stated objectives or that forward looking statements will be realised. The operating and financial performance of the Group is influenced by a variety of general economic and business conditions, including levels of consumer spending, inflation, interest and exchange rates, access to debt and capital markets, government fiscal, monetary and regulatory policies and, at the present time, the effect on the economy of the COVID-19 pandemic. A prolonged deterioration in general economic conditions, including an increase in interest rates or a decrease in consumer and business demand, may have an adverse impact on the Group's business or financial condition.

The Group's key risks include and are not limited to:

Risk	Description	Mitigation
Pandemic risk (including COVID-19)	Events related to the Coronavirus pandemic (COVID-19) have resulted in significant market volatility. As the COVID-19 pandemic continues, there is continued uncertainty as to the ongoing and future response of governments and authorities globally as well as the full economic and social impact resulting from the COVID-19 pandemic. The Group may face additional difficulty in achieving business growth during and in the aftermath of the COVID-19 pandemic. The uncertainties as to the full impact of the COVID-19 pandemic may create business risks for the Group in reducing consumer demand for the Group's products, delaying distribution timeframes and increasing the cost of supply. Further, COVID-19 may create changed global economic conditions which may impede the Group's successful expansion in China. COVID-19 may also affect the Group on a personnel level as the Group will be required to adhere to health recommendations from local, state and federal authorities, which may include reductions in available employees, lower production and revenue, and increased costs or reduced profitability. Further, there remains a risk that the spread of COVID-19 has an adverse impact on the Group's supply chain. This could occur if the ability to transport products between countries is disrupted, the Group's key suppliers are negatively affected, or the Group is otherwise unable to efficiently distribute products to customers.	The Group has implemented its COVID-19 response into its usual business activities. The health and safety of the Group's employees have been a priority during the pandemic. The Group has implemented COVID-19 protocols across all operations and sites to ensure the continued safety and care of employees. These measures include social distancing, temperature checking, working from home where possible, increased cleaning, hygiene education, and mandatory QR code check in. The Group continues to react and manage accordingly to the changing requirements of government health authorities, customers and suppliers in relation to COVID-19.
Health and safety	The nature of the business exposes the Group employees to the risk of workplace accidents or injuries.	The Group is focused on ensuring a safe working environment for all its employees in Australia and China. A culture of safety first is in place across all operations with ongoing training and education of employees as well as the regular periodic reporting of any incidents in place. The Group also has current workers' compensation policies in place.
Customer concentration risk – reliance on a number of large customers in Australia	A significant proportion of the Group's revenue is attributable to a small number of the major supermarkets, including Coles, Woolworths and ALDI, who trade with the Group on a purchase order basis.	Whilst there are no fixed-term contracts with these major customers, the Group has relied on its strong long-term commercial relationships with these key customers (some of which have been the Lynch Group's customers for 30 years), its competitive positioning and scale to generate ongoing revenue from these key customers.

Risk	Description	Mitigation
Geopolitical risks of operating in China	The Group operates and owns key assets in China and is therefore exposed to China's political, economic and social landscape and the broader bilateral relationship between Australia and China. Any current heightening of political and economic tensions in the bilateral relationship between Australia and China may impact on the Group's operations including from government responses to these tensions. Specific impacts could include heightened regulatory burdens on foreign investment, restrictions on export activities, expropriation of real property assets, repudiation, renegotiation or nullification of existing agreements and leases, or restrictions on currency conversion and the repatriation of funds.	The Group has operated in China for over a decade, and continues to actively invest in greenhouse production expansion, increased processing capacity and its operation teams in China. The Group's China based employees are almost exclusively locally based. Although the Group cannot influence wider geopolitical issues, it strives to be a model corporate citizen with appropriate corporate governance.
Changes to Australia's quarantine and customs requirements	The Group is subject to Australia's strict biosecurity and quarantine requirements which apply to the importation of plant-based products. The Australian Government may review and implement changes to the import conditions, customs requirements or quarantine controls following changes to local circumstances (including environmental factors) or based on new scientific evidence. Any significant alteration of the import requirements in respect of plant-based products could either restrict or prevent the Group's importation of its floral and plant products into Australia.	The Group has developed a highly diversified supply chain both in Australia and internationally. It actively monitors supplier volumes to ensure it does not become overly reliant on any one supplier. The Group also works proactively with the Australian Government to ensure ongoing compliance with all biosecurity regulations.
Foreign currency exposure	Some products sourced by the Group are purchased directly in foreign currency and accordingly the Group is exposed to the foreign exchange rate movements, particularly the AUD/CNY and AUD/USD rate. Material movements in the foreign exchange rates can have a material adverse effect on the Group, including reduced consumer demand for products or increased costs to produce and distribute products.	The Group undertakes regular hedging of USD based on future expected purchases. The specific impact of movement in the AUD/CNY are discussed further in the financial risk note in the consolidated financial statements.

Risk	Description	Mitigation
Glyphosate	Glyphosate is a broad-spectrum systemic herbicide, which acts by inhibiting an enzyme found in plants. Glyphosate is a widely used product that is used to kill weeds and grasses that compete with agricultural crops. While glyphosate has been approved by regulatory bodies worldwide, there have been concerns about its effect on humans and its links to causing cancer. The Group uses glyphosate as an herbicide for use at farms where the risk is relatively low and is in accordance with label and local regulations. The Group also uses glyphosate as a mandatory treatment to render some specific flower varieties non-propagable in a process known as 'devitalisation', which is a treatment mandated by the Australian Government. There have been some successful and some pending litigations globally, including in Australia, claiming liability for cancer relating to the use of glyphosate. As such, there is a risk that the Group could be involved in future litigation regarding its use of glyphosate, which may have a material impact on the Group's financial position.	The Group is actively working with the Australian Government to remove the requirement for the use of glyphosate. In the meantime, the Group mandates the use of protective equipment for employees who may come into contact with glyphosate.
Cyber security	The Group uses information technology systems throughout its operations. Failure or compromise of these systems could have a short-term impact on the efficiency or profitability of the Group	The Group undertakes regular employee education as well as secure infrastructure housing, regular backups and disaster recovery processes to secure its data and systems. In today's environment, cyber security is of increasing focus to management and the Board.

Business Strategies and Prospects

Australia

The Group is well positioned to leverage its existing platform and scale to capitalise on structural changes in the Australian floral retail market and drive future growth:

Supermarket channel structural growth. Improving consumer perceptions around the freshness and quality of floral products in supermarkets will contribute to continued floral sales growth. For example, in the past 15 years, supermarkets' share of UK floral sales as at 2019 have increased from 18% to approximately 55%, driven by improved perceptions around freshness and product quality of floral products. The Group is contributing towards this structural shift in Australia through increased convenience for consumers in purchasing products via the supermarket channel and by enhancing product freshness through increased product velocity through to point of sale. In addition, the expansion of the Group's Sale or Return store model and national merchandising efforts have demonstrated a track record of improving consumers' quality perceptions and improved sales performance.

Continue to expand channel and customer footprint. The Group's expansion into other large retail formats and further penetration of wholesale channels to market will further entrench its position as the most experienced floral industry player with a national footprint. Large chained retailers are increasingly looking to expand their home improvement range and see floral products as a key element of this. In addition, these retailers are looking to simplify their procurement process with a national category leader that provides a national solution for their floral and potted needs.

China

The Group has identified a number of opportunities in the growing China market across various aspects of the early-stage supply chain:

Increase production capacity. The Group has significant land secured in the Yunnan Province (101 hectares) and plans to develop the remaining land available and expand its floral production volume.

Become an attractive partner to retailers and grow the direct-to-consumer channel. The Group sees significant opportunities to further disintermediate the supply chain and capture vertical margin. Mass-market retailers are searching for a national supplier of consumer-ready floral products, particularly in the context of a highly fragmented and developing market structure. The Group provides both online and offline retailers with a compelling proposition in terms of scale, quality, security of year-round supply and expertise around end-to-end cool-chain transport.

Roll out processing facilities across major cities in China. After establishment of the Shanghai Facility, the Group plans to continue rolling out further processing facilities targeting a number of major cities in China. These processing facilities will provide an end-to-end solution from the Group's supply and production base in the Yunnan Province to delivery of consumer-ready products to customers, enhancing speed to market and product quality for the Group's range of consumer-ready products.

Financial Review

Non-IFRS measures

The Pro-Forma non-IFRS measures enable consistent comparison of the Group's performance to the non-IFRS financial information presented in the Prospectus issued in connection with the Group's recent IPO. Non-IFRS measures have not been subject to audit. The table below provides details of the non-IFRS measures used in the report.

Non-IFRS measure	Definition
Pro-Forma	Statutory audited financial information subject to adjustments made to reflect the post listing Group structure on a consistent basis with Pro-Forma adjustments presented in the Prospectus issued in connection with the Group's recent IPO, including: • Inclusion of pre-acquisition VdB Group financial performance; • Exclusion of VdB Group pre-acquisition interest fair value re-measurement gain; • Exclusion of offer, restructuring and financing costs associated with the IPO and VdB Group acquisition; • Inclusion of estimated incremental costs associated with being a public listed company; • Exclusion of short-term property lease costs subsequently recognised as right-of-use assets; • Exclusion of net Job Keeper receipts; • Exclusion of legacy ownership costs in relation to the pre–IPO Board; • Inclusion of impact of post IPO debt structure; and • Inclusion of amortisation relating to historical acquisitions.
Pro-Forma Revenue	Revenue adjusted for Pro-Forma items as per the definition of Pro-Forma (above).
EBITDA	Earnings before interest, tax, depreciation and amortisation.
Pro-Forma EBITDA	Earnings before interest, tax, depreciation and amortisation adjusted for Pro-Forma items as per the definition of Pro-Forma (above).
NPATA	Net profit after tax adjusted for amortisation. Amortisation comprises the amortisation of acquired intangible assets relating to historical acquisitions.
Pro-Forma NPATA	Net profit after tax adjusted for amortisation and adjusted for Pro-Forma items as per the definition of Pro-Forma (above).

Statement of Profit and Loss

Revenue

On a statutory basis, revenue increased by $69.8m (30%) from $230.4m in 2020 to $300.2m in 2021. The major components of the increase are:

- stronger than expected domestic pricing in China which allowed production to increase to meet demand;
- increased supermarket penetration of floral and potted products as a result of product range optimisation, increased merchandising of store network and delivery of new and innovative gift potted programs in Australia;
- increase in production capacity and yield in China;
- inclusion of approximately 3 months of revenue from VdB Group post the acquisition of the remaining 80% in April 2021 in China; and
- 2020 revenue was adversely affected by COVID-19 interruptions, particularly in March, April and May, where international freight disruptions created supply chain challenges. Prevailing global uncertainty at the time caused customers to materially reduce orders for Mother's Day in 2020 (usually the biggest floral event of the year).

The table below has been prepared to reconcile statutory revenue and Pro-Forma revenue and has been prepared on a consistent basis with the presentation of this information the IPO Prospectus:

	June 2021 $'000s
Statutory revenue	**300,205**
VdB Group pre-acquisition revenue	30,803
Pro-Forma revenue	**331,008**

On a Pro-Forma basis, including VdB Group for the full 12 months revenue was $331.0m compared to the Pro-Forma forecast of $316.1m included in the IPO Prospectus.

EBITDA

EBITDA increased by $23.7m (98%) from $24.1m in 2020 to $47.8m in 2021. The major components of this increase are:

- revenue growth as noted above;
- impact from stronger than expected domestic pricing in China;
- margin improvement in Australia from ongoing range optimisation initiatives and effective procurement planning;
- investment in merchandising personnel and systems in Australia to support revenue growth;
- production volume expansion through yield improvement and additional developed production capacity;
- inclusion of 3 months of EBITDA from VdB Group post the acquisition of the remaining 80% in April 2021 in China;
- non-recurring fair value re-measurement gain relating to the pre-acquisition interest held in VdB Group; and
- other items as noted in the statutory to Pro-Forma EBITDA movement table below.

The table below has been prepared to reconcile EBITDA and Pro-Forma EBITDA and has been prepared on a consistent basis with the presentation of this information in the IPO Prospectus:

	June 2021 $'000s
Statutory Profit before tax	**30,523**
Depreciation and amortisation	12,975
Financing costs	4,270
EBITDA	**47,768**
VdB Group pre-acquisition EBITDA (July 2020 to March 2021)	13,646
Share of profits of associate – VdB Group	(1,809)
Fair value gain relating to pre-acquisition interest in VdB Group	(10,188)
IPO offer, restructuring, and VdB acquisition costs[1]	13,326
Incremental public company costs	(1,423)
Short-term property lease costs subsequently recognised as right-of-use assets	264
Net Job Keeper receipts	(3,155)
Legacy ownership costs in relation to pre-IPO Board	219
Pro-Forma EBITDA	**58,648**

1 Includes FY21 STI plan and other discretionary bonus payments totalling $2.988m settled at the time of the IPO. The nature of these costs would be expected to recur in future years dependant on plans in place and achievement of established targets.

On a Pro-Forma basis, EBITDA was $58.6m representing an out-performance of 12% compared to the Pro-Forma EBITDA forecast presented in the IPO Prospectus of $52.4m.

Profit for the year

On a statutory basis, profit for the year increased by $19.0m (326%) from $5.8m in 2020 to $24.8m in 2021. The major components of this increase are:

- revenue and EBITDA growth as noted above;
- decrease in finance costs as a result of lower variable interest rates on borrowings;
- benefits from restructured debt arrangements in conjunction with the IPO;
- impact of additional depreciation from investment in property, plant and equipment;
- impact of additional depreciation from right-of-use assets; and
- tax effect of all above items.

The table below has been prepared to reconcile Statutory Profit before tax with Pro-Forma NPATA and has been prepared on a consistent basis with the presentation of this information in the IPO Prospectus:

	June 2021 $'000s
Statutory profit before tax	**30,523**
Income tax expense	(5,652)
Statutory profit for the year	**24,871**
VdB Group pre-acquisition profit (July 2020 to March 2021)	7,893
Share of profits of associate – VdB Group	(1,809)
Fair value gain relating to pre-acquisition interest in VdB Group	(10,188)
IPO offer, restructuring and VdB acquisition costs[1]	9,081
Incremental public company costs	(996)
AASB16 lease treatment adopted part way through the year	(8)
Net Job Keeper receipts	(2,208)
Legacy ownership costs in relation to pre-IPO Board	153
Post IPO debt structure	765
Amortisation of acquired intangible assets	4,825
Pro-Forma NPATA	**32,379**

1 IPO offer costs include FY21 STI plan and other discretionary bonus payments totalling $2.1m that were settled prior to the IPO. The nature of these costs would be expected to recur in future years dependant on plans in place and achievement of established targets.

On a Pro-Forma basis, NPATA was $32.4m representing an out-performance of 13% compared to the Pro-Forma NPATA forecast presented in the IPO Prospectus of $28.7m.

Consolidated Statement of Financial Position

The Statement of Financial Position compared to the previous year shows some significant changes primarily related to the IPO and acquisition of VdB Group, including:

- increases to net assets as a result of the acquisition of VdB Group being partly settled in shares issued;
- increases to goodwill and other intangible assets as a result of the acquisition of VdB Group, including purchase price accounting adjustments;
- increases in trade creditors largely as a result of amounts withheld in relation to the acquisition of VdB Group; and
- increases in issued share capital and cash and cash equivalents as a result of the IPO.

Consolidated Statement of Cash Flows

On a statutory basis, cash and cash equivalents at June 2021 increased by $33.8m (221%) from $15.2m in 2020 to $49.0m in 2021. The closing cash balance includes $9.0m payable for tax payable on the acquisition of VdB Group. Significant components of the cash flows during the year, include:

- operating cash flows associated with the operating activities of the Group;
- operating cash flows from 3 months of operating activities from VdB Group;
- acquisition of remaining 80% of VdB group;
- refinancing of the Group's Australian debt arrangements; and
- interim dividends paid.

Significant changes in state of affairs

Lynch Group Holdings Limited (ASX: LGL) was admitted to the Official List of the Australian Securities Exchange (ASX) and its ordinary shares commenced trading on 6 April 2021. The company's shares were offered at $3.60 with total proceeds of $206.1m. The issue of 35.4m fully paid, ordinary shares in the company raised $127.4m while the sale of 21.9m existing shares raised $78.7m. The purpose of the IPO was to finance the acquisition of the remaining 80% of VdB Group, repay corporate debt, allow existing shareholders to realise all or a portion of their investment, broaden the Group's shareholder base and provide a liquid market for shares, provide the Group with the benefits of an increased brand profile that arises from being a publicly listed entity and to pay transaction costs.

On 1 April 2021, in conjunction with the IPO, the Group completed the acquisition of the remaining 80% shareholding of Van den Berg Asia Holdings Limited, a Hong Kong based entity, whose principal activity is horticultural production in South West China and distribution of flowers and potted plants.

Other than as noted above, there were no significant changes in the state of affairs of the Group during the reporting year.

Matters subsequent to the end of the financial year

The outbreak of COVID-19 and the subsequent quarantine measures imposed by the Australian and other governments as well as the travel and trade restrictions imposed by Australia and other countries in early 2020 caused disruption to businesses and economic activity. The continuing spread of COVID-19 itself and in particular the current delta variant and its resulting lockdown restrictions, changes in government policy and evolving business and customer reactions continue to affect the Group's operations. Short-term impacts including inventory loss, sales decline and disruption to production efficiencies have been experienced in July and August 2021. The Group is also experiencing supply chain disruption as a result of COVID-19. As at the date these financial statements are authorised for issue, the directors of the company have assessed that there is not expected to be a material financial impact of COVID-19 on the Group's financial position and results.

The extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the duration and spread of the outbreak, regulations imposed by governments with respect to the outbreak response including lockdown restrictions, and the impact on customers, employees and the Group's supply chain, all of which are uncertain and cannot be predicted at this time.

Given the inherent unpredictability associated with the COVID-19 outbreak and any further contingency measures that may be put in place by the relevant governments and corporate entities combined with customer behaviours, the actual financial impact of the COVID-19 outbreak, if any, on the Group's 2022 financial statements could be significantly different from the current status assessment disclosed above depending on how the situation evolves.

Other than as noted above, there has not been any other matter or circumstance occurring subsequent to the end of the financial year that has significantly affected, or may significantly affect, the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

Likely developments

The Group expects to continue to grow its present level of operations, both in Australia and China. In Australia, the Group intends to continue driving the penetration of the convenience purchase segment (including supermarkets) component of the overall floral market. In China, the Group intends to increase its level of productive land in order to serve new and existing customers.

Remuneration report (audited)

This report sets out the remuneration arrangements for the Group's key management personnel (KMP). It forms part of the Directors' Report and has been prepared and audited in accordance with section 300A of the *Corporations Act 2001* (Cth).

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group's KMP for FY21 include Non-Executive Directors and Senior Executives. Senior Executives include Executive Directors.

Non–Executive Directors

Name	Position
Patrick Elliott	Chair and Non-Executive Director
Elizabeth Hallett[1]	Independent Non-Executive Director
Peter Clare[1]	Independent Non-Executive Director
Peter Arkell[1]	Independent Non-Executive Director
Leo Lynch[2]	Non-Executive Director
Chris Coudounaris[2]	Independent Non-Executive Director
Riad Tayeh[2]	Independent Non-Executive Director
James Murphy[2]	Independent Non-Executive Director

1 Elizabeth Hallett, Peter Clare and Peter Arkell were appointed as directors on 16 February 2021.

2 Leo Lynch, Chris Coudounaris, Riad Tayeh and James Murphy all resigned as directors during the year. Leo Lynch resigned on 15 February 2021, Chris Coudounaris resigned on 14 February 2021, Riad Tayeh resigned on 16 February 2021 and James Murphy resigned on 13 November 2020.

Senior Executives

Name	Position
Hugh Toll	Group Chief Executive Officer (CEO) and Executive Director
Steve Wood	Group Chief Financial Officer (CFO) and Company Secretary
David Di Pietro	Chief Executive Officer, Australia
John Khalil	Executive Director, China

Principles used to determine the nature and amount of remuneration

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

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage/alignment of executive compensation;
- transparency; and
- termination payments, if any, are justified and appropriate.

Remuneration and Nomination Committee

Name	Position
Elizabeth Hallett	Chair
Peter Clare	Member
Peter Arkell	Member

The Remuneration and Nomination Committee (RNC) is responsible for final approval of matters relating to succession planning, nomination and remuneration of directors and senior executives. The role of the RNC is to:

- review and recommend to the Board executive remuneration generally (including, but not limited to, base pay, incentive payments, equity awards, termination payments and service contracts), specific remuneration for senior executives of the Lynch Group, and levels of remuneration for non-executive directors, including fees, superannuation and other benefits;
- review and recommend to the Board, the size and composition of the Board (including review of Board succession plans and the succession of the Chair of the Board and Executive Directors) having regard to the objective that the Board comprise directors with a broad range of skills, expertise and experience from a broad range of backgrounds, including gender;
- review and recommend to the Board the criteria for Board membership, including the necessary and desirable competencies of Board members and the time expected to be devoted by Non-Executive Directors in relation to the Group's affairs;
- review and make recommendations to the Board in respect of membership of the Board, including making recommendations for the re-election of directors, subject to the principle that a committee member must not be involved in making recommendations to the Board in respect of themselves and assisting the Board as required to identify individuals who are qualified to become Board members (including in respect of Executive Directors);
- assist the Board as required in relation to the performance evaluation of the Board, its committees and individual directors, and in developing and implementing plans for identifying, assessing and enhancing director competencies;
- ensure that appropriate checks are undertaken before appointing a potential candidate or putting forward a candidate to shareholders for approval;
- ensure that an effective induction process is in place;
- review the effectiveness of the Group's Diversity Policy by assessing the Group's progress towards the achievement of the measurable objectives and any strategies aimed at achieving the objectives and reporting to the Board any changes to the measurable objectives, strategies or the way in which they are implemented; and
- in accordance with the Group's Diversity Policy, on an annual basis, review the relative proportion of women and men in the workforce at all levels of the Group, and submit a report to the Board which outlines the Committee's findings.

From time to time the RNC may engage external remuneration consultants to review the structure of the executive remuneration framework to ensure it is market competitive and complementary to the reward strategy of the Group. The RNC did not obtain services from remuneration consultants in FY21. In accordance with best practice corporate governance, the structure of the remuneration of Non-Executive Directors and Senior Executives is separate.

Non-Executive Director Remuneration

Under the Constitution, shareholders may, in a general meeting, determine the maximum aggregate remuneration to be provided to or for the benefit of the directors as remuneration for their services as a director. Further the total amount paid to all Non-Executive Directors for their services must not exceed in aggregate in any financial year the amount fixed by the Group's shareholders in a general meeting.

Initially, and until a different amount is determined, the Constitution provides that the maximum aggregate Directors' Remuneration is $750,000 per annum. This amount excludes, among other things, amounts payable to any Executive Director under any services agreement with the Group or any special remuneration which the Board may grant to its directors for special exertions or additional services performed by a director for or at the request of the Group, which may be made in addition to or in substitution for the director's fees.

The annual directors' fees currently agreed to be paid are $175,000 to the Non-Executive Chair of the Board and $100,000 to each of the other Non-Executive Directors. In addition, directors are paid $20,000 for each of the roles of Chair of the Audit and Risk Committee and the Remuneration and Nomination Committee, and $10,000 for members of those Committees. Superannuation payments are included in the directors' fees.

Executive Remuneration

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

Executive Remuneration and Reward Framework

Fixed	Variable	Variable
Fixed remuneration	**Short-term incentive (STI)**	**Long-term incentive (LTI)**
• Benchmarked against market • Based on role and responsibilities • Reviewed annually	• Based on financial targets set by the Board • Based on annual targets and paid annually • Paid in cash	• Grant of options over ordinary shares in the Group (**Options**) that may convert to ordinary shares • Vesting subject to Earnings Per Share (**EPS**) and Total Shareholder return (**TSR**) hurdles • Vesting period of 3 – 5 years

Financial performance

The Group's performance for FY21 is outlined below:

	Share performance		Earnings performance		Dividend
Year	Opening share price	Closing share price	EPS (cents)	NPAT ($000s)	Dividend Cents per share
FY21	$3.60[1]	$3.65	31.36	24,871	0.82[2]

1 The opening share price represents the Initial Public Offering (IPO) listing price as of the date of listing on the Australian Securities Exchange on 6 April 2021.

2 A Pre-IPO fully franked interim dividend of $56.5m (79.7c per share) and an unfranked interim distribution of $1.7m (2.3c per share) was paid to the Ordinary Shareholders of the Group immediately prior to the IPO on 6 April 2021. No final dividend was declared for FY21.

Fixed Remuneration

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits are based on individual and Group financial performance and benchmarked against comparable market remunerations on an annual basis.

Short-Term Incentive Scheme (STI)

The STI is a variable cash-based component of Executive remuneration which is subject to the achievement of performance conditions. The STI aligns the performance hurdles of Senior Executives with the overall targets of the Group.

Participation	Senior Executives and selected Senior Managers
Period	29 June 2020 to 27 June 2021
Incentive as proportion of fixed remuneration (base salary + superannuation)	20% – 60%
Conditions	Achievement of earnings before interest, depreciation and amortisation (EBITDA) as set out in the Group's annual budget. The STI must also self-fund by delivering incremental earnings above budget EBITDA sufficient to satisfy the cost of the plan. These performance conditions were chosen to closely align participants' STI outcomes with the performance of the Group.
Potential	The STI potential as a proportion of the maximum STI for KMP are:

	Base 98% of EBITDA	Target 100% of EBITDA	Stretch 115% of EBITDA
Hugh Toll	25%	50%	100%
Steve Wood	25%	50%	100%
David Di Pietro	25%	50%	100%
John Khalil	25%	50%	100%

Eligibility	• Must be employed and performing duties and responsibilities of role to the satisfaction of the Board at the time of payment. • Must not be serving out any period of notice of termination (however arising), on gardening leave, on suspension, subject to any investigation for misconduct, subject to any performance management process, or subject to any disciplinary process.
Discretion	The STI is at the discretion of the CEO, Board and RNC and is subject to change or cancellation at any time. The CEO has no discretion over his own STI.
Payment date	Prior to completion of the IPO, the Board determined the conditions for the FY21 STI would be achieved for the relevant period at 115% of EBITDA (based on the forecast financial information prepared in connection with the IPO). As such, payment of the FY21 STI was paid to the relevant Senior Executives and Senior Managers on 8 April 2021.

Award and percentage of STI payable and forfeited for KMP for FY21

KMP	Max. STI potential ($)	Actual STI awarded ($)	Actual STI as % of Max. STI	% of Max. STI forfeited
Senior Executives				
Hugh Toll	300,000	300,000	100%	–
Steve Wood	166,980	166,980	100%	–
David Di Pietro	250,920	250,920	100%	–
John Khalil	291,705	291,705	100%	–
	1,009,605	**1,009,605**	**100%**	**–**

Award of fees for services provided in connection with the IPO

A one-off payment was made to selected Non-Executive Directors and Senior Executives of the Group for services provided in connection with the IPO.

KMP	IPO fee ($)	Paid in cash ($)	Paid in shares ($)
Non-Executive Directors			
Patrick Elliott	–	–	–
Elizabeth Hallett	60,000	–	60,000
Peter Clare	60,000	–	60,000
Peter Arkell	60,000	–	60,000
	180,000	**–**	**180,000**
Senior Executives			
Hugh Toll	358,904	358,904	–
Steve Wood	109,500	109,500	–
David Di Pietro	170,799	170,799	–
John Khalil	219,000	219,000	–
	858,203	**858,203**	**–**

Long-term incentive Scheme

The Group has established a long-term incentive scheme (LTI) in FY21 to assist in the motivation, reward and retention of Senior Executives and other selected Senior Managers. The LTI is designed to align participants' interests with the interests of shareholders by providing participants an opportunity to receive ordinary shares in the company through the granting of Options. The key terms of the LTI are noted below:

Term	Description
Eligibility	Senior Executives and other selected Senior Managers of the Group may participate in the LTI. Eligibility to participate in the LTI and the number of Options offered to each participant will be determined by the Board.
Grants	The Group intends that the maximum notional value of Options offered to the CEO and CFO will be 60% of their total fixed remuneration and for other selected Senior Managers will be between 10% and 30% of their total fixed remuneration. 1,059,093 Options over shares in the company were granted under the FY21 grant. The Options granted varied between participants, and were allocated as follows:

Participant	Options granted
Hugh Toll	83,333[1]
Steve Wood	178,899
David Di Pietro	115,100
John Khalil	126,929
Other Senior Managers	554,832
Total FY21 Grant	**1,059,093**

1 An additional issue of 191,896 Options to Hugh Toll is subject to Shareholder approval at the company's AGM in November 2021.

Term	Description
Vesting conditions	Options vest subject to an EPS hurdle and a TSR hurdle over the performance period. 50% of the Options are subject to the EPS hurdle with the remaining 50% subject to the TSR hurdle. The EPS vesting percentages will correspond to the Group's annual compounding EPS growth over the performance period (adjusted where necessary to take into account one-off items as determined by the Board), and are as follows: • annual compounding EPS less than 12%: 0% of Options will vest; • annual compounding EPS equal to 12%: 50% of Options will vest; • annual compounding EPS between 12% and 15%: Options will vest on a straight-line pro rata basis between 50% and 100%; and • annual compounding EPS greater than 15%: 100% of Options will vest. The TSR vesting percentages will be determined by comparison of the Group's TSR against the TSR of companies which comprise the ASX300 index: • Group TSR in the bottom quartile (0%-25%) of the ASX300 index: 0% of Options will vest; • Group TSR in the second quartile (25%-50%) of the ASX300 index: 33% of Options will vest; • Group TSR in the third quartile (50%-75%) of the ASX300 index: 66% of Options will vest; and • Group TSR in the top quartile (75%-100%) of the ASX300 index: 100% of Options will vest. None of the Options will vest during the first two years of the five-year performance period. During each of the third, fourth and fifth year of the performance period, 1/3 of the Options will be eligible to vest (in the manner set out above) if the Group has achieved the relevant compounded EPS target and/or TSR target at the end of that year. To the extent that any Options which vest in years 3 and 4 do not vest due to the Group not achieving the relevant EPS or TSR target, those Options will be subject to retesting based on the Group's annual compounding EPS and TSR performance until the Option expires (i.e. in years 4 or 5 (as applicable)). In addition to the EPS performance condition, it is a vesting condition that the relevant participant has been continuously employed by a member of the Group (and has not resigned or been terminated) at all times up to (and including) the relevant vesting date. These performance conditions were chosen to closely align participants' LTI outcomes with the performance of the Group.
Terms and conditions	The Board has the absolute discretion to determine the terms and conditions applicable to an offer under the LTI.
Options	Each Option confers on its holder the entitlement to receive one or more shares in the company at the exercise price upon exercise of the Option. Options will not be quoted on the ASX.
Issue Price	The Options will be issued for nil consideration.
Exercise price	$3.60 being the opening share price at the time of Initial Public Offering (IPO) as at the date of listing on the Australian Securities Exchange on 6 April 2021.
Performance period	Five years following the date of grant of the Options to the relevant participant.
Ranking of Shares	Shares issued upon vesting and exercise of Options under the LTI will rank equally in all respects with existing ordinary shares.
Rights attaching to Options	The Options do not carry rights to dividends or voting rights prior to exercise.

Term	Description
Restrictions on Options	Except as permitted by the Board, a participant must not sell, transfer, encumber, hedge or otherwise deal with Options. Once Options are exercised and shares are issued in their place, generally no disposal restrictions apply to shares, other than the restrictions that apply under the Group's Securities Trading Policy. However, the Board may determine to apply disposal restrictions to those shares on a case-by-case basis at the time of granting Options.
Vesting and exercise of Options	Subject to any vesting conditions having been satisfied or waived by the Board in its discretion, an Option may be exercised in accordance with the relevant participant's invitation and by the participant paying the exercise price.
Lapse of Options	Unless otherwise specified in a participant's invitation or otherwise determined by the Board, an Option will lapse if any vesting condition applicable to the Option has not been satisfied or waived in accordance with its terms or is not capable of being satisfied; or the expiry of the exercise period; or in certain circumstances if the participant's employment is terminated; or in other circumstances specified in the LTI rules.
Cessation of employment of holders of Options	The LTI contains provisions concerning the treatment of unvested and vested Options in the event a participant ceases employment as a result of death or serious and debilitating illness. In other circumstances the Board has absolute discretion in the treatment of unvested and vested Options in the event a participant ceases employment.
Change of control	In the event of a change of control, the Board may, in its absolute discretion, determine the manner in which any or all of the participant's Options will be dealt with. This may include determining that all or some of a participant's Options are vested and may be exercised.
Capital restructure	In the event of a capital restructure the Board may make such adjustments (including to matters such as exercise price, number of Options held or number of shares received on exercise) as the Board deems appropriate. A participant holding an Option is not entitled to participate in any new issue of securities with respect to the Option.
Employee share trust	The Group may establish, on such terms and conditions as determined by the Board in its discretion, an employee share trust to assist with operation of the LTI, including facilitating the provision of shares to participants when Options are exercised.
Expiry of Options	Options will expire on a date fixed in the offer letter to the participant. On the expiry date for an Option, the Option will lapse unless it has been validly exercised.
Amendments	The Board may amend the LTI rules, or waive or modify the application of the LTI rules in relation to a participant, provided that (except in specified circumstances) if such amendment would adversely affect the rights of participants in respect of any Options already held by them, the Board must obtain the consent of that participant before that amendment applies to that participant's existing Options.

Summary of Remuneration mix

The FY21 remuneration mix for the KMP including the special IPO service fee component is:

KMP	Fixed	STI	LTI	Total
Non-Executive Directors				
Patrick Elliott	100%	n/a	n/a	100%
Elizabeth Hallett	100%	n/a	n/a	100%
Peter Clare	100%	n/a	n/a	100%
Peter Arkell	100%	n/a	n/a	100%
Leo Lynch	100%	n/a	n/a	100%
Chris Coudounaris	100%	n/a	n/a	100%
Riad Tayeh	100%	n/a	n/a	100%
James Murphy	–	–	–	–
	100%	**0%**	**0%**	**100%**
Senior Executives				
Hugh Toll	37%	48%	15%	100%
Steve Wood	45%	42%	13%	100%
David Di Pietro	38%	38%	24%	100%
John Khalil	49%	51%	0%	100%
	41%	**45%**	**14%**	**100%**

KMP Contract Terms

Non-Executive Directors are party to letters of appointments. Non-Executive Director fees are fixed and do not include any performance-based remuneration. No fixed term is specified.

Senior Executives are party to a written executive service agreement with the Group. Key terms of Senior Executive service agreements are:

Senior Executive	Contract Term	Notice by the Group	Notice by Executive	Post-employment restrictions[1]
Hugh Toll	n/a	6 Months	6 Months	Yes
Steve Wood	n/a	6 Months	6 Months	Yes
David Di Pietro	n/a	3 Months	3 Months	Yes
John Khalil	n/a	3 Months	3 Months	Yes

1 Senior Executive KMP service agreements include post-employment restrictions in order to protect the goodwill of the Group and its confidential information. These restrictions are designed to protect the Group from loss of business or employees as a direct result of Senior Executives competing against the Group in the same industry.

Details of remuneration

Amounts of Remuneration for KMP for FY21 was as follows:

KMP	Short-term cash salary and fees ($)	Short-term cash bonus ($)	Termination benefits ($)	Post employment benefits ($)	Equity settled ($)[3]	Total FY21 ($)	Total FY20 ($)
Non-Executive Directors							
Patrick Elliott	39,954	–	–	3,796	–	43,750	–
Elizabeth Hallett[1]	29,680	–	–	2,820	60,000	92,500	–
Peter Clare[1]	29,680	–	–	2,820	60,000	92,500	–
Peter Arkell[1]	29,680	–	–	2,820	60,000	92,500	–
Leo Lynch[2]	173,110	–	294,369	16,667	–	484,146	460,924
Chris Coudounaris[2]	23,973	–	–	2,277	–	26,250	26,250
Riad Tayeh[2]	11,986	–	–	1,139	–	13,125	26,250
James Murphy[2]	–	–	–	–	–	–	–
	338,063	**–**	**294,369**	**32,339**	**180,000**	**844,771**	**513,424**
Senior Executives							
Hugh Toll[4]	475,000	658,904	–	25,000	205,256	1,364,160	507,760
Steve Wood	266,083	276,480	–	25,000	87,132	654,695	391,140
David Di Pietro	393,734	421,719	–	25,000	261,813	1,102,266	467,958
John Khalil	461,176	510,705	–	25,000	4,404	1,001,285	476,330
Ryan D'Almeida[5]	–	–	–	–	–	–	262,943
	1,595,993	**1,867,808**	**–**	**100,000**	**558,605**	**4,122,406**	**2,106,131**
	1,934,056	**1,867,808**	**294,369**	**132,339**	**738,605**	**4,967,177**	**2,619,555**

1 Elizabeth Hallett, Peter Clare and Peter Arkell were appointed as directors on 16 February 2021. The benefits described above relate to the period they were KMP in FY21. Short-term cash salary and fees and post-employment benefits applied from 1 April 2021.

2 Leo Lynch resigned on 15 February 2021, Chris Coudounaris resigned on 14 February 2021, Riad Tayeh resigned on 16 February 2021 and James Murphy resigned on 13 November 2020. The benefits described above relate to the period they were KMP in FY21.

3 For Non-Executive Directors this represents fees for services provided in connection with the IPO which the relevant Non-Executive Director elected to take in ordinary shares in the company. For Senior Executives, this represents the value recognised in profit and loss in FY21 for both Legacy Securities and Options granted to Senior Executives as part of the new FY21 LTI. Refer below for further details related to the Legacy Securities.

4 Equity settled remuneration for Hugh Toll includes a service amount estimate recognised in FY21 in respect of an issue of Options which is subject to Shareholder approval at the company's AGM.

5 Ryan D'Almeida ceased to be a member of the KMP on 3 July 2019.

As this is the first financial year the company is a listed entity, the above remuneration table is for the year ended 27 June 2021 only, and does not contain comparative data for the year ended 28 June 2020.

Legacy LTI (Pre IPO)

The Group implemented an LTI in 2015 (**Legacy LTI**). The Legacy LTI consisted of the issue of convertible management shares subject to non-recourse loans and the grant of Options over ordinary shares in the Group, both of which were subject to certain vesting requirements which were met on the completion of the IPO (**Legacy Securities**). The participants of the Legacy LTI exercised a portion of the Legacy Securities, converted a portion of their management shares and accepted the cancellation of a portion of their Legacy Securities in return for a cash payment on 6 April 2021.

No Convertible Management Shares were granted during the year.

The movement in Convertible Management Shares held by KMP for FY21 were as follows:

KMP	Opening balance	Granted	Vested	Forfeited	Closing balance
Senior Executives					
Hugh Toll	189,061	–	(189,061)	–	–
Steve Wood	113,000	–	(113,000)	–	–
David Di Pietro	151,249	–	(151,249)	–	–
John Khalil	–	–	–	–	–
	453,310	**–**	**(453,310)**	**–**	**–**

146,046 Legacy Options were granted during the year.

The movement in Legacy Options held by KMP for FY21 were as follows:

KMP	Opening balance	Granted	Vested	Forfeited	Closing balance	Weighted average exercise price
Senior Executives						
Hugh Toll	24,272	48,544	(72,816)	–	–	$1.25
David Di Pietro	48,751	97,502	(146,253)	–	–	$1.25
	73,023	**146,046**	**(219,069)**	**–**	**–**	

Equity Instruments

The movement in ordinary shares in the company held by KMP either directly, indirectly or beneficially for FY21 was as follows:

KMP	Opening balance	Legacy Securities exercised[5]	Shares purchased	Share-based compen-sation	Shares sold	Closing balance
Non-Executive Directors						
Patrick Elliott[1]	–	–	342,639	–	–	342,639
Elizabeth Hallett	–	–	11,111	16,666	–	27,777
Peter Clare[2]	–	–	52,777	16,666	–	69,443
Peter Arkell	–	–	–	16,666	–	16,666
Leo Lynch[3]	23,400,000	–	–	–	(7,020,000)	16,380,000
Chris Coudounaris	–	–	–	–	–	–
Riad Tayeh	–	–	–	–	–	–
James Murphy	–	–	–	–	–	–
	23,400,000	**–**	**406,527**	**49,998**	**(7,020,000)**	**16,836,525**

KMP	Opening balance	Legacy Securities exercised[5]	Shares purchased	Share-based compen-sation	Shares sold	Closing balance
Senior Executives						
Hugh Toll	–	639,999	–	–	–	639,999
Steve Wood	–	237,300	–	–	–	237,300
David Di Pietro	–	299,999	–	–	–	299,999
John Khalil[4]	2,600,000	–	–	–	(780,000)	1,820,000
	2,600,000	**1,177,298**	**–**	**–**	**(780,000)**	**2,997,298**

1 Patrick Elliott holds shares in the company via entities for which he is not the registered holder. Elliott Services Pty Limited as trustee of the Elliott Family Trust holds 138,889 shares, Avanteos Investments Limited as trustee for the Elliott Superannuation A/C holds 164,276 shares and Avanteos Investments Limited as trustee for the Elliott Family A/C holds 39,474 shares.

2 Peter Clare holds shares in the company via entities for which he is not the registered holder. GHWE Capital Pty Ltd as trustee for the Peter Clare Family Trust holds 34,721 shares and Moore Park Nominees Pty Ltd as trustee for the Peter Clare & Ass. Super Fund holds 34,722 shares.

3 Leo Lynch hold shares in the company via an entity for which he is not the registered holder. Izzac Pty Ltd as trustee for Cazzie Trust holds 16,380,000 shares.

4 John Khalil holds shares in the company via an entity for which he is not the registered holder. Airfek Pty Ltd as trustee for Kefria Trust holds 1,820,000 shares.

5 Legacy Securities exercised include both Convertible Management Shares and Legacy Share Options converted to ordinary shares following the completion of the IPO.

As this is the first financial year the company is a listed entity, the above remuneration table is for the year ended June 2021 only, and does not contain comparative data for the year ended June 2020.

Share Options

The terms and conditions of each grant of options over ordinary shares affecting remuneration of KMP in this financial year or future reporting years are:

Grant date	Vesting date[1]	Expiry date	Exercise price	Fair value per option at grant date
Legacy LTI grant				
29 January 2021	06 April 2021	06 April 2021	$1.25	$2.35
FY21 LTI grants				
Between 6 April 2021 and 6 May 2021	30 June 2024	30 June 2027	$3.60	TSR – $0.96 EPS – $1.07
Between 6 April 2021 and 6 May 2021	30 June 2025	30 June 2027	$3.60	TSR – $1.03 EPS – $1.09
Between 6 April 2021 and 6 May 2021	30 June 2026	30 June 2027	$3.60	TSR – $1.06 EPS – $1.12

1 Vesting date is subject to retesting as described in the key terms of the long-term incentive plan rules under the term “vesting conditions”.

Details of Share Option grants for KMP for FY21 were as follows:

KMP	Type	Number	Grant date	Vesting date[1]	Exercise Price
Hugh Toll[1]	Legacy Options	48,544	29 January 2021	6 April 2021	$1.25
	LTI Options	27,777	6 April 2021	30 June 2024	$3.60
	LTI Options	27,778	6 April 2021	30 June 2025	$3.60
	LTI Options	27,778	6 April 2021	30 June 2026	$3.60
Steve Wood	LTI Options	59,633	6 April 2021	30 June 2024	$3.60
	LTI Options	59,633	6 April 2021	30 June 2025	$3.60
	LTI Options	59,633	6 April 2021	30 June 2026	$3.60
David Di Pietro	Legacy Options	97,502	29 January 2021	6 April 2021	$1.25
	LTI Options	38,367	6 May 2021	30 June 2024	$3.60
	LTI Options	38,367	6 May 2021	30 June 2025	$3.60
	LTI Options	38,367	6 May 2021	30 June 2026	$3.60
John Khalil	LTI Options	42,309	6 May 2021	30 June 2024	$3.60
	LTI Options	42,310	6 May 2021	30 June 2025	$3.60
	LTI Options	42,310	6 May 2021	30 June 2026	$3.60

1 Vesting date is subject to retesting as described in the key terms of the long-term incentive plan rules under the term "vesting conditions".

Movement in Options held by KMP for FY21 were as follows:

KMP	Opening balance	Granted	Vested	Forfeited	Closing balance
Senior Executives					
Hugh Toll[1]	24,272	131,877	(72,816)	–	83,333
Steve Wood	–	178,899	–	–	178,899
David Di Pietro	48,751	212,603	(146,253)	–	115,101
John Khalil	–	126,929	–	–	126,929
	73,023	**650,307**	**(219,069)**	**–**	**504,261**

1 An additional issue of 191,896 Options to Hugh Toll is subject to Shareholder approval at the company's AGM.

Senior Executives received a grant of options between 6 April 2021 and 6 May 2021 on completion of the Group's IPO as the LTI component of their remuneration package. No options were granted to Non-Executive Directors in FY21. Options carry no dividend or voting rights.

This concludes the remuneration report which has been audited.

Indemnification of officers and auditors

During the financial year, the Group paid a premium in respect of a contract insuring the directors of the Group, the Company Secretary and all Executive Officers of the Group and of any related body corporate against a liability incurred as such a director, secretary or Executive Officer to the extent permitted by the *Corporations Act 2001* (Cth). The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

The Group has not otherwise, during or since the financial year, except to the extent permitted by law, indemnified or agreed to indemnify an officer or auditor of the Group or of any related body corporate against a liability incurred as such an officer or auditor.

Proceedings on behalf of the company

During or since the end of the financial year, no person has applied to the court under section 237 of the *Corporations Act 2001* (Cth) for leave to bring proceedings in respect of the Group, or to bring or intervene in any proceedings on behalf of the Group.

A subsidiary of the Group (and other defendants) was previously party to a claim relating to a business acquisition which is alleged to have been made in contravention of the *Corporations Act 2001*. These proceedings were dismissed by the Supreme Court of Queensland on 25 June 2021.

Non-audit services

Details of the amounts paid to the auditor of the Group, Deloitte Touche Tohmatsu, and its network firms for audit and non-audit services provided during the period are included in Note 33 of the notes to the consolidated financial statements.

The directors are satisfied that the provision of non-audit services during the financial year, by Deloitte Touche Tohmatsu as the auditor (or by another person or firm on the auditors behalf), is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001* (Cth). The directors are of the opinion that the services provided do not compromise the external auditor's independence requirements of the *Corporations Act 2001* (Cth) 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 non-audit 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 or Group, acting as an advocate for the company or Group, or jointly sharing economic risks and rewards.

Environmental regulations

The Group is subject to various states and federal environmental regulations and has procedures in place to manage the Group's environmental responsibilities and compliance. No material breaches of the requirements or any environmental issues have been identified during the year, and to the best of the directors' knowledge and belief, all activities have been undertaken in compliance with environmental regulations.

Rounding Amounts

ASIC Corporations (Rounding in Financials/Directors' Reports) Instrument 2016/191, dated 24 March 2016, applies to the Group and consequently the amounts in the Directors' Report and the financial statements are rounded to the nearest thousand dollars unless otherwise stated.

Director independence

The Board regularly monitors and assesses the independence of each director. An independent director is a non-executive director who is not a member of management and who is free of any business or other relationship that could materially interfere with, or could reasonably be perceived to materially interfere with, the independent exercise of their judgement. The Board considers many factors including those identified by the ASX Corporate Governance Council. When determining the independent status of a director, the Board will consider whether the director:

- is, represents, or has been within the last three years, an officer or staff member of, or professional adviser to a substantial holder;
- is employed, or has previously been employed, in an executive capacity by the company or a member of the company Group, and there has not been a period of at least three years between ceasing such employment and serving on the Board;
- has within the last three years been a partner, director or senior staff member of a material professional adviser or a material consultant to the company or a member of the company Group, or a staff member materially associated with the service provided;
- is a material supplier or customer of the company or a member of the company Group, or an officer of or otherwise associated directly or indirectly with a material supplier or customer;
- has a material contractual relationship with the company or a member of the company Group other than as a director of the company;
- has any close family ties with any person who falls within any of the categories described above; or
- has been a director of the company for such a period that his or her independence may have been compromised.

All directors, whether independent or not, should bring an independent judgement to bear on all Board decisions.

On the basis of the above guidelines, the Board has made the following assessments in respect of the company's directors:

- Independent: Elizabeth Hallett, Peter Clare, Peter Arkell, Chris Coudounaris and Riad Tayeh. None of these directors is a related party of any substantial shareholder of the company, have provided services to the company (other than in their capacity as a director), or been an employee or officer of a relevant service provider;
- Not independent: Patrick Elliott, James Murphy, Leo Lynch and Hugh Toll. Patrick Elliott and James Murphy are partners at Next Capital which is a substantial Shareholder. Leo Lynch is a former employee and current substantial Shareholder. Hugh Toll is an employee in his role as Group Chief Executive Officer.

Auditor's Independence Declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* (Cth) is set out immediately after this Directors' Report.

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

On behalf of the directors

Patrick Elliott
Chair and Non-Executive Director

Hugh Toll
Chief Executive Officer and Executive Director

26 August 2021
Sydney

Consolidated Statement of Profit and Loss and Other Comprehensive Income

For the financial year ended 27 June 2021

	Note	June 2021 $'000	June 2020 $'000s
Continuing operations			
Revenue			
Total revenue	2	300,205	230,427
		300,205	**230,427**
Add: income			
Other income	3	3,631	3,306
Share of profits of associate	25	1,809	693
Fair value gain relating to an associate	25	10,188	–
Less: expenses			
Changes in inventories		(1,193)	(992)
Raw materials and consumables used		(155,815)	(124,743)
Employee benefits expenses	4	(40,056)	(33,502)
Contractors' expenses		(29,782)	(20,750)
Freight expenses		(16,713)	(13,221)
Depreciation and amortisation expense	4	(12,975)	(10,304)
Selling and marketing expenses		(1,290)	(824)
Occupancy expenses		(1,188)	(2,315)
Other expenses	4	(22,028)	(13,972)
Finance costs	4	(4,270)	(5,116)
		(269,682)	**(221,740)**
Profit before income tax expense		**30,523**	**8,687**
Income tax expense	5	(5,652)	(2,846)
Profit for the year		**24,871**	**5,841**
Other comprehensive income/(loss) that will subsequently be reclassified to profit/(loss)			
Foreign currency translation differences		2,512	(81)
Cash flow hedges – effective portion of changes in fair value net of tax		244	–
Other comprehensive income/(loss), net of tax		**2,756**	**(81)**
Total comprehensive income attributable to: Lynch Group Holdings Limited		**27,627**	**5,760**

Earnings per share for profit attributable to ordinary shareholders	Note	June 2021 Cents	June 2020 Cents
Basic	6	31.36	8.76
Diluted	6	31.36	8.76

The Consolidated Statement of Profit and Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Financial Position

As at 27 June 2021

	Note	June 2021 $'000	June 2020 $'000
ASSETS			
Current assets			
Cash and cash equivalents	7	48,988	15,244
Trade and other receivables	8	20,407	17,043
Inventories	9	10,478	10,104
Biological assets	10	4,951	2,578
Current tax assets	5	491	–
Other assets	11	3,540	1,194
Total current assets		**88,855**	**46,163**
Non-current assets			
Property, plant and equipment	12	57,339	23,704
Right-of-use assets	13	26,350	19,986
Investment in associate	25	–	10,417
Intangible assets	14	199,847	117,972
Total non-current assets		**283,536**	**172,079**
Total assets		**372,391**	**218,242**
LIABILITIES			
Current liabilities			
Trade and other payables	15	54,503	35,304
Current tax liabilities	5	–	134
Other financial liabilities	23	–	716
Lease liabilities	16	4,291	3,534
Borrowings	18	3,772	10,544
Provisions	17	7,234	6,282
Total current liabilities		**69,800**	**56,514**
Non-current liabilities			
Lease liabilities	16	23,577	19,350
Borrowings	18	50,811	64,638
Provisions	17	2,525	613
Deferred tax liabilities	5	4,337	6,531
Total non-current liabilities		**81,250**	**91,132**
Total liabilities		**151,050**	**147,646**
Net assets		**221,341**	**70,596**
EQUITY			
Issued share capital	19	245,653	66,738
Reserves	20	4,158	577
Retained earnings		(28,470)	3,281
Total equity		**221,341**	**70,596**

The Consolidated Statement of Financial Position should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Changes in Equity

For the financial year ended 27 June 2021

	Note	Issued capital $'000	Foreign currency trans-lation reserve $'000	Statutory surplus reserve $'000	Share-based payments reserve $'000	Cash flow hedge reserve $'000	Retained earnings $'000	Total $'000
Balance at July 2019		**66,738**	**51**	**–**	**–**	**–**	**(884)**	**65,905**
Adoption of AASB 16		–	–	–	–	–	(1,283)	(1,283)
Profit for the year		–	–	–	–	–	5,841	5,841
Share-based payments	31	–	–	–	214	–	–	214
Transfer to statutory surplus	20	–	–	393	–	–	(393)	–
Other comprehensive loss for the year		–	(81)	–	–	–	–	(81)
Total comprehensive income for the year		**–**	**(81)**	**–**	**–**	**–**	**5,841**	**5,760**
Balance at June 2020		**66,738**	**(30)**	**393**	**214**	**–**	**3,281**	**70,596**
Issue of shares, net of costs	19	180,570	–	–	–	–	–	180,570
Profit for the year		–	–	–	–	–	24,871	24,871
Dividends paid	21	(1,655)	–	–	–	–	(56,500)	(58,155)
Share-based payments	31	–	–	–	703	–	–	703
Transfer to statutory surplus	20	–	–	122	–	–	(122)	–
Other comprehensive income for the year		–	2,512	–	–	244	–	2,756
Total comprehensive income for the year		**–**	**2,512**	**–**	**–**	**244**	**24,871**	**27,627**
Balance at June 2021		**245,653**	**2,482**	**515**	**917**	**244**	**(28,470)**	**221,341**

The Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes to the financial statements.

Consolidated Statement of Cash Flows

For the financial year ended 27 June 2021

	Note	June 2021 $'000	June 2020 $'000
Cash flows from operating activities			
Receipts from customers		325,829	256,375
Payments to suppliers and employees		(290,340)	(227,847)
Receipts from government grants		3,585	2,120
Interest and other costs of finance paid		(3,236)	(4,202)
Income taxes paid		(10,768)	(3,671)
Net cash generated by operating activities	7	**25,070**	**22,775**
Cash flows from investing activities			
Payment for acquisition of business, net of cash acquired	26	(18,623)	(339)
Payment for acquisition of investment in associate	25	–	(9,724)
Payments for property, plant and equipment and intangible assets		(9,760)	(3,721)
Net cash used in investing activities		**(28,383)**	**(13,784)**
Cash flows from financing activities			
Proceeds from bank loans	18	52,957	2,769
Repayment of bank loans and overdraft	18	(62,971)	(7,338)
(Repayment of)/Proceeds from shareholder loans	18	(11,491)	10,713
Repayment of vendor finance loans	18	(1,642)	–
Payment of borrowing establishment expenses	18	(450)	–
Proceeds from initial public offering	19	129,076	–
Capital raising expenses	19	(6,417)	–
Dividends paid	21	(58,155)	–
Repayment of principal component of lease liabilities	16	(3,827)	(2,022)
Net cash generated by financing activities		**37,080**	**4,122**
Net increase in cash and cash equivalents		**33,767**	**13,113**
Cash at the beginning of the year		**15,244**	**2,139**
Effect of movement in foreign exchange rate		(23)	(8)
Cash at the end of the year	7	**48,988**	**15,244**

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

Notes to the Consolidated Financial Statements

For the financial year ended 27 June 2021

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Significant items

A. Reporting entity

Lynch Group Holdings Limited ('the company') is a company limited by shares, incorporated and domiciled in Australia. The company's shares are publicly traded on the Australian Securities Exchange. The company and its controlled entities ('the Group') is a for profit entity. The principal activity of the Group and its subsidiaries is the horticultural production and wholesale of flowers and plants.

B. Basis of preparation

The financial report is a general-purpose financial report which has been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the *Corporations Act 2001*. The financial report complies with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board.

The consolidated financial statements have been prepared on the basis of historical cost, except for the revaluation of certain financial instruments and biological assets to fair value. Cost is based on the fair values of the consideration given in exchange for assets. All amounts are presented in Australian dollars, unless otherwise noted. All values have been round to the nearest thousand unless otherwise stated, in accordance with ASIC Corporations Instrument 2016/19. The financial report has been prepared on a going concern basis.

The consolidated financial statement were authorised for issue by the board of directors on 26 August 2021.

C. Basis of consolidation

The consolidated financial statements incorporate the financial statements of the company and the Group. Control is achieved when the company has power over the investee or is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to use its power to affect its returns.

Income and expense of subsidiaries acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the effective date of acquisition and up to the effective date of disposal, as appropriate. Total comprehensive income of subsidiaries is attributed to the owners of the company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance. Where necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with those used by other members of the Group. All intra-Group transactions, balances, income and expenses are eliminated in full on consolidation.

D. Foreign currency

The individual financial statements of each Group entity are presented in the currency of the primary economic environment in which the entity operates (its functional currency). For the purpose of the consolidated financial statements, the results and financial position of each entity are expressed in Australian dollars, which is the functional currency of the company, and the presentation currency for the consolidated financial statements.

In preparing the financial statements of the individual entities, transactions in currencies other than the functional currency of the entity (foreign currencies) are recorded at the rates of exchange prevailing on the dates of the transactions. At each balance date, monetary items denominated in foreign currencies are retranslated at the rates prevailing at the balance date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences are recognised in profit or loss in the year in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned or likely to occur in the foreseeable future, which form part of the net investment in a foreign operation, and which are recognised in the foreign currency translation reserve and recognised in profit or loss on disposal of the net investment.

On consolidation, the assets and liabilities of the Group's foreign operations (including comparatives) are translated into Australian dollars at exchange rates prevailing on the balance date. Income and expense items (including comparatives) are translated at the average exchange rates for the year. Exchange differences arising are classified as equity and transferred to the translation reserve of the Group. Such exchange differences are recognised in profit or loss in the year in which the foreign operation is disposed.

E. Accounting policies

Accounting policies that are relevant to the understanding of the financial statements are included throughout the notes to the consolidated financial statements.

F. Critical accounting judgements and key sources of estimation uncertainty

The following are the critical judgements that have been made in the process of applying the Group's accounting policies and that have the most significant effect on the amounts recognised in the financial statements:

Intangible assets

Useful lives and residual value of intangible assets (excluding goodwill and indefinite life assets) are reviewed annually. Judgment is applied in determining the useful lives of intangible assets. Any reassessment of useful lives and residual value in a particular year will affect amortisation expense (either increasing or decreasing) from the date of reassessment through to the end of the reassessed useful life for both the current and future years.

G. Key sources of estimation uncertainty

The key assumptions concerning the future, and other key sources of estimation uncertainty at the balance date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below or elsewhere in the financial statements.

Impairment of goodwill and other intangible assets

Determining whether goodwill and other intangible assets are impaired requires an estimation of the higher of 'fair value less cost of disposal' and 'value in use' of the cash-generating units to which goodwill and other intangible assets have been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate present value.

H. Comparatives

Certain prior year amounts have been reclassified for consistency with current year presentation. This included transfer of $1,712,000 from inventories to biological assets and $660,000 from trade receivables to trade payables to align with the current year presentation. These reclassifications had no effect on the reported profit or loss.

Performance

1. Segment performance

Segment information is reported in a manner consistent with internal reporting that is provided to the Chief Operating Decision Maker ('**CODM**'). The CODM is the Board of Directors. The CODM is responsible for allocating resources and assessing the performance of operating segments.

Identification of reportable operating segments

The Group is organised into two operating segments:

- **Australia.** The Australian segment operates a vertically integrated production farm and wholesale operation in Australia; and
- **China.** The China segment operates a production farm and distribution operation in China, primarily supplying the domestic China market as well as the Australian segment.

Information about reportable operating segments

The CODM reviews Revenue and Earnings Before Interest Tax Depreciation and Amortisation (EBITDA) at an operating segment level. Depreciation and amortisation, finance costs and income tax expense are reviewed at a Group segment level. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements. There is no aggregation of operating segments. The information reported to the CODM is on a monthly basis.

It is the Group's policy that business support or corporate costs that are not directly attributable to an operating segment are allocated to the Australian segment which is the Group's largest segment on the basis that the majority of these resources are utilised by the Australia segment.

Operating segments are presented using the 'management approach', where the information presented is on the same basis as the internal reports provided to the CODM. The CODM is responsible for the allocation of resources to operating segments and assessing their performance.

Seasonality

The Australian segment is affected by seasonality where December, February and May are months with higher sales due to Christmas, Valentine's Day and Mother's Day events. Sales during spring reflect increase in demand of plant products. The segment's external revenue is derived predominately from sales to major supermarkets in Australia.

The China segment is affected by seasonality where volumes are generally higher in the summer months (June, July and August) however pricing is generally lower during the same months due to increased competition in the China domestic market. The segment's external revenue is derived predominately from sales to major supermarkets, wholesalers and online market places in China and supplying the Australia segment.

Major customers

During the year ended June 2021 approximately 83% (June 2020: 85%) of the Group's external revenue was derived from sales to major supermarkets in Australia including Coles, Woolworths and ALDI.

Intersegment transactions

Intersegment transactions are made at market rates. The Australia operating segment purchases floral and other products from the China operating segment. Intersegment transactions are eliminated on consolidation. Intersegment loans are initially recognised at the consideration received. Intersegment loans receivable and loans payable that earn or incur non-market interest are not adjusted to fair value based on market interest rates. Intersegment loans are eliminated on consolidation.

Segment performance, assets and liabilities for the current and previous year is outlined below:

June 2021	Australia $'000	China $'000	Intersegment eliminations $'000s	Total $'000
Segment revenue – sales to customers				
Flowers	229,653	32,842	(20,156)	242,339
Plant	57,866	–	–	57,866
	287,519	**32,842**	**(20,156)**	**300,205**
EBITDA	**27,085**	**20,683**[1]	**–**	**47,768**
Depreciation and amortisation				(12,975)
Finance costs				(4,270)
Profit before income tax expense				**30,523**
Income tax expense				(5,652)
Profit after income tax expense				**24,871**
Segment assets	**327,446**[2]	**163,155**[2]	**(118,210)**	**372,391**
Segment liabilities	**135,367**	**133,893**	**(118,210)**	**151,050**

1 Includes share of profits of associate of $1,809,000 and fair value gain relating to re-measurement of associate interest of $10,188,000.

2 Includes capital additions of $1,470,000 in Australia and $8,290,000 in China.

June 2020	Australia $'000	China $'000	Intersegment eliminations $'000s	Total $'000
Segment revenue – sales to customers				
Flowers	185,049	17,986	(14,627)	188,408
Plants	42,019	–	–	42,019
	227,068	**17,986**	**(14,627)**	**230,427**
EBITDA	**20,004**	**4,103**[1]	**–**	**24,107**
Depreciation and amortisation				(10,304)
Finance costs				(5,116)
Profit before income tax expense				**8,687**
Income tax expense				(2,846)
Profit after income tax expense				**5,841**
Segment assets	**208,497**[2]	**38,489**	**(28,744)**	**218,242**
Segment liabilities	**146,797**	**29,593**	**(28,744)**	**147,646**

1 Includes share of profits of associate of $693,000.

2 Includes investment in associate of $10,417,000. Includes capital additions of $1,637,000 in Australia and $2,084,000 in China.

2. Revenue

Revenue is comprised of the following:

	June 2021 $'000	June 2020 $'000
Sales of goods – Flowers	242,339	188,408
Sales of goods – Plants	57,866	42,019
	300,205	**230,427**

The Group recognises revenue predominantly from horticultural production and wholesale of flowers and plants. Revenue is recognised when the Group's performance obligation has been satisfied, generally at the point of delivery which is when the customer obtains control of the flowers and plants, and net of reversals for returned goods subject to 'sale or return' policy. All revenue is stated net of the amount of goods and services tax (GST).

Sales of goods – Flowers

Bunches of cut flowers, either single flowers or multiple varieties, with or without foliage. Flowers typically have a short shelf life (7-8 days) with delicate handling requirements and a complex supply chain.

Sales of goods – Plants

Low maintenance indoor potted plants produced with or without visually appealing ceramic pot. Plants typically have a long shelf life (up to 5 years).

3. Other income

Other income is comprised of the following:

	June 2021 $'000	June 2020 $'000
Fair value adjustment to biological assets	476	520
Government grants – Job Keeper income	3,155	2,786
	3,631	**3,306**

Associated with the COVID-19 pandemic, the Group received $3,585,000 (June 2020: $3,168,000) Job Keeper support payments from the Australian Government which were passed on to eligible employees. This excludes $430,000 (June 2020: $382,000) which has been recognised as an offset against employee benefits expense.

4. Expenses

Significant expense items disclosed in the consolidated statement of profit and loss are set out below:

Employee benefit expenses are comprised of the following:

	June 2021 $'000	June 2020 $'000
Employee benefits expenses		
Salaries and contractors' costs (including on costs)	35,506	30,549
Superannuation costs	2,620	2,238
Leave entitlements	835	501
Other employee expenses	1,095	214
	40,056	**33,502**

Finance costs are comprised of the following:

	June 2021 $'000	June 2020 $'000
Finance costs		
Interest expense on borrowings	2,309	3,480
Amortisation of borrowing costs	652	492
Interest expense on lease liabilities	1,219	1,144
Interest on contractual make good obligations	90	–
	4,270	**5,116**

Depreciation and amortisation expenses are comprised of the following:

	June 2021 $'000	June 2020 $'000
Depreciation and amortisation expenses		
Depreciation of property, plant and equipment	3,548	2,250
Depreciation of right-of-use assets	4,279	2,657
Amortisation of intangible assets	5,148	5,397
	12,975	**10,304**

Occupancy expenses are comprised of the following:

	June 2021 $'000	June 2020 $'000
Occupancy expenses		
Variable lease payments	688	1,483
Short-term lease payments	500	832
	1,188	**2,315**

IPO offer, restructuring and VdB acquisition costs totalling $8,616,000 (June 2020: $1,082,000) are included in "other expenses".

5. Income tax

The major components of income tax expense, including current and deferred income tax, in the consolidated statement of profit and loss are set out below:

	June 2021 $'000	June 2020 $'000
Income tax expense		
Current tax	9,697	4,617
Deferred tax – origination and reversal of temporary differences	(4,045)	(1,771)
Aggregate income tax expense	**5,652**	**2,846**
Deferred tax included in income tax expense comprises:		
Decrease in deferred tax liabilities	**(4,045)**	**(1,771)**
Numerical reconciliation of income tax expense and tax at the statutory rate:		
Profit before income tax expense	**30,523**	**8,687**
Tax at the statutory tax rate of 30%	9,157	2,606
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share of profits of associates	(543)	(208)
Fair value gain relating to associate interest re-measurement	(3,056)	–
Other non-deductible items, including IPO costs	982	680
Other tax differences	–	(155)
	6,540	**2,923**
Difference in overseas tax rates	(888)	(77)
Income tax expense	**5,652**	**2,846**

Current and deferred tax for the year

Current and deferred tax is recognised as an expense or income in profit or loss, except when it relates to items credited or debited directly to equity, in which case the deferred tax is also recognised directly in equity, or where it arises from the initial accounting for a business combination, in which case it is taken into account in the determination of goodwill.

Deferred tax assets and liabilities comprised temporary differences attributable to:

	June 2021 $'000	June 2020 $'000
Deferred tax assets		
Lease liabilities	5,676	6,735
Employee benefits	2,323	2,068
Section 40-880 expenditure	2,487	–
Allowance for expected credit losses	65	175
Inventories	355	–
Other provisions	211	–
Property, plant and equipment	31	–
Trade and other payables	1,108	785
	12,256	**9,763**
Deferred tax liabilities		
Intangible assets	11,704	9,717
Right-of-use assets	4,805	5,996
Property, plant and equipment	–	43
Other	84	538
	16,593	**16,294**
Net deferred tax liability	**4,337**	**6,531**
The movement of net deferred tax assets/(liabilities) during the year is as follows:		
Movements		
Opening balance	6,531	8,302
Credited to profit or loss	(4,045)	(1,771)
Credited to other comprehensive income	(1,364)	–
Additions through business combinations (note 26)	3,215	–
Closing balance	**4,337**	**6,531**

The current tax asset/(liability) as at reporting date is as follows:

	June 2021 $'000	June 2020 $'000
Current tax asset/(liability)	**491**	**(134)**

Current tax

Current tax is calculated by reference to the amount of income taxes payable or recoverable in respect of the taxable profit or tax loss for the year. It is calculated using tax rates and tax laws that have been enacted or substantively enacted by reporting date. Current tax for current and prior periods is recognised as a liability (or asset) to the extent that it is unpaid (or refundable).

Deferred tax

Deferred tax is accounted for in respect of differences between the tax base of an asset or liability and its carrying amount in the statement of financial position. The tax base of an asset or liability is the amount attributed to that asset or liability for tax purposes.

In principle, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that sufficient taxable amounts will be available against which deductible temporary differences or unused tax losses and tax offsets can be utilised. However, deferred tax assets and liabilities are not recognised if the temporary differences giving rise to them arise from the initial recognition of assets and liabilities (other than as a result of a business combination) which affects neither taxable income nor accounting profit. Furthermore, a deferred tax liability is not recognised in relation to taxable temporary differences arising from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and branches except where the Group is able to control the reversal of the temporary differences and it is probable that the temporary differences will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with these investments are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period(s) when the asset and liability giving rise to them are realised or settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by reporting date. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the reporting date, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

Tax consolidation

The company and all its wholly-owned Australian resident entities are part of a tax-consolidated group under Australian taxation law. The company is the head entity in the tax-consolidated group. Tax expense/income, deferred tax liabilities and deferred tax assets arising from temporary differences of the members of the tax-consolidated group are recognised in the separate financial statements of the members of the tax-consolidated group using the ‘separate taxpayer within group’ approach by reference to the carrying amounts in the separate financial statements of each entity and the tax values applying under tax consolidation. Current tax liabilities and assets and deferred tax assets arising from unused tax losses and relevant tax credits of the members of the tax-consolidated group are recognised by the company (as head entity in the tax-consolidated group).

Due to the existence of a tax funding arrangement between the entities in the tax-consolidated group, amounts are recognised as payable to or receivable by the company and each member of the tax-consolidated group in relation to the tax contribution amounts paid or payable between the head entity and the other members of the tax-consolidated group in accordance with the arrangement. Where the tax contribution amount recognised by each member of the tax-consolidated group for a particular period is different to the aggregate of the current tax liability or asset and any deferred tax asset arising from unused tax losses and tax credits in respect of that period, the difference is recognised as a contribution from (or distribution to) equity participants.

GST

Revenue, expenses and assets are recognised net of the amount of goods and services tax (GST), except where the amount of GST incurred is not recoverable from the taxation authority or it is recognised as part of the cost of acquisition of an asset or as part of an item of expense; or for receivables and payables which are recognised inclusive of GST. The net amount of GST recoverable from, or payable to, the taxation authority is included as part of receivables or payables. Cash flows are included in the cash flow statement on a gross basis. The GST component of cash flows arising from investing and financing activities which is recoverable from, or payable to, the taxation authority is classified as operating cash flows.

6. Earnings per share (EPS)

	June 2021 $'000	June 2020 $'000
Profit after tax attributable to owners of the company	24,871	5,841

	Number	Number
Weighted average number of Ordinary shares – Basic EPS	79,292	66,658
Weighted average number of shares – Diluted EPS	79,292	66,658

	Cents	Cents
Basic earnings per share	31.36	8.76
Diluted earnings per share	31.36	8.76

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of the company, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding 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. At June 2021 no shares are assumed to have been issued for nil consideration, as a result of the Option exercise cost exceeding the average share price during the post listing period.

Assets and liabilities

7. Cash and cash equivalents

Cash and cash equivalents, which are all classified as current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Cash at bank	48,988	15,244
	48,988	**15,244**

Cash comprises cash on hand and demand deposits. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

The reconciliation of profit after income tax to net cash from/(used in) operating activities is as follows:

	June 2021 $'000	June 2020 $'000
Profit after income tax expense for the year	**24,871**	**5,841**
Adjustments for:		
Depreciation and amortisation	12,975	10,304
Share-based payments	703	214
Finance costs – non-cash	742	914
Net fair value gain on biological assets	(476)	(520)
Net fair value loss on derivatives	–	716
Deferred rent accrual	–	166
Remeasurement of fair value on investment in associate	(10,188)	–
Share of profit in associate	(1,809)	(693)
Change in operating assets and liabilities:		
(Increase)/decrease in trade and other receivables	(3,364)	2,047
(Increase)/decrease in inventories	(374)	911
Increase in biological assets	(2,373)	(2,058)
(Decrease)/increase in other assets	(2,346)	222
Increase in trade and other payables	6,664	5,249
Increase in current tax	(625)	697
Decrease in deferred tax liabilities	(2,194)	(1,771)
Increase in provisions	2,864	536
Net cash from operating activities	**25,070**	**22,775**

8. Trade and other receivables

Trade and other receivables, which are all classified as current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Trade receivables and other receivables	20,622	17,371
Provision for expected credit losses	(215)	(328)
	20,407	**17,043**

Trade receivables are initially recognised at fair value and subsequently measure at amortised costs using the effective interest method, less any allowance for expected credit losses. Trade receivables generally have credit terms between 14-60 days.

Allowance for expected credit losses

The Group recognises a lifetime loss allowance for expected credit losses (ECL) on receivables. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the receivables. The ECL on receivables is estimated based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current as well as the forecast direction of conditions at the reporting date, including time value of money where appropriate. Lifetime ECL represents the expected credit losses that will result from all possible default events over the expected life of a financial instrument.

The Group writes off a receivable when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, e.g., when the debtor has been placed under liquidation or has entered into bankruptcy proceedings. Receivables written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognised in profit or loss.

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	June 2021 %	June 2020 %	June 2021 $'000	June 2020 $'000	June 2021 $'000	June 2020 $'000
Not overdue	0.4%	1.1%	19,559	14,474	69	155
0 to 3 months overdue	5.0%	5.2%	939	2,605	47	136
3 to 6 months overdue	35.9%	6.9%	39	274	14	19
Over 6 months overdue	100.0%	100.0%	85	18	85	18
			20,622	**17,371**	**215**	**328**

Movements in the allowance for expected credit losses are as follows:

	June 2021 $'000	June 2020 $'000
Current		
Opening balance	328	437
Unused amounts reversed	(113)	(109)
Closing Balance	**215**	**328**

9. Inventories

Inventories, which are all classified as current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Raw and packaging materials at cost	9,314	8,180
Finished goods at cost	2,350	2,291
Obsolescence provision	(1,186)	(367)
	10,478	**10,104**

Raw and packaging materials are stated at the lower of cost and net realisable value. Cost is calculated on a weighted average basis and comprises of direct materials, delivery costs, import duties and other taxes. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Finished goods are stated at the lower of cost and net realisable value. Costs are calculated on a weighted average basis and comprise of purchase and delivery costs, net of rebates and discounts received or receivable. Costs in relation to biological assets are transferred to inventory at fair value at the date of harvest. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

A provision for obsolescence is recognised based on an assessment where the realisable value from sale of inventory is estimated to be lower than the inventory's carrying value. Inventory provisions vary between product categories with estimates of carrying value based on expected losses associated with slow moving inventory items, usually in relation to non-perishable inventory.

10. Biological assets

Biological assets, which are all classified as current, are comprised of the following:

	Biological assets June 2021 $'000	Biological assets June 2020 $'000
Flowers	2,391	866
Plants	2,560	1,712
	4,951	**2,578**

Movement in the carrying value of biological assets is as follows:

	June 2021 $'000	June 2020 $'000
Carrying amount at start of the year	2,578	3,513
Fair value increase	476	520
Increase from business combinations	970	–
Increase due to purchases	37,687	23,678
Decrease due to harvest[1]	(36,760)	(25,133)
Carrying amount at end of the year	**4,951**	**2,578**

1 Fair value increase and corresponding decrease due to harvest amounts are net of fair value movement relating to items sold during the year totalling $9,136,000 (June 2020: $3,439,000). This amount is included in 'raw materials and consumables used' in the statement of profit and loss and other comprehensive income.

The biological assets of the Group are measured initially and on an ongoing basis at their fair value, less estimated sale costs. Fair value is determined as the net present value of cash flows expected to be generated from the biological assets. The fair value adjustment during the year is recognised within "other income" in the consolidated statement of profit or loss and other comprehensive income. Biological assets are transferred to inventory at their fair value at the date of harvest.

The following table outlines the valuation techniques used in measuring the Level 3 fair values and the significant unobservable inputs:

Type	Description	Valuation technique	Significant unobservable inputs	Inter-relationship between key unobservable inputs and fair value measurement
Flowers and plants	These are flowers and potted plants with 4 to 6-week life cycle.	The valuation takes into account expected sales prices, yields, and expected direct costs related to the harvest and sale of the assets and management must make a judgement as to the trend in these factors.	• Estimated post-harvest sales prices; • Estimated farm yields and stage of maturity; and • Estimated remaining harvest and transportation costs.	The estimated fair value would increase (decrease) if: • the estimated sales prices were higher (lower); • the estimated yields per farm were higher (lower); and • the estimated harvest and transportation costs were lower (higher).

11. Other assets

Other assets, which are all classified as current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Prepayments	3,191	1,194
Foreign exchange contracts at fair value	349	–
	3,540	**1,194**

12. Property, plant and equipment

Property, plant and equipment, which are all classified as non-current are comprised of the following:

	Leasehold improve-ments $'000	Plant and equipment $'000	Motor vehicles $'000	Bearer plants $'000	Cons-truction in progress $'000	Total $'000
Cost						
At July 2019	**6,979**	**19,835**	**1,753**	**1,470**	**1,320**	**31,357**
Additions	1,081	2,379	14	498	49	4,021
Acquired through business combinations	–	2,474	–	–	–	2,474
Exchange differences	–	(34)	–	–	–	(34)
Disposals	(219)	(835)	–	–	–	(1,054)
At June 2020	**7,841**	**23,819**	**1,767**	**1,968**	**1,369**	**36,764**
Additions	1,378	8,693	42	390	76	10,579
Acquired through business combinations	8,471	10,824	140	2,206	4,612	26,253
Exchange differences	209	592	3	108	70	982
Disposals	(271)	(53)	(54)	–	–	(378)
At June 2021	**17,628**	**43,875**	**1,898**	**4,672**	**6,127**	**74,200**
Accumulated depreciation						
At July 2019	**(1,909)**	**(8,375)**	**(882)**	**(545)**	**–**	**(11,711)**
Change for the year	(334)	(1,391)	(124)	(401)	–	(2,250)
Eliminated on disposals	143	758	–	–	–	901
At June 2020	**(2,100)**	**(9,008)**	**(1,006)**	**(946)**	**–**	**(13,060)**
Change for the year	(445)	(2,337)	(130)	(636)	–	(3,548)
Exchange differences	(16)	(336)	(4)	(60)	–	(416)
Eliminated on disposals	28	89	46	–	–	163
At June 2021	**(2,533)**	**(11,592)**	**(1,094)**	**(1,642)**	**–**	**(16,861)**
Carrying amount						
At June 2020	**5,741**	**14,811**	**761**	**1,022**	**1,369**	**23,704**
At June 2021	**15,095**	**32,283**	**804**	**3,030**	**6,127**	**57,339**

Property, plant and equipment is carried at cost less accumulated depreciation and any recognised impairment. Cost includes expenditure directly attributable to the acquisition of the asset and any additional costs incurred to bring the asset to use. Depreciation is provided on plant and equipment. Depreciation is calculated on a straight-line basis so as to write off the net cost of each asset over its expected useful life to its estimated residual value.

Repairs and maintenance costs are included in the consolidated statement of profit and loss at the time they are incurred.

At each reporting date, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where the asset does not generate cash flows that are independent from other assets, the Group estimates the recoverable amount of the cash-generating unit ('CGU') to which the asset belongs. Where a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual CGU's, or otherwise they are allocated to the smallest Group of CGU's for which a reasonable and consistent allocation basis can be identified.

Leasehold improvements

Leasehold improvements are depreciated over the period of the lease or estimated useful life, whichever is the shorter, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each year, with the effect of any changes recognised on a prospective basis. Leasehold improvements are considered to have a useful life of between 3 and 17 years.

Plant and equipment

Plant and equipment are depreciated over their useful life which is individually defined for each asset. Cost includes expenditure directly attributable to the acquisition of the asset and any additional costs incurred to bring the asset to use. Repairs and maintenance costs are included in the consolidated statement of profit and loss at the time they are incurred. Plant and equipment are considered to have a useful life of between 3 and 20 years.

Motor vehicles

Motor vehicles are depreciated over the useful life which is considered to be between 3 and 5 years.

Bearer plants

Bearer plants are classified as property, plant and equipment, measured at cost less subsequent depreciation calculated on a straight-line basis. The produce growing on bearer plants is classified as biological assets. Bearer plants are considered to have a useful life of between 5 and 7 years.

Construction in progress

Construction in progress are costs incurred in assets not yet available for use. Costs are transferred to the relevant asset category upon completion when assets are available for us. Depreciation over the useful life of the asset commences from the date is asset is available for use.

13. Right-of-use assets

Right-of-use assets, which are considered to be non-current, are recognised at the commencement date of a lease. Right-of-use assets are 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, and net of any lease incentives received. Right-of-use assets also include estimates of contractual make good obligations.

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

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

Right-of-use assets and their associated movement during the year are as follows:

	Land and Buildings $'000	Motor Vehicles $'000	Plant and Equipment $'000	Total $'000
Right-of-Use Assets				
At July 2019	–	–	–	–
First time adoption of AASB 16	22,083	310	250	22,643
Depreciation expense	(2,506)	(130)	(21)	(2,657)
At June 2020	**19,577**	**180**	**229**	**19,986**
Additions	3,301	–	–	3,301
Make good assets	1,925	–	–	1,925
Acquired through business combinations	4,513	–	800	5,313
Depreciation expense	(4,110)	(31)	(138)	(4,279)
Foreign exchange	87	–	17	104
At June 2021	**25,293**	**149**	**908**	**26,350**

The split of asset class and its associated costs and accumulated depreciation is as follows:

Net book value (cost, less accumulated depreciation)	June 2021 $'000	June 2020 $'000
Right-of-use land and buildings – cost	31,906	22,083
Less: Accumulated depreciation	(6,613)	(2,506)
	25,293	**19,577**
Right-of-use motor vehicles – cost	310	310
Less: Accumulated depreciation	(161)	(130)
	149	**180**
Right-of-use plant and equipment – cost	1,070	250
Less: Accumulated depreciation	(162)	(21)
	908	**229**
	26,350	**19,986**

Land and buildings

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of between 4 and 18 years with, in some cases, options to extend. All options to extend have been assessed as being reasonably certain at inception date. The leases have various escalation clauses. On renewal, the terms of the lease are renegotiated.

Motor vehicles

The group leases some motor vehicles under agreements of between 2 and 5 years.

Plant and equipment

The group leases some office equipment under agreements of between 2 and 5 years.

Low value

The Group also has some lease which are either short-term or low-value. These leases have been expensed as incurred and not capitalised as right-of-use assets.

14. Intangible assets

The Group's intangible assets, which are considered to be non-current, are comprised of the following:

	Goodwill $'000	Brand names $'000	Databases $'000	Computer software $'000	Customer relation-ships $'000	Total $'000
Cost						
At July 2019	**84,674**	**10,870**	**6,589**	**7,105**	**36,308**	**145,546**
Additions	–	–	–	249	–	249
Disposals	–	–	–	(224)	–	(224)
At June 2020	**84,674**	**10,870**	**6,589**	**7,130**	**36,308**	**145,571**
Additions	–	–	–	94	–	94
Acquired through business combinations	56,165	5,893	–	161	22,577	84,796
Exchange differences	1,392	155	–	4	596	2,147
Disposals	–	–	–	(17)	–	(17)
At June 2021	**142,231**	**16,918**	**6,589**	**7,372**	**59,481**	**232,591**
Amortisation						
At July 2019	**–**	**–**	**(4,832)**	**(5,761)**	**(11,748)**	**(22,341)**
Charge for the year	–	–	(1,318)	(599)	(3,480)	(5,397)
Eliminated on disposals	–	–	–	139	–	139
At June 2020	**–**	**–**	**(6,150)**	**(6,221)**	**(15,228)**	**(27,599)**
Charge for the year	–	–	(439)	(519)	(4,190)	(5,148)
Eliminated on disposals	–	–	–	3	–	3
At June 2021	**–**	**–**	**(6,589)**	**(6,737)**	**(19,418)**	**(32,744)**
Carrying amount						
At June 2020	**84,674**	**10,870**	**439**	**909**	**21,080**	**117,972**
At June 2021	**142,231**	**16,918**	**–**	**635**	**40,063**	**199,847**

Goodwill

Goodwill acquired in a business combination is initially measured at its cost, being the excess of the cost of the business combination over the acquirer's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities recognised. Goodwill is subsequently measured at its cost less any impairment losses.

For the purpose of impairment testing, goodwill is allocated to each of the Group's cash-generating units (CGUs), or Groups of CGUs, expected to benefit from the synergies of the business combination.

If the recoverable amount of the CGU (or Group of CGUs) is less than the carrying amount of the CGU (or Groups of CGUs), the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the CGU (or Groups of CGUs) and then to the other assets of the CGU (or Groups of CGUs) pro-rata on the basis of the carrying amount of each asset in the CGU (or Groups of CGUs). An impairment loss recognised for goodwill is recognised immediately in profit or loss and is not reversed in a subsequent period.

On disposal of an operation within a CGU (or Groups of CGUs), the attributable amount of goodwill is included in the determination of the profit or loss on disposal of the operation.

Goodwill is considered to have an indefinite useful life and is therefore not amortised. CGUs (or Groups of CGUs) to which goodwill has been allocated are tested for impairment annually, or more frequently if events or changes in circumstances indicate that goodwill might be impaired.

Brand names

Brand names are measured initially at their cost of acquisition. Brand names are considered to have an indefinite useful life as there is no expiry date associated with the asset in terms of its ability to generate future economic benefits. Brand names are tested for impairment annually or whenever there is an indication of impairment.

Databases

Databases are measured initially at their cost of acquisition. Databases are considered to have a useful life of 5 years and are amortised over that period. Databases are tested for impairment if indicators of impairment are identified.

Computer software

Computer software is recorded at cost less accumulated amortisation and impairment. Amortisation is charged on a straight-line basis over the estimated useful life of each asset. Computer software is considered to have an average useful life of 2.5 years. Computer software is tested for impairment if indicators of impairment are identified.

Customer relationships

Customer relationships are measured initially at their cost of acquisition. Customer relationships are considered to have a useful life of 10 years and are amortised over that period. Customer relationships are tested for impairment if indicators of impairment are identified.

Brands/Databases/Customer Relationships acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. Amortisation is charged on a straight-line basis over the estimated useful life of finite life intangible assets.

Allocation of indefinite life intangible assets to cash generating units

Intangibles acquired in a business combination which are considered to have an indefinite useful life are allocated to CGU's (or Groups of CGUs) which are expected to benefit from the synergies of the combination, representing the lowest level at which the intangibles are monitored for internal management purposes and not being larger than an identified operating segment. To date, such allocations have been made to the Australian and China CGU Groups as follows:

	June 2021 $'000	June 2020 $'000
Goodwill		
Australia CGU Group	84,674	84,674
China CGU Group	57,557	–
	142,231	**84,674**
Brand names		
Australia CGU Group	10,870	10,870
China CGU Group	6,048	–
	16,918	**10,870**

Impairment

Intangible assets with indefinite useful lives are tested for impairment annually and whenever there is an indication that the asset may be impaired. The recoverable amount is the higher of fair value less costs of disposal and value in use. If the recoverable amount of an asset (or CGU) is estimated to be less than it's carrying amount, the carrying amount of the asset (or CGU) is reduced to its recoverable amount. An impairment loss is recognised in profit or loss immediately.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) is increased to the revised estimate of its recoverable amount, but only to the extent that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or CGU) in prior periods. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Impairment testing: Australia CGU Group

At June 2021 and June 2020 financial year ends, the directors assessed the recoverable amount of the Australia CGU Group and determined there was no impairment. The recoverable amount of the CGU Group (including Goodwill) was determined based on value in use calculations using cash flow projections based on the financial budget approved by the directors covering a one-year period which was extrapolated into perpetuity using a growth rate of 2.0% (June 2020: 2.0%). The net cash flows were then discounted using a post-tax discount rate of 9.8% (June 2020: 10.0%).

The directors have conducted an analysis of the sensitivity of the impairment test to reasonable changes in key assumptions (10.0% reduction in annual cash flows, 0.5% decrease in the terminal growth rate, and 1.0% increase in the discount rate applied). None of these sensitivities, applied individually, gave rise to an impairment.

The directors have separately tested indefinite life brand names in the Australia CGU Group for impairment using a relief from royalty method and concluded that no impairment is required at balance date.

Impairment testing: China CGU Group

At June 2021, the directors assessed the recoverable amount of the China CGU Group and determined there was no impairment. The recoverable amount of the CGU Group (including Goodwill) was determined based on a value in use calculations using cash flow projections based on the financial budget approved by the directors covering a one-year period which was extrapolated into perpetuity using a growth rate of 2.5%. The net cash flows were then discounted using a post-tax discount rate of 12.0%.

The directors have conducted an analysis of the sensitivity of the impairment test to reasonable changes in key assumptions (10.0% reduction in annual cash flows, 0.5% decrease in the terminal growth rate applied, and 1.0% increase in the discount rate applied). None of these sensitivities, applied individually, gave rise to an impairment.

The directors have separately tested indefinite life brands in the China CGU Group for impairment using a relief from royalty method and concluded that no impairment is required at balance date.

15. Trade and other payables

Trade and other payables, which are considered to be current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Trade payables	33,453	22,586
Other payables and accruals	21,050	12,718
	54,503	**35,304**

Trade payables are non-interest bearing. Further information is contained within the note on financial instruments (Note 23).

16. Lease liabilities

Lease liabilities, which are both current and non-current, are recognised at the commencement date of a lease. Lease liabilities are 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 the rate cannot be readily determined, the Group's incremental borrowing rate. Lease payments comprised of fixed payments less any lease incentives receivable and variable lease payments that depend on an index or a rate.

Lease liabilities and their associated movement during the year are as follows:

Lease liabilities	June 2021 $'000	June 2020 $'000
Carrying amount at start of year	**22,884**	**266**
First time adoption of AASB 16	–	24,640
Additions	3,164	–
Foreign exchange movements	153	–
Acquired through business combinations	5,494	–
Repayment of lease liabilities	(5,046)	(3,166)
Interest expense	1,219	1,144
Carrying amount at the end of year	**27,868**	**22,884**

Lease liabilities are classified as current if the liability is expected to be satisfied within the following 12 months. Those greater than 12 months are classified as non-current. The split between current and non-current lease liabilities is as follows:

Lease liabilities	June 2021 $'000	June 2020 $'000
Current liability	4,291	3,534
Non-current liability	23,577	19,350
	27,868	**22,884**

The Group leases land and buildings for its production facilities, farms offices and warehouses under agreements of between 4 to 18 years with, in some cases, options to extend. All options to extend have been assessed as being reasonably certain at inception date. The leases have various escalation clauses. On renewal, the terms of the leases are renegotiated. The Group also leases plant and equipment under agreements of between 4 to 5 years and office equipment and motor vehicles under agreements of between 2 to 5 years respectively.

The Group has leases which are either short-term or low-value, and under its policy related payments have been expensed as incurred and not capitalised as right-of-use assets.

The maturity profile of the Group's lease liabilities based on contractual undiscounted payments is as follows:

	June 2021 $'000	June 2020 $'000
Year 1	5,214	3,529
Year 2	4,817	3,399
Year 3	4,183	3,466
Year 4	4,133	3,476
Year 5	3,831	3,366
Onwards	12,124	11,509
	34,302	**28,745**
Unearned interest	(6,434)	(5,861)
	27,868	**22,884**

The weighted average incremental borrowing rate that has been used to calculate the maturity profile is 4.7% (June 2020: 4.8%).

17. Provisions

The Group's provisions, which are both current and non-current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Current		
Employee benefits	6,659	6,282
Other – contractual make-good obligations	575	–
	7,234	**6,282**
Non-current		
Employee benefits	1,085	613
Other – contractual make-good obligations	1,440	–
	2,525	**613**
	9,759	**6,895**

Employee benefits

Employee benefits include annual leave and long service leave entitlements. Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

A liability is recognised for benefits accruing to employees in respect of wages and salaries and annual leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service. Liabilities recognised in respect of other short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service. Liabilities recognised in respect of other long-term employee benefits are measured at the present value of the estimated future cash outflows expected to be made by the Group in respect of services provided by employees up to the reporting date.

Contractual make-good obligations

Contractual make-good obligations comprise estimates of contractual make-good obligations for property leases on their expiry.

Movement in contractual make good obligation provision is as follows:

	June 2021 $'000	June 2020 $'000
Carrying amount at start of year	**–**	**–**
Recognition of contractual make-good obligations	1,925	–
Interest expense	90	–
Carrying amount at the end of year	**2,015**	**–**

In China, the Group is party to certain land lease arrangements and based on legal advice it is considered highly unlikely that a restoration obligation will materialise.

Capital

18. Borrowings

The Group's borrowings, which are both current and non-current, are comprised of the following:

	June 2021 $'000	June 2020 $'000
Current		
Secured – at amortised cost		
Bank loans – term facilities	–	7,500
Bank loans – commercial bills	3,772	2,769
	3,772	**10,269**
Unsecured-at amortised cost		
Vendor finance loans	–	275
Total current borrowings	**3,772**	**10,544**
Non-current		
Secured – at amortised cost		
Bank loans – term facility	49,588	52,136
Bank loans – commercial bills	1,223	–
	50,811	**52,136**
Unsecured-at amortised cost		
Shareholders' loans	–	11,135
Vendor finance loans	–	1,367
Total non-current borrowings	**50,811**	**64,638**
Total borrowings	**54,583**	**75,182**

Movement in the Group's borrowing for the year to June 2021 is as follows:

June 2021	Bank loans – term facilities $000s	Bank loans – commercial bills $000s	Vendor finance loans $000s	Share-holder's loans $000s	Total $000s
Carrying amount at start of year	**59,636**	**2,769**	**1,642**	**11,135**	**75,182**
Proceeds from bank borrowings	50,000	2,957	–	–	52,957
Repayment of bank borrowings	(60,250)	(2,721)	–	–	(62,971)
Repayment of shareholder loans	–	–	–	(11,491)	(11,491)
Changes through business combinations	–	1,990	–	–	1,990
Accrued interest	–	–	–	356	356
Repayment of vendor finance loans	–	–	(1,642)	–	(1,642)
Borrowing establishment expenses paid	(450)	–	–	–	(450)
Amortisation of prepaid borrowing establishment expenses	652	–	–	–	652
Carrying amount at the end of year	**49,588**	**4,995**	**–**	**–**	**54,583**

Movement in the Group's borrowing for the year to June 2020 is as follows:

June 2020	Bank loans – term facilities $000s	Bank loans – commercial bills $000s	Bank overdraft $000s	Vendor finance loans $000s	Share-holder's loans $000s	Total $000s
Carrying amount at start of year	**61,643**	**2,141**	**2,697**	**–**	**–**	**66,481**
Proceeds from bank borrowings	–	2,769	–	–	–	2,769
Repayment of bank borrowings	(2,500)	(2,141)	(2,697)	–	–	(7,338)
Proceeds from shareholder loans	–	–	–	–	10,713	10,713
Proceeds from vendor finance loans	–	–	–	1,642	–	1,642
Accrued interest	–	–	–	–	422	422
Amortisation of prepaid borrowing establishment expenses	493	–	–	–	–	493
Carrying amount at the end of year	**59,636**	**2,769**	**–**	**1,642**	**11,135**	**75,182**

Borrowings are presented net of capitalised loan establishment fees which are amortised over the life of the applicable facility.

Bank loans consist of term facilities in Australia and commercial bills in China. Key terms of the Group's banking facilities are as follows:

Australia

- $50,000,000 term facility fully drawn with Commonwealth Bank of Australia maturing in April 2024;
- $25,000,000 capital expenditure, working capital and guarantee facility with Commonwealth Bank of Australia maturing in April 2024. The facility was drawn at balance date only in respect of bank guarantees provided totalling $1,516,000; and
- The Australian facility is secured by a security interest over all present and after-acquired property of the Group's business in Australia.

China

- $2,978,000 drawn commercial bank bill facility with the Bank of China maturing in instalments between October 2021 and June 2022. This facility is secured by a first charge over the property, plant and equipment owned by the Group in China;
- $198,000 drawn commercial bank bill facility with the Bank of China maturing in September 2021, $596,000 drawn commercial bank bill facility with the Bank of China maturing in December 2021, and $1,223,000 drawn commercial bank facility with the Bank of China maturing in September 2022. These facilities have no security; and
- There are no undrawn bank facilities in China at balance date.

19. Issued share capital

Issued share capital is comprised of the following:

	Date	Number	$000s	Average price paid per share
Ordinary shares				
At July 2019		**66,657,600**	**66,738**	**$1.00**
At June 2020		**66,657,600**	**66,738**	**$1.00**
Shares issued under the IPO1	7 April 2021	35,394,703	127,421	$3.60
Shares issued pursuant to exercise/ conversion of legacy securities1	7 April 2021	4,274,805	1,655	$0.39
Shares issued under employee gift offer	7 April 2021	58,724	211	$3.60
Shares issued to non-executive directors	7 April 2021	50,000	180	$3.60
Shares issued under business combinations	7 April 2021	15,630,280	56,269	$3.60
Return of capital dividend to ordinary shareholders		–	(1,655)	–
Capital raising expenses, net of tax benefit		–	(5,166)	–
At June 2021		**122,066,112**	**245,653**	**$2.01**

1 IPO proceeds of $129,076,000 as disclosed in the consolidated statement of cash flows include shares issued under the IPO of $127,421,000 and settlement of shares issued pursuant to the exercise/conversion of legacy securities of $1,655,000.

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the company be wound up in proportion to the number of shares held. 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.

Shares issued under the IPO

The company was admitted to the Official List of the Australian Securities Exchange ('ASX') and its ordinary shares commenced trading on 6 April 2021. 35,394,703 new ordinary shares were issued to the public at $3.60 with total proceeds of $127,421,000.

Shares issued pursuant to exercise/conversion of legacy securities

In conjunction with the admission to the Official List of the ASX, vesting conditions relating to Legacy Securities from the Group's Legacy long-term incentive scheme were met. Eligible participants exercised a portion of Legacy Options, converted a portion of the Convertible Management Shares into ordinary shares, and accepted the cancellation of the remaining Legacy Securities in return for a cash payment on 6 April 2021. 4,274,805 shares were issued at an average of $0.39 with total proceeds of $1,655,000. Further information on the Legacy long-term incentive scheme is outlined in the share-based payments note 31.

Shares issued under employee gift offer

In conjunction with the admission to the Official List of the ASX, the Group offered an employee gift offer of shares to eligible employees. 58,724 shares were issued at a cost of $211,000. $211,000 has been expensed in the consolidated profit and loss account for the year. There is no cash cost associated with the employee gift offer.

Shares issued to non-executive directors

A one-off payment was made to selected non-executive directors for services provided in connection with the IPO. The relevant non-executive directors elected to receive ordinary shares as compensation for work fee. 50,000 ordinary shares were issued at a cost of $180,000. $180,000 has been expensed in the consolidated profit and loss account for the year. There is no cash cost associated with the shares issued to non-executive directors.

Shares issued under business combinations

15,630,280 shares at a cost of $56,269,000 were issued in partial consideration for the acquisition of VdB Group (refer to note 26). There is no cash cost associated with the issue of these shares.

Return of capital to ordinary shareholders

In conjunction with the admission to the Official List of the ASX, non-recourse loans attached to Group's Legacy long-term incentive scheme were repaid to the company. The equivalent amount was returned to Ordinary shareholders on 6 April 2021 as a return of capital dividend.

Capital raising expenses net of tax benefit

Capital raising expenses incurred in conjunction with the admission to the Official List of the ASX include fees payable to advisers, Joint Lead Managers, management, tax, accounting and legal fees. A component of the after-tax value of capital raising expenses incurred of $5,166,000 (gross $6,417,000) have been allocated to equity, with the remaining portions of $8,616,000 recorded as other expenses.

20. Reserves

Reserves are comprised of the following:

	June 2021 $'000	June 2020 $'000
Foreign currency translation	2,482	(30)
Statutory surplus	515	393
Share-based payments	917	214
Cash flow hedge	244	–
	4,158	**577**

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

	Foreign currency translation $'000	Statutory surplus $'000	Share-based payments $'000	Cash flow hedge $'000	Total $'000
Balance at July 2019	**51**	**–**	**–**	**–**	**51**
Foreign currency translation	(81)	–	–	–	(81)
Transfer from retained profits	–	393	–	–	393
Share-based payments	–	–	214	–	214
Cash flow hedge	–	–	–	–	–
Balance at June 2020	**(30)**	**393**	**214**	**–**	**577**
Foreign currency translation	2,512	–	–	–	2,512
Transfer from retained profits	–	122	–	–	122
Share-based payments	–	–	703	–	703
Cash flow hedge	–	–	–	244	244
Balance at June 2021	**2,482**	**515**	**917**	**244**	**4,158**

Foreign currency translation

The reserve is used to recognise exchange differences arising from the translation of the financial statements of foreign operations to Australian dollars.

Share-based payments

The reserve is used to recognise the value of equity benefits provided to employees as part of their compensation for services.

Statutory surplus

The reserve is recognised to meet the legal requirement in China that requires the Group to accrue 10% of the net profits (after deducting carry forward losses) until the accumulated reserve reaches 50% of the capital received. The surplus can be used to mitigate the losses or transferred to capital. The surplus cannot be distributed as dividend.

Cash flow hedge

The cash flow hedge reserve recognised the gain or loss on a hedging instrument in a cash flow hedge that has been considered to be an effective hedge relationship.

21. Dividends

Dividends paid or determined by the company to it's shareholders are as follows:

	June 2021 $'000	June 2020 $'000
Fully franked interim cash dividends declared and paid	56,500	–
Unfranked return of capital interim dividend declared and paid	1,655	–
	58,155	**–**

Movement and available franking credits are as follows:

Franking credits based on a tax rate of 30%	June 2021 $'000	June 2020 $'000
Balance as at June 2020	29,517	25,867
Generated during the year	10,149	3,650
Utilised during the year	(24,214)	–
Franking credits available for subsequent financial years	**15,452**	**29,517**

22. Contingent liabilities

At the date of this report there are no claims or contingent liabilities that are expected to materially impact, either individually or in aggregate, the Group's financial position or results from operations.

23. Financial instruments

Financial assets and financial liabilities are recognised in the Group's statement of financial position when the Group becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Financial assets that meet the following conditions are measured subsequently at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are measured subsequently at fair value through profit or loss (FVTPL).

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

All financial liabilities are measured subsequently at amortised cost using the effective interest method or at FVTPL.

Financial liabilities are classified as at FVTPL when the financial liability is (i) contingent consideration of an acquirer in a business combination, (ii) held for trading or (iii) it is designated as at FVTPL. All other financial liabilities are measured subsequently at amortised cost using the effective interest method.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

Cash flow hedges

The effective portion of changes in the fair value of derivatives and other qualifying hedging instruments that are designated and qualify as cash flow hedges is recognised in other comprehensive income and accumulated under the heading of cash flow hedging reserve, limited to the cumulative change in fair value of the hedged item from inception of the hedge. The gain or loss relating to the ineffective portion is recognised immediately in profit or loss, and is included in the 'other gains and losses' line item. Amounts previously recognised in other comprehensive income and accumulated in equity are reclassified to profit or loss in the periods when the hedged item affects profit or loss, in the same line as the recognised hedged item. However, when the hedged forecast transaction results in the recognition of a non-financial asset or a non-financial liability, the gains and losses previously recognised in other comprehensive income and accumulated in equity are removed from equity and included in the initial measurement of the cost of the non-financial asset or non-financial liability. This transfer does not affect other comprehensive income. Furthermore, if the Group expects that some or all of the loss accumulated in the cash flow hedging reserve will not be recovered in the future, that amount is immediately reclassified to profit or loss. The Group discontinues hedge accounting only when the hedging relationship (or a part thereof) ceases to meet the qualifying criteria (after rebalancing, if applicable). This includes instances when the hedging instrument expires or is sold, terminated or exercised. The discontinuation is accounted for prospectively. Any gain or loss recognised in other comprehensive income and accumulated in cash flow hedge reserve at that time remains in equity and is reclassified to profit or loss when the forecast transaction occurs. When a forecast transaction is no longer expected to occur, the gain or loss accumulated in the cash flow hedge reserve is reclassified immediately to profit or loss.

Financial risk management objectives

The Group'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 Group'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 Group. The Group 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 Group 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 and ageing analysis for credit 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 Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. Finance reports to the Board on a monthly basis.

Market risk – foreign currency transaction risk

The Group transacts in currencies other than the currency of the primary economic environment in which it operates. Notably both the Australian and China operations are exposed predominately to purchases in United States Dollars (USD) with other currencies making up an immaterial amount. In order to protect against exchange rate movements, the Group enters into forward foreign exchange contracts to hedge currency risk associated with highly probable forecasted foreign currency cash flows for the ensuing financial year. The Group's current risk management policy is to hedge approximately 50% of anticipated foreign currency purchases that are forecast to be incurred over a forward 6-month period. All hedges taken out during the year were effective. Further details regarding outstanding hedge instruments at balance date are show below in this note.

The Group's exposure to material foreign currency financial items at balance date, expressed in Australian Dollars (AUD) is as follows:

Consolidated	June 2021 USD exposure $'000	June 2021 AUD equivalent $'000	June 2020 USD exposure $'000	June 2020 AUD equivalent $'000
Foreign currency trade payables	1,727	2,274	1,399	2,032

The sensitivity of the Group's transactional currency risk is estimated by assessing the impact of a 10% increase and a 10% decrease in the AUD/USD exchange rate would have on the profit and loss of the Group at balance date.

	June 2021 Movement in AUD/USD exchange rate %	June 2021 Increase/ (decrease) in profit or loss $'000
As at June 2021		
Foreign currency trade payables	+10%	(227)
	–10%	227
As at June 2020		
Foreign currency trade payables	+10%	(203)
	–10%	203

It is noted that the above sensitivity is not fully representative of the inherent transaction foreign exchange risk as the year end exposure shown above does not reflect the foreign exchange exposure of transactions and balances during the course of the year. The above also does not reflect foreign currency risk associated with foreign subsidiaries.

Market risk – foreign currency translation risk

The Group includes certain subsidiaries located in China whose functional currency of Chinese Yuan (CNY) is different to the Group's presentation currency of AUD. On consolidation the assets and liabilities of these subsidiaries are translated into AUD at exchange rates prevailing on the balance date. The income and expense of these entities are translated at the average exchange rates for the year. Exchange differences arising are classified as equity and transferred to the foreign currency translation reserve. The Group's future reported profits are impacted by changes in exchange rates between AUD and CNY. Noted below is Group's profit for year ending June 2021 attributable to Chinese Yuan (CNY):

Consolidated	June 2021 CNY exposure $'000	June 2021 AUD equivalent $'000	June 2020 CNY exposure $'000	June 2020 AUD equivalent $'000
Chinese Yuan (CNY) profit for the year after tax	37,276	7,545	7,738	1,636

The sensitivity of the Group's translated foreign currency risk is estimated by assessing the impact that a 10% increase and a 10% decrease in the AUD/CNY exchanges rate would have on profit or loss reported for year ending June 2021:

Chinese Yuan profit or loss	June 2021 Movement in annual average AUD/CNY exchange rate %	June 2021 Increase/ (decrease) in profit or loss $'000
For the year ending June 2021	+10%	754
	–10%	(754)
For the year ending June 2020	+10%	164
	–10%	(164)

Market risk – price risk

The Group is not exposed to any significant price risk.

Market risk – interest rate risk

The Group's main interest rate risk arises from cash on hand and borrowings which are not presently hedged. Borrowings obtained at variable rates expose the Group to interest rate risk. Borrowings as at June 2021 of $54,583,000 are variable rate principal and interest payment loans. Minimum principal repayments of $3,772,000 are due during the year ending June 2022. The below table considers the impact to profit or loss of a movement in the interest rates for the full current year on the outstanding borrowing balance as at June 2021:

		+ change $'000s	–change $'000
Change in interest rate	+/ – 50 basis points	270	(270)

Market risk – credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group has a strict code of credit, including obtaining agency credit information, confirming references and setting appropriate credit limits. The Group 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 Group does not hold any collateral. The Group 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 Group based on recent sales experience, historical collection rates and forward-looking information that is available. Customer credit risk is managed by each business unit subject to the Group's established policy, procedures and control relating to customer credit risk management. Outstanding customer receivables are regularly monitored. At June 2021, the Group had 7 customers (June 2020: 7) that owed it more than $200,000 each and accounted for approximately 79% (June 2020: 79%) of all the receivables outstanding. 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.

Market risk – liquidity risk

Vigilant liquidity risk management requires the Group 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 Group 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:

Undrawn borrowing facilities at the reporting date:

	June 2021 $'000	June 2020 $'000
Total Multi-option facility	–	9,000
Total Capital expenditure, working capital and bank guarantee facility	25,000	–
Bank guarantees	(1,516)	(499)
	23,484	**8,501**

Remaining contractual maturities

The following tables detail the maturity profile of the Group's financial liabilities based on contractual undiscounted payments:

June 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
Non-derivatives						
Non-interest bearing						
Trade payables	–	33,453	–	–	–	33,453
Other payables	–	21,050	–	–	–	21,050
Interest-bearing – variable						
Borrowings – terms facilities	2.4%	–	–	49,588	–	49,588
Borrowings – commercial bills	4.9%	3,772	1,223	–	–	4,995
Interest-bearing – fixed rate						
Lease liability	4.7%	4,213	3,734	9,802	9,930	27,679
Finance lease	5.8%	78	111	–	–	189
Total non-derivatives		**62,566**	**5,068**	**59,390**	**9,930**	**136,954**
Derivatives						
Forward foreign exchange contracts inflow	–	(349)	–	–	–	(349)
Total derivatives		**(349)**	**–**	**–**	**–**	**(349)**

June 2020	Weighted average interest rate %	1 year or less $'000	Between 1 and 2 years $'000	Between 2 and 5 years $'000	Over 5 years $'000	Remaining contractual maturities $'000
Non-derivatives						
Non-interest bearing						
Trade payables	–	22,586	–	–	–	22,586
Other payables and accruals	–	12,718	–	–	–	12,718
Vendor finance loans	–	275	275	825	267	1,642
Interest-bearing – variable						
Bank loans – term and multi option facility	4.1%	7,500	52,136	–	–	59,636
Bank loans – commercial bills	4.8%	2,769	–	–	–	2,769
Interest-bearing – fixed rate						
Lease liability	4.8%	3,267	3,245	10,354	5,751	22,617
Finance lease	5.8%	267	–	–	–	267
Shareholder's loan	4.8%	–	–	–	11,135	11,135
Total non-derivatives		**49,382**	**55,656**	**11,179**	**17,153**	**133,370**
Derivatives						
Forward foreign exchange contracts inflow	–	716	–	–	–	716
Total derivatives		**716**	**–**	**–**	**–**	**716**

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

Derivative financial instruments are comprised of the following:

	June 2021 $'000	June 2020 $'000
Current liabilities		
Foreign exchange contracts at fair value	(349)	716
	(349)	**716**

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk. Effective June 2020, the Group designated all hedges of foreign exchange risk on firm commitments as cash flow hedges. At the inception of the hedge relationship, the Group documents the relationship between the hedging instrument and the hedged item, along with its risk management objectives and its strategy for undertaking various hedge transactions. Furthermore, at the inception of the hedge and on an ongoing basis, the Group documents whether the hedging instrument is effective in offsetting changes in fair values or cash flows of the hedged item attributable to the hedged risk.

The Group designates the full change in the fair value of a forward contract (i.e. including the forward elements) as the hedging instrument for all of its hedging relationships involving forward contracts.

24. Fair value measurement

Fair value hierarchy

The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three-level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:

- Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly; and
- Level 3: Unobservable inputs for the asset or liability.

	Level 1 $'000	Level 2 $'000	Level 3 $'000	Total $'000
June 2021				
Assets/(liabilities)				
Biological assets	–	–	4,951	4,951
Derivatives – forward foreign exchange contracts	–	349	–	349
	–	**349**	**4,951**	**5,300**
June 2020				
Assets/(liabilities)				
Biological assets	–	–	2,578	2,578
Derivatives – forward foreign exchange contracts	–	(716)	–	(716)
	–	**(716)**	**2,578**	**1,862**

There were no transfers between levels during the financial year.

The carrying amounts of trade and other receivables and trade and other payables are assumed to approximate their fair values due to their short-term nature.

Valuation techniques for fair value measurements categorised within level 2 and level 3:

- The fair value of financial instruments that are not traded in an active market (such as forward exchange contracts) is determined using prices that are derived from third party valuations; and
- Biological assets have been valued with key inputs underlying fair value including estimates in respect of stage of maturity, harvest yields, harvest costs, and anticipated sales prices and associated selling costs.

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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

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.

Group structure

25. Investment in associate

An associate is an entity over which the Group has significant influence and that is neither a subsidiary nor an interest in a joint venture. Significant influence is the power to participate in the financial and operating policy decisions of the investee but is not control or joint control over those policies.

The results and assets and liabilities of associates are incorporated in these financial statements using the equity method of accounting. Under the equity method, an investment in an associate is recognised initially in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of AASB 136 *Impairment of Assets* are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with AASB 136 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with AASB 136 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate. If the entity becomes a subsidiary the investment is recognised as part of business combination, and amounts previously recognised in respect of the investment are remeasured to acquisition date fair value with the resulting gain or loss recognised in profit or loss.

When the Group reduces its ownership interest in an associate but the Group continues to use the equity method, the Group reclassifies to profit or loss the proportion of the gain or loss that had previously been recognised in other comprehensive income relating to that reduction in ownership interest if that gain or loss would be reclassified to profit or loss on the disposal of the related assets or liabilities.

When a Group entity transacts with an associate, profits and losses resulting from the transactions with the associate are recognised in the Group's consolidated financial statements only to the extent of interests in the associate that are not related to the Group.

Acquisition of interest in associate

On 4 September 2019, the Group completed the acquisition of a 20% shareholding in Van den Berg Asia Holdings Limited, a Hong Kong based entity, whose principal activity is horticultural production in South West China and distribution of flowers and potted plants.

On 1 April 2021, the Group completed the acquisition of the remaining 80% shares in Van Den Berg Asia Holding Limited. Following the completion of the 100% of the Van Den Berg Asia Holdings Limited, the acquisition method is used to account for the investment in accordance with AASB3 *Business Combinations* which is used to account for the acquisition (refer to Note 26).

Investment in associate is comprised of the following:

	June 2021 $'000	June 2020 $'000
Investment in associate (20%) at cost	10,417	9,724
Share of profit for the year	1,809	693
Fair value gain on remeasurement of equity interest to acquisition date fair value upon associate becoming a subsidiary	10,188	–
Derecognition of investment in associate upon becoming a subsidiary subject to consolidation in the Group accounts	(22,414)	–
	–	**10,417**

26. Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interest issued by the Group in exchange for control of the acquiree. Acquisition-related costs are recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date. Goodwill is measured as the excess of the sum of the consideration transferred over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed.

When the consideration transferred by the Group in a business combination includes contingent consideration. The contingent consideration is measured at its acquisition-date fair value and included as part of the consideration transferred in a business combination.

When a business combination is achieved in stages, the Group's previously held interests in the acquired entity are remeasured to its acquisition-date fair value and the resulting gain or loss, if any, is recognised in profit or loss.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

Details of business combinations during the year ended June 2021

On 1 April 2021, in conjunction with the admission to the Official List of the Australian Securities Exchange, the Group completed the acquisition of the remaining 80% shareholding of Van den Berg Asia Holdings Limited, a Hong Kong based entity, whose principal activity is horticultural production in South West China and distribution of flowers and potted plants. This acquisition is expected to strengthen the Group's activities in China and accelerate its transition towards a vertically integrated floral provider in China. The Group has recognised a gain of $10,188,000 in profit or loss from re-measurement of the existing 20% interest held to acquisition date fair value upon the associate becoming a subsidiary. The total consideration paid was $89,655,000 which is made up of a combination of cash paid, ordinary shares issued in the company, and cash withheld to settle certain Van den Berg Asia Holdings Limited obligations which are included in trade and other payables.

The goodwill arising on acquisition comprises the value of expected synergies arising from the acquisition in China, the combined know-how (knowledge of how to do a particular thing), the assembled workforce, supply contracts and relationships in China as well other intangibles which do not meet the criteria for an identifiable intangible asset under AASB 138.

Details of the acquisition are as follows:

	April 2021 Fair value $'000
Assets	
Cash and cash equivalents	5,827
Trade and other receivables	1,335
Inventories	2,275
Biological assets	970
Other assets	735
Property, plant and equipment	26,253
Right-of-use assets	5,313
Intangible assets – Brand names	5,893
Intangible assets – Computer software	161
Intangible assets – Customer relationships	22,577
	71,339
Liabilities	
Trade and other payables	(4,106)
Current tax liabilities	(630)
Lease liabilities	(5,494)
Borrowings	(1,990)
Deferred tax liabilities	(3,215)
	(15,435)
Total identifiable net assets at fair value	55,904
Goodwill acquired	56,165
Fair value of 100% of VdB Group	**112,069**
Less: 20% of VdB Group already held	(22,414)
Fair value of 80% of VdB Group acquired	**89,655**
Fair value of 80% of VdB Group acquired paid using:	
Cash	24,450
Ordinary shares issued, at fair value	56,269
Cash held in escrow, included in trade creditors and other payables	8,936
	89,655
Cash payment for acquisition, net of cash acquired	
Cash paid	24,450
Less: Net cash acquired with subsidiary	(5,827)
	18,623

VdB Group contributed revenue of $9,872,000 and profit before tax of $3,899,000 to the consolidated Group results since acquisition date, included in the consolidated statement of comprehensive income for June 2021.

The revenue and profit before tax of the Group for June 2021 as though the acquisition date for the VdB acquisition had been as of the beginning of the annual reporting period would be $331,008,000 (revenue) and $28,882,000 (profit before tax).

27. List of subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following entities in accordance with the accounting policies described throughout this report:

Subsidiaries	Country of incorporation	June 2021	June 2020
Lynch Group Bidco Pty Limited	Australia	100%	100%
Lynch Group Australia Holdings Pty Limited	Australia	100%	100%
Lynch Fresh Holdings Pty Limited	Australia	100%	100%
Lynch Fresh Pty Limited	Australia	100%	100%
Lynch Group Australia Pty Limited	Australia	100%	100%
Lynch Flowers Victoria Pty Ltd	Australia	100%	100%
Leo Lynch & Sons (Qld) Pty. Limited	Australia	100%	100%
Lynch Manufacturing Group Pty Ltd	Australia	100%	100%
Lynch Manufacturing NSW Pty Ltd	Australia	100%	100%
Lynch Manufacturing Victoria Pty Ltd	Australia	100%	100%
Lynch Manufacturing QLD Pty Ltd	Australia	100%	100%
Lynch Manufacturing W.A. Pty Ltd	Australia	100%	100%
Lynch Administration Pty Ltd	Australia	100%	100%
Lynch China Pty Limited	Australia	100%	100%
Lynch Admin Services Pty Ltd	Australia	100%	100%
Lynch Flowers (W.A.) Pty Ltd	Australia	100%	100%
Exauflor Pty Ltd	Australia	100%	100%
The Lynch Group of Companies Pty Limited	Australia	100%	100%
Gladlands Flowers Pty Ltd	Australia	100%	100%
Pine Valley (QLD) Pty Ltd	Australia	100%	100%
Australiawide Flowers Pty Ltd	Australia	100%	100%
Lynch China (HK) Limited	Hong Kong	100%	100%
Yunnan Lynch Horticulture Company Limited	China	100%	100%
Lynch (Shanghai) International Trading Company Ltd	China	100%	100%
Lynch Trading (Yunnan) Company Ltd	China	100%	100%
Van den Berg Asia Holding Limited	Hong Kong	100%	20%
Kunming Fangdebo’erge Rose Supreme Floral Co., Ltd	China	100%	20%
Van Den Berg Horticulture (Yunnan) Co., Ltd	China	100%	20%
Kunming Van Den Berg Trading (Dounan) Co., Ltd	China	100%	20%
Gefa Flowers (Suzhou) Co., Ltd	China	100%	0%

Lynch Group Holdings Limited is the head entity of the Australian tax-consolidated Group.
All Australian entities are:

- members of the tax-consolidated Group;
- wholly-owned subsidiaries which have entered into a deed of cross guarantee (refer to Note 30) with company pursuant to ASIC Class Order 98/1418 and are relieved from the requirement to prepare and lodge an audited financial report; and
- grantors under the secured borrowing facility.

In addition, Lynch China (HK) Limited is also a member of the Australian tax-consolidated Group.

28. Related party transactions

Associate and subsidiaries

Interests in associates are set out in Note 25. A list of subsidiaries of the Group is included in Note 27.

Transactions with related parties

The following transactions occurred with related parties:

	June 2021 $	June 2020 $
Sale of goods and services:		
Associate: VdB Trading Co., Ltd	532,081	124,915
Chittering Valley (WA) Pty Ltd a director related entity of Leo Lynch	–	5,693
Payments for goods, services and other expenses:		
Associate: VdB Horticulture Co., Ltd	46,166	316,640
Chittering Valley (WA) Pty Ltd a director related entity of Leo Lynch	599,724	678,391
Payroll expenses to Christine Lynch, family member of Leo Lynch	–	80,067
Receivable from related parties:		
Associate: VdB Trading Co., Ltd	–	12,548
Chittering Valley (WA) Pty Ltd a director related entity of Leo Lynch	–	5,693
Payables/borrowings with related parties:		
(Repayment)/Proceeds from shareholder's loans[1]	(11,491,000)	11,135,226
Associate: VdB Trading Co., Ltd	–	73,000

1 Shareholder's loans had a term of 10 years and accrued interest at 3.75% per annum plus the 90-day Australian Bank Bill Swap Reference Rate (Bid) administered by ASX benchmarks which is capitalised annually. The Group repaid the shareholder's loans and accrued interest in full in conjunction with the Group's admission to the Official List of the Australian Securities Exchange on 6 April 2021. Total interest capitalised during the year amounted to $356,000 (2020: $422,000). A total amount of $11,491,000 made up of principal of $10,713,000 and accrued interest of $778,000 was repaid on 6 April 2021.

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

29. Parent entity disclosures

The Parent entity is Lynch Group Holdings Limited. Set out below is the supplementary information about the parent entity.

Summarised Statement of Financial Position of the Lynch Group Holdings Limited	June 2021 $'000	June 2020 $'000
Total current assets	1,059	–
Total non-current assets	269,775	66,870
Total assets	**270,834**	**66,870**
Total current liabilities	8,932	132
Total non-current liabilities	11,639	–
Total liabilities	20,571	132
Net assets	**250,263**	**66,738**
Issued share capital	245,653	66,738
Reserves	917	214
Retained earnings	3,693	(214)
Total equity	**250,263**	**66,738**

Statement of profit or loss and other comprehensive income

	June 2021 $'000	June 2020 $'000
Profit/(loss) for the year	60,407	(214)
Total comprehensive profit/(loss) for the year	60,407	(214)

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

The parent entity is party to a deed of cross guarantee with company pursuant to ASIC Class Order 98/1418.

Contingent liabilities

The parent entity had no contingent liabilities as at June 2021 and June 2020.

Capital commitments – Property, plant and equipment

The parent entity had no capital commitments as at June 2021 and June 2020.

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group 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; and
- 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.

30. Deed of cross guarantee

All Australian subsidiaries are party to a deed of cross guarantee under which each company guarantees the debts of the others. 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 Australian subsidiaries, as listed in note 27 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 the company and Controlled Entities, they also represent the 'Extended Closed Group'.

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

Statement of profit or loss and other comprehensive income of 'Closed Group'	June 2021 $'000	June 2020 $'000
Revenue	287,519	227,069
Other income	3,290	3,213
Less: Expenses	(276,899)	(223,790)
Profit before tax	**13,910**	**6,492**
Income tax expense	(5,023)	(2,715)
Profit after income tax expense	**8,887**	**3,777**
Other comprehensive income for the year		
Cash flow hedges – effective portion of changes in fair value	244	–
Total other comprehensive income for the year	**244**	**–**
Total comprehensive income for the year	**9,131**	**3,777**

Set out below is a statement of financial position of the 'Closed Group':

	June 2021 $'000	June 2020 $'000
Current assets		
Cash and cash equivalents	42,000	14,693
Trade and other receivables	18,570	16,991
Inventories	8,005	8,464
Biological assets	3,121	2,139
Current tax assets	1,059	–
Other assets	1,608	332
Total current assets	74,363	42,619
Non-current assets		
Property, plant and equipment	10,007	9,748
Right-of-use assets	18,142	16,811
Intangible assets	113,465	117,966
Other non-current assets	111,469	21,353
Total non-current assets	**253,083**	**165,878**
Total assets	**327,446**	**208,497**
Current liabilities		
Trade and other payables	55,385	41,454
Current tax liabilities	–	132
Lease liabilities	3,611	3,197
Borrowings	–	7,775
Provisions	7,234	6,282
Total current liabilities	66,230	58,840
Non-current liabilities		
Lease liabilities	15,757	16,031
Borrowings	49,588	64,638
Provision	2,525	612
Deferred tax liabilities	1,267	6,676
Total non-current liabilities	**69,137**	**87,957**
Total liabilities	**135,367**	**146,797**
Net assets	**192,079**	**61,700**
Equity		
Issued capital	245,653	66,738
Reserves	(1,278)	(355)
Accumulated losses	(52,296)	(4,683)
Total equity	**192,079**	**61,700**

Other disclosures

31. Share-based payments

The share-based payments reserve is used to record the fair value of Shares or Options issued to employees. These rights granted to shares of the company are accounted for as equity-settled share-based payment transactions. Equity-settled share-based payments are measured at the fair value of the equity instruments at the grant date. Fair value is measured by use of a Black Scholes model. The expected life used in the model has been adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations. The fair value determined at the grant date is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest.

Share-based payments reserve is comprised of the following:

	June 2021 $'000	June 2020 $'000
Share-based payments reserve	917	214
	917	**214**

Share-based payment plan – 2021 Long-term incentive scheme

Subsequent to its public listing on the ASX, the Group has established a Long-term incentive scheme (LTI) to assist in the motivation, reward and retention of Key Management Personnel (excluding non-executive directors), Senior Executives and other selected Senior Managers. The LTI is designed to align participants' interests with the interests of shareholders by providing participants an opportunity to receive ordinary shares in the company through the granting of Options.

Pursuant to the LTI, a total of 1,059,093 Options have been granted to Key Management Personnel (excluding non-executive directors), Senior Executives and other selected Senior Managers.

The key terms of the Options are as follows:

Nature of Option	Each Option represents a right to acquire one (1) ordinary share of capital of the company, subject to the terms and conditions of the Plan rules.
Determination of the number of Options	At the discretion of the Board
Grant Dates	Between 6 April 2021 and 6 May 2021
Vesting Dates	Tranche 1 – 30 June 2024 Tranche 2 – 30 June 2025 Tranche 3 – 30 June 2026
Exercise Expiry Date	30 June 2027
Vesting Conditions	Service based Vesting Condition and Performance based Vesting Condition which are both required to be satisfied. The Service based Vesting Condition requires that the Participant is engaged by a Group entity on a continuous basis until the point in time at which all other Vesting Conditions are satisfied. The Performance based Vesting Condition is split in an EPS hurdle and a TSR hurdle over the performance period. 50% of the Options are subject to the EPS hurdle with the remaining 50% subject to the TSR hurdle.

Vesting Conditions *(continued)*	The EPS vesting percentages will correspond to the Group's annual compounding EPS growth over the performance period (adjusted where necessary to take into account one-off items as determined by the Board), and are as follows: • annual compounding EPS less than 12%: 0% of Options will vest; • annual compounding EPS equal to 12%: 50% of Options will vest; • annual compounding EPS between 12% and 15%: Options will vest on a straight-line pro rata basis between 50% and 100%; and • Annual compounding EPS greater than 15%: 100% of Options will vest. The TSR vesting percentages will be determined by comparison of the Group's TSR against the TSR of companies which comprise the ASX300 index: • Group TSR in the bottom quartile (0%-25%) of the ASX300 index: 0% of Options will vest; • Group TSR in the second quartile (25%-50%) of the ASX300 index: 33% of Options will vest; • Group TSR in the third quartile (50%-75%) of the ASX300 index: 66% of Options will vest; and • Group TSR in the top quartile (75%-100%) of the ASX300 index: 100% of Options will vest.
Option Exercise Price	$3.60
Dividend and voting entitlements	The Options do not carry rights to dividends or voting rights prior to exercise.

Recognition and measurement

The fair value of Options is recognised as an expense with a corresponding increase in the share-based payments reserve which is recorded in equity. Fair value is measured at grant date and recognised over the period during which the Options unconditionally vest to the participant. The amount recognised as an expense over the vesting period is adjusted to reflect the actual number of Options that vest except where Options lapse due to the non-achievement of market-based conditions.

Measurement of fair values

The Options issued under the 2021 Long-term incentive scheme vest subject to an 'Earnings per share' hurdle and a 'relative total shareholder return' hurdle. Volatility is based on an evaluation of the historical volatility of Australian horticulture businesses.

The fair value of the Options issued under the Long-term incentive scheme have been measured as noted below:

Vesting hurdle	Valuation method
Earnings per share	Black Scholes option pricing model
Relative total shareholder return	Monte Carlo simulation pricing model

The inputs used in the measurement of fair value as at grant date of the Options are as follow:

Long-term incentive scheme	Tranche 1	Tranche 2	Tranche 3
Grant date	Between 6 April 2021 and 6 May 2021	Between 6 April 2021 and 6 May 2021	Between 6 April 2021 and 6 May 2021
Vesting date	30 June 2024	30 June 2025	30 June 2026
Exercise expiry date	30 June 2027	30 June 2027	30 June 2027
Number granted	353,031	353,031	353,031
Fair value at grant date	TSR – $0.96 EPS – $1.07	TSR – $1.03 EPS – $1.09	TSR – $1.06 EPS – $1.12
Share price at grant date	$3.20 – $3.60	$3.20 – $3.60	$3.20 – $3.60
Exercise price	$3.60	$3.60	$3.60
Expected volatility	45%	45%	45%
Expected dividend yield	2.5%	2.5%	2.5%
Risk-free rate	0.36%	0.36%	0.36%

Reconciliation of outstanding Options

The number and weighted average exercise prices of Options under the 2021 Long-term incentive scheme are as follows:

	June 2021		June 2020	
	Number of Options	Weighted average exercise price	Number of Options	Weighted average exercise price
Opening balance	–	–	–	–
Disposed of or settled	–	–	–	–
Forfeited during the year	–	–	–	–
Granted during the year	1,059,093	$3.60	–	–
Closing balance	**1,059,093**	**$3.60**	**–**	**–**
Exercisable at year end	**–**	**–**	**–**	**–**

No Options vested during the current year.

Share-based payment plan – Legacy long-term incentive scheme

Prior to the company's listing on the ASX, as a privately owned Group a Long-term incentive scheme was implemented in 2015 (Legacy LTI). The Legacy LTI consisted of the issue of Convertible Management Shares subject to non-recourse loans and the grant of Options over ordinary shares in the company, both of which were subject to certain vesting requirements (service condition and performance condition) (Legacy Securities).

During the financial year ended June 2021, a total of nil Convertible Management Shares (financial year ended June 2020: 113,000) and a total of 146,046 Options (financial year ended June 2020: 73,023) were granted to Key Management Personnel (excluding non-executive directors), Senior Executives and other selected Senior Managers under the terms of the Legacy LTI.

The vesting conditions relating to the Legacy Securities were met during the financial year and the participants exercised a portion of the Options, converted a portion of the Convertible Management Shares, and accepted the cancellation of the remaining Legacy Securities in return for a cash payment on 6 April 2021. No Legacy Securities remain on issue at June 2021.

Recognition and measurement

Given the nature of the limited-recourse loan arrangements attaching to the Convertible Management Shares, these are treated as 'in-substance options' for accounting recognition purposes. The fair value of Options is recognised as an expense with a corresponding increase in the share-based payments reserve with is recorded in equity. Fair value is measured at grant date and recognised over the period during which the participant becomes unconditionally entitled to the Options. The amount recognised as an expense over the vesting period is adjusted to reflect the actual number of Legacy Securities that vest.

Measurement of fair values

The Legacy Securities were valued using a Black Scholes option pricing model.

Reconciliation of outstanding Legacy Securities

The number and weighted average exercise prices of Legacy Securities under the Legacy LTI are as follow:

Legacy LTI Convertible Management Shares	June 2021 Number	June 2021 Weighted average exercise price	June 2020 Number	June 2020 Weighted average exercise price
Opening balance	1,274,652	$1.08	1,424,985	$1.10
Disposed of or settled[1]	(1,274,652)	$1.08	–	–
Forfeited during the year[2]	–	–	(263,333)	$0.00
Granted during the year[3]	–	–	113,000	$1.30
Closing balance	**–**	**–**	**1,274,652**	**$1.08**
Exercisable at year end	**–**	**–**	**–**	**–**

1 Legacy LTI Convertible Management Shares disposed of or settled in 2021 year occurred on 6 April 2021.

2 Legacy LTI Convertible Management Shares forfeited during the 2020 year includes 213,333 on 31 May 2020 and 50,000 on 8 May 2020.

3 Legacy LTI Convertible Management Shares granted during the 2020 year were granted on 24 June 2020.

The number and weighted average exercise prices of Legacy LTI Options under the Legacy LTI are:

Legacy LTI Share Options	June 2021 Number	June 2021 Weighted average exercise price	June 2020 Number	June 2020 Weighted average exercise price
Opening balance	73,023	$1.25	–	–
Granted during the year[1]	146,046	$1.25	73,023	$1.25
Disposed of or settled[2]	(219,069)	$1.25	–	–
Forfeited during the year	–	–	–	–
Closing balance	**–**	**–**	**73,023**	**$1.25**
Exercisable at year end	**–**	**–**	**–**	**–**

1 Legacy LTI Share Options granted during the 2021 year occurred on 29 January 2021. Legacy LTI Share Options granted during the 2020 year occurred on 24 June 2020.

2 Legacy LTI Share Options disposed of or settled during the 2021 year occurred on 6 April 2021.

32. Key management personnel

The aggregate compensation made to key management personnel of the Group is set out below:

	June 2021 $'000	June 2020 $'000
Short-term employee benefits	4,096	2,518
Post-employment benefits	132	131
Share-based payments	739	(28)
	4,967	**2,621**

33. Remuneration of Auditors

During the financial year the following fees were paid or payable for services provided by Deloitte Touche Tohmatsu, the auditor of the company:

	June 2021 $'000s	June 2020 $'000s
Audit services – Deloitte Touche Tohmatsu		
Audit or review of the financial statements	516	137
Other services		
Tax compliance services	36	29
Acquisition due diligence and other services relating to IPO	1,165	–
Other non-audit services	110	116
	1,311	145
	1,827	**282**

34. New Accounting standards

The Group adopted all new Standards and Interpretations which were effective for the current year, and there were no material impacts. At the date of authorisation of the financial report, the Standards and Interpretations listed below were in issue but not yet effective and have not been adopted by the Group. These are not expected to have a material impact.

New or revised requirement	When effective
AASB 2020-1 *Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current Amends AASB 2020-1 Amendments to Australian Accounting Standards – Classification of Liabilities as Current or Non-current*	Annual reporting periods beginning on or after 1 January 2023
AASB 2020-3 *Amendments to Australian Accounting Standards – Annual Improvements 2018-2020 and Other Amendments*	Annual reporting periods beginning on or after 1 January 2022

The IFRS Interpretations Committee (IFRIC) recently issued an agenda decision provision guidance on the treatment of costs for configuring or customising a supplier's application software in a Software as a Service (SAAS) arrangement, where the customer is provided with the right to receive access to the supplier's application software over a contracted term, and for which no intangible asset is recognised as the customer does not have control of the software. Entities are required to assess whether any configuration or customisation of costs incurred result in an intangible asset, by considering if these activities create a resource controller by the entity which is separate from the software, and from which the entity has the power to obtain economic benefit, and restrict others' access to these benefits. If no intangible asset can be recognised, these costs are expensed when the services are deemed to be received. The adoption of the agenda decision did not have a material effect on the Group's Financial report.

Directors' Declaration

The directors of Lynch Group Holdings Limited declare that, in their opinion:

- the accompanying financial statements and notes to the financial statements comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statement and notes to the financial statements comply with International Reporting Standards as issued by the International Accounting Standards Board as described in Note B to the consolidated financial statements;
- the attached consolidated financial statement and notes to the consolidated financial statements give a true and fair view of the Group's financial position as at 27 June 2021 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Group will be able to pay its debts as and when they become due and payable; and
- at the date of the declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue to the Deed of Cross Guarantee between the company and those Group entities pursuant to ASIC Corporations (Wholly owned Companies) Instrument 2016/785.

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

Patrick Elliott
Chair and Non-Executive Director

Hugh Toll
Chief Executive Officer and Executive Director

26 August 2021
Sydney

Auditor's Independence Declaration

Deloitte Touche Tohmatsu
ABN 74 490 121 060

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Sydney, NSW, 2000
Australia

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www.deloitte.com.au

The Board of Directors
Lynch Group Holdings Limited
24 Helles Avenue
Moorebank
NSW 2170
Australia

26 August 2021

Dear Directors

Lynch Group Holdings Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the directors of Lynch Group Holdings Limited.

As lead audit partner for the audit of the financial statements of Lynch Group Holdings Limited for the financial year ended 27 June 2021, I declare that to the best of my knowledge and belief, there have been no contraventions of:

(i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and

(ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants

Deloitte Touche Tohmatsu
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Independent Auditor's Report to the Members of Lynch Group Holdings Limited

Opinion

We have audited the financial report of Lynch Group Holdings Limited (the "Company") and its subsidiaries (the "Group") which comprises the consolidated statement of financial position as at 27 June 2021, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information, and the directors' declaration.

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

(i) giving a true and fair view of the Group's financial position as at 27 June 2021 and of its financial performance for the year then ended; and

(ii) complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for Opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Report section of our report. We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional & 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 confirm that the independence declaration required by the *Corporations Act 2001*, which has been given to the directors of the Company, would be in the same terms if given to the directors as at the time of this auditor's report.

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

Key Audit Matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for 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.

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Key Audit Matter	How the scope of our audit responded to the Key Audit Matter
Goodwill allocation to Cash Generating Units and Impairment As shown in Note 14 to the financial statements, as at 27 June 2021 the Group's goodwill totalled $142.2m (28 June 2020: $84.7m). The increase predominately relates to the acquisition of Van den Berg Asia Holdings Limited during the financial year. Accounting Standard AASB 136 *Impairment of Assets* requires the carrying value of goodwill and other indefinite useful life intangible assets to be tested for impairment annually. The directors' assessment of the recoverability of goodwill requires the exercise of significant judgement in determining the allocation of goodwill to identified cash-generating units (CGU's) for impairment testing, and subsequent impairment assessment of goodwill. The impairment assessment of goodwill is complex in respect of the assumptions and estimates used in preparing a discounted cash flow model ('value in use') including the determination of: - Discount rates; - Long term growth rates; and - Future cash flows.	Our procedures included, but were not limited to the following: Obtaining the goodwill allocation calculation and evaluating the appropriateness of the method adopted for allocating goodwill to each CGU, including the level at which goodwill is monitored for impairment assessment; Evaluating the design and implementation of the relevant controls over the impairment assessment of goodwill; Obtaining the value in use models prepared by management to support the impairment assessment and: • Comparing the forecast cash flows to the board approved budget; • Evaluating management's historical forecasting accuracy by comparing actual results to budget; • Assessing the impact of factors such as operating and environmental conditions on the Group's key assumptions; • Assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas; • In conjunction with our valuation specialists, challenging key inputs, including the discount rate and terminal growth rate utilised by management; • Performing sensitivity analysis on the future cash flows, growth and discount rates; and Assessing the appropriateness of the Group's disclosures in the financial statements.

Other Information

The directors are responsible for the other information. The other information comprises the Directors' Report which we obtained prior to the date of this auditor's report and also includes the following information which will be included in the Group's annual (but does not include the financial report and our auditor's report thereon): Chairman's report and additional ASX disclosures and Shareholder information, which is expected to be made available to us after that date.

Our opinion on the financial report does not cover the other information and we do not and will 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 identified above 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 on the other information that we obtained prior to the date of this auditor's report, 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.

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When we read the Chairman's report and additional ASX disclosures and Shareholder information, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action.

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 ability of the Group to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Auditor's Responsibilities for the Audit of the Financial Report

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

As part of an audit in accordance with the Australian Auditing Standards, we exercise professional judgement and maintain professional scepticism throughout the audit. We also:

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

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

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

From the matters communicated with the directors, we determine those matters that were of most significance in the audit of the financial report of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

Report on the Remuneration Report

Opinion on the Remuneration Report

We have audited the Remuneration Report included in pages 20 to 33 of the Directors' Report for the year ended 27 June 2021.

In our opinion, the Remuneration Report of the Group, for the year ended 27 June 2021, complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Deloitte Touche Tohmatsu

DELOITTE TOUCHE TOHMATSU

Michael Kaplan
Partner
Chartered Accountants

Sydney, 26 August 2021

Shareholder Information

Twenty largest registered shareholders (as at 13 August 2021)

Rank	Name of shareholder	Number of shares	% Of issued capital
1	Citicorp Nominees Pty Limited	18,986,123	15.55
2	Next Capital III GP Pty. Limited	16,536,479	13.55
3	Izzac Pty Ltd	16,380,000	13.42
4	National Nominees Limited	12,415,303	10.17
5	Bridge International Holding Limited	9,378,168	7.68
6	AJ4 Limited	7,000,000	5.73
7	HSBC Custody Nominees (Australia) Limited	6,929,931	5.68
8	Van Den Berg Roses Asia B.V	6,252,112	5.12
9	J P Morgan Nominees Australia Pty Limited	6,236,788	5.11
10	Next Capital Services IIID Pty. Limited	4,699,841	3.85
11	UBS Nominees Pty Ltd	4,501,030	3.69
12	Brispot Nominees Pty Ltd	1,844,491	1.51
13	Airfek Pty Ltd	1,820,000	1.49
14	BNP Paribas Noms Pty Ltd	886,384	0.73
15	Hugh Toll	639,999	0.52
16	BNP Paribas Nominees Pty Ltd	450,000	0.37
17	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd	383,857	0.31
18	BNP Paribas Nominees Pty Ltd Barclays	331,371	0.27
19	David Di Pietro	299,999	0.25
20	HSBC Custody Nominees (Australia) Limited	275,669	0.23
	Total for Top 20	**116,247,545**	**95.23**
	Remaining holders	5,818,567	4.77
	Total issued capital	**122,066,112**	**100.00**

Distribution of holdings (as at 13 August 2021)

Range	Number of holders	Number of shares	% Of issued capital
100,001 and over	33	118,598,004	97.16
10,001 to 100,000	56	2,018,872	1.66
5,001 to 10,000	60	419,121	0.34
1,001 to 5,000	354	745,339	0.61
1 to 1,000	682	284,776	0.23
	1,185	**122,066,112**	**100.00**

Substantial shareholders (as disclosed in substantial holder notices given to the company as at 13 August 2021)

Name of shareholder	Number of shares	% Of issued capital
Next Capital III GP Pty. Limited and Next Capital Services IIID Pty. Limited	21,236,320	17.40
Izzac Pty Ltd	16,380,000	13.42
Bennelong Funds Management Group & its related subsidiaries/affiliates	9,722,222	7.96
Bridge International Holding Limited	9,378,168	7.68
A4J Limited	7,000,000	5.73
Wilson Asset Management Group & its related subsidiaries/affiliates	6,728,268	5.51
Wavestone Capital Pty Limited	6,334,604	5.19
Van Den Berg Roses Asia B.V	6,252,112	5.12

Escrowed shares

Description of escrow arrangements	Number of shares
Voluntary escrow ending in February 2022[1]	64,707,696
Employee escrow share scheme ending on 6 April 2024	58,724
	64,766,420

1 These shares are voluntarily escrowed from the period commencing on IPO and ending on the date the Group's results for the half year ended 26 December 2021 are released to the ASX.

Unquoted Securities

As at June 2021, there are 1,059,093 Options over unissued shares of Lynch Group Holdings. These Options are held by current members of the management team including the Group Chief Executive Officer.

Shares and Voting Rights

All issued shares in the company are ordinary shares. Voting rights for ordinary shares one vote per share on a show of hands for every member present at a meeting in person or by proxy.

On-Market Buy Back

As at June 2021 there is no current on-market buy back.

Use of cash and Assets

Lynch Group Holdings Limited has used cash and assets in a form readily convertible to cash at the time of admission to the ASX in a consistent manner with the objectives set out in its Prospectus.

Corporate Directory

Directors

Patrick Elliott (Chair)
Elizabeth Hallett
Peter Clare
Peter Arkell
Hugh Toll

Company Secretary

Steve Wood

Registered Office

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Share Registry

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Auditor

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Australia Securities Exchange

Lynch Group Holdings Limited shares are quoted on the Australia Securities Exchange (ASX code: LGL)

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