

**GROWING AS PLANNED**

# **ANNUAL REPORT 2022**

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## Welcome to our 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 in 2021, the Group has continued to successfully implement its strategic growth plan in both its key markets of Australia and China.

The Group experienced strong revenue growth in Australia, although EBITDA was impacted by escalating international freight rates, supply chain disruption and labour shortages.

In China the Group delivered robust EBITDA and revenue growth as a result of volume expansion and continued strength in market demand.

As a result of its trading achievements, the Group exceeded its Prospectus forecast for calendar year 2021 notwithstanding increasing head winds as the financial year progressed.

## 2022 HIGHLIGHTS

### Results demonstrate strong underlying revenue growth in both markets, with supply chain pressures and lock down impacts affecting margins

- **FY22 Revenue +11%, EBITDA -18%, NPATA -24% against proforma FY21;**
- **Strong revenue growth in Australia**, EBITDA results impacted by labour shortages and supply chain disruption;
- **Robust EBITDA and revenue growth in China** as a result of volume expansion and continued strength in market demand;
- **Key operational objectives continue to be delivered** across both geographies;
- **Major Australian events delivered successfully with high sell through rates** despite labour challenges and some product shortages. Mother's Day was the largest single event in the Group's history;
- **Sale or return store conversions continue to exceed forecast**, now c.25% of store network;
- **Added 18ha of additional greenhouse capacity in China, taking total capacity to 79ha**, with volume growth tracking to targets

#### Revenue (AUD \$m)

**\$367m** 

10.7% up on proforma FY21

#### EBITDA (AUD \$m)

**\$48m** 

17.8% down on proforma FY21

#### NAPTA (AUD \$m)

**\$25m** 

23.7% down on proforma FY21

### Australia:

### Strength in revenues with earnings result impacted by costs and labour shortages

#### Revenue up

**8%**  
on pcpc



#### EBITDA down

**36%**  
on proforma pcpc



Supply side constraints impacted margins

- Revenue growth driven by strength in supermarket customer demand across a COVID disrupted year and growth in wholesale markets (organic and via Market Flowers Brisbane acquisition);
- Underlying consumer demand for floral products remains strong;
- Key customer events (Spring, Christmas, Valentine's Day and Mother's Day) successfully delivered despite significant supply side constraints and labour shortages;
- Mother's Day was the largest single event in the Group's history with strong customer sell through rates;
- Mother's Day performance was impacted by some local product shortages (March flooding), and high demand on production teams;
- Higher landed cost of imported lines led to equivalent cost increases to local product for uncontracted volumes;
- Price increases and range modifications were implemented to improve and stabilise margins. During FY22 costs increased more rapidly than the business was able to react and recover margins through price and range management





Lynch Group - China farm

## China: Strength in revenue delivered from capacity led volume growth and favourable market demand

Revenue up

**36%**  
on proforma pcg



EBITDA up

**12%**  
on proforma pcg



Farm capacity increased by 18ha to **79ha**

- Increasing household demand for flowers drove volume growth across all customer channels;
- Winter and event pricing increased year on year, before Shanghai restrictions impacted demand across final quarter of FY22;
- Strength of domestic sales platform mitigated both provincial customer and export risk exposures during east coast lockdown restrictions across cities and airports;
- Domestic channel share evenly balanced between retail and wholesale customers, on increasing year on year volumes;
- Farms remained fully operational during restrictions and continue to meet volume targets;
- Differentiated product offering (quality and scaled supply) continued to enable premium customer pricing;
- Productive farm area in line with guidance at 79ha as at end FY22

# CHAIR AND CEO'S REPORT

## Dear Shareholder,

Our first full year as a publicly listed company had more than its fair share of ups and downs as the business continued to successfully implement its strategic growth plan against a backdrop of COVID restrictions, lockdowns and unprecedented disruption to global supply chains.

The Group exceeded its prospectus forecasts for the CY21 year notwithstanding increasing headwinds as the year progressed. Revenue in Australia and China met or exceeded plan as the quality of the product and growth in the supermarket channel continued to meet customers' needs of convenience and value. Growth in China was also supported by the investment in farm expansion over the last three years.

The Group successfully navigated rolling lockdowns in key markets in Australia with its strong presence in supermarkets and the defensive nature of floral products but had to manage rapid escalating international freight rates during the December quarter that persisted for the remainder of the fiscal year. China, having avoided much of the disruption to domestic activity due to the pandemic, experienced its own lockdowns in Lynch's key markets in May/June that saw the closure of the Shanghai operating facility and suspension of all export operations. Fortunately, all the Yunnan based farms continued to operate at record volumes.

## 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 estimated to be more than 20%, but growing quickly. 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.

Supermarkets remained open during periods of lockdown which introduced a new generation of customers to the category. Whilst major events (e.g., Valentine's Day and Mother's Day) seasonally boost customer numbers, Lynch Group was able to penetrate further into the gifting market from its traditional base in self consumption. Sales of bouquets and arrangements at a broader range of price points demonstrates customers' confidence in our product and our ability to effectively compete with the florist channel that remains the largest component of the market.

The Group continued to roll out its new merchandising system that increases merchandiser productivity and allows the business to capture increased sales opportunities whilst also minimising waste. Lynch Group also converted additional stores to Sale or Return which now comprise 25% of total stores served by the Group. This enables the business to invest more in product at different price points to drive sales and earnings. SOR stores outperform core stores by a factor of 2 to 1 on average, although any waste is born by the Group. A win for both our supermarket customers and the business.

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. Never has this been tested so thoroughly as during the FY22 year as freight capacity on key supply routes was slashed, driving up the rates for what was available, in some cases by over 300% against pre-COVID levels. This had a knock-on effect with domestic pricing as local suppliers increased their own prices to match the higher import price.

The Group's ability to switch sourcing, substitute climate-controlled sea freight in some instances for airfreight, and modify recipes, enabled a near perfect record of delivery in full and on time for our customers. Whilst the Group was successful in implementing price increases across its range, the speed of change in the logistics market meant that not all the additional costs could be recovered and margin was lower than achieved historically.

The safety and welfare of our employees remained our top priority throughout the year. Additional costs were incurred, particularly in daily rapid antigen testing and cleaning to protect our workforce. Like most businesses, we were impacted by high rates of absenteeism (driven by the then close contact rules) which became acute during the execution of the major events in the second half resulting in substantial overtime payments and a temporary loss of productivity.

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. During the year we worked with the biosecurity agency to re-establish an import pathway from Vietnam, a key growing region, that had been closed following tightened regulations on the use of certain prescribed treatments.

Our three Australian farms support the Group with potted plants and Australian wildflowers that are difficult to otherwise source at required specification, quality and volumes. This vertical integration of supply (including our farms in China) is





**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 supermarket

a competitive advantage in maintaining consistency of service to our customers. The importation of young orchid plants for finishing on our farms, was disrupted for both air and sea transport routes across much of FY22. Supply pathways have now stabilised as we move into the new financial year. This is a key product grown by Lynch farms in Queensland and Western Australia. The benefits of resupply will be generated in FY23 and beyond.

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 October 2021, we completed the acquisition of a further site in Rocklea markets in Brisbane, which has performed strongly post acquisition. With significant supply constraints over the last year, our Markets business has proven its unique sourcing capability to build its customer base in each of the geographies that we service.

For the year ended 26 June 2022, the Australian operations achieved revenue of \$309m, 8% up on 2021 with EBITDA of \$23m, 36% down on proforma 2021.

Our larger second half major events in Valentines' Day and Mothers' Day were successfully executed with our customers. Despite minor product shortages, our customers were able to achieve excellent in-store sell through rates. Labour shortages, which emerged early in the second half, impacted both cost and production efficiency across these major volume events.

The upward trajectory of international air and sea freight rates from November, continued across the March quarter, and rates were further impacted by the conflict in Ukraine. Locally, the March floods also tightened the market for supply, leading to some product shortages and higher pricing for procurement volumes above our contracted levels.

The combined impacts of unrecovered freight, supply chain disruptions, labour shortages and direct COVID related expenditure, increased Australian costs by more than \$11m for the year.

## CHAIR AND CEO'S REPORT CONT.

### China Operations

Due to historical 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. Yet 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 low on a comparable international basis. Lynch Group in China is the largest grower of premium flowers in the country with four farms and a processing facility located in Yunnan province and a distribution and bouquet making facility located in Shanghai.

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 retail and wholesale customers at competitive prices. Today over 50% of farm production is sold to various retail platforms including supermarkets at fixed prices, suppressing the volatility of market prices, and also allowing flexibility to maximise pricing opportunities in high demand festival windows across the year.

The Group constructed a record 18Ha of new greenhouse capacity and an additional packing and cool storage facility during FY22 on time and in line with budget. Production volumes from existing plantings and expanded growing areas exceeded internal targets due to a combination of extended heating during the cooler periods and disciplined farm management. Pricing for the first three quarters of the year were up on the previous year as demand continued to outstrip our supply. The June quarter saw the first significant lockdowns in China since the initial responses to COVID-19 in Wuhan in early 2020. These lockdowns starting in late April were most severe in and around Shanghai, a key market for Lynch Group product, with stricter lockdown measures not lifted until late June. Given the diversity of the business's channels to market, our teams were able to redirect supply to alternative markets. All volumes were sold albeit at lower than budgeted pricing. Whilst the Group's Shanghai facility was closed for the duration of the lockdown, the farms remained fully operational. Logistics between farm and customer were challenging but managed well by the local team. Export operations to Lynch's Australian operation were significantly impacted by elevated freight rates and limited cargo capacity ex China, disrupted by periodic air and sea port closures during the lockdown. Volumes produced for export were successfully sold into the local market.



Lynch Group greenhouse facility – China





**Revenue of \$87m was 36% up on proforma 2021, with EBITDA of \$25m, 12% up on proforma 2021.**

**Lynch Group greenhouse facility – China**

Summer conditions in Yunnan proved difficult for many growers given the combination of heat and disease. Whilst this also contributed to overall lower market pricing, the benefit of Lynch Group's controlled growing environment was evident to customers as the business continued to deliver premium quality product to its customers.

FY22 was again a record year for the China operation. Revenue of \$87m was 36% up on proforma 2021, with EBITDA of \$25m, 12% up on proforma 2021.

Household demand for floral products remained strong for the bulk of the year, with the final quarter impacted by the Shanghai lockdown and broader consumer caution relating to China's ongoing COVID-zero policies.

Growth across the year has been driven by farm expansion, and the increased maturity profile of our rose crops. The FY22 development program takes our total greenhouse space in production to 79ha.

Margins in China reflected pleasing pricing performance, partly offset by higher costs for both energy spend and logistics.

We expect to build a further 10ha of greenhouse facilities in H2 FY23 as ROIC at above 25% remains highly attractive.

We would like to recognise the incredible role played by our staff during the year. Their dedication to providing our customers with the best possible product under extraordinary circumstances involved a massive contribution above and beyond what we would normally expect. This is not only reflected in the hours worked but the innovative solutions created to deal with unique problems. The benefits of this innovation will be long lasting, well beyond the normalisation of our current operating environment.



Patrick Elliott  
Chair



Hugh Toll  
CEO

# DIRECTORS' REPORT

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 26 June 2022. 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 26 June 2022. This is the 52-week period from 28 June 2021 to 26 June 2022 and is referred to as June 2022 throughout the Directors' Report, consolidated financial statements and notes to the consolidated financial statements.

The comparative 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.

## 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.



### **Patrick Elliott**

**Non-Executive Chair**

**Period of Service: 6 November 2015 – Current**

Patrick was appointed to the Board in 2015 as Chair and Non-Executive Director.

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 an independent Non-Executive Director.

Elizabeth is an experienced Non Executive Director in the Australian corporate sector, bringing legal and regulatory, corporate governance, and risk management skills to the Board. Elizabeth is currently a non executive director on the boards of Australian Retirement Trust Pty Ltd, the Civil Aviation Safety Authority, NSW Land Registry Services and Clayton Utz. She is also a current reappointed member of the Australian Takeovers Panel.

Elizabeth was formerly a partner with an international law firm for 22 years, including more than 3 years as senior Australian partner in the firm's affiliated Jakarta office. At that firm, 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 is 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.



### **Peter Clare**

**Independent Non-Executive Director**

**Period of Service: 16 February 2021 – Current**

Peter was appointed to the Board in February 2021 as an independent 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. 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, 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.

## DIRECTORS' REPORT CONT.



### **Peter Arkell**

**Independent Non-Executive Director**

**Period of Service: 16 February 2021 – Current**

Peter was appointed to the Board in February 2021 as an independent 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 2022.

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 is 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 is a member of each of the Audit and Risk Committee and the Remuneration and Nomination Committee.

Peter has an extensive network at the most senior levels of international and Chinese business and government in China.



### **Hugh Toll**

**Group Chief Executive Officer and 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 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 and a Master of Commerce both 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 Group Chief Financial Officer and Company Secretary, having joined the Lynch Group in 2018.

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 New Zealand) 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.



## 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 <sup>1</sup> | Attended                  | Held <sup>1</sup> | Attended     | Held <sup>1</sup> |
| Patrick Elliott   | 14       | 14                | –                         | –                 | –            | –                 |
| Elizabeth Hallett | 14       | 14                | 5                         | 5                 | 3            | 3                 |
| Peter Clare       | 13       | 14                | 5                         | 5                 | 3            | 3                 |
| Peter Arkell      | 14       | 14                | 5                         | 5                 | 3            | 3                 |
| Hugh Toll         | 14       | 14                | –                         | –                 | –            | –                 |

<sup>1</sup> Represents the number of meetings held during the time the Director held office or was a member of the relevant committee.

## Directors' interests in the company

|                   | Fully paid ordinary shares |          |         | Share Options |          |         |
|-------------------|----------------------------|----------|---------|---------------|----------|---------|
|                   | Direct                     | Indirect | Total   | Direct        | Indirect | Total   |
| Patrick Elliott   | –                          | 408,139  | 408,139 | –             | –        | –       |
| Elizabeth Hallett | 27,777                     | –        | 27,777  | –             | –        | –       |
| Peter Clare       | –                          | 69,443   | 69,443  | –             | –        | –       |
| Peter Arkell      | 16,666                     | –        | 16,666  | –             | –        | –       |
| Hugh Toll         | 639,999                    | –        | 639,999 | 275,229       | –        | 275,229 |

## 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 |
|---|-------------|-----------------------|
| 1,030,944                                       | \$3.60      | June 2027             |
| 2,551,587                                       | \$2.24      | June 2028             |

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 did not issue any shares (2021: 145,943 shares) as a result of the exercise of Options by members of the company's Senior Executive team.

## DIRECTORS' REPORT CONT.

### 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 & 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 set and met the following measurable objectives:

- A minimum composition of Board of Directors having regard to gender diversity of 20%;
- A minimum composition of Senior management team encompassing key decision makers of 20%;
- A minimum composition of the workplace having regard to gender diversity of 20%

For the reporting period ending June 2023, the Group has set the following measurable objectives:

- A minimum composition of Board of Directors having regard to gender diversity of 30%;
- A minimum composition of Senior management team encompassing key decision makers of 30%;
- A minimum composition of the workplace having regard to gender diversity of 30%

For the reporting period ending June 2024, the Group has set the following measurable objectives:

- A minimum composition of Board of Directors having regard to gender diversity of 40%;
- A minimum composition of Senior management team encompassing key decision makers of 40%;
- A minimum composition of the workplace having regard to gender diversity of 40%.

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

The payment of a dividend by the Group is at the discretion of the Directors and will be a function of a number of factors, including the general business environment, the operating results and the financial condition of the Group, future funding requirements, capital management initiatives, taxation considerations (including the level of franking credits available), any contractual, legal, regulatory restrictions on the payment of dividends by the Group, and any other factors the directors may consider relevant.

In respect of the financial year ended June 2022:

- a dividend of 6.0c per share (\$7.3m in total) franked to 100% at 30% corporate income tax was declared on 23 February 2022 and paid to holders of ordinary shares of the company on 23 March 2022;
- a dividend of 6.0c per share (\$7.3m in total) franked to 100% at 30% corporate income tax was declared on 24 August 2022 and is expected to be paid to holders of ordinary shares of the company on 21 September 2022

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 in conjunction with the Initial Public Offer of the company on 6 April 2021;
- 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 in conjunction with the Initial Public Offer of the company on 6 April 2021

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.



Lynch Group greenhouse facility - China

### Operating and Financial Review

The Board presents its operating and financial review for the financial year ended June 2022, 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 \$19.6m (2021: \$24.9m).

#### Trading Performance

##### Australia

Revenue has continued to trend well during the reporting period with strong growth achieved. The Group has experienced rising costs from increases in international freight rates and a comparable increase in local buying costs and pandemic induced labour shortages. Price and range settings continue to be actively managed however during recent months costs have increased at a faster rate than the Group has been able to recover them through range and price management. In May 2022, the Group delivered its largest single event in its history where demand for floral product was strong with the high quality of the Group's floral product delivering a successful sales outcome for the Group and its Customers. More broadly, the Group continues to benefit from improving consumer perceptions of supermarket floral quality through Lynch-led product innovation and merchandising.

##### China

The China segment delivered strong performance in both volume and price during the year with its premium, reliable product continuing to resonate with key customers. Supermarket and wholesale customers now represent a relatively balanced split of domestic revenue and the Group has continued to develop its value-added product range. The China segment's recent trading has been affected by COVID related lockdown restrictions. The Group's four Yunnan based farms remained fully operational during the lockdown periods and continued to meet their volume targets. The restraints on movement of people and logistics in Shanghai and other major cities forced the Group to find alternative markets for its product at times at materially lower prices. The Group expects pricing to return to normal levels in the short to medium term. Cost pressures, particularly in international freight and energy, have also been prevalent during recent trading.

#### 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, \$1.7m was utilised for bank guarantees and the remaining \$23.3m was undrawn. In China, \$5.7m 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   |
|---|---|--|
| <b>Pandemic risk (including COVID-19)</b> | 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 time frames 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. | <p>The Group has implemented its COVID-19 response into its usual business activities. The health and safety of the Group's employees has 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 have, from time to time, included rapid antigen testing, social distancing, temperature checking, working from home where possible, increased cleaning, hygiene education, and mandatory QR code check in.</p> <p>International freight rates and local buying costs are key inputs in the margin. Performance of individual product lines are assessed regularly and action taken to adjust margins not meeting required benchmarks. There is typically a lag effect in adjusting ranges.</p> <p>Where possible the Group mitigates supply chain risk for imported product into Australia from its own China farms by selling its product domestically in China.</p> <p>The Group continues to react and manage accordingly to the changing requirements of government health authorities, customers and suppliers in relation to COVID-19.</p> <p>As Australia has moved to a strategy of living with COVID-19, this risk has diminished.</p> |
| <b>Environmental risk</b>                 | The Group's operations are subject to various environmental laws, regulations and customer and community standards. If the Group is responsible for any environmental pollution, contamination or undue waste, it may incur substantial costs including fines and remediation costs, its operations may be interrupted and it may suffer reputational damage. Resilience to climate change also presents the Group with an evolving set of operational risks but also opportunities for operational innovation.   | <p>The Group actively seeks to reduce its environmental impact by applying measures across its business designed to reduce waste, increase product sustainability (reuse, recycle and redcycle packaging for more than 75% of non-perishable inventory), promote sustainable farming, improve water usage efficiency and reduce chemical usage.</p> <p>The Group is in the process of developing a clear road map of initiatives to manage its ESG obligations and opportunities and demonstrate progress across its ESG road map.</p>   |



## DIRECTORS' REPORT CONT.

### Principal Risks cont.

| Risk  | Description   | Mitigation   |
|---|---|--|
| <b>Inflationary cost pressures</b>  | <p>Consistent with many other businesses the Group is experiencing cost inflation across many of its key cost lines (freight, raw materials cost, labour).</p> <p>A continuing increase in costs at a rate faster than these can be recovered through range and price management could have a material impact on the Group's financial performance.</p>   | <p>The Group operates sophisticated internal modelling to review the margin of each of its product lines against internal targets. Where these are identified as not meeting required benchmarks, appropriate action is taken to adjust them. These changes typically lag costs by 3-6 months.</p>   |
| <b>Availability of labour and movement of people</b>                                      | <p>The Group's Australian segment operates a labour force within its production facilities which is required to scale up during certain peak periods (Christmas, Valentine's Day, Mother's Day). To facilitate this the Group engages short term casual labour.</p> <p>Australia is currently operating at low levels of unemployment with reduced levels of migration.</p> <p>A lack of suitable workforce could result in the Group being unable to fulfill its full production potential or require investment in material overtime for existing employees during the event periods.</p> <p>In addition, targeted lockdown conditions or a spike in COVID related illness in any of the Group's key markets or production areas could affect the efficiency of the Group's operations.</p> | <p>The Group has active programs in place for ongoing recruitment, development and retention across its workforce.</p> <p>With the reopening of international borders, the Group also expects inbound migration to lift over time. The Group continues to invest in its people offering competitive remuneration and benefits within a safe working environment.</p> <p>Despite the recent restrictions on movement of people in China, the Group was able to continue operating its farms and facilities with the exception of its Shanghai processing centre which has since re-opened.</p>  |
| <b>Health and safety</b>  | <p>The nature of the business exposes the Group employees to the risk of workplace accidents or injuries.</p>   | <p>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.</p>   |
| <b>Customer concentration risk – reliance on a number of large customers in Australia</b> | <p>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.</p>   | <p>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.</p> <p>During the current reporting period the percentage of the Group's external revenue derived from sales to major supermarkets has reduced to approximately 70%. This reduction should be considered in the context of the expansion of the Group's China operations following the acquisition and subsequent consolidation of Van den Berg Asia Holdings Limited as a consolidated entity for the full reporting period.</p> |

| Risk  | Description  | Mitigation   |
|---|--|--|
| <b>Geopolitical risks of operating in China</b>                   | 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. | <p>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.</p> <p>Although the Group cannot influence wider geopolitical issues, it strives to be a model corporate citizen with appropriate corporate governance.</p> <p>As an importer from China, the Group is less exposed to trade restrictions imposed by Chinese authorities.</p> |
| <b>Changes to Australia's quarantine and customs requirements</b> | 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.   |
| <b>Foreign currency exposure</b>                                  | 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.  | <p>The Group undertakes regular hedging of USD based on future expected purchases. The Group aims to hedge approximately 50% of expected USD based purchases approximately 6 months ahead.</p> <p>The specific impact of movement in the AUD/CNY rate are discussed further in the financial risk note in the consolidated financial statements.</p>   |

## DIRECTORS' REPORT CONT.

### Principal Risks cont.

| Risk                                   | Description  | Mitigation  |
|--|--|---|
| <b>Impact of rising interest rates</b> | <p>Based on ongoing commentary from the Reserve Bank of Australia, economic consensus and central bank decisions overseas the Group believes it is possible interest rates will continue to rise.</p> <p>This may have an effect on consumer spending including on discretionary items such as those offered by the Group. A significant increase in interest rates in Australia or China could have a material impact on the Group's revenue.</p> <p>In addition, the Group has external borrowings which attract variable interest repayments. A rise in interest rates will increase the interest payable on its borrowings.</p>  | <p>The Group receives and analyses timely and detailed analysis on sales of its individual products from its team of in store merchandisers and from its customers. This frequent and timely information allows it to react quickly to any changes in consumer behaviour. The Group also notes that it strives to ensure its products offer value to consumers every day and that in previous economic downturns flowers have proven to be reasonably resilient where consumers can spend an increasing proportion of time at home.</p> <p>The specific impact of movement in interest rates are discussed further in the financial risk note in the consolidated financial statements. The impact of rising interest rates has also been considered when assessing discount rates used for valuing assets and impairment analysis.</p> |
| <b>Glyphosate</b>                      | <p>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 a 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.</p> | <p>The Group is actively working with the Australian government to remove the requirement for the use of glyphosate.</p> <p>In the meantime, the Group mandates the use of protective equipment for employees who may come into contact with glyphosate.</p>  |
| <b>Cyber security</b>                  | <p>The Group's 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.</p>   | <p>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.</p>   |



## Environmental, Social and Governance

Australia's floral industry faces a unique set of Environmental, Social and Governance (ESG) issues characterised by rapidly evolving stakeholder expectations and technology. As a leader in its industry, the Group is cognisant of its contribution to environmental and social issues. It also understands the importance of proactively and strategically managing these risks and opportunities for sustainable innovation, competitive differentiation and enhanced financial returns. Recognising that it can play a role in creating a best practice sustainable cut flower value chain, the Group launched its journey toward ESG maturity in the current reporting period, its first full year as listed public company.

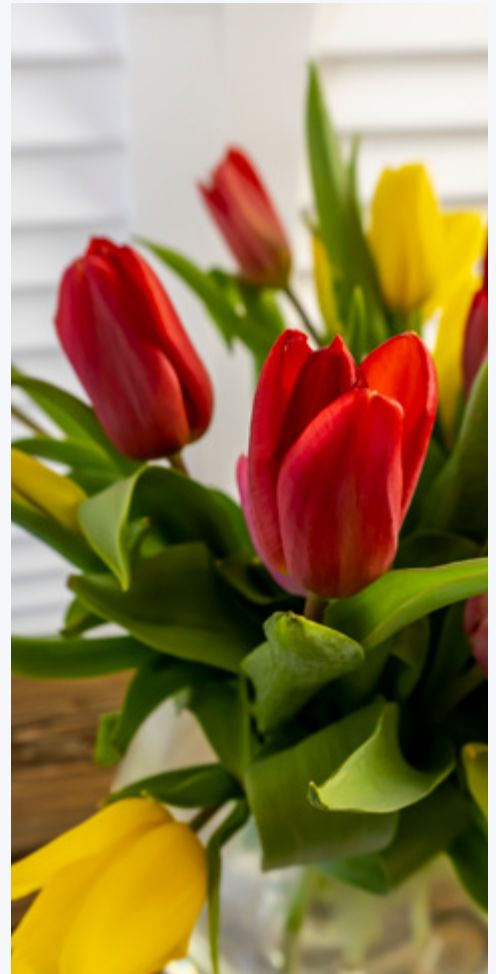
With the support of an external consultant, the Group undertook a multifaceted ESG materiality assessment. The assessment identified a matrix of prioritised material ESG issues that include:

- **Environmental** – energy and emissions; physical climate resilience; water stewardship; waste management; sustainable packaging; biosecurity; biodiversity and natural capital;
- **Social** – ethical sourcing and growing; diversity, equity and inclusion; health, safety and wellbeing;
- **Governance** – ethical business conduct and culture; data privacy and cyber security; tax transparency  
ESG risk management and compliance.

The Group is in the process of developing a road map of initiatives to manage its ESG issues and opportunities and demonstrate consistent ESG progress. This will inform the direction and provide the backbone of the Group's ESG strategy development process in the coming reporting period and beyond.



Lynch Group facilities – China



## Business Strategies and Prospects

### Australia

The Group continues to be well positioned to leverage its existing platform and scale to capitalise on structural changes in the Australian floral retail market and drive revenue growth and margin recovery. Key strategic objectives are to:

| Strategic objective   | Further detail   |
|---|--|
| Build on merchandising effectiveness through investment in technology and people to support sales growth across our customer store networks | The Group has now fully rolled out and implemented its new merchandising technology platform. This is expected to deliver improved consistency of information and additional real time analytics to assist in decision making around ranging, improved labour efficiency and speed and consistency of training and communication.  |
| Grow Sale or Return (SOR) store network and support more stores with merchandising  | The Group plans to drive sales growth by continuing to work with its customers to grow the SOR store network facilitated by the merchandising technology platform enabling merchandising resources to be scaled up to meet additional store volumes.   |
| Deliver operational improvements focussed on product quality and speed to the consumer  | The Group is well advanced in the construction of a new processing facility based in Ingleburn, NSW. This facility is expected to deliver increased capacity and ongoing operation improvements particularly in labour efficiency, safety and product quality.   |
| Execute on new channel development initiatives capturing further wholesale share  | Further developing the Group's wholesaler and florist channel share, with opportunities or both greenfield and acquisition-based expansion actively being explored.  |
| EBITDA margin recovery  | The Group has been impacted by significant cost pressures during the reporting period including increases in international freight rates and a comparable increase in local buying costs and pandemic induced labour shortages. The Group plans to continue operating its internal modelling to assess the real time margin performance of each of its product lines and where these are identified as not meeting required benchmarks, appropriate action is taken to adjust them. As there is a lag effect which is typically 3–6 months the Group is planning for margins to improve throughout the next reporting period to June 2023. |

## China

In the growing China market, the Group expects to focus on continued farm expansion and the acceleration of integrated floral model. Key strategic objectives are to:

| Strategic objective   | Further detail   |
|---|--|
| Leverage Australian segment know-how to further develop vertically integrated floral supply model into China                        | The Group intends to continue strengthening its domestic China team's capabilities in product development and scaled value-added production capacity to support ongoing growth with its retail customers.  |
| Continue to develop further production greenhouse space to support customer demand and secure additional land for next growth phase | The Group continues to review options for increasing its production greenhouse space at its existing Yunnan sites as well as exploring other options for new sites. The current developed land of 79ha is expected to increase during further during the following reporting period. |
| Build further operational capacity within the Group's supply base in Kunming to support further ramp-up in customer growth          | The Group plans to utilise the newly expanded capacity at its Changkou production facility to strengthen supply capabilities from Kunming for both domestic and export sales.  |
| Replicate Shanghai processing facility into other major metropolitan consumer markets   | The Group expects to progress the establishment of additional processing capabilities in other Tier-1 consumer markets in China.   |



Lynch Group facilities – China





## Financial Review

### Non-IFRS measures

Certain 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. There are no Pro-Forma adjustments relevant to the current reporting period other than Amortisation of acquired intangible assets. Non-IFRS measures EBITDA and NPATA continue to be used in the current reporting period. 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   | Relates to period |
|---|--|-------------------|
| <b>Pandemic risk (including COVID-19)</b> | <p>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:</p> <ul style="list-style-type: none"> <li>• Inclusion of pre-acquisition VdB Group financial performance;</li> <li>• Exclusion of VdB Group pre-acquisition interest fair value re-measurement gain;</li> <li>• Exclusion of offer, restructuring and financing costs associated with the IPO and VdB Group acquisition;</li> <li>• Inclusion of estimated incremental costs associated with being a public listed company;</li> <li>• Exclusion of short-term property lease costs subsequently recognised as right-of-use assets;</li> <li>• Exclusion of net Job Keeper receipts;</li> <li>• Exclusion of legacy ownership costs in relation to the pre-IPO Board;</li> <li>• Inclusion of impact of post IPO debt structure;</li> <li>• Inclusion of amortisation relating to historical acquisitions</li> </ul> | Prior only        |
| <b>Pro-Forma Revenue</b>                  | Revenue adjusted for Pro-Forma items as per the definition of Pro-Forma (above)  | Prior only        |
| <b>EBITDA</b>                             | Earnings before interest, tax, depreciation and amortisation   | Current and prior |
| <b>Pro-Forma EBITDA</b>                   | Earnings before interest, tax, depreciation and amortisation adjusted for Pro-Forma items as per the definition of Pro-Forma (above)   | Prior only        |
| <b>NPATA</b>                              | Net profit after tax adjusted for amortisation. Amortisation comprises the amortisation of acquired intangible assets relating to historical acquisitions  | Current and prior |
| <b>Pro-Forma NPATA</b>                    | Net profit after tax adjusted for amortisation and adjusted for Pro-Forma items as per the definition of Pro-Forma (above)   | Prior only        |

## Revenue

On a statutory basis, revenue increased by \$66.3m (22.1%) from \$300.2m in 2021 to \$366.5m in 2022. The major components of the movement are:

### Australia

- Increased supermarket penetration of floral and potted products as a result of product range optimisation and increased merchandising of store network;
- Non organic revenue from Market Flowers Brisbane acquisition;
- Price increases secured and implemented with major customers from March;
- Increased revenue from growth in Sale or Return store network;
- Partially offset by COVID-19 related customer demand reductions during lockdown periods (delta Jul/Aug, omicron Dec/Jan) and periodic short product supply issues throughout the year

### China

- Increase in production capacity and yield from recently developed land;
- Inclusion of full year of revenue for all China operations noting the prior reporting period includes approximately 3 months of revenue from VdB Group post the acquisition of the remaining 80% in April 2021;
- Restrictions in movement of people and restrictions in logistics especially in Shanghai (Apr-Jun) adversely impacted selling prices;
- Lack of available flights from China to Australia due to COVID-19 and exacerbated by the recent restrictions on people and logistics impacted export sales from China

There are no pro-forma adjustments applicable to 2022. The table below has been prepared to reconcile statutory revenue and Pro-Forma revenue:

|                                   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|-----------------------------------|----------------------|----------------------|
| <b>Statutory revenue</b>          | <b>366,497</b>       | <b>300,205</b>       |
| VdB Group pre-acquisition revenue | –                    | 30,803               |
| <b>Pro-Forma revenue</b>          | <b>366,497</b>       | <b>331,008</b>       |

On a Pro-Forma basis, including VdB Group for the full 12 months in the prior reporting period, revenue was up \$35.5m (10.7%) from \$331.0m in 2021 to \$366.5m in 2022.

## DIRECTORS' REPORT CONT.

### EBITDA

EBITDA increased by \$0.4m (0.9%) from \$47.8m in 2021 to \$48.2m in 2022. The major components of the movement are:

#### Australia

- Significant EBITDA impact from elevated freight costs for all international routes and a comparable increase in local product buying costs;
- Positive EBITDA flow through from increased revenue including price increases achieved with major customers from March
- Lack of labour availability from COVID related isolation and a tight market for replacement labour resulting in material overtime costs for major events;
- Ongoing range optimisation initiatives and effective procurement planning;
- Investment in merchandising technology to support scalable growth;
- Inflationary cost rate pressures on labour, freight and other costs lines;
- Reduced supply from China as a result of COVID related logistics restrictions leading to higher cost product substitutes;
- Non organic EBITDA from Market Flowers Brisbane acquisition;
- Other growth from revenue initiatives as noted above

#### China

- Production volume expansion through yield improvement and additional developed production capacity;
- Restrictions on movement of people and logistics in Shanghai and other major China cities leading to lower achieved selling prices;
- Closure of Shanghai production facility during people and logistics restrictions leading to inefficiencies;
- Inclusion of full year of EBITDA for all China operations noting the prior reporting period includes approximately 3 months of EBITDA from VdB Group post the acquisition of the remaining 80% in April 2021;
- Prior year EBITDA includes non-recurring fair value re-measurement gain relating to the pre-acquisition interest held in VdB Group;
- Other items as noted in the statutory to Pro-Forma EBITDA movement table below

There are no pro-forma adjustments applicable to 2022. The table below has been prepared to reconcile Statutory Profit before tax to EBITDA and Pro-Forma EBITDA:

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Statutory Profit before tax</b>   | <b>24,874</b>        | <b>30,523</b>        |
| Depreciation and amortisation  | 20,041               | 12,975               |
| Financing costs  | 3,301                | 4,270                |
| <b>EBITDA</b>  | <b>48,216</b>        | <b>47,768</b>        |
| VdB Group pre-acquisition EBITDA (July 2021 to March 2022)                     | —                    | 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                            | —                    | 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                  |
| <b>Pro-Forma EBITDA</b>  | <b>48,216</b>        | <b>58,648</b>        |



On a Pro-Forma basis, including VdB Group for the full 12 months in the prior reporting period, EBITDA declined by \$10.4m (17.8%) from \$58.6m in 2021 to \$48.2m in 2022.

## Profit for the year

On a statutory basis, profit for the year decreased by \$5.3m (21.3%) from \$24.9m in 2021 to \$19.6m in 2022. The major components of the movement are:

- Revenue and EBITDA factors as noted above;
- Inclusion of full year of profit for all China operations noting the prior reporting period includes approximately 3 months of profit from VdB Group post the acquisition of the remaining 80% in April 2021;
- Increase in depreciation as a result of capital invested in China growth assets to develop productive land;
- Impact of additional depreciation from right-of-use assets;
- Impact of additional depreciation associated with purchase price accounting in relation to the acquisition of VdB Group;
- Tax effect of all above items

The only pro-forma adjustment on relation to 2022 is amortisation of acquired intangible assets. The table below has been prepared to reconcile Statutory Profit before tax to Pro-Forma NPATA:

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Statutory profit before tax</b>                                | <b>24,874</b>        | <b>30,523</b>        |
| Income tax expense  | (5,294)              | (5,652)              |
| <b>Statutory profit for the year</b>                              | <b>19,580</b>        | <b>24,871</b>        |
| VdB Group pre-acquisition profit (July 2021 to March 2022)        | —                    | 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                | —                    | 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                        | 5,128                | 4,825                |
| <b>Pro-Forma NPATA</b>  | <b>24,708</b>        | <b>32,379</b>        |

On a Pro-Forma basis, including VdB Group for the full 12 months in the prior reporting period, NPATA declined by \$7.7m (23.7%) from \$32.4m in 2021 to \$24.7m in 2022.

### Consolidated Statement of Financial Position

The Statement of Financial Position compared to the previous year shows some significant changes in relation to Cash and cash equivalents, Property, plant and equipment, Trade and other payables and Inventories.

Key components of the movements are:

- Cash and cash equivalents decreased during the year by \$17.0m to \$32.0m as a result of factors noted in relation to the Consolidated Statement of Cash Flows below
- Property, plant and equipment increased materially during the year by \$26.8m to \$84.2m primarily due to ongoing investment in the China segment, in particular the development of productive land. Developed productive land was increased by approximately 18ha during the year bring the total area under production as at June 2022 of approximately 79ha
- Trade and other payables decreased during the year by \$7.3m primarily due to \$8.9m deferred IPO proceeds;
- Inventories increased during the year by \$4.6m due to investment in non-perishable inventory, in particular ceramic pots, for expected customer demand. Much of the excess inventory is expected to be planned into ranges in the current financial year.

### Consolidated Statement of Cash Flows

On a statutory basis, cash and cash equivalents at June 2022 decreased by \$17.0m (34.7%) from \$49.0m in 2021 to \$32.0m in 2022. Significant components of the cash flows during the year, include:

- Operating cash flows associated with the operating activities of the Group
- \$8.9m deferred IPO proceeds
- \$27.7m capital investment in growth projects, in particular land development in China
- \$7.3m interim dividends declared in February 2022 and paid in March 2022.



Lynch Group greenhouse facility – China

## Significant changes in state of affairs

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

### Dividends

In respect of the current reported period ended June 2022, the directors have declared a final dividend of 6.0 cents per ordinary share which is fully franked. The record date of the dividend is 7 September 2022 and the dividend is expected to be paid on 21 September 2022.

### Economic environment

The volatile economic environment in both Australia and China continues to impact the Group to the date of this report. Short term impacts relating to temporary lockdown restrictions including inventory loss, sales decline and disruption to production efficiencies have impacted the Group. Supply chain disruption, including elevated inbound freight rates and inefficiencies associated with forced labour isolations, have impacted the Group throughout the reporting period and continue to impact the Group at the current time. As at the date of 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 that may affect the Group's ability to continue as a going concern.

The extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the ongoing 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 remain 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 full year 2023 financial statements could be significant.

### Other

Other than as noted above, there has not been any other matter or circumstance occurring subsequent to the end of the period 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 periods.

## 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 the financial year ended 26 June 2022 include Non-Executive Directors and Senior Executives. Senior Executives include Executive Directors.

### Non-Executive Director

| Name              | Position                           |
|-------------------|------------------------------------|
| Patrick Elliott   | Chair and Non-Executive Director   |
| Elizabeth Hallett | Independent Non-Executive Director |
| Peter Clare       | Independent Non-Executive Director |
| Peter Arkell      | Independent Non-Executive Director |

### 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                         |
| Dirk Vlaar <sup>1</sup>  | Chief Executive Officer, China                             |
| John Khalil <sup>2</sup> | Executive Director, China                                  |

<sup>1</sup> On 1 March 2022, Dirk Vlaar was appointed to the role of Chief Executive Officer, China. This newly created role is considered to form part of the Group's KMP and as such Dirk Vlaar became a member of the KMP on 1 March 2022. The amounts referred to throughout the Remuneration report for Dirk Vlaar include remuneration from the date Dirk Vlaar became a member of the KMP which is approximately 4 months of the financial year.

<sup>2</sup> On 1 March 2022, John Khalil ceased to be a member of the KMP. The amounts referred to throughout the Remuneration report for John Khalil include remuneration up to the date John Khalil ceased to be a member of the KMP which is approximately 8 months of the financial year.

## 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;
- ensuring that appropriate checks are undertaken before appointing a potential candidate or putting forward a candidate to Shareholders for approval;
- ensuring that an effective induction process is in place;
- reviewing 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

## Remuneration consultant

From time to time the RNC may engage with 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 obtain services from remuneration consultants Egan Associates Pty Limited during the financial year ended June 2022.

Egan Associates are one of Australia's leading advisers to Boards and Board Remuneration Committees. Established in 1989, they specialise in helping their clients resolve complex remuneration and related governance issues.

The RNC engaged Egan Associates in order to:

- Ensure the Group is competitive in the market with its overall remuneration programs; and
- Provide confidence to the management team in regards to fairness and equity, via an independent review process, in the lead up to the June 2022 performance and remuneration review process

## DIRECTORS' REPORT CONT.

### Remuneration consultant cont.

The scope of the review included all components of remuneration, both fixed and variable, and included:

- Executive KMP;
- Other direct reports to the Group CEO;
- Direct reports to the Australia CEO

The cash consideration payable for the remuneration recommendation to Egan Associates was \$32,200.

The Board and the RNC are satisfied that the remuneration recommendations were made free from undue influence by any member of the KMP to whom any recommendation relates as the remuneration consultant is viewed to be fully independent to the KMP, the RNC and the Board. The specific recommendations in relation to the remuneration of the Group Chief Executive Officer were made directly to the Chair of the RNC.

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 members of the Group 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. There was no change to these amounts from the prior year.

### 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 financial targets set by the Board | Grant of options over ordinary shares in the Group (Options) that may convert to ordinary shares |
| Based on role and responsibilities | Based on annual targets and paid annually   | Vesting subject to Earnings Per Share (EPS) and Total Shareholder return (TSR) hurdles           |
| Reviewed annually                  | Paid in cash                                | Vesting period of 3–5 years  |

## Financial performance

The Group's performance for financial years ended June 2022 and June 2021 is outlined below:

|                       | June 2022<br>\$'000s | June 2021<br>\$'000s |
|-----------------------|----------------------|----------------------|
| EBITDA                | 48,216               | 47,767               |
| Net profit before tax | 24,874               | 30,523               |
| Net profit after tax  | 19,580               | 24,871               |

|   | June 2022<br>\$ | June 2021<br>\$ |
|---|-----------------|-----------------|
| Share price at start of year <sup>1</sup> | 3.65            | 3.60            |
| Share price at end of year                | 2.10            | 3.65            |
| Interim dividend <sup>2</sup>             | 0.06            | 0.82            |
| Final dividend                            | 0.06            | —               |
| Basic earnings per share                  | 16.04           | 31.36           |
| Diluted earnings per share                | 16.04           | 31.36           |

<sup>1</sup> The opening share price noted for June 2021 represents the Initial Public Offering (IPO) listing price as of the date of listing on the Australian Securities Exchange on 6 April 2021.

<sup>2</sup> 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 the financial year ended June 2021.

## 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   | Financial year ended June 2022  |
| Incentive as proportion of fixed remuneration (base salary + superannuation) | 30%–90%   |
| 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. |

## DIRECTORS' REPORT CONT.

### Principal Risks cont.

|  |  |  |                                  |                                   |
|--|--|--|----------------------------------|-----------------------------------|
| Potential  | The STI potential as a proportion of the fixed remuneration (base salary + superannuation) for KMP are:  |  |                                  |                                   |
|  |  | <b>Less than Target<br/>100% of EBITDA</b> | <b>Target 100%<br/>of EBITDA</b> | <b>Stretch 130%<br/>of EBITDA</b> |
|  | Hugh Toll  | 0%   | 30%                              | 40%                               |
|  | Steve Wood   | 0%   | 30%                              | 40%                               |
|  | David Di Pietro  | 0%   | 30%                              | 90%                               |
|  | Dirk Vlaar <sup>1</sup>  | –  | –                                | –                                 |
|  | John Khalil <sup>2</sup>   | 0%   | 30%                              | 90%                               |
| <sup>1</sup> Dirk Vlaar was not eligible to be a participant in the STI plan for 2022 as his appointment to Chief Executive Officer, China did not take effect until 1 March 2022.<br><sup>2</sup> John Khalil ceased to become a member of the KMP on 1 March 2022. |  |  |                                  |                                   |
| Eligibility  | <ul style="list-style-type: none"> <li>Must be employed and performing duties and responsibilities of role to the satisfaction of the Board at the time of payment</li> <li>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.</li> </ul> |  |                                  |                                   |
| 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   | EBITDA targets for the financial year ended June 2022 were not met and therefore no STI is payable to relevant Senior Executives and Senior Managers.  |  |                                  |                                   |

### Award and percentage of STI payable and forfeited for KMP for the financial year ended June 2022

| KMP                      | Max. STI potential (\$) | Actual STI awarded (\$) | Actual STI as % of Max. STI | % Of Max. STI forfeited |
|--------------------------|-------------------------|-------------------------|-----------------------------|-------------------------|
| <b>Senior Executives</b> |                         |                         |                             |                         |
| Hugh Toll                | 204,932                 | –                       | 0%                          | 100%                    |
| Steve Wood               | 131,900                 | –                       | 0%                          | 100%                    |
| David Di Pietro          | 385,663                 | –                       | 0%                          | 100%                    |
| Dirk Vlaar <sup>1</sup>  | –                       | –                       | –                           | –                       |
| John Khalil <sup>2</sup> | 448,347                 | –                       | 0%                          | 100%                    |
|                          | <b>1,170,842</b>        | <b>–</b>                | <b>0%</b>                   | <b>100%</b>             |

<sup>1</sup> Dirk Vlaar was not eligible to be a participant in the STI plan for 2022 as his appointment to Chief Executive Officer, China was not until March 2022.

<sup>2</sup> John Khalil ceased to become a member of the KMP on 1 March 2022.



## Long term incentive Scheme

### Year ended June 2022 LTI plan

The Group has offered a Long-term incentive scheme (LTI) in the financial year ended June 2022 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   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
|---|---|-------------|-----------------|------------------------|---|------------|---------|-----------------|---------|------------|---------|-----------------------|-----------|---|------------------|
| <b>Eligibility</b>                                    | 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.  |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| <b>Grants</b>   | <p>The Group intends that the maximum notional value of Options offered to the Group CEO will be 60% of their total fixed remuneration and for other selected Senior Managers will be between 10% and 40% of their total fixed remuneration.</p> <p><b>Financial year ended June 2022</b><br/>2,551,587 Options over shares in the company were granted under the grant for the financial year ended June 2022. The Options granted varied between participants, and were allocated as follows:</p> <table> <tr> <th>Participant</th><th>Options granted</th></tr> <tr> <td>Hugh Toll<sup>1</sup></td><td>—</td></tr> <tr> <td>Steve Wood</td><td>273,955</td></tr> <tr> <td>David Di Pietro</td><td>399,561</td></tr> <tr> <td>Dirk Vlaar</td><td>215,628</td></tr> <tr> <td>Other Senior Managers</td><td>1,662,443</td></tr> <tr> <td><b>Total Grant for financial year ended June 2022</b></td><td><b>2,551,587</b></td></tr> </table> <p><sup>1</sup> The issue of 817,567 Options to Hugh Toll under the grant for the financial year ended June 2022 is subject to Shareholder approval at the company's AGM in November 2022.</p> | Participant | Options granted | Hugh Toll <sup>1</sup> | — | Steve Wood | 273,955 | David Di Pietro | 399,561 | Dirk Vlaar | 215,628 | Other Senior Managers | 1,662,443 | <b>Total Grant for financial year ended June 2022</b> | <b>2,551,587</b> |
| Participant   | Options granted   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| Hugh Toll <sup>1</sup>                                | —   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| Steve Wood  | 273,955   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| David Di Pietro                                       | 399,561   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| Dirk Vlaar  | 215,628   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| Other Senior Managers                                 | 1,662,443   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| <b>Total Grant for financial year ended June 2022</b> | <b>2,551,587</b>  |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |
| <b>Vesting conditions</b>                             | <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>Annual compounding EPS less than 8%: 0% of Options will vest;</li> <li>Annual compounding EPS equal to 8%: 0% of Options will vest;</li> <li>Annual compounding EPS between 8% and 12%: Options will vest on a straight line pro rata basis between 0% and 100%; and</li> <li>Annual compounding EPS greater than 12%: 100% of Options will vest.</li> </ul>   |             |                 |                        |   |            |         |                 |         |            |         |                       |           |   |                  |

## Long term incentive Scheme cont.

| Term                               | Description  |
|------------------------------------|--|
| <b>Vesting conditions cont.</b>    | <p>The TSR vesting percentages will be determined by comparison of the Group's TSR against the TSR of companies which comprise the ASX300 index:</p> <ul style="list-style-type: none"> <li>Group TSR in the bottom quartile (0% 25%) of the ASX300 index: 0% of Options will vest;</li> <li>Group TSR in the second quartile (25% 50%) of the ASX300 index: 33% of Options will vest;</li> <li>Group TSR in the third quartile (50% 75%) of the ASX300 index: 66% of Options will vest; and</li> <li>Group TSR in the top quartile (75% 100%) of the ASX300 index: 100% of Options will vest.</li> </ul> <p>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.</p> <p>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)).</p> <p>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.</p> <p>These performance conditions were chosen to closely align participants' LTI outcomes with the performance of the Group</p> |
| <b>Terms and conditions</b>        | The Board has the absolute discretion to determine the terms and conditions applicable to an offer under the LTI.  |
| <b>Options</b>                     | 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.   |
| <b>Issue Price</b>                 | The Options will be issued for nil consideration.  |
| <b>Exercise price</b>              | \$2.24 being the volume weighted average price of an ordinary Share in the Group listed on the Australian Securities Exchange for the month of May 2022.   |
| <b>Performance period</b>          | Five years following the date of grant of the Options to the relevant participant.   |
| <b>Ranking of Shares</b>           | Shares issued upon vesting and exercise of Options under the LTI will rank equally in all respects with existing ordinary shares.  |
| <b>Rights attaching to Options</b> | The Options do not carry rights to dividends or voting rights prior to exercise.   |

| Term   | Description  |
|--|--|
| <b>Restrictions on Options</b>                       | 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. |
| <b>Vesting and exercise of Options</b>               | 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.  |
| <b>Lapse of Options</b>                              | 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.                           |
| <b>Cessation of employment of holders of Options</b> | 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.  |
| <b>Change of control</b>                             | 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.  |
| <b>Capital restructure</b>                           | 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.   |
| <b>Employee share trust</b>                          | 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.  |
| <b>Expiry of Options</b>                             | 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.  |
| <b>Amendments</b>                                    | 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.   |

## DIRECTORS' REPORT CONT.

### Summary of Remuneration mix

The remuneration mix for the financial year ended June 2022 for the KMP is:

| KMP                            | Fixed       | STI       | LTI       | Total       |
|--------------------------------|-------------|-----------|-----------|-------------|
| <b>Non-Executive Directors</b> |             |           |           |             |
| 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%        |
|                                | <b>100%</b> | <b>0%</b> | <b>0%</b> | <b>100%</b> |
| <b>Senior Executive</b>        |             |           |           |             |
| Hugh Toll                      | 90%         | 0%        | 10%       | 100%        |
| Steve Wood                     | 90%         | 0%        | 10%       | 100%        |
| David Di Pietro                | 95%         | 0%        | 5%        | 100%        |
| Dirk Vlaar <sup>1</sup>        | 98%         | 0%        | 2%        | 100%        |
| John Khalil <sup>2</sup>       | 100%        | 0%        | 0%        | 100%        |
|                                | <b>95%</b>  | <b>0%</b> | <b>5%</b> | <b>100%</b> |

<sup>1</sup> Dirk Vlaar was not eligible to be a participant in the STI plan for 2022 as his appointment to Chief Executive Officer, China was not until March 2022.

<sup>2</sup> John Khalil ceased to become a member of the KMP on 1 March 2022.

### 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 <sup>1</sup> |
|------------------|---------------|---------------------|---------------------|---|
| 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                                       |
| Dirk Vlaar       | n/a           | 3 Months            | 3 Months            | Yes                                       |

<sup>1</sup> 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 the financial year ended June 2022 was as follows:

| KMP                            | Short term cash salary and fees (\$) | Short term cash bonus (\$) | Termination benefits (\$) | Post employment benefits (\$) | Equity settled (\$) <sup>1</sup> | Total (\$)       |
|--------------------------------|--------------------------------------|----------------------------|---------------------------|-------------------------------|----------------------------------|------------------|
| <b>Non-Executive Directors</b> |                                      |                            |                           |                               |                                  |                  |
| Patrick Elliott                | 159,091                              | —                          | —                         | 15,909                        | —                                | 175,000          |
| Elizabeth Hallett              | 118,182                              | —                          | —                         | 11,818                        | —                                | 130,000          |
| Peter Clare                    | 118,182                              | —                          | —                         | 11,818                        | —                                | 130,000          |
| Peter Arkell                   | 118,182                              | —                          | —                         | 11,818                        | —                                | 130,000          |
|                                | <b>513,637</b>                       | <b>—</b>                   | <b>—</b>                  | <b>51,363</b>                 | <b>—</b>                         | <b>565,000</b>   |
| <b>Senior Executive</b>        |                                      |                            |                           |                               |                                  |                  |
| Hugh Toll <sup>2</sup>         | 484,829                              | —                          | —                         | 27,500                        | 58,169                           | 570,498          |
| Steve Wood                     | 302,249                              | —                          | —                         | 27,500                        | 37,535                           | 367,284          |
| David Di Pietro                | 401,015                              | —                          | —                         | 27,500                        | 24,388                           | 452,903          |
| Dirk Vlaar <sup>3</sup>        | 101,944                              | —                          | —                         | —                             | 1,616                            | 103,560          |
| John Khalil <sup>4</sup>       | 313,776                              | —                          | —                         | 18,333                        | (4,404)                          | 327,705          |
|                                | <b>1,603,813</b>                     | <b>—</b>                   | <b>—</b>                  | <b>100,833</b>                | <b>117,304</b>                   | <b>1,821,950</b> |
|                                | <b>2,117,450</b>                     | <b>—</b>                   | <b>—</b>                  | <b>152,196</b>                | <b>117,304</b>                   | <b>2,386,950</b> |

<sup>1</sup> Represents the accounting value recognised in profit and loss in accordance with AASB 2 Share-based payments during the financial year ended June 2022 in relation to Options granted to Senior Executives under the Group's long term incentive plan

<sup>2</sup> Equity settled remuneration for Hugh Toll includes a service amount estimate recognised in the financial year ended June 2022 in respect of an issue of Options which is subject to Shareholder approval at the company's AGM in November 2022

<sup>3</sup> Dirk Vlaar became a member of the KMP on 1 March 2022. Remuneration is from the date Dirk Vlaar became a member of the KMP which is approximately 4 months of the financial year

<sup>4</sup> John Khalil ceased to be a member of the KMP on 1 March 2022. Remuneration is up to the date John Khalil ceased to be a member of the KMP which is approximately 8 months of the financial year.

## DIRECTORS' REPORT CONT.

### Details of Remuneration cont.

Amounts of Remuneration for KMP for financial year ended June 2021 was as follows:

| KMP                            | Short term cash salary and fees (\$) | Short term cash bonus (\$) | Termination benefits (\$) | Post employment benefits (\$) | Equity settled (\$)³ | Total (\$)       |
|--------------------------------|--------------------------------------|----------------------------|---------------------------|-------------------------------|----------------------|------------------|
| <b>Non-Executive Directors</b> |                                      |                            |                           |                               |                      |                  |
| Patrick Elliott                | 39,954                               | —                          | —                         | 3,796                         | —                    | 43,750           |
| Elizabeth Hallett¹             | 29,680                               | —                          | —                         | 2,820                         | 60,000               | 92,500           |
| Peter Clare¹                   | 29,680                               | —                          | —                         | 2,820                         | 60,000               | 92,500           |
| Peter Arkell¹                  | 29,680                               | —                          | —                         | 2,820                         | 60,000               | 92,500           |
| Leo Lynch²                     | 173,110                              | —                          | 294,369                   | 16,667                        | —                    | 484,146          |
| Chris Coudounaris²             | 23,973                               | —                          | —                         | 2,277                         | —                    | 26,250           |
| Riad Tayeh²                    | 11,986                               | —                          | —                         | 1,139                         | —                    | 13,125           |
| James Murphy²                  | —                                    | —                          | —                         | —                             | —                    | —                |
|                                | <b>338,063</b>                       | <b>—</b>                   | <b>294,369</b>            | <b>32,339</b>                 | <b>180,000</b>       | <b>844,771</b>   |
| <b>Senior Executive</b>        |                                      |                            |                           |                               |                      |                  |
| Hugh Toll⁴                     | 475,000                              | 658,904                    | —                         | 25,000                        | 205,256              | 1,364,160        |
| Steve Wood                     | 266,083                              | 276,480                    | —                         | 25,000                        | 87,132               | 654,695          |
| David Di Pietro                | 393,734                              | 421,719                    | —                         | 25,000                        | 261,813              | 1,102,266        |
| John Khalil⁵                   | 461,176                              | 510,705                    | —                         | 25,000                        | 4,404                | 1,001,285        |
|                                | <b>1,595,993</b>                     | <b>1,867,808</b>           | <b>—</b>                  | <b>100,000</b>                | <b>558,605</b>       | <b>4,122,406</b> |
|                                | <b>1,934,056</b>                     | <b>1,867,808</b>           | <b>294,369</b>            | <b>132,339</b>                | <b>738,605</b>       | <b>4,967,177</b> |

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.

⁴ Equity settled remuneration for Hugh Toll includes a service amount estimate recognised in FY21 in respect of an issue of Options which was approved by Shareholders at the company's AGM on 26 November 2021.

⁵ John Khalil ceased to be a member of the KMP on 1 March 2022.

## Equity Instruments

The movement in ordinary Shares in the company held by KMP either directly, indirectly or beneficially for the financial year ended June 2022 was as follows:

| KMP                            | Opening balance  | Shares purchased | Share based compensation | Ceased as member of KMP | Closing balance  |
|--------------------------------|------------------|------------------|--------------------------|-------------------------|------------------|
| <b>Non-Executive Directors</b> |                  |                  |                          |                         |                  |
| Patrick Elliott <sup>1</sup>   | 342,639          | 65,500           | —                        | —                       | 408,139          |
| Elizabeth Hallett              | 27,777           | —                | —                        | —                       | 27,777           |
| Peter Clare <sup>2</sup>       | 69,443           | —                | —                        | —                       | 69,443           |
| Peter Arkell                   | 16,666           | —                | —                        | —                       | 16,666           |
|                                | <b>456,525</b>   | <b>65,500</b>    | <b>—</b>                 | <b>—</b>                | <b>522,025</b>   |
| <b>Senior Executive</b>        |                  |                  |                          |                         |                  |
| Hugh Toll                      | 639,999          | —                | —                        | —                       | 639,999          |
| Steve Wood                     | 237,300          | —                | —                        | —                       | 237,300          |
| David Di Pietro                | 299,999          | —                | —                        | —                       | 299,999          |
| Dirk Vlaar                     | 94,995           | 6,500            | —                        | —                       | 101,495          |
| John Khalil <sup>3</sup>       | 1,820,000        | —                | —                        | (1,820,000)             | —                |
|                                | <b>3,092,293</b> | <b>6,500</b>     | <b>—</b>                 | <b>(1,820,000)</b>      | <b>1,278,793</b> |

<sup>1</sup> 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 104,974 shares

<sup>2</sup> 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

<sup>3</sup> 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. John Khalil ceased to be a member of the KMP on 1 March 2022 and as such John Khalil's shares have not been included in the Closing balance.

## DIRECTORS' REPORT CONT.

### 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 <sup>1</sup> | Expiry date  | Exercise price | Fair value per option at grant date |
|--|---------------------------|--------------|----------------|-------------------------------------|
| <b>LTI grants for the financial year ended June 2021</b> |                           |              |                |                                     |
| Between 6 April 2021 and 6 May 2021                      | 30 June 2024              | 30 June 2027 | \$3.60         | TSR – \$0.96<br>EPS – \$1.07        |
| Between 6 April 2021 and 6 May 2021                      | 30 June 2025              | 30 June 2027 | \$3.60         | TSR – \$1.03<br>EPS – \$1.09        |
| Between 6 April 2021 and 6 May 2021                      | 30 June 2026              | 30 June 2027 | \$3.60         | TSR – \$1.06<br>EPS – \$1.12        |
| <b>LTI grants for the financial year ended June 2022</b> |                           |              |                |                                     |
| 16 June 2022   | 30 June 2025              | 30 June 2028 | \$2.24         | TSR – \$0.40<br>EPS – \$0.44        |
| 16 June 2022   | 30 June 2026              | 30 June 2028 | \$2.24         | TSR – \$0.43<br>EPS – \$0.45        |
| 16 June 2022   | 30 June 2027              | 30 June 2028 | \$2.24         | TSR – \$0.44<br>EPS – \$0.45        |

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



Lynch Group products and operations





Details of Share Option grants for KMP for the financial year ended June 2022 were as follows:

| KMP                    | Type        | Number  | Grant date       | Vesting date <sup>1</sup> | Exercise price |
|------------------------|-------------|---------|------------------|---------------------------|----------------|
| Hugh Toll <sup>2</sup> | LTI Options | 63,965  | 26 November 2021 | 30 June 2024              | \$3.60         |
|                        | LTI Options | 63,965  | 26 November 2021 | 30 June 2025              | \$3.60         |
|                        | LTI Options | 63,966  | 26 November 2021 | 30 June 2026              | \$3.60         |
| Steve Wood             | LTI Options | 91,318  | 16 June 2022     | 30 June 2025              | \$2.24         |
|                        | LTI Options | 91,318  | 16 June 2022     | 30 June 2026              | \$2.24         |
|                        | LTI Options | 91,319  | 16 June 2022     | 30 June 2027              | \$2.24         |
| David Di Pietro        | LTI Options | 133,187 | 16 June 2022     | 30 June 2025              | \$2.24         |
|                        | LTI Options | 133,187 | 16 June 2022     | 30 June 2026              | \$2.24         |
|                        | LTI Options | 133,187 | 16 June 2022     | 30 June 2027              | \$2.24         |
| Dirk Vlaar             | LTI Options | 71,876  | 16 June 2022     | 30 June 2025              | \$2.24         |
|                        | LTI Options | 71,876  | 16 June 2022     | 30 June 2026              | \$2.24         |
|                        | LTI Options | 71,876  | 16 June 2022     | 30 June 2027              | \$2.24         |

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

<sup>2</sup> Hugh Toll was issued 191,896 Options under the grant for the financial year ended June 2021 following Shareholder approval at the company's AGM in November 2021. The issue of 817,567 Options under the grant for the financial year ended June 2022 to Hugh Toll is subject to Shareholder approval at the company's AGM in November 2022.

Movement in Options held by KMP for the financial year ended June 2022 were as follows:

| KMP                                  | Opening balance | Granted          | Vested   | Forfeited | Closing balance  |
|--------------------------------------|-----------------|------------------|----------|-----------|------------------|
| <b>Senior Executives<sup>3</sup></b> |                 |                  |          |           |                  |
| Hugh Toll <sup>1</sup>               | 83,333          | 191,896          | —        | —         | 275,229          |
| Steve Wood                           | 178,899         | 273,955          | —        | —         | 452,854          |
| David Di Pietro                      | 115,101         | 399,561          | —        | —         | 514,662          |
| Dirk Vlaar <sup>2</sup>              | 23,853          | 215,628          | —        | —         | 239,481          |
|                                      | <b>401,186</b>  | <b>1,081,040</b> | <b>—</b> | <b>—</b>  | <b>1,482,226</b> |

<sup>1</sup> Hugh Toll was granted 191,896 Options under the 2021 LTI plan after approval at the company's AGM in November 2021. An additional issue of 817,567 Options to Hugh Toll is subject to Shareholder approval at the company's AGM in November 2022 under the 2022 LTI plan

<sup>2</sup> Dirk Vlaar became a member of the KMP on 1 March 2022. At the 1 March 2022 Dirk Vlaar held 23,853 existing Options which have been included in the Opening balance

<sup>3</sup> John Khalil ceased to be a member of the KMP on 1 March 2022 and is therefore not included in the above table. John Khalil held 126,929 Options as at 1 March 2022.

Senior Executives received a grant of options on 16 June 2022 as the LTI component of their remuneration package. No options were granted to Non-Executive Directors. Options carry no dividend or voting rights.

**This concludes the remuneration report which has been audited.**

## DIRECTORS' REPORT CONT.

### 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.

### 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 32 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 state 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 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 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 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 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 and Peter Arkell. 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 and Hugh Toll. Patrick Elliott is a partner at Next Capital which is a substantial Shareholder. Hugh Toll is an employee in his role as Group Chief Executive Officer.

## DIRECTORS' REPORT CONT.

For the financial year ended 26 June 2022

### 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 the Director's Declaration.

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**

24 August 2022

Sydney



# CONSOLIDATED STATEMENT OF PROFIT AND LOSS AND OTHER COMPREHENSIVE INCOME

For the financial year ended 26 June 2022

|   | Note | June 2022<br>\$'000 | June 2021<br>\$'000 |
|---|------|---------------------|---------------------|
| <b>Continuing operations</b>  |      |                     |                     |
| <b>Revenue</b>  |      |                     |                     |
| Total revenue   | 2    | 366,497             | 300,205             |
|   |      | <b>366,497</b>      | <b>300,205</b>      |
| <b>Add: income</b>  |      |                     |                     |
| Government grants   | 3    | 1,309               | 3,155               |
| Fair value (loss) / gain on biological assets                                       | 10   | (622)               | 476                 |
| Share of profits of associate   |      | –                   | 1,809               |
| Fair value gain relating to an associate  |      | –                   | 10,188              |
| <b>Less: expenses</b>   |      |                     |                     |
| Changes in inventories  |      | 4,081               | 1,193               |
| Raw materials and consumables used  |      | (196,778)           | (158,201)           |
| Employee benefits expenses  | 4    | (45,925)            | (40,056)            |
| Contractors' expenses   |      | (33,369)            | (29,782)            |
| Freight expenses  |      | (27,315)            | (16,713)            |
| Depreciation and amortisation expense   | 4    | (20,041)            | (12,975)            |
| Selling and marketing expenses  |      | (963)               | (1,290)             |
| Occupancy expenses  | 4    | (1,496)             | (1,188)             |
| Other expenses  | 4    | (17,203)            | (22,028)            |
| Finance costs   | 4    | (3,301)             | (4,270)             |
|   |      | <b>(341,623)</b>    | <b>(269,682)</b>    |
| <b>Profit before income tax expense</b>   |      | <b>24,874</b>       | <b>30,523</b>       |
| Income tax expense  | 5    | (5,294)             | (5,652)             |
| <b>Profit for the year</b>  |      | <b>19,580</b>       | <b>24,871</b>       |
| <b>Other comprehensive income that will subsequently be reclassified to profit</b>  |      |                     |                     |
| Foreign currency translation differences  |      | 8,617               | 2,512               |
| Cash flow hedges – effective portion of changes in fair value net of tax            |      | 289                 | 244                 |
| <b>Other comprehensive income, net of tax</b>                                       |      | <b>8,906</b>        | <b>2,756</b>        |
| <b>Total comprehensive income attributable to:<br/>Lynch Group Holdings Limited</b> |      |                     |                     |
|   |      | <b>28,486</b>       | <b>27,627</b>       |

|                | Note | June 2022<br>Cents | June 2021<br>Cents |
|----------------|------|--------------------|--------------------|
| <b>Basic</b>   | 6    | 16.04              | 31.36              |
| <b>Diluted</b> | 6    | 16.04              | 31.36              |

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

For the financial year ended 26 June 2022

|                                      | Note | June 2022<br>\$'000 | June 2021<br>\$'000 |
|--------------------------------------|------|---------------------|---------------------|
| <b>ASSETS</b>                        |      |                     |                     |
| <b>Current assets</b>                |      |                     |                     |
| Cash and cash equivalents            | 7    | 31,985              | 48,988              |
| Trade and other receivables          | 8    | 21,970              | 20,407              |
| Inventories                          | 9    | 15,079              | 10,478              |
| Biological assets                    | 10   | 4,378               | 4,951               |
| Current tax assets                   | 5    | 166                 | 491                 |
| Other assets                         | 11   | 4,629               | 3,540               |
| <b>Total current assets</b>          |      | <b>78,207</b>       | <b>88,855</b>       |
| <b>Non-current assets</b>            |      |                     |                     |
| Property, plant and equipment        | 12   | 84,182              | 57,339              |
| Right-of-use assets                  | 13   | 25,870              | 26,350              |
| Intangible assets                    | 14   | 200,548             | 199,847             |
| <b>Total non-current assets</b>      |      | <b>310,600</b>      | <b>283,536</b>      |
| <b>Total assets</b>                  |      | <b>388,807</b>      | <b>372,391</b>      |
| <b>LIABILITIES</b>                   |      |                     |                     |
| <b>Current liabilities</b>           |      |                     |                     |
| Trade and other payables             | 15   | 47,155              | 54,503              |
| Current tax liabilities              | 5    | 460                 | -                   |
| Lease liabilities                    | 16   | 4,117               | 4,291               |
| Borrowings                           | 18   | 4,451               | 3,772               |
| Provisions                           | 17   | 8,390               | 7,234               |
| <b>Total current liabilities</b>     |      | <b>64,573</b>       | <b>69,800</b>       |
| <b>Non-current liabilities</b>       |      |                     |                     |
| Lease liabilities                    | 16   | 24,119              | 23,577              |
| Borrowings                           | 18   | 51,010              | 50,811              |
| Provisions                           | 17   | 2,924               | 2,525               |
| Deferred tax liabilities             | 5    | 3,426               | 4,337               |
| <b>Total non-current liabilities</b> |      | <b>81,479</b>       | <b>81,250</b>       |
| <b>Total liabilities</b>             |      | <b>146,052</b>      | <b>151,050</b>      |
| <b>Net assets</b>                    |      | <b>242,755</b>      | <b>221,341</b>      |
| <b>EQUITY</b>                        |      |                     |                     |
| Issued share capital                 | 19   | 245,653             | 245,653             |
| Reserves                             | 20   | 14,814              | 4,158               |
| Accumulated losses                   |      | (17,712)            | (28,470)            |
| <b>Total equity</b>                  |      | <b>242,755</b>      | <b>221,341</b>      |

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 26 June 2022

|  | Note | Issued capital<br>\$'000 | Foreign currency translation reserve<br>\$'000 | Statutory surplus reserve<br>\$'000 | Share-based payments reserve<br>\$'000 | Cash flow hedge reserve<br>\$'000 | Accumulated losses<br>\$'000 | Total<br>\$'000 |
|--|------|--------------------------|--|-------------------------------------|--|-----------------------------------|------------------------------|-----------------|
| <b>Balance at July 2020</b>                    |      | 66,738                   | (30)   | 393                                 | 214                                    | –                                 | 3,281                        | 70,596          |
| Profit for the year                            |      | –                        | –  | –                                   | –                                      | –                                 | 24,871                       | 24,871          |
| Other comprehensive income for the year        |      | –                        | 2,512  | –                                   | –                                      | 244                               | –                            | 2,756           |
| <b>Total comprehensive income for the year</b> |      | <b>–</b>                 | <b>2,512</b>                                   | <b>–</b>                            | <b>–</b>                               | <b>244</b>                        | <b>24,871</b>                | <b>27,627</b>   |
| Issue of shares, net of costs                  |      | 180,570                  | –  | –                                   | –                                      | –                                 | –                            | 180,570         |
| Dividends paid                                 | 21   | (1,655)                  | –  | –                                   | –                                      | –                                 | (56,500)                     | (58,155)        |
| Share based payments                           | 30   | –                        | –  | –                                   | 703                                    | –                                 | –                            | 703             |
| Transfer to statutory surplus                  | 20   | –                        | –  | 122                                 | –                                      | –                                 | (122)                        | –               |
| <b>Balance at June 2021</b>                    |      | <b>245,653</b>           | <b>2,482</b>                                   | <b>515</b>                          | <b>917</b>                             | <b>244</b>                        | <b>(28,470)</b>              | <b>221,341</b>  |
| Profit for the year                            |      | –                        | –  | –                                   | –                                      | –                                 | 19,580                       | 19,580          |
| Other comprehensive income for the year        |      | –                        | 8,617  | –                                   | –                                      | 289                               | –                            | 8,906           |
| <b>Total comprehensive income for the year</b> |      | <b>–</b>                 | <b>8,617</b>                                   | <b>–</b>                            | <b>–</b>                               | <b>289</b>                        | <b>19,580</b>                | <b>28,486</b>   |
| Dividends paid                                 | 21   | –                        | –  | –                                   | –                                      | –                                 | (7,324)                      | (7,324)         |
| Share based payments                           | 30   | –                        | –  | –                                   | 252                                    | –                                 | –                            | 252             |
| Transfer to statutory surplus                  | 20   | –                        | –  | 1,498                               | –                                      | –                                 | (1,498)                      | –               |
| <b>Balance at June 2022</b>                    |      | <b>245,653</b>           | <b>11,099</b>                                  | <b>2,013</b>                        | <b>1,169</b>                           | <b>533</b>                        | <b>(17,712)</b>              | <b>242,755</b>  |

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 26 June 2022

|  | Note | June 2022<br>\$'000 | June 2021<br>\$'000 |
|--|------|---------------------|---------------------|
| <b>Cash flows from operating activities</b>                      |      |                     |                     |
| Receipts from customers  |      | 393,202             | 325,829             |
| Payments to suppliers and employees                              |      | (350,914)           | (290,340)           |
| Receipts from government grants                                  |      | 1,309               | 3,585               |
| Interest and other costs of finance paid                         |      | (3,151)             | (3,236)             |
| Income taxes paid  |      | (5,847)             | (10,768)            |
| <b>Net cash generated by operating activities</b>                | 7    | <b>34,599</b>       | <b>25,070</b>       |
| <b>Cash flows from investing activities</b>                      |      |                     |                     |
| Payment for acquisition of business, net of cash acquired        | 25   | (1,189)             | (18,623)            |
| Payment for settlement of prior year business combination        |      | (8,932)             | –                   |
| Payments for property, plant and equipment and intangible assets |      | (30,050)            | (9,760)             |
| <b>Net cash used in investing activities</b>                     |      | <b>(40,171)</b>     | <b>(28,383)</b>     |
| <b>Cash flows from financing activities</b>                      |      |                     |                     |
| Proceeds from bank loans   | 18   | 4,482               | 52,957              |
| Repayment of bank loans  | 18   | (3,741)             | (62,971)            |
| Repayment of shareholder loans                                   | 18   | –                   | (11,491)            |
| Repayment of vendor finance loans                                | 18   | –                   | (1,642)             |
| Payment of borrowing establishment expenses                      | 18   | –                   | (450)               |
| Proceeds from initial public offering                            |      | –                   | 129,076             |
| Capital raising expenses   |      | –                   | (6,417)             |
| Dividends paid   | 21   | (7,324)             | (58,155)            |
| Repayment of principal component of lease liabilities            | 16   | (4,370)             | (3,827)             |
| <b>Net cash (used by) / generated from financing activities</b>  |      | <b>(10,953)</b>     | <b>37,080</b>       |
| <b>Net (decrease) / increase in cash and cash equivalents</b>    |      | <b>(16,525)</b>     | <b>33,767</b>       |
| <b>Cash at the beginning of the year</b>                         |      | <b>48,988</b>       | <b>15,244</b>       |
| Effect of movement in foreign exchange rate                      |      | (478)               | (23)                |
| <b>Cash at the end of the year</b>                               | 7    | <b>31,985</b>       | <b>48,988</b>       |

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



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# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENT

## 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.

The current reporting period is the financial year ended 26 June 2022. This is the 52-week period from 28 June 2021 to 26 June 2022 and is referred to as June 2022 throughout the consolidated financial statements and notes to the consolidated financial statements. The comparative 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 consolidated financial statements and notes to the consolidated financial statements.

### 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 rounded 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 statements were authorised for issue by the board of directors on 24 August 2022.

### 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

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 a transfer between the opening balances of asset classes within Note 12 Property, plant and equipment. The impact of this included a transfer of \$9m between plant and equipment, leasehold improvements and construction in progress. This reclassification had no effect on the reported profit and loss or cashflow information.

## 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) total at an operating segment level. Depreciation and amortisation, finance costs and income tax expense are reviewed at a Group 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 2022 approximately 70% (June 2021: 83%) of the Group's external revenue was derived from sales to major supermarkets in Australia including Coles, Woolworths and ALDI. The reduction of the percentage of sales comprised of major Australian supermarkets in the current reporting period should be considered in the context of the expansion of the Group's China operations following the acquisition and subsequent consolidation of Van den Berg Asia Holdings Limited as a consolidated entity for the full reporting period. This reduction also lowers the inherent customer concentration risk of the Group.

### 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 2022                                   | Australia<br>\$'000        | China<br>\$'000            | Intersegment<br>eliminations<br>\$'000 | Total<br>\$'000 |
|---|----------------------------|----------------------------|--|-----------------|
| <b>Segment revenue – sales to customers</b> |                            |                            |  |                 |
| Flowers                                     | 249,494                    | 86,783                     | (29,580)                               | 306,697         |
| Plants                                      | 59,800                     | –                          | –                                      | 59,800          |
|   | <b>309,294</b>             | <b>86,783</b>              | <b>(29,580)</b>                        | <b>366,497</b>  |
| <b>EBITDA</b>                               | <b>23,184</b>              | <b>25,032</b>              | <b>–</b>                               | <b>48,216</b>   |
| Depreciation and amortisation               |                            |                            |  | (20,041)        |
| Finance costs                               |                            |                            |  | (3,301)         |
| <b>Profit before income tax expense</b>     |                            |                            |  | <b>24,874</b>   |
| Income tax expense                          |                            |                            |  | (5,294)         |
| <b>Profit after income tax expense</b>      |                            |                            |  | <b>19,580</b>   |
| <b>Segment assets</b>                       | <b>320,376<sup>1</sup></b> | <b>192,692<sup>1</sup></b> | <b>(124,261)</b>                       | <b>388,807</b>  |
| <b>Segment liabilities</b>                  | <b>124,754</b>             | <b>145,559</b>             | <b>(124,261)</b>                       | <b>146,052</b>  |

<sup>1</sup> Includes capital additions of \$2,971,000 in Australia and \$29,462,000 in China.

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

<sup>1</sup> Includes capital additions of \$1,470,000 in Australia and \$9,203,000 in China.

<sup>2</sup> 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.

<sup>3</sup> Includes 3 months of revenue and EBITDA from VdB Group post the acquisition of the remaining 80% of VdB group in April 2021.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 2. Revenue

Revenue is comprised of the following:

|                          | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--------------------------|----------------------|----------------------|
| Sales of goods – Flowers | 306,697              | 242,339              |
| Sales of goods – Plants  | 59,800               | 57,866               |
|                          | <b>366,497</b>       | <b>300,205</b>       |

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).

Disaggregation of revenue by geography is set out in Note 1.

### 3. Government grants

In the current financial year, the Group received \$1,309,000 agricultural sector government grants in China. There are no corresponding amounts in relation to the financial year ended June 2021.

In the financial year ended June 2021 and associated with the COVID-19 pandemic, the Group received \$3,585,000 Job Keeper support payments from the Australian Government which were passed on to eligible employees. This excluded \$430,000 which has been recognised as an offset against employee benefits expense. There are no corresponding amounts in the financial year ended June 2022.

### 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 2022<br>\$'000s | June 2021<br>\$'000s |
|-----------------------------------|----------------------|----------------------|
| <b>Employee benefits expenses</b> |                      |                      |
| Salaries (including on costs)     | 40,893               | 35,506               |
| Superannuation costs              | 2,966                | 2,620                |
| Leave entitlements                | 977                  | 835                  |
| Other employee expenses           | 1,089                | 1,095                |
|                                   | <b>45,925</b>        | <b>40,056</b>        |

Finance costs are comprised of the following:

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Finance costs</b>                          |                      |                      |
| Interest expense on borrowings                | 1,653                | 2,309                |
| Amortisation of borrowing costs               | 150                  | 652                  |
| Interest expense on lease liabilities         | 1,410                | 1,219                |
| Interest on contractual make good obligations | 88                   | 90                   |
|   | <b>3,301</b>         | <b>4,270</b>         |

Depreciation and amortisation expenses are comprised of the following:

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Depreciation and amortisation expenses</b> |                      |                      |
| Depreciation of property, plant and equipment | 8,103                | 3,548                |
| Depreciation of right-of-use assets           | 5,536                | 4,279                |
| Amortisation of intangible assets             | 6,402                | 5,148                |
|   | <b>20,041</b>        | <b>12,975</b>        |

Occupancy expenses are comprised of the following:

|                           | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---------------------------|----------------------|----------------------|
| <b>Occupancy expenses</b> |                      |                      |
| Variable lease payments   | 1,436                | 688                  |
| Short term lease payments | 60                   | 500                  |
|                           | <b>1,496</b>         | <b>1,188</b>         |

## Other expenses

In the previous financial year ended June 2021, IPO offer, restructuring and VdB acquisition costs totaling \$8,616,000 are included in "other expenses". There are no corresponding amounts in relation to the financial year ended June 2022.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Income tax expense</b>  |                      |                      |
| Current tax  | 6,371                | 9,697                |
| Prior year adjustment  | (222)                | –                    |
| Deferred tax – origination and reversal of temporary differences                     | (855)                | (4,045)              |
| <b>Aggregate income tax expense</b>  | <b>5,294</b>         | <b>5,652</b>         |
| <b>Numerical reconciliation of income tax expense and tax at the statutory rate:</b> |                      |                      |
| <b>Profit before income tax expense</b>  | <b>24,874</b>        | <b>30,523</b>        |
| Tax at the statutory tax rate of 30%   | 7,462                | 9,157                |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: |                      |                      |
| Share of profits of associates   | –                    | (543)                |
| Fair value gain relating to associate interest re-measurement                        | –                    | (3,056)              |
| Other non-deductible items, including IPO costs                                      | 362                  | 982                  |
| Prior year adjustments   | (222)                | –                    |
|  | <b>7,602</b>         | <b>6,540</b>         |
| Difference in overseas tax rates   | (2,308)              | (888)                |
| <b>Income tax expense</b>  | <b>5,294</b>         | <b>5,652</b>         |

#### 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--------------------------------------|----------------------|----------------------|
| <b>Deferred tax assets</b>           |                      |                      |
| Lease liabilities                    | 7,986                | 5,676                |
| Employee benefits                    | 2,644                | 2,323                |
| Section 40-880 expenditure           | 1,887                | 2,487                |
| Allowance for expected credit losses | 55                   | 65                   |
| Inventories                          | 200                  | 355                  |
| Other provisions                     | 338                  | 211                  |
| Property, plant and equipment        | –                    | 31                   |
| Trade and other payables             | 901                  | 1,108                |
|                                      | <b>14,011</b>        | <b>12,256</b>        |
| <b>Deferred tax liabilities</b>      |                      |                      |
| Intangible assets                    | 10,190               | 11,704               |
| Right-of-use assets                  | 7,079                | 4,805                |
| Property, plant and equipment        | 102                  | –                    |
| Other                                | 66                   | 84                   |
|                                      | <b>17,437</b>        | <b>16,593</b>        |
| <b>Net deferred tax liability</b>    | <b>3,426</b>         | <b>4,337</b>         |

The movement of net deferred tax assets/(liabilities) during the year is as follows:

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Movements</b>                                   |                      |                      |
| Opening balance                                    | 4,337                | 6,531                |
| Credited to profit or loss                         | (1,077)              | (4,045)              |
| Debited / (credited) to other comprehensive income | 98                   | (1,364)              |
| Additions through business combinations (Note 25)  | 68                   | 3,215                |
| <b>Closing balance</b>                             | <b>3,426</b>         | <b>4,337</b>         |

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

|                              | June 2022<br>\$'000s | June 2021<br>\$'000s |
|------------------------------|----------------------|----------------------|
| <b>Current tax asset</b>     | <b>166</b>           | <b>491</b>           |
| <b>Current tax liability</b> | <b>460</b>           | <b>–</b>             |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 5. Income tax cont.

#### 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)**

|   | <b>June 2022<br/>\$'000s</b> | <b>June 2021<br/>\$'000s</b> |
|---|------------------------------|------------------------------|
| <b>Profit after tax attributable to owners of the company</b> | <b>19,580</b>                | <b>24,871</b>                |
|   | <b>Number</b>                | <b>Number</b>                |
| Weighted average number of Ordinary shares – Basic EPS        | 122,066                      | 79,292                       |
| Weighted average number of shares – Diluted EPS               | 122,066                      | 79,292                       |
|   | <b>Cents</b>                 | <b>Cents</b>                 |
| Basic earnings per share                                      | 16.04                        | 31.36                        |
| Diluted earnings per share                                    | 16.04                        | 31.36                        |

**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 2022 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 period.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

## Assets and liabilities

### 7. Cash and cash equivalents

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

|              | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--------------|----------------------|----------------------|
| Cash at bank | 31,985               | 48,988               |
|              | <b>31,985</b>        | <b>48,988</b>        |

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 operating activities is as follows:

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Profit after income tax expense for the year</b>    | <b>19,580</b>        | <b>24,871</b>        |
| Adjustments for:                                       |                      |                      |
| Depreciation and amortisation                          | 20,041               | 12,975               |
| Share-based payments                                   | 252                  | 703                  |
| Amortisation of borrowing costs                        | 150                  | 742                  |
| Net fair value loss/(gain) on biological assets        | 622                  | (476)                |
| Remeasurement of fair value on investment in associate | -                    | (10,188)             |
| Share of profit in associate                           | -                    | (1,809)              |
| <b>Change in operating assets and liabilities:</b>     |                      |                      |
| Increase in trade and other receivables                | (1,563)              | (3,364)              |
| Increase in inventories                                | (4,601)              | (374)                |
| Decrease/(increase) in biological assets               | 573                  | (2,373)              |
| Decrease/(increase) in current tax assets              | 325                  | (491)                |
| Increase in other assets                               | (1,089)              | (2,346)              |
| (Decrease)/increase in trade and other payables        | (795)                | 6,664                |
| Increase/(decrease) in current tax liabilities         | 460                  | (134)                |
| Decrease in deferred tax liabilities                   | (911)                | (2,194)              |
| Increase in provisions                                 | 1,555                | 2,864                |
| <b>Net cash from operating activities</b>              | <b>34,599</b>        | <b>25,070</b>        |

Refer to Note 18 for movement in borrowings and Note 16 for movement in lease liabilities.

## 8. Trade and other receivables

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

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| Trade receivables and other receivables | 22,152               | 20,622               |
| Provision for expected credit losses    | (182)                | (215)                |
|   | <b>21,970</b>        | <b>20,407</b>        |

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 2022<br>%            | June 2021<br>% | June 2022<br>\$'000 | June 2021<br>\$'000 | June 2022<br>\$'000                  | June 2021<br>\$'000 |
| Not overdue           | 0.1%                      | 0.4%           | 18,536              | 19,559              | 18                                   | 69                  |
| 0 to 3 months overdue | 1.1%                      | 5.0%           | 3,294               | 939                 | 35                                   | 47                  |
| 3 to 6 months overdue | 21.0%                     | 35.9%          | 237                 | 39                  | 50                                   | 14                  |
| Over 6 months overdue | 93.0%                     | 100.0%         | 85                  | 85                  | 79                                   | 85                  |
|                       |                           |                | <b>22,152</b>       | <b>20,622</b>       | <b>182</b>                           | <b>215</b>          |

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

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Current</b>  |                      |                      |
| Opening balance   | 215                  | 328                  |
| Unused amounts reversed; net of additional provisions written off | (33)                 | (113)                |
| <b>Closing Balance</b>  | <b>182</b>           | <b>215</b>           |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 9. Inventories

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

|                                     | June 2022<br>\$'000s | June 2021<br>\$'000s |
|-------------------------------------|----------------------|----------------------|
| Raw and packaging materials at cost | 13,445               | 9,314                |
| Finished goods at cost              | 2,300                | 2,350                |
| Obsolescence provision              | (666)                | (1,186)              |
|                                     | <b>15,079</b>        | <b>10,478</b>        |

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:

|         | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---------|----------------------|----------------------|
| Flowers | 1,690                | 2,391                |
| Plants  | 2,688                | 2,560                |
|         | <b>4,378</b>         | <b>4,951</b>         |

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

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| Carrying amount at start of the year            | 4,951                | 2,578                |
| Net fair value (decrease)/increase <sup>1</sup> | (622)                | 476                  |
| Increase from business combinations             | -                    | 970                  |
| Increase due to purchases                       | 56,251               | 37,687               |
| Decrease due to harvest <sup>1</sup>            | (56,202)             | (36,760)             |
| <b>Carrying amount at end of the year</b>       | <b>4,378</b>         | <b>4,951</b>         |

<sup>1</sup> 'Net fair value (decrease) / increase' and 'Decrease due to harvest' amounts exclude fair value movements (in excess of cost) relating to items sold during the period totaling \$14,536,000 (June 2021: \$9,136,000). Therefore the 'net fair value decrease' shown of \$622,000 (June 2021: increase of \$476,000) represents the change in the fair value amount included in closing biological assets compared to opening biological assets. The 'decrease due to harvest' of \$56,202,000 (June 2021: \$36,760,000) represents the costs of biological assets harvested during the period, excluding fair value movements.

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 "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 4–6-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 | <ul style="list-style-type: none"> <li>Estimated post-harvest sales prices;</li> <li>Estimated farm yields and stage of maturity;</li> <li>Estimated remaining harvest and transportation costs</li> </ul> | <p>The estimated fair value would increase (decrease) if:</p> <ul style="list-style-type: none"> <li>the estimated sales prices were higher (lower);</li> <li>the estimated yields per farm were higher (lower);</li> <li>the estimated harvest and transportation costs were lower (higher)</li> </ul> |

## 11. Other assets

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

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Prepayments                              | 3,631                | 3,191                |
| Foreign exchange contracts at fair value | 998                  | 349                  |
|  | <b>4,629</b>         | <b>3,540</b>         |



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 12. Property, plant and equipment

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

|  | Restated<br>Leasehold<br>improvements<br>\$'000 | Restated<br>Plant and<br>equipment<br>\$'000 | Restated<br>Motor<br>vehicles<br>\$'000 | Restated<br>Bearer<br>plants<br>\$'000 | Restated<br>Construction<br>in progress<br>\$'000 | Total<br>\$'000 |
|--|---|--|---|--|---|-----------------|
| <b>Cost</b>                            |   |  |   |  |   |                 |
| <b>At July 2020</b>                    | <b>14,173</b>                                   | <b>13,721</b>                                | <b>1,778</b>                            | <b>1,828</b>                           | <b>5,264</b>                                      | <b>36,764</b>   |
| 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)           |
| <b>At June 2021</b>                    | <b>23,960</b>                                   | <b>33,777</b>                                | <b>1,909</b>                            | <b>4,532</b>                           | <b>10,022</b>                                     | <b>74,200</b>   |
| Additions                              | 18,890  | 8,775  | 164                                     | 3,384                                  | 1,159   | 32,372          |
| Acquired through business combinations | 75  | –  | –                                       | –                                      | –   | 75              |
| Exchange differences                   | 1,377   | 2,213  | 47                                      | 453                                    | 581   | 4,671           |
| Disposals                              | –   | (727)  | (252)                                   | (149)                                  | –   | (1,128)         |
| <b>At June 2022</b>                    | <b>44,302</b>                                   | <b>44,038</b>                                | <b>1,868</b>                            | <b>8,220</b>                           | <b>11,762</b>                                     | <b>110,190</b>  |
| <b>Accumulated depreciation</b>        |   |  |   |  |   |                 |
| <b>At July 2020</b>                    | <b>(3,068)</b>                                  | <b>(8,040)</b>                               | <b>(1,006)</b>                          | <b>(946)</b>                           | <b>–</b>  | <b>(13,060)</b> |
| Charge for the year                    | (445)   | (2,337)                                      | (130)                                   | (636)                                  | –   | (3,548)         |
| Exchange differences                   | (16)  | (336)  | (4)                                     | (60)                                   | –   | (416)           |
| Eliminated on disposals                | 28  | 89   | 46                                      | –                                      | –   | 163             |
| <b>At June 2021</b>                    | <b>(3,501)</b>                                  | <b>(10,624)</b>                              | <b>(1,094)</b>                          | <b>(1,642)</b>                         | <b>–</b>  | <b>(16,861)</b> |
| Charge for the year                    | (1,108)   | (5,903)                                      | (164)                                   | (928)                                  | –   | (8,103)         |
| Capitalised as bearer plants           | (170)   | –  | –                                       | –                                      | –   | (170)           |
| Exchange differences                   | (181)   | (1,055)                                      | (26)                                    | (258)                                  | –   | (1,520)         |
| Eliminated on disposals                | –   | 494  | 139                                     | 13                                     | –   | 646             |
| <b>At June 2022</b>                    | <b>(4,960)</b>                                  | <b>(17,088)</b>                              | <b>(1,145)</b>                          | <b>(2,815)</b>                         | <b>–</b>  | <b>(26,008)</b> |
| <b>Carrying amount</b>                 |   |  |   |  |   |                 |
| <b>At June 2021</b>                    | <b>20,459</b>                                   | <b>23,153</b>                                | <b>815</b>                              | <b>2,890</b>                           | <b>10,022</b>                                     | <b>57,339</b>   |
| <b>At June 2022</b>                    | <b>39,342</b>                                   | <b>26,950</b>                                | <b>723</b>                              | <b>5,405</b>                           | <b>11,762</b>                                     | <b>84,182</b>   |

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 use. Depreciation over the useful life of the asset commences from the date the asset is available for use.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 13. Right-of-use assets

Right-of-use assets, which are classified as 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<br>Buildings<br>\$'000 | Motor<br>Vehicles<br>\$'000 | Plant and<br>Equipment<br>\$'000 | Total<br>\$'000 |
|--|---------------------------------|-----------------------------|----------------------------------|-----------------|
| <b>Right of Use Assets</b>             |                                 |                             |                                  |                 |
| <b>At July 2020</b>                    | <b>19,577</b>                   | <b>180</b>                  | <b>229</b>                       | <b>19,986</b>   |
| 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             |
| <b>At June 2021</b>                    | <b>25,293</b>                   | <b>149</b>                  | <b>908</b>                       | <b>26,350</b>   |
| Additions                              | 2,982                           | –                           | –                                | 2,982           |
| Modifications                          | 506                             | –                           | (431)                            | 75              |
| Remeasurement                          | 569                             | –                           | –                                | 569             |
| Make good assets                       | 374                             | –                           | –                                | 374             |
| Acquired through business combinations | 539                             | –                           | –                                | 539             |
| Depreciation expense                   | (5,365)                         | (77)                        | (94)                             | (5,536)         |
| Capitalised as bearer plants           | (51)                            | –                           | –                                | (51)            |
| Foreign exchange                       | 510                             | –                           | 58                               | 568             |
| <b>At June 2022</b>                    | <b>25,357</b>                   | <b>72</b>                   | <b>441</b>                       | <b>25,870</b>   |

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

| Net book value (cost, less accumulated depreciation) | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Right-of-use land and buildings – cost               | 37,386               | 31,906               |
| Less: Accumulated depreciation                       | (12,029)             | (6,613)              |
|  | <b>25,357</b>        | <b>25,293</b>        |
| Right-of-use motor vehicles – cost                   | 310                  | 310                  |
| Less: Accumulated depreciation                       | (238)                | (161)                |
|  | <b>72</b>            | <b>149</b>           |
| Right-of-use plant and equipment – cost              | 697                  | 1,070                |
| Less: Accumulated depreciation                       | (256)                | (162)                |
|  | <b>441</b>           | <b>908</b>           |
|  | <b>25,870</b>        | <b>26,350</b>        |

#### Land and buildings

The Group leases land and buildings for its offices, warehouses and retail outlets under agreements of between 3 and 17 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.

#### Short term and 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 14. Intangible assets

The Group's intangible assets, which are classified as non-current, are comprised of the following:

|  | Goodwill<br>\$'000 | Brand names<br>\$'000 | Databases<br>\$'000 | Computer<br>software<br>\$'000 | Customer<br>relationships<br>\$'000 | Total<br>\$'000 |
|--|--------------------|-----------------------|---------------------|--------------------------------|-------------------------------------|-----------------|
| <b>Cost</b>                            |                    |                       |                     |                                |                                     |                 |
| <b>At July 2020</b>                    | <b>84,674</b>      | <b>10,870</b>         | <b>6,589</b>        | <b>7,130</b>                   | <b>36,308</b>                       | <b>145,571</b>  |
| 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)            |
| <b>At June 2021</b>                    | <b>142,231</b>     | <b>16,918</b>         | <b>6,589</b>        | <b>7,372</b>                   | <b>59,481</b>                       | <b>232,591</b>  |
| Additions                              | –                  | –                     | –                   | 61                             | –                                   | 61              |
| Acquired through business combinations | 1,930              | –                     | –                   | –                              | –                                   | 1,930           |
| Exchange differences                   | 3,486              | 356                   | –                   | 7                              | 1,481                               | 5,330           |
| <b>At June 2022</b>                    | <b>147,647</b>     | <b>17,274</b>         | <b>6,589</b>        | <b>7,440</b>                   | <b>60,962</b>                       | <b>239,912</b>  |
| <b>Amortisation</b>                    |                    |                       |                     |                                |                                     |                 |
| <b>At July 2020</b>                    | <b>–</b>           | <b>–</b>              | <b>(6,150)</b>      | <b>(6,221)</b>                 | <b>(15,228)</b>                     | <b>(27,599)</b> |
| Charge for the year                    | –                  | –                     | (439)               | (519)                          | (4,190)                             | (5,148)         |
| Eliminated on disposals                | –                  | –                     | –                   | 3                              | –                                   | 3               |
| <b>At June 2021</b>                    | <b>–</b>           | <b>–</b>              | <b>(6,589)</b>      | <b>(6,737)</b>                 | <b>(19,418)</b>                     | <b>(32,744)</b> |
| Charge for the year                    | –                  | –                     | –                   | (350)                          | (6,052)                             | (6,402)         |
| Exchange differences                   | –                  | –                     | –                   | (12)                           | (206)                               | (218)           |
| <b>At June 2022</b>                    | <b>–</b>           | <b>–</b>              | <b>(6,589)</b>      | <b>(7,099)</b>                 | <b>(25,676)</b>                     | <b>(39,364)</b> |
| <b>Carrying amount</b>                 |                    |                       |                     |                                |                                     |                 |
| <b>At June 2021</b>                    | <b>142,231</b>     | <b>16,918</b>         | <b>–</b>            | <b>635</b>                     | <b>40,063</b>                       | <b>199,847</b>  |
| <b>At June 2022</b>                    | <b>147,647</b>     | <b>17,274</b>         | <b>–</b>            | <b>341</b>                     | <b>35,286</b>                       | <b>200,548</b>  |



### **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.

The Goodwill acquired through business combinations has been allocated to the Australian Group of CGUs.

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 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 Group of CGUs as follows:

|                         | June 2022<br>\$'000s | June 2021<br>\$'000s |
|-------------------------|----------------------|----------------------|
| <b>Goodwill</b>         |                      |                      |
| Australia Group of CGUs | 86,605               | 84,674               |
| China Group of CGUs     | 61,042               | 57,557               |
|                         | <b>147,647</b>       | <b>142,231</b>       |
| <b>Brand names</b>      |                      |                      |
| Australia Group of CGUs | 10,870               | 10,870               |
| China Group of CGUs     | 6,404                | 6,048                |
|                         | <b>17,274</b>        | <b>16,918</b>        |

### 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 its 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 Group of CGUs

At June 2022 and June 2021 financial year ends, the directors assessed the recoverable amount of the Australia Group of CGUs and determined there was no impairment. The recoverable amount of the Group of CGUs (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 three-year period which was extrapolated into perpetuity using a growth rate of 2.0% (June 2021: 2.0%). The net cash flows were then discounted using a post-tax discount of 10.5% (June 2021: 9.8%).

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 Group of CGUs for impairment using a relief from royalty method and concluded that no impairment is required at balance date.

**Impairment testing: China Group of CGUs**

At June 2022, the directors assessed the recoverable amount of the China Group of CGUs and determined there was no impairment. The recoverable amount of the Group of CGUs (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 three-year period which was extrapolated into perpetuity using a growth rate of 2.5% (June 2021: 2.5%). The net cash flows were then discounted using a post-tax discount rate of 11.2% (June 2021: 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 Group of CGUs 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 2022<br>\$'000s | June 2021<br>\$'000s |
|-----------------------------|----------------------|----------------------|
| Trade payables              | 35,623               | 33,453               |
| Other payables and accruals | 11,532               | 21,050               |
|                             | <b>47,155</b>        | <b>54,503</b>        |

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:

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Carrying amount at start of year</b>   | <b>27,868</b>        | <b>22,884</b>        |
| Additions                                 | 2,983                | 3,164                |
| Modifications                             | 51                   | —                    |
| Remeasurements                            | 593                  | —                    |
| Foreign exchange movements                | 491                  | 153                  |
| Acquired through business combinations    | 620                  | 5,494                |
| Lease payments                            | (5,780)              | (5,046)              |
| Interest expense                          | 1,410                | 1,219                |
| <b>Carrying amount at the end of year</b> | <b>28,236</b>        | <b>27,868</b>        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

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:

|                       | June 2022<br>\$'000s | June 2021<br>\$'000s |
|-----------------------|----------------------|----------------------|
| Current liability     | 4,117                | 4,291                |
| Non-current liability | 24,119               | 23,577               |
|                       | <b>28,236</b>        | <b>27,868</b>        |

The Group leases land and buildings for its production facilities, farms offices and warehouses under agreements of between 3 to 17 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 2 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 2022<br>\$'000s | June 2021<br>\$'000s |
|-------------------|----------------------|----------------------|
| Year 1            | 5,368                | 5,214                |
| Year 2            | 4,913                | 4,817                |
| Year 3            | 4,877                | 4,183                |
| Year 4            | 4,574                | 4,133                |
| Year 5            | 4,150                | 3,831                |
| Onwards           | 10,262               | 12,124               |
|                   | <b>34,144</b>        | <b>34,302</b>        |
| Unearned interest | (5,908)              | (6,434)              |
|                   | <b>28,236</b>        | <b>27,868</b>        |

The weighted average incremental borrowing rate that has been used to calculate the maturity profile is 4.6% (June 2021: 4.7%).

## 17. Provisions

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

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Current</b>                            |                      |                      |
| Employee benefits                         | 7,810                | 6,659                |
| Other – contractual make-good obligations | 580                  | 575                  |
|   | <b>8,390</b>         | <b>7,234</b>         |
| <b>Non-current</b>                        |                      |                      |
| Employee benefits                         | 1,002                | 1,085                |
| Other – contractual make-good obligations | 1,922                | 1,440                |
|   | <b>2,924</b>         | <b>2,525</b>         |
|   | <b>11,314</b>        | <b>9,759</b>         |

### 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Carrying amount at start of year</b>          | <b>2,015</b>         | <b>–</b>             |
| Recognition of contractual make-good obligations | 374                  | 1,925                |
| Acquired through business combinations           | 25                   | –                    |
| Interest expense                                 | 88                   | 90                   |
| <b>Carrying amount at the end of year</b>        | <b>2,502</b>         | <b>2,015</b>         |

In China, the Group is party to certain land lease arrangements. The directors consider, based on legal advice, that it is not probable that an outflow will be required for restoration of leased land. Accordingly, no make good obligation has been recognised.



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

## Capital

### 18. Borrowings

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

|   | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| <b>Current</b>                              |                      |                      |
| <b>Secured – at amortised cost</b>          |                      |                      |
| Bank loans – commercial bills               | 4,451                | 3,772                |
| <b>Total current borrowings</b>             | <b>4,451</b>         | <b>3,772</b>         |
| <b>Non-current</b>                          |                      |                      |
| <b>Secured – at amortised cost</b>          |                      |                      |
| Bank loans – term facility                  | 50,000               | 50,000               |
| Bank loans – commercial bills               | 1,272                | 1,223                |
| Capitalised borrowing costs – term facility | (262)                | (412)                |
| <b>Total current borrowings</b>             | <b>51,010</b>        | <b>50,811</b>        |
| <b>Total borrowings</b>                     | <b>55,461</b>        | <b>54,583</b>        |

Movement in the Group's borrowing for the year to June 2022 is as follows:

| June 2022   | Bank loans –<br>term facilities<br>\$'000 | Bank loans –<br>commercial bills<br>\$'000 | Total<br>\$'000 |
|---|---|--|-----------------|
| <b>Carrying amount at start of year</b>                     | <b>49,588</b>                             | <b>4,995</b>                               | <b>54,583</b>   |
| Proceeds from bank borrowings                               | –   | 4,482                                      | 4,482           |
| Repayment of bank borrowings                                | –   | (3,741)                                    | (3,741)         |
| Exchange differences  | –   | (13)                                       | (13)            |
| Amortisation of prepaid borrowing<br>establishment expenses | 150                                       | –  | 150             |
| <b>Carrying amount at the end of year</b>                   | <b>49,738</b>                             | <b>5,723</b>                               | <b>55,461</b>   |

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

| June 2021   | Bank loans –<br>term facilities<br>\$'000 | Bank loans –<br>commercial<br>bills<br>\$'000 | Vendor<br>finance<br>loans<br>\$'000 | Shareholder's<br>loans<br>\$'000 | Total<br>\$'000 |
|---|---|---|--------------------------------------|----------------------------------|-----------------|
| <b>Carrying amount<br/>at start of year</b>                 | <b>59,636</b>                             | <b>2,769</b>                                  | <b>1,642</b>                         | <b>11,135</b>                    | <b>75,182</b>   |
| 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<br>business combinations                    | –   | 1,990   | –                                    | –                                | 1,990           |
| Accrued interest  | –   | –   | –                                    | 356                              | 356             |
| Repayment of vendor finance loans                           | –   | –   | (1,642)                              | –                                | (1,642)         |
| Borrowing establishment<br>expenses paid                    | (450)                                     | –   | –                                    | –                                | (450)           |
| Amortisation of prepaid borrowing<br>establishment expenses | 652                                       | –   | –                                    | –                                | 652             |
| <b>Carrying amount<br/>at the end of year</b>               | <b>49,588</b>                             | <b>4,995</b>                                  | <b>–</b>                             | <b>–</b>                         | <b>54,583</b>   |

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 totaling \$1,709,000 (June 2021: \$1,516,000);
- The Australia facility is secured by a security interest over all present and after-acquired property of the Group's business in Australia.

#### China

- \$3,179,000 drawn commercial bank bill facility with the Bank of China maturing in instalments between October 2022 and June 2023. This facility is secured by a charge over some property, plant and equipment owned by the Group in China;
- \$2,544,000 drawn commercial bank bill facility with the Yunan Rural Credit Cooperatives maturing in two equal instalments in September 2022 and December 2023. This facility is secured by a charge over the ordinary share capital of Van den Berg Asia Holdings Limited and some property, plant and equipment owned by the Group in China;
- There are no undrawn bank facilities in China at balance date.

The carrying value of the Group's debt approximates its fair value.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 19. Issued share capital

Issued share capital is comprised of the following:

|                        | Number             | \$'000s        | Average price paid per share |
|------------------------|--------------------|----------------|------------------------------|
| <b>Ordinary shares</b> |                    |                |                              |
| <b>At June 2021</b>    | <b>122,066,112</b> | <b>245,653</b> | <b>\$2.01</b>                |
| <b>At June 2022</b>    | <b>122,066,112</b> | <b>245,653</b> | <b>\$2.01</b>                |

#### 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.

### 20. Reserves

Reserves are comprised of the following:

|                              | June 2022<br>\$'000s | June 2021<br>\$'000s |
|------------------------------|----------------------|----------------------|
| Foreign currency translation | 11,099               | 2,482                |
| Statutory surplus            | 2,013                | 515                  |
| Share-based payments         | 1,169                | 917                  |
| Cash flow hedge              | 533                  | 244                  |
|                              | <b>14,814</b>        | <b>4,158</b>         |

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

|                                | Foreign currency translation<br>\$'000s | Statutory surplus<br>\$'000s | Share-based payments<br>\$'000s | Cash flow hedge<br>\$'000s | Total<br>\$'000s |
|--------------------------------|---|------------------------------|---------------------------------|----------------------------|------------------|
| <b>Balance at July 2020</b>    | <b>(30)</b>                             | <b>393</b>                   | <b>214</b>                      | <b>—</b>                   | <b>577</b>       |
| Foreign currency translation   | 2,512                                   | —                            | —                               | —                          | 2,512            |
| Transfer from retained profits | —                                       | 122                          | —                               | —                          | 122              |
| Share-based payments           | —                                       | —                            | 703                             | —                          | 703              |
| Cash flow hedge                | —                                       | —                            | —                               | 244                        | 244              |
| <b>Balance at June 2021</b>    | <b>2,482</b>                            | <b>515</b>                   | <b>917</b>                      | <b>244</b>                 | <b>4,158</b>     |
| Foreign currency translation   | 8,617                                   | —                            | —                               | —                          | 8,617            |
| Transfer from retained profits | —                                       | 1,498                        | —                               | —                          | 1,498            |
| Share-based payments           | —                                       | —                            | 252                             | —                          | 252              |
| Cash flow hedge                | —                                       | —                            | —                               | 289                        | 289              |
| <b>Balance at June 2022</b>    | <b>11,099</b>                           | <b>2,013</b>                 | <b>1,169</b>                    | <b>533</b>                 | <b>14,814</b>    |

**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 its shareholders are as follows:

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Fully franked interim cash dividends declared and paid         | 7,324                | 56,500               |
| Unfranked return of capital interim dividend declared and paid | –                    | 1,655                |
|  | <b>7,324</b>         | <b>58,155</b>        |

Movement and available franking credits are as follows:

| <b>Franking credits based on a tax rate of 30%</b>               | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Carrying amount at the start of the year                         | 15,452               | 29,517               |
| Generated during the year  | 3,262                | 10,149               |
| Utilised during the year   | (3,139)              | (24,214)             |
| <b>Franking credits available for subsequent financial years</b> | <b>15,575</b>        | <b>15,452</b>        |

**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 with the exception of bank guarantees as disclosed in Note 18.

### 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

#### US Dollar

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 2022<br>USD<br>exposure<br>\$'000 | June 2022<br>AUD<br>equivalent<br>\$'000 | June 2021<br>USD<br>exposure<br>\$'000 | June 2021<br>AUD<br>equivalent<br>\$'000 |
|---------------------------------|--|--|--|--|
| Foreign currency trade payables | 1,342                                  | 1,943                                    | 1,727                                  | 2,274                                    |

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 2022<br>Movement in AUD/USD<br>exchange rate<br>% | June 2022<br>Increase/(decrease)<br>in profit or loss<br>\$'000 |
|---------------------------------|--|---|
| <b>As at June 2022</b>          |  |   |
| Foreign currency trade payables | +10%   | (194)   |
|                                 | -10%   | 194   |
| <b>As at June 2021</b>          |  |   |
| Foreign currency trade payables | +10%   | (227)   |
|                                 | -10%   | 227   |

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 (refer below).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### Chinese Yuan

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 2022 attributable to Chinese Yuan (CNY):

| Consolidated                                     | June 2022<br>CNY<br>exposure<br>\$'000 | June 2022<br>AUD<br>equivalent<br>\$'000 | June 2021<br>CNY<br>exposure<br>\$'000 | June 2021<br>AUD<br>equivalent<br>\$'000 |
|--|--|--|--|--|
| Chinese Yuan (CNY) profit for the year after tax | 54,119                                 | 11,550                                   | 37,276                                 | 7,545                                    |

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 2022:

| Chinese Yuan profit or loss   | June 2022<br>Movement in annual average<br>AUD/CNY exchange rate<br>% | June 2022<br>Increase/(decrease)<br>in profit or loss<br>\$'000 |
|-------------------------------|---|---|
| For the year ending June 2022 | +10%  | 1,155   |
|                               | -10%  | (1,155)   |
| For the year ending June 2021 | +10%  | 754   |
|                               | -10%  | (754)   |

### 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 2022 of \$55,461,000 (June 2021: \$54,583,000) are variable rate principal and interest payment loans. Minimum principal repayments of \$5,723,000 (June 2021: \$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 2022:

|                         |                     | + change<br>\$'000 | - change<br>\$'000 |
|-------------------------|---------------------|--------------------|--------------------|
| Change in interest rate | +/- 50 basis points | 273                | (273)              |

**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 2022, the Group had 10 customers (June 2021: 7) that owed it more than \$200,000 each and accounted for approximately 81% (June 2021: 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Capital expenditure, working capital and bank guarantee facility | 25,000               | 25,000               |
| Bank guarantees  | (1,709)              | (1,516)              |
|  | <b>23,291</b>        | <b>23,484</b>        |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### Remaining contractual maturities

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

|   | Weighted<br>average<br>interest rate<br>% | 1 year<br>or less<br>\$'000 | Between<br>1 and 2<br>years<br>\$'000 | Between<br>2 and 5<br>years<br>\$'000 | Over<br>5 years<br>\$'000 | Remaining<br>contractual<br>maturities<br>\$'000 |
|---|---|-----------------------------|---------------------------------------|---------------------------------------|---------------------------|--|
| <b>June 2022</b>                          |   |                             |                                       |                                       |                           |  |
| <b>Non-derivatives</b>                    |   |                             |                                       |                                       |                           |  |
| <b>Non-interest bearing</b>               |   |                             |                                       |                                       |                           |  |
| Trade payables                            | –   | 35,623                      | –                                     | –                                     | –                         | 35,623   |
| Other payables                            | –   | 11,532                      | –                                     | –                                     | –                         | 11,532   |
| <b>Interest-bearing – variable</b>        |   |                             |                                       |                                       |                           |  |
| Borrowings – terms facilities             | 2.4%                                      | 1,194                       | 51,286                                | –                                     | –                         | 52,480   |
| Borrowings – commercial bills             | 5.6%                                      | 2,981                       | 2,966                                 | –                                     | –                         | 5,947  |
| <b>Interest-bearing – fixed rate</b>      |   |                             |                                       |                                       |                           |  |
| Lease liability                           | 4.6%                                      | 5,368                       | 4,913                                 | 13,601                                | 10,262                    | 34,144   |
| Secured leases                            | 5.6%                                      | 119                         | –                                     | –                                     | –                         | 119  |
| <b>Total non-derivatives</b>              |   | <b>56,817</b>               | <b>59,165</b>                         | <b>13,601</b>                         | <b>10,262</b>             | <b>139,845</b>                                   |
| <b>Derivatives</b>                        |   |                             |                                       |                                       |                           |  |
| Forward foreign exchange contracts inflow | –   | (998)                       | –                                     | –                                     | –                         | (998)  |
| <b>Total derivatives</b>                  | <b>–</b>                                  | <b>(998)</b>                | <b>–</b>                              | <b>–</b>                              | <b>–</b>                  | <b>(998)</b>                                     |
| <b>June 2021</b>                          |   |                             |                                       |                                       |                           |  |
| <b>Non-derivatives</b>                    |   |                             |                                       |                                       |                           |  |
| <b>Non-interest bearing</b>               |   |                             |                                       |                                       |                           |  |
| Trade payables                            | –   | 33,453                      | –                                     | –                                     | –                         | 33,453   |
| Other payables                            | –   | 21,050                      | –                                     | –                                     | –                         | 21,050   |
| <b>Interest-bearing – variable</b>        |   |                             |                                       |                                       |                           |  |
| Borrowings – terms facilities             | 2.4%                                      | 1,200                       | 1,200                                 | 51,262                                | –                         | 53,662   |
| Borrowings – commercial bills             | 4.9%                                      | 3,874                       | 1,296                                 | –                                     | –                         | 5,170  |
| <b>Interest-bearing – fixed rate</b>      |   |                             |                                       |                                       |                           |  |
| Lease liability                           | 4.7%                                      | 5,214                       | 4,817                                 | 12,147                                | 12,124                    | 34,302   |
| Secured leases                            | 5.8%                                      | 78                          | 111                                   | –                                     | –                         | 189  |
| <b>Total non-derivatives</b>              |   | <b>64,869</b>               | <b>7,424</b>                          | <b>63,409</b>                         | <b>12,124</b>             | <b>147,826</b>                                   |
| <b>Derivatives</b>                        |   |                             |                                       |                                       |                           |  |
| Forward foreign exchange contracts inflow | –   | (349)                       | –                                     | –                                     | –                         | (349)  |
| <b>Total derivatives</b>                  | <b>–</b>                                  | <b>(349)</b>                | <b>–</b>                              | <b>–</b>                              | <b>–</b>                  | <b>(349)</b>                                     |

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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Current assets</b>                    |                      |                      |
| Foreign exchange contracts at fair value | 998                  | 349                  |
|  | <b>998</b>           | <b>349</b>           |

The Group designates certain derivatives as hedging instruments in respect of foreign currency risk. Effective June 2021, 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 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;
- Level 3: Unobservable inputs for the asset or liability.

|  | Level 1<br>\$'000s | Level 2<br>\$'000s | Level 3<br>\$'000s | Total<br>\$'000s |
|--|--------------------|--------------------|--------------------|------------------|
| <b>June 2022</b>                                 |                    |                    |                    |                  |
| <b>Assets / (liabilities)</b>                    |                    |                    |                    |                  |
| Biological assets                                | –                  | –                  | 4,378              | 4,378            |
| Derivatives – forward foreign exchange contracts | –                  | 998                | –                  | 998              |
|  | –                  | <b>998</b>         | <b>4,378</b>       | <b>5,376</b>     |
| <b>June 2021</b>                                 |                    |                    |                    |                  |
| <b>Assets / (liabilities)</b>                    |                    |                    |                    |                  |
| Biological assets                                | –                  | –                  | 4,951              | 4,951            |
| Derivatives – forward foreign exchange contracts | –                  | 349                | –                  | 349              |
|  | –                  | <b>349</b>         | <b>4,951</b>       | <b>5,300</b>     |

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;
- 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. Refer to Note 10.

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. 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.

#### **Lynch Market Flowers Brisbane Pty Ltd**

On 2 October 2021, the Group completed the acquisition of 100% of the ordinary shares of Lynch Market Flowers Brisbane Pty Ltd, an Australian based entity, whose principal activity is the wholesaling of flowers and potted plants.

This acquisition represents an expansion of the Group's existing Australian wholesale market sites outside of NSW. It is expected to strengthen the Group's activities in Queensland. The total consideration paid was \$1,297,000 which was paid in cash.

The goodwill arising on acquisition comprises the value of expected synergies arising from the expansion of wholesale operations in Queensland, the combined know-how (knowledge of how to do a particular thing), and the assembled workforce as well other intangibles which do not meet the recognition criteria of an identifiable intangible asset under AASB 138 *Intangible Assets*.

The Group incurred transaction costs of \$40,000 which included legal fees, tax and accounting fees and due diligence costs. These costs have been included in 'Other expenses' during the year.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

Details of the acquisition are as follows:

|   | October 2021<br>Fair value<br>\$'000s |
|---|---------------------------------------|
| <b>Assets</b>   |                                       |
| Cash and cash equivalents                                 | 108                                   |
| Trade and other receivables                               | 264                                   |
| Inventories   | 100                                   |
| Other assets  | 10                                    |
| Deferred tax assets                                       | 68                                    |
| Property, plant and equipment                             | 75                                    |
| Right-of-use assets                                       | 539                                   |
|   | <b>1,164</b>                          |
| <b>Liabilities</b>  |                                       |
| Trade and other payables                                  | (1,023)                               |
| Current tax liabilities                                   | (38)                                  |
| Lease liabilities   | (620)                                 |
| Provisions  | (116)                                 |
|   | <b>(1,797)</b>                        |
| Total identifiable net liabilities at fair value          | (633)                                 |
| Goodwill acquired   | 1,930                                 |
| <b>Fair value assets acquired</b>                         | <b>1,297</b>                          |
| <b>Cash payment for acquisition, net of cash acquired</b> |                                       |
| Cash paid   | 1,297                                 |
| Less: Net cash acquired from subsidiary                   | (108)                                 |
|   | <b>1,189</b>                          |

Lynch Market Flowers Brisbane Pty Ltd contributed revenue of \$6,821,000 and profit before tax of \$1,049,000 to the consolidated Group results since acquisition date, included in the statement of comprehensive income for the financial year ended June 2022. The revenue and profit before tax of the Lynch Market Flowers Brisbane Pty Ltd for the year ended June 2022 as though the acquisition date for the acquisition had been as of the beginning of the reporting period would be \$8,608,000 (revenue) and \$1,169,000 (profit before tax).

## 26. 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 2022 | June 2021 |
|--|--------------------------|-----------|-----------|
| 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%      |
| Lynch Market Flowers Brisbane Pty Ltd              | Australia                | 100%      | 0%        |
| Exauflor Pty Ltd                                   | Australia                | 100%      | 100%      |
| The Lynch Group of Companies Pty Limited           | Australia                | 100%      | 100%      |
| Gladlands Flowers Pty Ltd                          | Australia                | 100%      | 100%      |
| Gladlands Flowers Unit Trust                       | 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%      |
| Yunnan Lynch Agriculture 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%      | 100%      |
| Kunming Fangdebo'erge Rose Supreme Floral Co., Ltd | China                    | 100%      | 100%      |
| Van Den Berg Horticulture (Yunnan) Co., Ltd        | China                    | 100%      | 100%      |
| Kunming Van Den Berg Trading (Dounan) Co., Ltd     | China                    | 100%      | 100%      |
| Gefa Flowers (Suzhou) Co., Ltd                     | China                    | 100%      | 100%      |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### Australian tax consolidated group

Lynch Group Holdings Limited is the head entity of the Australian tax-consolidated Group. All Australian entities and Lynch China (HK) Limited are members of the Australian tax-consolidated Group.

### Deed of cross guarantee

All Australian entities with the exception of Trustee of Gladlands Flowers Unit Trust are wholly-owned subsidiaries which have entered into a deed of cross guarantee (refer to Note 29) with company pursuant to ASIC Corporation Instrument 2016/785 and are relieved from the requirement to prepare and lodge an audited financial report.

### Secured borrowing facility

All Australian entities are grantors under the secured borrowing facility.

## 27. Related party transactions

### Associate and subsidiaries

VdB Trading Co., Ltd and VdB Horticulture Co., Ltd are part of the VdB Group. The VdB Group and its wholly owned subsidiaries were previously associates prior to the acquisition of the remaining 80% of VdB Group in April 2021.

A list of subsidiaries of the Group is included in Note 26.

### Transactions with related parties

The following transactions occurred with related parties:

|   | June 2022<br>\$ | June 2021<br>\$ |
|---|-----------------|-----------------|
| Sale of goods and services:   |                 |                 |
| Associate: VdB Trading Co., Ltd                                       | —               | 532,081         |
| Payments for goods, services and other expenses:                      |                 |                 |
| Associate: VdB Horticulture Co., Ltd                                  | —               | 46,166          |
| Chittering Valley (WA) Pty Ltd a director related entity of Leo Lynch | —               | 599,724         |
| Payables / borrowings with related parties:                           |                 |                 |
| Repayments from shareholder's loans <sup>1</sup>                      | —               | 11,491,000      |

<sup>1</sup> 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 ended June 2021 amounted to \$356,000. 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.

## 28. 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<br>of the Lynch Group Holdings Limited | June 2022<br>\$'000s | June 2021<br>\$'000s |
|---|----------------------|----------------------|
| Total current assets  | 187                  | 1,059                |
| Total non-current assets  | 285,113              | 269,775              |
| <b>Total assets</b>   | <b>285,300</b>       | <b>270,834</b>       |
| Total current liabilities   | –                    | 8,932                |
| Total non-current liabilities   | 20,571               | 11,639               |
| <b>Total liabilities</b>  | <b>20,571</b>        | <b>20,571</b>        |
| <b>Net assets</b>   | <b>264,729</b>       | <b>250,263</b>       |
| Issued share capital  | 245,653              | 245,653              |
| Reserves  | 1,169                | 917                  |
| Retained earnings   | 17,907               | 3,693                |
| <b>Total equity</b>   | <b>264,729</b>       | <b>250,263</b>       |

### Statement of profit or loss and other comprehensive income

|  | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Profit for the year</b>                     | <b>21,538</b>        | <b>60,407</b>        |
| <b>Total comprehensive profit for the year</b> | <b>21,538</b>        | <b>60,407</b>        |

### 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 Corporations Instrument 2016/785.

### Contingent liabilities

The parent entity had no contingent liabilities as at June 2022 and June 2021 with the exception of bank guarantees as disclosed in Note 18.

### Capital commitments – Property, plant and equipment

The parent entity had no capital commitments as at June 2022 and June 2021.

### 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;
- Dividends received from subsidiaries are recognised as other income by the parent entity. Investments are assessed for indicators of impairment on an annual basis.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### 29. 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 26 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| Revenue  | 309,294              | 287,519              |
| Other income   | —                    | 3,290                |
| Less: Expenses   | (298,223)            | (276,899)            |
| <b>Profit before tax</b>   | <b>11,071</b>        | <b>13,910</b>        |
| Income tax expense   | (3,338)              | (5,023)              |
| <b>Profit after income tax expense</b>                                       | <b>7,733</b>         | <b>8,887</b>         |
| <b>Other comprehensive income for the year</b>                               |                      |                      |
| Cash flow hedges – effective portion of changes in fair value                | 289                  | 244                  |
| <b>Total other comprehensive income for the year</b>                         | <b>289</b>           | <b>244</b>           |
| <b>Total comprehensive income for the year</b>                               | <b>8,022</b>         | <b>9,131</b>         |



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

|                                      | June 2022<br>\$'000s | June 2021<br>\$'000s |
|--------------------------------------|----------------------|----------------------|
| <b>Current assets</b>                |                      |                      |
| Cash and cash equivalents            | 20,412               | 42,000               |
| Trade and other receivables          | 19,099               | 18,570               |
| Inventories                          | 11,911               | 8,005                |
| Biological assets                    | 2,688                | 3,121                |
| Current tax assets                   | 167                  | 1,059                |
| Other assets                         | 2,923                | 1,608                |
| <b>Total current assets</b>          | <b>57,200</b>        | <b>74,363</b>        |
| <b>Non-current assets</b>            |                      |                      |
| Property, plant and equipment        | 11,999               | 10,007               |
| Right-of-use assets                  | 18,482               | 18,142               |
| Intangible assets                    | 111,478              | 113,465              |
| Other non-current assets             | 121,217              | 111,469              |
| <b>Total non-current assets</b>      | <b>263,176</b>       | <b>253,083</b>       |
| <b>Total assets</b>                  | <b>320,376</b>       | <b>327,446</b>       |
| <b>Current liabilities</b>           |                      |                      |
| Trade and other payables             | 43,028               | 55,385               |
| Lease liabilities                    | 3,500                | 3,611                |
| Provisions                           | 8,390                | 7,234                |
| <b>Total current liabilities</b>     | <b>54,918</b>        | <b>66,230</b>        |
| <b>Non-current liabilities</b>       |                      |                      |
| Lease liabilities                    | 16,575               | 15,757               |
| Borrowings                           | 49,738               | 49,588               |
| Provision                            | 2,924                | 2,525                |
| Deferred tax liabilities             | 599                  | 1,267                |
| <b>Total non-current liabilities</b> | <b>69,836</b>        | <b>69,137</b>        |
| <b>Total liabilities</b>             | <b>124,754</b>       | <b>135,367</b>       |
| <b>Net assets</b>                    | <b>195,622</b>       | <b>192,079</b>       |
| <b>Equity</b>                        |                      |                      |
| Issued capital                       | 245,653              | 245,653              |
| Reserves                             | 1,856                | (1,278)              |
| Accumulated losses                   | (51,887)             | (52,296)             |
| <b>Total equity</b>                  | <b>195,622</b>       | <b>192,079</b>       |

## Other disclosures

### 30. 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:

| Share-based payments reserve | June 2022<br>\$'000s | June 2021<br>\$'000s |
|------------------------------|----------------------|----------------------|
| Opening balance              | 917                  | 214                  |
| Share-based payments         | 252                  | 703                  |
|                              | <b>1,169</b>         | <b>917</b>           |

Share-based payments are included in Employee benefit expenses in the Consolidated Statement of Profit and Loss and Other Comprehensive Income.

#### Share based payment plan – 2022 Long-term incentive scheme

The Group continues to operate 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 2,551,587 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:

| Key term                                      | Further detail   |
|---|--|
| <b>Nature of Option</b>                       | 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. |
| <b>Determination of the number of Options</b> | At the discretion of the Board   |
| <b>Grant Dates</b>                            | 16 June 2022   |
| <b>Vesting Dates</b>                          | Tranche 1 – 30 June 2025<br>Tranche 2 – 30 June 2026<br>Tranche 3 – 30 June 2027   |
| <b>Exercise Expiry Date</b>                   | 30 June 2028   |

| Key term                                | Further detail   |
|---|--|
| <b>Vesting Conditions</b>               | <p>Service based Vesting Condition and Performance based Vesting Condition which are both required to be satisfied.</p> <p>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.</p> <p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>Annual compounding EPS less than 8%: 0% of Options will vest</li> <li>Annual compounding EPS equal to 8%: 0% of Options will vest</li> <li>Annual compounding EPS between 8% and 12%: Options will vest on a straight line pro rata basis between 0% and 100% and</li> <li>Annual compounding EPS greater than 12%: 100% of Options will vest</li> </ul> <p>The TSR vesting percentages will be determined by comparison of the Group's TSR against the TSR of companies which comprise the ASX300 index:</p> <ul style="list-style-type: none"> <li>Group TSR in the bottom quartile (0% 25%) of the ASX300 index: 0% of Options will vest</li> <li>Group TSR in the second quartile (25% 50%) of the ASX300 index: 33% of Options will vest</li> <li>Group TSR in the third quartile (50% 75%) of the ASX300 index: 66% of Options will vest and</li> <li>Group TSR in the top quartile (75% 100%) of the ASX300 index: 100% of Options will vest</li> </ul> |
| <b>Option Exercise Price</b>            | \$2.24   |
| <b>Dividend and voting entitlements</b> | 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

### Measurement of fair values

The Options issued under the 2022 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                 | 16 June 2022                 | 16 June 2022                 | 16 June 2022                 |
| Vesting date               | 30 June 2025                 | 30 June 2026                 | 30 June 2027                 |
| Exercise expiry date       | 30 June 2028                 | 30 June 2028                 | 30 June 2028                 |
| Number granted             | 850,528                      | 850,528                      | 850,531                      |
| Fair value at grant date   | TSR – \$0.41<br>EPS – \$0.44 | TSR – \$0.43<br>EPS – \$0.45 | TSR – \$0.44<br>EPS – \$0.45 |
| Share price at grant date  | \$2.20                       | \$2.20                       | \$2.20                       |
| Exercise price             | \$2.24                       | \$2.24                       | \$2.24                       |
| Expected volatility        | 35%                          | 35%                          | 35%                          |
| Expected dividend yield    | 5.5%                         | 5.5%                         | 5.5%                         |
| Risk-free rate             | 3.7%                         | 3.7%                         | 3.7%                         |

### Reconciliation of outstanding Options

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

|  | June 2022         |                                 | June 2021         |                                 |
|--|-------------------|---------------------------------|-------------------|---------------------------------|
|  | Number of Options | Weighted average exercise price | Number of Options | Weighted average exercise price |
| Opening balance                                  | 1,059,093         | \$3.60                          | –                 | –                               |
| Disposed of or settled                           | –                 | –                               | –                 | –                               |
| Forfeited during the year <sup>1</sup>           | (220,045)         | \$3.60                          | –                 | –                               |
| Granted during the year – 2021 plan <sup>2</sup> | 191,896           | \$3.60                          | 1,059,093         | \$3.60                          |
| Granted during the year – 2022 plan <sup>3</sup> | 2,551,587         | \$2.24                          | –                 | –                               |
| <b>Closing balance</b>                           | <b>3,582,531</b>  | <b>\$2.56</b>                   | <b>1,059,093</b>  | <b>\$3.60</b>                   |
| <b>Exercisable at year end</b>                   | <b>–</b>          | <b>–</b>                        | <b>–</b>          | <b>–</b>                        |

<sup>1</sup> 220,045 Options were forfeited during the year as a result of vesting conditions not being met.

<sup>2</sup> 191,896 Options under the grant for the financial year ended June 2021 were issued following Shareholder approval at the company's AGM in November 2021.

<sup>3</sup> 817,567 Options under the grant for the financial year ended June 2022 are subject to Shareholder approval at the company's AGM in November 2022.

No Options vested during the current year.

### 31. Key management personnel

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

|                              | June 2022<br>\$'000s | June 2021<br>\$'000s |
|------------------------------|----------------------|----------------------|
| Short-term employee benefits | 2,118                | 4,096                |
| Post-employment benefits     | 152                  | 132                  |
| Share-based payments         | 117                  | 739                  |
|                              | <b>2,387</b>         | <b>4,967</b>         |

### 32. 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 2022<br>\$'000s | June 2021<br>\$'000s |
|--|----------------------|----------------------|
| <b>Audit services – Deloitte Touche Tohmatsu</b>             |                      |                      |
| <b>Audit or review of the financial statements</b>           |                      |                      |
| Australia  | 369                  | 416                  |
| China  | 175                  | 100                  |
|  | <b>544</b>           | <b>516</b>           |
| <b>Other services</b>  |                      |                      |
| Tax compliance services                                      | 93                   | 36                   |
| Acquisition due diligence and other services relating to IPO | -                    | 1,165                |
| Other non-audit services                                     | 16                   | 110                  |
|  | <b>109</b>           | <b>1,311</b>         |
|  | <b>653</b>           | <b>1,827</b>         |

### 33. Capital commitments

During the current year the Group entered into a lease arrangement in respect of a new production facility for its NSW operations located in Ingleburn NSW. The lease arrangement has not been recognised as at June 2022 as control over the right to use the premises has not yet passed to the Group at the reporting date, whilst the landlord undertakes certain refurbishments. The term of the lease is 15 years.

At the date of this report the Group has capital commitments in relation to fit out costs of \$1.4m (June 2021: \$nil) in respect of this premises.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS CONT.

For the financial year ended 26 June 2022

## 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.

- AASB 17 Insurance Contracts
- AASB 10 and AASB 128 (amendments) Sale or Contribution of Assets between an Investor and its Associate or Joint Venture
- Amendments to AASB 101 Classification of Liabilities as Current or Non-current
- Amendments to AASB 3 Reference to the Conceptual Framework
- Amendments to AASB 16 Property, Plant and Equipment – Proceeds before Intended Use
- Amendments to AASB 137 Onerous Contracts - Cost of Fulfilling a Contract
- Annual Improvements to IFRS Standards 2018-2020 Cycle
- Amendments to AASB 1 First-time Adoption of International Financial Reporting Standards, AASB 9 Financial Instruments, AASB 16 Leases, and AASB 141 Agriculture
- Amendments to AASB 101 and AASB Practice Statement 2 Disclosure of Accounting Policies
- Amendments to AASB 108 Definition of Accounting Estimates
- Amendments to AASB 112 Deferred Tax related to Assets and Liabilities arising from a Single Transaction

## 35. Events subsequent to reporting date

### Dividends

On 24 August 2022, the directors determined a final dividend of 6.0 cents per ordinary share, fully franked. The record date of the dividend is 7 September 2022 and the dividend is expected to be paid on 21 September 2022. The dividend was not determined as at 26 June 2022 and as such no provision is recognised as at that date.

### Economic environment

The volatile economic environment in both Australia and China continues to impact the Group to the date of this report. Short term impacts relating to temporary lockdown restrictions including inventory loss, sales decline and disruption to production efficiencies have impacted the Group. Supply chain disruption, including elevated inbound freight rates and inefficiencies associated with forced labour isolations, have impacted the Group throughout the reporting period and continue to impact the Group at the current time. As at the date of 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 that may affect the Group's ability to continue as a going concern.

The extent of the future impact of COVID-19 on the Group's operational and financial performance will depend on certain developments, including the ongoing 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 remain 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 full year 2023 financial statements could be significant.

### Other

There are no further matters which have arisen since the end of the financial year ended 26 June 2022 which have significantly affected, or may significantly affect the operations or results of the Group or the state of affairs of the Group in subsequent financial periods.



# DIRECTOR'S DECLARATION

## For the financial year ended 26 June 2022

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 26 June 2022 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**

24 August 2022  
Sydney

# AUDITOR'S INDEPENDENCE DECLARATION

For the financial year ended 26 June 2022



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

24 August 2022

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 26 June 2022, 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

A handwritten signature in black ink, appearing to read "Damien Cork".

Damien Cork  
Partner  
Chartered Accountants

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# INDEPENDENT AUDITOR'S REPORT

For the financial year ended 26 June 2022



## Independent Auditor's Report to the Members of Lynch Group Holdings Limited

### Report on the Audit of the Financial Report

#### *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 26 June 2022, 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 26 June 2022 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  |
|---|---|
| <p><b>Carrying value of goodwill</b></p> <p>As set out in Note 14 to the financial statements, as at 26 June 2022 the Group's goodwill totalled \$147.6m (27 June 2021: \$142.2m).</p> <p>Accounting Standard AASB 136 <i>Impairment of Assets</i> requires the carrying value of goodwill and other indefinite useful life intangible assets to be tested for impairment annually.</p> <p>The assessment of impairment of goodwill allocated to the Group's two groups of cash-generating units ('CGUs'), for Australia and China is complex and involves significant judgements in respect of the assumptions and estimates used in preparing discounted cash flow models ('value in use') including the determination of:</p> <ul style="list-style-type: none"> <li>- Discount rates;</li> <li>- Long term growth rates; and</li> <li>- Future cash flows.</li> </ul> | <p>Our procedures included, but were not limited to the following:</p> <p>Evaluating management's identification of Groups of CGUs to which goodwill is allocated;</p> <p>Evaluating the design and implementation of the relevant controls over the impairment assessment of goodwill;</p> <p>Obtaining the value in use models prepared by management to support the impairment assessment for each CGU Group and:</p> <ul style="list-style-type: none"> <li>• Comparing the forecast cash flows to the board approved budgets;</li> <li>• Comparing the forecast cash flows to the actual cash flows generated in the current year, and challenging material differences;</li> <li>• Evaluating management's historical forecasting accuracy by comparing actual results to budget;</li> <li>• Assessing the reasonableness of the projected cash flows against external economic and financial data;</li> <li>• In conjunction with our valuation specialists: <ul style="list-style-type: none"> <li>• Assessing the integrity of the value in use models used, including the accuracy of the underlying calculation formulas;</li> <li>• Challenging key inputs, including the discount rate and terminal growth rate utilised by management;</li> </ul> </li> <li>• Performing sensitivity analysis on the future cash flows, growth and discount rates; and</li> </ul> <p>Assessing the adequacy of the Group's disclosure in Note 14 to the financial statements.</p> |

## Other Information

The directors are responsible for the other information. The other information comprises:

- the Directors' Report, additional ASX disclosures and Shareholder information which we obtained prior to the date of this auditor's report;
- the Chair's and CEO's Report which will be included in the Group's Annual Report which is expected to be made available to us after the date of this auditor's report.

The other information does not include the financial report and our auditor's report thereon.

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

## Deloitte.

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.

When we read the Chair's and CEO's report, 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.

# INDEPENDENT AUDITOR'S REPORT CONT.

For the financial year ended 26 June 2022

## Deloitte.

- 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.

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 the Directors' Report for the year ended 26 June 2022.

In our opinion, the Remuneration Report of the Group, for the year ended 26 June 2022, complies with section 300A of the *Corporations Act 2001*.

#### *Responsibilities*

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

DELOITTE TOUCHE TOHMATSU

DELOITTE TOUCHE TOHMATSU



Damien Cork  
Partner  
Chartered Accountants  
Sydney, 24 August 2022

# SHAREHOLDER INFORMATION

For the financial year ended 26 June 2022

## Twenty largest registered shareholders (as at 12 August 2022)

| Rank | Name of shareholder                                  | Number of shares   | % Of issued capital |
|------|--|--------------------|---------------------|
| 1    | Next Capital III GP Pty. Limited                     | 16,536,479         | 13.55               |
| 2    | Izzac Pty Ltd  | 16,380,000         | 13.42               |
| 3    | UBS Nominees Pty Ltd                                 | 10,720,349         | 8.78                |
| 4    | National Nominees Limited                            | 9,905,905          | 8.12                |
| 5    | Citicorp Nominees Pty Limited                        | 9,700,441          | 7.95                |
| 6    | Bridge International Holding Limited                 | 9,378,168          | 7.68                |
| 7    | J P Morgan Nominees Australia Pty Limited            | 8,238,411          | 6.75                |
| 8    | AJ4 Limited  | 7,000,000          | 5.73                |
| 9    | HSBC Custody Nominees (Australia) Limited            | 6,295,266          | 5.16                |
| 10   | Van Den Berg Roses Asia B.V                          | 6,252,112          | 5.12                |
| 11   | Next Capital Services IIID Pty. Limited              | 4,699,841          | 3.85                |
| 12   | Airfek Pty Ltd                                       | 1,820,000          | 1.49                |
| 13   | Brispot Nominees Pty Ltd                             | 1,688,369          | 1.38                |
| 14   | Neweconomy Com Au Nominees Pty Limited               | 1,080,260          | 0.88                |
| 15   | Warbont Nominees Pty Ltd <Accumulation Entrepot A/C> | 1,055,924          | 0.86                |
| 16   | HSBC Custody Nominees (Australia) Limited            | 1,049,409          | 0.86                |
| 17   | Warbont Nominees Pty Ltd <Unpaid entrepot A/C>       | 846,645            | 0.69                |
| 18   | Mr Hugh Edward Toll                                  | 639,999            | 0.52                |
| 19   | CS Fourth Nominees Pty Limited                       | 628,622            | 0.51                |
| 20   | BNP Paribas Noms Pty Ltd                             | 589,999            | 0.48                |
|      | <b>Total for Top 20</b>                              | <b>114,506,199</b> | <b>93.81</b>        |
|      | Remaining holders                                    | 7,559,913          | 6.19                |
|      | <b>Total issued capital</b>                          | <b>122,066,112</b> | <b>100.00</b>       |

## Distribution of holdings (as at 12 August 2022)

| Range             | Number of holders | Number of shares   | % Of issued capital |
|-------------------|-------------------|--------------------|---------------------|
| 100,001 and over  | 40                | 118,457,119        | 97.05               |
| 10,001 to 100,000 | 52                | 1,589,447          | 1.30                |
| 5,001 to 10,000   | 82                | 576,996            | 0.47                |
| 1,001 to 5,000    | 490               | 1,174,164          | 0.96                |
| 1 to 1,000        | 611               | 268,386            | 0.22                |
|                   | <b>1,275</b>      | <b>122,066,112</b> | <b>100.00</b>       |

All shares above are fully paid ordinary shares. Each fully paid ordinary share carries one voting right. There were 45 holders of less than a marketable parcel of ordinary shares.



## SHAREHOLDER INFORMATION CONT.

For the financial year ended 26 June 2022

### Substantial shareholders (as disclosed in substantial holder notices given to the company as at 12 August 2022)

| 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               |
| Regal Funds Management and its associates                                    | 17,489,870       | 14.33               |
| Izzac Pty Ltd  | 16,380,000       | 13.42               |
| FIL Limited & its related subsidiaries / affiliates                          | 12,194,404       | 9.99                |
| Bridge International Holding Limited   | 9,378,168        | 7.68                |
| A4J Limited  | 7,000,000        | 5.73                |
| 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 |
|---|------------------|
| Employee escrow share scheme ending on 6 April 2024 | 57,893           |
|   | <b>57,893</b>    |

These shares issued under the employee escrow scheme and escrowed from their date of issue on 6 April 2021 for a period of 3 years ending on 6 April 2024.

### Unquoted securities

As at June 2022, there are 3,582,531 (June 2021: 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 2022 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

24 Helles Avenue  
Moorebank NSW 2170  
T +61 2 8778 5388  
[investorrelations@lynchgroup.com.au](mailto:investorrelations@lynchgroup.com.au)  
[www.lynchgroup.com.au](http://www.lynchgroup.com.au)

## Share Registry

Link Market Services Limited  
Level 12, 680 George Street  
Sydney NSW 2000  
T +61 13800 554 474 (toll free within Australia)  
F +61 2 9287 0303  
F +61 2 9287 0309 (for proxy voting)  
[registrars@linkmarketservices.com.au](mailto:registrars@linkmarketservices.com.au)  
[www.linkmarketservices.com.au](http://www.linkmarketservices.com.au)

## Auditor

Deloitte Touche Tohmatsu  
Grosvenor Place  
225 George Street  
Sydney NSW 2000  
T +61 2 9322 7000  
[www.deloitte.com.au](http://www.deloitte.com.au)

## Australia Securities Exchange

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



[lynchgroup.com.au](http://lynchgroup.com.au)