

ADOREBEAUTY

Annual Report 2022

**BEAUTY
DONE
BETTER**

ADOREBEAUTY

Adore Beauty is Australia’s number one pureplay online beauty retailer. Adore Beauty’s vision is to help women feel more confident and fabulous every day by delivering an empowering and engaging beauty shopping experience personalised to their needs. Education and entertainment are core elements of Adore Beauty’s offering – and its platform is a destination for beauty consumers even when they are not seeking to purchase items.

The Company aims to be known as a trusted, authentic and credible voice in the beauty and personal care space.

Adore Beauty aspires to transform the beauty shopping experience and own the beauty category in Australia and New Zealand.

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NUMBER ONE PUREPLAY ONLINE BEAUTY RETAILER¹

TRACK RECORD OF STRONG YEAR-ON-YEAR GROWTH

VALUABLE RETURNING CUSTOMERS SPENDING MORE

CLEAR PLAN TO GROW EARNINGS

LOOKING TO THE FUTURE BY BUILDING ON OUR PAST

**SCALING MOBILE APP DRIVING HIGHER
AVERAGE ORDER VALUES, REVENUE**

OWNED BRANDS TO EXPAND MARGINS, MARKETS

**CONTENT DELIVERING INDUSTRY-LEADING
ORGANIC TRAFFIC²**

1. Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates.
2. Measured as at end of FY22. Analysis of share of Share of Voice (SOV) for shared keywords/terms compared with peer competitor set including department stores, omnichannel specialists and pureplay retailers. Source: Accuranker.

FY22 HIGHLIGHTS



Market leader¹ in growing
\$1.5B online beauty &
personal care market



Cash flow positive &
strong cash balance



Investments in strategic
priorities are driving
strong growth in valuable
returning customers

\$200M

REVENUE

+11% ON PCP
+28% 2 YEAR CAGR



\$5.3M

EBITDA²

-30% ON PCP
+4% 2 YEAR CAGR

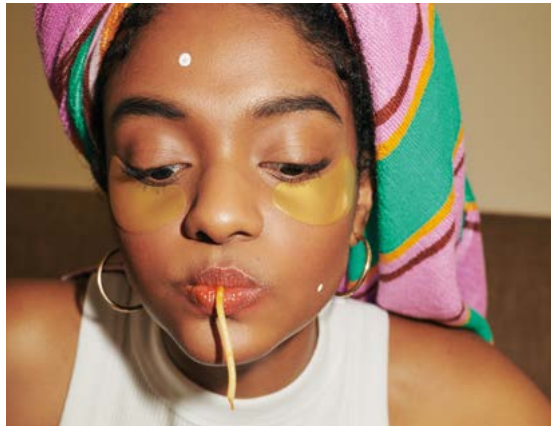


1. Adore Beauty is the leading pureplay online beauty retailer in Australia, based on management estimates.
2. EBITDA margin in line with guidance provided in FY21 results media release on 30th August 2021 "Adore Beauty expects to maintain a 2-4% EBITDA margin in the short to medium term while reinvesting to drive above market growth".



33.3%
GROSS PROFIT MARGIN
 +0.3 PPTS ON PCP

\$29.8M
CASH³
 +2.6% ON PCP



872K
ACTIVE CUSTOMERS⁴
 +7% ON PCP
 +22% 2 YEAR CAGR



+31%
RETURNING CUSTOMERS⁵
 +115% ON FY20

3. Balance as 30 June 2022 compared to 30 June 2021.
 4. Active customers refer to customers who have ordered in the last 12 months; PCP is the 12 month period to 30 June 2021.
 5. Returning customers are customers who have previously placed an order on the Adore Beauty website; +31% refers to growth on 12 month period to 30 June 2021.

CHAIR'S LETTER

ON BEHALF OF THE BOARD OF DIRECTORS OF ADORE BEAUTY LIMITED, IT IS A PRIVILEGE TO PRESENT THE COMPANY'S ANNUAL REPORT FOR THE YEAR ENDING 30 JUNE 2022 (FY22).



Adore Beauty has transformed the online beauty shopping experience for more than two decades. Today, it is a destination for beauty discovery, introducing loyal customers to new brands and products they 'didn't know they needed'.

FY22 saw Adore Beauty deliver another strong financial result, with record revenue, multiple record trading days, and strong growth across key customer metrics. And we did so while re-investing in strategic priorities which lay the foundations for future growth.

Trading conditions in FY22 were a tale of two halves – the first of which included several months of lockdown for most of the country, delivering significant new customer growth and elevated returning customer spend. The second half saw us transition out of lockdown to a re-opened, more competitive, and inflationary environment. While growth returned to more sustainable levels, encouragingly customer numbers remain above pre-COVID-19 levels, and we are growing off this elevated base.

Adore Beauty operates in Australia's large \$11.8 billion beauty and personal care (BPC) market, which is forecast to grow at a CAGR of 4.3% to 2026¹. The Company is the market leader of the \$1.5 billion online segment, which represents 12.7% of the total market, and is expected to outpace the broader category, forecast to grow at a CAGR of 18% to account for almost 24% of the total BPC market by 2026.

Beauty is a particularly resilient category even in times of economic downturn, often referred to as the 'lipstick effect', where consumers buy small, everyday luxury items, rather than big-ticket purchases.

Even with the strong historical online market growth, Australia's online penetration of the BPC market is still many years behind more mature markets such as the UK and the US. By the end of this calendar year, online BPC sales in the UK are forecast to reach 40.5%, up from 18.4% two years ago, while online BPC will account for just shy of 33% in the US. There is no structural reason why Australia can't reach these online penetration levels, supported by new digitally native Millennials and Gen Z consumers entering the market and greater investment in the channel from the incumbent department stores.

Shopping for beauty is different. As any beauty consumer will tell you, these products are used daily, frequently re-purchased, and are considered essential. Beauty is a particularly resilient category even in times of economic downturn, often referred to as the 'lipstick effect', where consumers buy small, everyday luxury items, rather than big-ticket purchases. This resilience is why beauty is such an attractive category.

The nature of premium beauty is reflected in our returning customer behaviour. These valuable returning customers contributed 70% of all revenues in FY22, ordering from us on average three times a year, increasing their basket size and order frequency each year they remain on Adore Beauty's platform.

1. Frost & Sullivan – The Online Retail Market (Australia and New Zealand) – July 2022.



Over the past year, Adore Beauty has executed on a clear growth strategy to grow revenues by attracting and retaining loyal, high-value customers while expanding margins over the long term. This strategy has seen us scale our mobile app and loyalty program, increase our product offering, grow our owned content and marketing channels, and launch our first owned brand. The launch of Viviology, our first skincare range, will be game-changing for Adore Beauty. It diversifies our revenue and margin profile and unlocks additional growth opportunities such as international distribution and direct-to-consumer business models.

Adore Beauty has a significant first mover advantage, but we are not complacent. Continued success will come from knowing the customer better, offering an unparalleled range and personalised shopping experience. The five strategic initiatives of our growth strategy allow us to remain ahead of competitors on all fronts.

Adore Beauty is well-funded to execute on our strategic initiatives. We finished the year with a strong balance sheet of almost \$30 million cash and no debt. This balance sheet provides us with the flexibility to invest in our strategic initiatives including looking at inorganic opportunities where it makes sense to, and evaluate capital management strategies.

Shopping for beauty is different.
As any beauty consumer will tell
you, these products are used daily,
frequently re-purchased, and are
considered essential.

While we are disappointed to be losing CEO Tennealle O'Shannessy by February 2023, Adore Beauty has significant bench strength across the business, and is led by a highly experienced and well-regarded management team, and continues to benefit from the vision and experience of the co-founder's Kate Morris and James Height who remain active in the business as Executive Directors. The Board is confident of attracting a high-quality CEO. We look forward to sharing news of this appointment soon.

In FY22 we welcomed Lisa Hennessy to the Board, increasing the number of independent directors to a majority. Lisa replaced Justin Ryan, and I thank Justin for his service to the Board, in particular in leading the business through the IPO.

I would like to acknowledge my fellow Board members, our CEO, and the entire Adore team for their hard work and dedication over the past year.

Thank you also to our shareholders for your continued support. Our share price over the past year has not reflected the business' performance or market opportunity, and we remain focused on delivering value for shareholders over the long term. We are confident we have the strategy to do this.

And lastly, while FY23 is expected to be challenging as we cycle two consecutive years of significant growth and navigate inflationary pressures, Board and management remain confident in Adore Beauty's long-term strategy and outlook. As the online BPC leader, Adore Beauty is best placed to increase customers, revenue, and margins as Australia's e-commerce market matures.

Marina Go
Chair

CEO'S LETTER

DEAR SHAREHOLDERS,

ADORE BEAUTY HAS A PROVEN TRACK RECORD OF DELIVERING LONG-TERM YEAR-ON-YEAR GROWTH, WITH FY22 MARKING ANOTHER SUCCESSFUL YEAR FOR THE COMPANY. WE ACHIEVED RECORD REVENUE OF \$200 MILLION, AN 11% INCREASE ON THE PRIOR YEAR AND UP 65% ON FY20, DRIVEN BY MORE RETURNING CUSTOMERS WITH HIGHER AVERAGE ORDER VALUES AND MULTIPLE RECORD TRADING DAYS.



ANNUAL REVENUE
PER ACTIVE CUSTOMER
INCREASED \$10 OVER
THE YEAR TO

\$229

Active customers grew to 872,000, up 7% over the prior year and 48% higher than two years ago. Encouragingly, more than half of our customer base are returning customers, who spend more on the platform and do so more frequently. These valuable returning customers contributed 70% of all revenues in FY22, shopping with us on average three times a year.

Our strong growth in returning customers is driving improvements in key customer metrics. Annual revenue per active customer increased \$10 over the year to \$229, supported by 6% growth in average order values to \$109. Average Order Frequency remained stable at 2.1 orders per customer annually.

New customer growth in FY22 was impacted by higher competition in paid marketing channels as both e-commerce and traditional retailers increased digital spend and privacy changes impacted the effectiveness of some channels. While customer acquisition costs remain elevated compared to the prior year, our unit economics remain strong. On average, we recover our customer acquisition cost in just under a year, and the Lifetime Value of Customers (LTV) continues to grow over time. After five years on the platform, the lifetime value of the customer is almost eight times the acquisition cost.

As a digital-first business, we continue to reduce our reliance on paid marketing channels by growing our owned media channels, diversifying paid spend, retaining more of our valuable returning customers, and increasing brand co-funding.

Our customer retention rates are subscription-like after just two years on the platform, reflecting the underlying strength of the business. Aggregate FY22 customer retention of 57.7% is down slightly on the prior year, reflecting the cycling of a large proportion of new customers acquired over the past two years.

In FY22, we delivered Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) of \$5.3 million and an EBITDA margin of 2.7%, in line with guidance and reflecting our re-investment in strategic initiatives which lay the foundations for future growth.

We have a strong balance sheet with almost \$30 million in cash, and no debt, providing the flexibility to pursue opportunities which accelerate our strategic initiatives.

Active customers grew to 872,000, up 7% over the prior year and 48% higher than two years ago. Encouragingly, more than half of our customer base are returning customers, who spend more on the platform and do so more frequently.



STRATEGIC INITIATIVES DRIVING IMPROVEMENTS

Board and management remain focused on sustainably and profitably growing the business, capitalising on our first mover advantage to take market share as e-commerce penetration in Australia catches up to more mature markets such as the UK and USA.

In FY22, Adore Beauty delivered against a clear growth strategy to grow topline revenue from valuable returning customers, cost-effectively acquire new customers, and expanding gross margins. The foundations of the key pillars of our growth strategy are now in place, and we will prioritise continued investment in these initiatives over the coming years.

1. MOBILE APP

In FY22, Adore Beauty scaled its content-first mobile app, doubling revenue contribution from 7.7% in the first quarter to 15.5% in quarter four. For the full year, our mobile app contributed 11.3% of total revenue and we have several initiatives in place to support download and adoption. Sophisticated mobile apps account for ~30% of revenues at scale, and we certainly believe this is achievable for Adore Beauty given early performance.

Importantly, the app is delivering higher levels of engagement, conversion, and order value, even as its user base scales. Integrated with our podcast and loyalty program, our app acts as another owned marketing channel to engage, retain and grow the lifetime value of our customers. It enables us to build a deep ongoing relationship with our existing customers, so that we can add value to their daily lives, not just when they're shopping.

Future iterations of the app will feature increased data-driven personalisation, enhancing our online shopping experience, improving conversion, retention and lifetime value.

2. LOYALTY PROGRAM

Adore Society is resonating well with our loyalty members, contributing 60% of all revenues in FY22. Throughout the year, we hosted 16 ticketed loyalty events and eight member-only competitions, and member sign-ups are continuing to grow strongly. Our loyalty program enables us to cost-effectively engage and re-target our existing customers, leveraging our first-party data to improve personalisation and experience. The next phase of the program will be focused on increasing lifetime customer value, and will see us explore subscription and bundle offerings.

3. CONTENT AND OWNED MEDIA

Our content strategy remains a key differentiator for Adore Beauty and is increasingly enabling us to own the destination for new brand and product discovery. It underpins our industry-leading organic traffic share which is two times higher than the average competitor for shared search terms¹.

Engagement with our content is at unparalleled levels for a retailer with our seven podcasts downloaded a combined 4.3 million² times. Competitors have launched their own content channels but have not been able to replicate our success or scale. Our content is an authoritative and authentic voice on beauty and personal care, and effectively drives traffic to our owned marketing channels, which also include blogs and follower communities across Instagram, YouTube, TikTok and Facebook.

Our investment in owned content channels reduces our reliance on competitive paid marketing channels over the long term. We are already seeing the early impacts of this, evidenced by our marketing costs as a percentage of sales not being impacted to the same extent as other online retailers over the past year.

1. Measured as at end of FY22. Analysis of share of Share of Voice (SOV) for shared keywords/terms compared with peer competitor set including department stores, omnichannel specialists and pureplay retailers. Source: Accuranker.
2. Downloads since launch to 30 June 2022. Source Omny podcast platform.

CEO'S LETTER CONT.

Highly competitive paid marketing channels are also resulting in more of our brand partners looking to leverage our digital marketing expertise through co-funded marketing activities. In FY22, we almost doubled our brand marketing partners and can demonstrate a significant uplift in sales after featuring a product in a piece of content. We see additional opportunities to monetise our content over the coming years.

4. PRODUCT OFFERING

We continued to grow Adore Beauty's unmatched product mix in FY22, onboarding 29 new brands and extending brand exclusivity. Our extensive offering spans more than 270 brands and 12,000 products, supporting customer acquisition and expanding share of wallet. Alongside growth in skincare, haircare and make-up, our adjacent product categories are also growing with fragrance and Korean Beauty now accounting for 4.1% and 2.5% respectively.

Adore Beauty has trusted, long-term relationships with our brand partners. These strategic partnerships are key to our success and provide a significant barrier to entry for new players. Over the coming year, we will continue to strengthen and optimise our brand partnerships, as well as onboard new brands to the platform. On behalf of the entire team at Adore Beauty, I would like to thank our brand partners for their ongoing support over the past year and the team looks forward to collaborating in FY23 and beyond.



270
BRANDS AND
12,000
PRODUCTS



5. OWNED BRANDS

Towards the end of the financial year, we diversified our revenue and margin profile with the launch of our first owned skincare brand, Viviology. Created in collaboration with well-known dermal therapist James Vivian, Viviology leverages premiumisation and cosmeceutical trends to provide an accessible all-in-one skincare offering. Sales in the first month surpassed internal expectations, and pleasingly, products are receiving positive customer feedback.

Over the coming year, we are doubling our investment in owned brands to scale Viviology, launch a second brand in Q2 FY23, and support ongoing new product development. At scale, our owned brands are expected to be both revenue and margin accretive with international distribution and M&A opportunities. We are targeting owned brands to account for 10% of revenues in FY27, growing to more than 15% in the longer term, with a gross margin target of more than 80% at scale.



STRATEGY IN PLACE TO DRIVE LONG-TERM MARGIN EXPANSION

Adore Beauty’s strategic initiatives and scale benefits are expected to increase operating leverage and deliver EBITDA margin expansion over the long term. The Company is targeting an EBITDA margin of 8-10% for the full year in FY27. Our mobile app and owned brands will be the key drivers of margin expansion for FY27, targeting a contribution of ~30% and 10% of revenue respectively. Beyond FY27, Adore Beauty is targeting an EBITDA margin of more than 10% as owned brands targeted contribution increases to more than 15%, and new geographies unlock additional revenue opportunities¹.

OUTLOOK AND SUMMARY

Like many online retailers, Adore Beauty has faced a challenging start to FY23 as it cycles a period of significant growth where most of Australia was in lockdown, and navigates inflationary pressures across employee, freight, and marketing costs.

We are implementing cost control measures to actively manage inflationary pressures, and are phasing our re-investment in strategic initiatives, prioritising those that drive margin expansion. In FY23, we will double our investment in owned brands to support scaling future revenue and margin expansion. Given these headwinds, Adore Beauty does not expect to achieve an EBITDA margin of 2-4% in FY23. However, the Company does expect to remain profitable in FY23 on a full-year basis, before returning to a 2-4% EBITDA margin range for the full year in FY24.

Our customers are at the heart of Adore Beauty and our success would not be possible without their ongoing support. We strive to provide an empowering, personalised, best-in-class beauty shopping experience, enabling customers to feel confident and fabulous as they engage with the category.

Adore Beauty is proudly a values-led company, built around inclusivity, authenticity, innovation, and empowerment for our customers and people. As captured in our aspiration statement, it’s ‘beauty done better’. The entire team at Adore Beauty lives by these values, and our strong performance over the past year is a direct result of their passion, hard work, and dedication. I would like to take this opportunity to thank our 162 employees for their efforts as we navigated lockdowns, re-opening conditions, and a highly competitive environment.

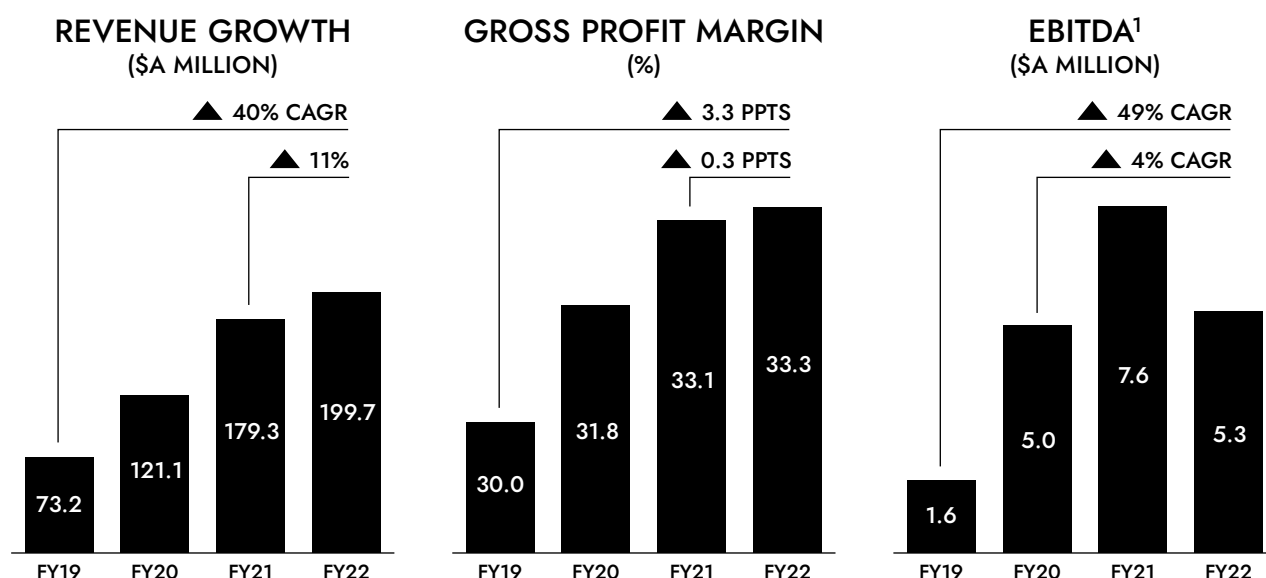
My decision to leave Adore Beauty has not been an easy one, and I remain confident in the business’s future success and growth outlook. The Company has a significant first mover advantage and is well-placed to continue to benefit from the structural shift to e-commerce, which combined with our high levels of customer retention and growing brand awareness, positions the business for strong, long-term future growth. It has been a privilege to lead Adore Beauty and I would like to take this opportunity to thank the board and our shareholders for your support over the past two years.

Tennealle O'Shannessy
CEO

¹ Management targets, not a forecast. Based on management estimates and subject to the execution of the strategic initiatives.

REVIEW OF OPERATIONS

ADORE BEAUTY IS AUSTRALIA'S NUMBER ONE PUREPLAY ONLINE BEAUTY RETAILER WITH AN UNMATCHED PRODUCT RANGE OF MORE THAN 12,000 SKUS, BEST-IN-CLASS SHOPPING EXPERIENCE, AND UNPARALLELED CONTENT-DRIVEN CUSTOMER ENGAGEMENT. OPERATING WITHIN AUSTRALIA'S \$11.8 BILLION BEAUTY AND PERSONAL CARE MARKET, ADORE BEAUTY IS THE MARKET LEADER OF THE \$1.5 BILLION ONLINE SEGMENT AND HAS CONSISTENTLY DELIVERED YEAR-ON-YEAR GROWTH OVER MORE THAN TWO DECADES.



At just 12.7% of the total category, Australia's online beauty and personal care penetration is significantly behind other international markets, such as the UK and the USA where e-commerce accounts for 40.5% and 32.8% of sales respectively. Online sales in these two international markets have doubled in just two years with the online leader taking the disproportionate share of growth as e-commerce penetration increased. This reflects the significant potential opportunity for Adore Beauty as the Australian e-commerce market matures.

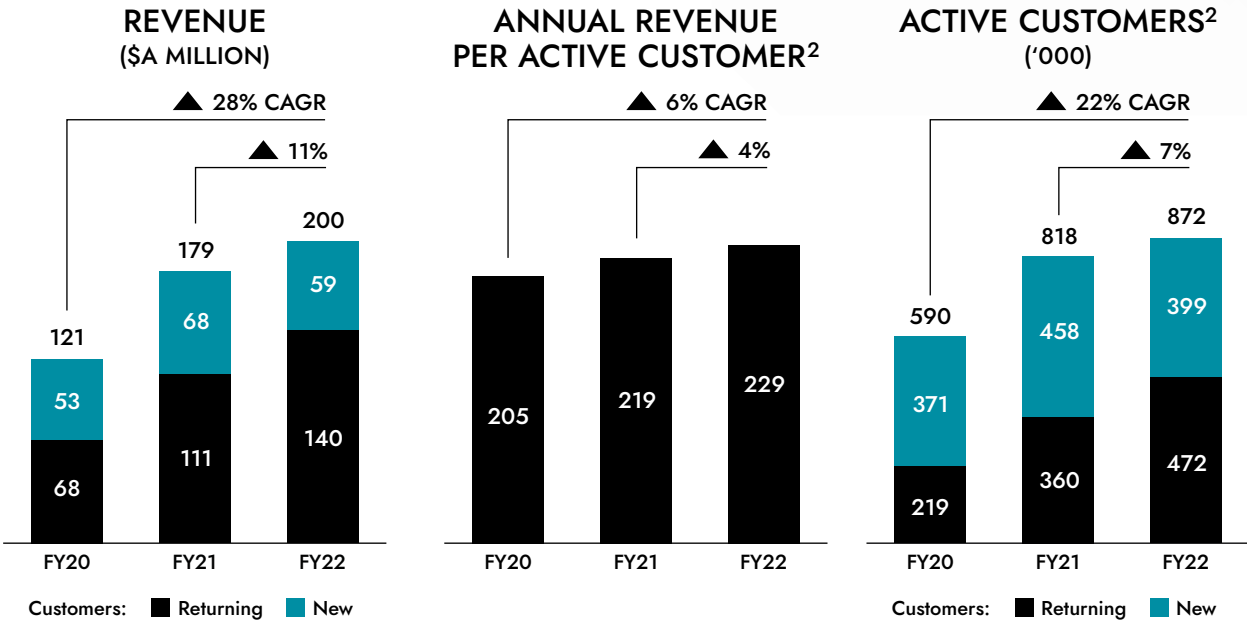
Over the past fiscal year, Adore Beauty delivered sustainable topline revenue and active customer growth, improved key customer metrics, and laid the foundations of its long-term strategy.

STRONG FINANCIAL PERFORMANCE

In FY22, Adore Beauty increased revenue 11% over the prior year to \$200 million, driven by growing returning customers and multiple record trading days. On a two-year basis, the Company has increased its topline revenue an impressive 65%.

The Company continues to grow its active customer base, up 7% over the prior year to 872,000 – a 48% increase on FY20. Adore Beauty's changing active customer mix now includes 472,000 returning customers, 31% more than last year. These valuable returning customers become more valuable each year they remain on the platform, increasing both their basket size and order frequency in subsequent years. In FY22, returning customers contributed 70% of the Company's revenue, up from 62% in FY21 and 56% in FY20.

1. EBITDA margin in line with guidance provided in FY21 results media release on 30th August 2021 "Adore Beauty expects to maintain a 2-4% EBITDA margin in the short to medium term while reinvesting to drive above market growth".



New customer growth in FY22 was impacted by higher customer acquisition costs resulting from increased competition in paid marketing channels. Increased digital spend from both online and traditional retailers, combined with reduced targeting efficiency as a result of data privacy changes, saw a significant industry-wide cost-per-click increase. Adore Beauty is a digital-native business and remains focused on optimising marketing spend to sustainably and profitably acquire new customers.

Adore Beauty has a loyal and engaged customer base with high levels of customer retention. In FY22, the Company had an aggregate customer retention of 57.7%. While this was down 3.3 percentage points on the prior year, it reflects the large proportion of new customers which have the lowest retention rates in the following year at around 40%. Retention significantly increases after two years on the platform to subscription-like levels.

A higher proportion of returning customers delivered improvements in key customer metrics. Annual revenue per customer increased \$10 over the prior year to \$229, as average order value increased 6% to \$109. Average Order Frequency remained stable at 2.1 orders per customer annually. Returning customers shop with Adore Beauty an average of three times a year.

Gross profit margin improved 0.3 percentage points to 33.3%, underpinned by product margin expansion and increased brand funding. In FY22, Adore Beauty delivered profitability of \$5.3 million and EBITDA margin of 2.7%, in line with guidance and reflecting its re-investment in the business. The Company remains well-funded for growth with \$29.8 million cash as of 30 June 2022 with no debt.



2. Active customers refer to customers who have ordered in the last 12 months; PCP is the 12-month period to 30 June 2021.



REVIEW OF OPERATIONS CONT.

STRATEGIC INITIATIVES

Adore Beauty is executing on a clear growth strategy to fortify its market leadership position, set the business up for long-term growth and capitalise on the structural shift to online.

In FY22, the Company delivered strong progress across its key strategic initiatives – launching its first owned brand, scaling its mobile app and loyalty program, growing its adjacent product categories, and growing its content and owned marketing channels.

These initiatives ensure Adore Beauty is well-positioned to grow topline revenue, active customers, lifetime value and margins.

LOYALTY PROGRAM

Adore Beauty continues to scale its loyalty program with members contributing 60% of all revenue in FY22. Throughout the year, Adore Beauty hosted 16 ticketed loyalty events and eight member-only competitions and continues to see strong member sign-ups. Adore Society has been recognised by industry with three award nominations¹.

MOBILE APP

In FY22, Adore Beauty's native mobile app continued to deliver higher levels of engagement, conversion, and average order values, contributing 11.3% of all revenue. Revenue contribution was weighted towards the second half, doubling from 7.7% in Q1 to 15.5% in Q4. The Company is targeting 30% revenue contribution at scale.

The app is a content-first channel that enables Adore Beauty to engage, retain and grow customer lifetime value. Downloaded 146,000 times, the app is resonating with customers, rated 4.8/5 from more than 7,000 reviews². Adore Beauty has several initiatives in place to support download and adoption, such as gift with purchase and integration with the Company's loyalty program and podcast.



PRODUCT RANGE & ADJACENCIES

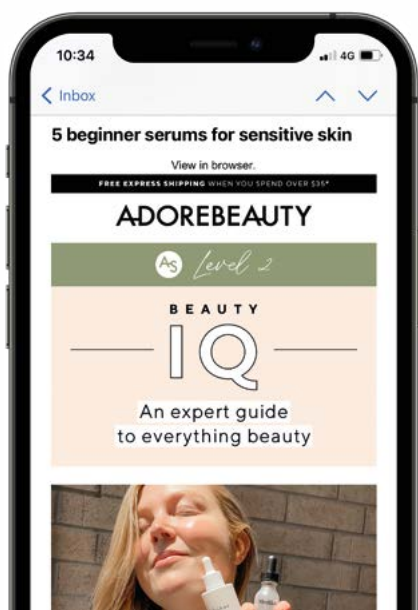
During the year, Adore Beauty expanded its industry-leading beauty offering, onboarding 29 new brands. The Company continues to grow its adjacent product categories with Fragrance and Korean Beauty now accounting for 4.1% and 2.5% of total revenue respectively. Adore Beauty is also expanding its Men's, Wellness and Sex offerings.

OWNED BRAND

Adore Beauty launched its first owned brand, Viviology, in June 2022. The cosmeceutical skincare range is an independent, standalone brand developed in collaboration with well-known dermal therapist James Vivian. It comprises six SKUs, priced from \$35-\$59. Sales in the first month exceeded internal expectations and the Company continues to receive positive customer feedback.

A second owned brand is on track to launch in Q2 FY23 and the Company has a pipeline of new product development underway. At scale, owned brands are expected to be both revenue and margin accretive. The Company is targeting owned brands to account for 10% of revenues for the full year in FY27, growing to more than 15% of revenues longer-term, with a gross margin target above 80%.

1. Best Loyalty Program Power Retail (All Stars Bash), Inside Retail and the International Loyalty Awards.
2. iOS app store rating, sourced 19 August 2022, rating based on 7.3k reviews.



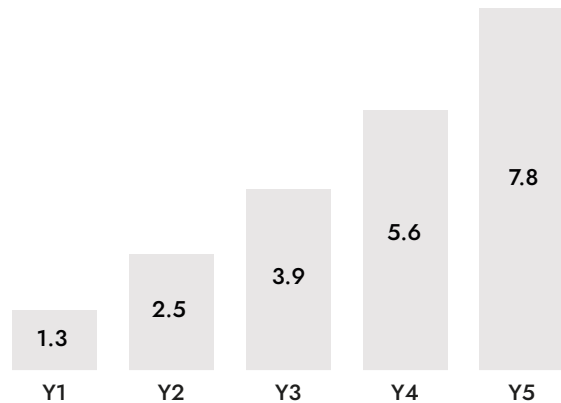


CONTENT & OWNED MARKETING CHANNELS

Over the past year, Adore Beauty continued to invest in its content strategy which cost-effectively drives traffic to its owned marketing channels. The Company’s industry-leading organic traffic share is two times higher than the average competitor, supported by 4% growth in content-driven impressions³.

While the Company’s marketing costs as a percentage of sales increased to 14.1%, Adore Beauty has not been impacted to the same extent as other retailers by significant industry-wide cost-per-click increase. Adore Beauty’s investment in owned content channels is reducing its reliance on these competitive paid marketing channels. On average, the Company continues to recover customer acquisition costs within a year while customer lifetime value continues to grow over time. By the fifth year, the lifetime value of the customer is almost eight times the acquisition cost.

AVERAGE LTV/CAC BY YEAR⁴



As a result of highly competitive paid marketing channels, more of Adore Beauty’s brand partners are leveraging the Company’s digital marketing expertise through co-funded marketing initiatives.

3. Content-driven impressions measures total consumption of podcast episodes, social content views (Instagram, YouTube and Tiktok) including videos, posts, articles, tutorials and educational longer form videos.
 4. Calculated over FY18-FY22 period.

ESG REPORT

AS A LARGE BEAUTY RETAILER, ADORE BEAUTY HAS BEEN AT THE FOREFRONT OF DISRUPTING AUSTRALIA'S BEAUTY SHOPPING EXPERIENCE AND RECOGNISES ITS ONGOING RESPONSIBILITY IN CREATING POSITIVE INDUSTRY CHANGE. ADORE BEAUTY CHAMPIONS NEW BEAUTY NARRATIVES, CONNECTS WITH THE COMMUNITY, INCORPORATES MORE SUSTAINABLE AND ETHICAL PRACTICES, AND ADVOCATES FOR DIVERSITY AND INCLUSION.

SUSTAINABILITY

Adore Beauty has a strong sustainability focus, and continues to reduce the environmental impact of its operations. In FY22, Adore Beauty implemented new packaging and recycling initiatives to further remove plastic and non-recyclable waste from its business practices.



PACKAGING

- ✓ Outer box packaging made from 53 – 83% recycled content, and 100% recyclable
- ✓ 100% of packaging and void fill is recycled and recyclable
- ✓ Elimination of Adore-added plastic bubble wrap
- ✓ Recycled more than 70 tonnes of cardboard from suppliers
- ✓ Introduced new smaller box size to further reduce cardboard waste

At Adore Beauty, packaging is taken very seriously. All packaging and void fill is sourced from sustainable Australian suppliers and is recycled and recyclable. Volumetric technology directs staff to select the smallest possible box for each individual order, ensuring minimal usage of cardboard and void fill.

In FY22, Adore Beauty introduced a new smaller box size to further reduce its cardboard wastage. The smaller box is optimally designed with a fold feature, eliminating the need for plastic tape at the bottom of the box. The Company has eliminated Adore Beauty-added plastic bubble wrap from orders, and popular products are offered in jumbo sizes to reduce frequent re-ordering.

Adore Beauty continues to assess and implement new packaging solutions to further improve the sustainability of its daily operations.



RECYCLING

In addition to reducing its cardboard and materials usage, Adore Beauty is passionate about responsibly disposing and repurposing its waste. In FY22, the Company installed an onsite cardboard compactor, recycling more than 70 tonnes of cardboard. Adore Beauty also commenced a partnership to recycle its soft plastic waste into reusable products.

The Company is also working with its brand and supplier partners to reduce and eliminate non-recyclable plastic wrapping and packaging.



ENERGY

To ensure the best possible customer experience with same day order dispatch, Adore Beauty's customer fulfilment centre operates up to seven days a week. Most of the Company's greenhouse gas emissions are produced by its customer fulfilment centre, followed by its Melbourne head office. Both sites use GreenPower¹.

The customer fulfilment centre also features energy saving measures, including a reflective roof which reduces internal temperatures by up to six degrees in peak summer. Large energy efficient fans are installed to the ceiling, ensuring air movement and comfortable temperatures for the team.



MODERN SLAVERY

Adore Beauty's sustainability strategy also includes maintaining high ethical standards across its operations and those of its brand partners. In FY22, Adore Beauty adopted policies and training reflecting its commitment to removing the risk of modern slavery in its supply chain. The team re-signed more than 230 brand contracts including contracts with updated modern slavery clauses, and high internal standards have been set for all new brand partnerships.

1. GreenPower is renewable energy from government accredited sources.



COMMUNITY



DIVERSITY AND EQUAL OPPORTUNITY

Diversity and inclusion are at the heart of Adore Beauty – for both its people and customers. The Company leads the way in representation for women in leadership, with a female co-founder, majority women on the Board and leadership team, and 76% of manager roles held by women across the Company.

Adore Beauty is passionate about ensuring women have equal opportunities and is a founding partner of The Encoreship, a return-to-work program for women who have been out of the workforce for an extended period. Established by Australian skincare brand and Adore Beauty partner, Alpha H, the program provides women with an opportunity to upskill, build confidence, and gain valuable and practical work experience.

Adore Beauty's diversity and inclusion progress is broader than just gender. The Company acknowledges the importance of diversity for its team, customers, and community. Adore Beauty aspires to create a diverse and inclusive experience for all customers with its marketing channels featuring diverse representation across imagery and paid content creators. In FY22, 53% of content on Adore Beauty's marketing channels featured representation of diverse creators or faces.



Aspiring to make every customer feel comfortable and empowered in their own skin. Adore Beauty uses content to foster a community built on education, inclusivity, and diversity.

Adore Beauty's Global Shades initiative continues to call for the beauty industry to make all globally available foundation and concealer shades accessible to Australian retailers to provide equal access to shades. Adore Beauty is committed to purchasing all available foundation and concealer shades and continues to work with its brand partners to bring new shades to Australia, for its customers and team.

In FY22, Adore Beauty was proudly recognised as an Inclusive Employer by the Diversity Council of Australia. This recognition reflects the ongoing work of Adore Beauty's Diversity and Inclusion committee, focused on building a more diverse and inclusive work environment.

The D&I committee focuses on improvements across three pillars: Our Home, Our Community, and Our Voice.



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

Adore also introduced a flexible public leave policy, enabling team members to replace public holidays with dates that are culturally significant to them and their beliefs. The Company also introduced gender neutral bathrooms and encouraged the use of pronouns on email signatures to ensure everyone feels accepted and respected. Finally, Acknowledgement of Country was introduced as an important ritual for business and Board and whole of company events. First Nation cultural awareness training was held with employees adding an Acknowledgement of Country to their email signatures.

Our community – Making every customer feel comfortable and empowered in their own skin. Adore Beauty uses content to foster a community built on education, inclusivity, and diversity. The Company creates content for, and featuring, BIPOC, the LGBTQIA+ community, catering for all ages and those with medical disabilities. Adore Beauty has established a sex category, providing customers with a safe, inclusive, and discreet space to shop these products. Adore Beauty has promoted conversations around diversity and inclusivity through its podcasts and is working with its brand partners to ensure it is inclusive and represents diversity in the shaded ranges that Adore Beauty stocks through its Global Shades initiative.

Our voice – Adore Beauty wants to use its voice to make the world a better place. The Company is passionate about empowering women to drive positive change. It advocates for equality and women as leaders, evidenced through its charity partnership with Safe Steps, and its Women in Tech intern program. In FY22, Adore Beauty also continued its support of Happy Boxes, a charity that provides essential items to First Nations women and their communities, through donation of products.

BOARD OF DIRECTORS



MARINA GO CHAIR

Marina was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and was appointed as Chair of the Board on 1 November 2021.

With a background in media, Marina has worked in executive roles across a range of listed and private companies and in non-executive roles across a diverse range of sectors.

Marina is the Chair of Netball Australia, and is currently a Non-Executive Director on the boards of Transurban Group, Energy Australia, 7-Eleven, and Autosports Group.

Marina holds a Bachelor of Arts from Macquarie University and a Master of Business Administration from the University of New South Wales. She is a member of O'Connell Street Associates, the Australian Institute of Company Directors and Chief Executive Women.



KATE MORRIS EXECUTIVE DIRECTOR

Kate is a co-founder of Adore Beauty, and was a Director and joint CEO with James Height since the Company's formation in 2000, until 2018 when Kate became an Executive Director. Kate is currently Chief Innovation Officer at Adore Beauty.

Kate is a two-time winner of the Telstra Business Women's Awards (2010 and 2014), and the first woman to be awarded the Industry Recognition Award for e-commerce at the StarTrack ORiAs in 2017.

Kate holds a Bachelor of Business (Management) from Monash University.



JAMES HEIGHT EXECUTIVE DIRECTOR

James is a co-founder of Adore Beauty, and was joint CEO since the Company's formation in 2000 until 2018, and then sole CEO between 2018 and August 2020.

James is currently the Chief Data Officer at Adore Beauty.

James holds a Bachelor of Arts, Bachelor of Laws and a Master of Business Management from Monash University.



SANDRA BIRKENSLEIGH

NON-EXECUTIVE DIRECTOR

Sandra was appointed to the Board of Adore Beauty in October 2020 as a Non-Executive Director and is Chair of the Audit and Risk Management Committee.

Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience and retail and resources companies.

Sandra serves on the boards of a number of ASX-listed entities and chairs a number of audit/audit and risk committees.

She is a member of the board of the National Disability Insurance Agency and a member of the Council of the University of the Sunshine Coast.

Previously, a partner of PwC for 16 years, Sandra holds a Bachelor of Commerce from UNSW and is a member of the Institute of Chartered Accountants of Australia and New Zealand. She is a Graduate member of the Australia Institute of Company Directors and is a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).



LISA HENNESSY

NON-EXECUTIVE DIRECTOR

Lisa was appointed to the Board of Adore Beauty in June 2022 as a Non-Executive Director and is Chair of the People and Remuneration Committee.

Lisa has extensive non-executive director experience across listed, private and not-for-profit organisations. Lisa is currently Lead Independent and Non-Executive Director of ASX listed Nitro Software Limited and a Non-Executive Director of Cleanspace Holdings Limited.

Previously, Lisa has held executive roles within global organisations and enterprise software businesses, including Bain, General Electric and Del Monte Foods working across the USA, Australia and EMEA.

Lisa holds a Bachelor of Science (Electrical Engineering) from Purdue University, an MBA from Harvard University and is a graduate and member of the Australian Institute of Company Directors.



DIRECTORS' REPORT

The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Adore Beauty Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2022.

DIRECTORS

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

Marina Go

Kate Morris

James Height

Sandra Birkenleigh

Lisa Hennessy (appointed 3 June 2022)

Justin Ryan (resigned 1 November 2021)

PRINCIPAL ACTIVITIES

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

- **Product Offering:** Adore Beauty offers Australian and New Zealand consumers a broad and compelling range of beauty and personal care products across prestige, professional, niche and masstige brands, with approximately 270 brands and 12,000 products (including exclusives). Adore Beauty provides brands with access to a large, engaged customer base and a strong marketing platform;
- **Exceptional customer experience:** Adore Beauty seeks to provide customers with an outstanding online shopping experience through personalisation and fulfilment through a seamless transaction experience; and
- **Content, Loyalty and Owned Media:** Adore Beauty combines media and e-commerce in an integrated platform providing engaging content and cost effectively driving traffic to owned channels. The loyalty program and the mobile app drive retention, increased frequency and increasing size of spend with Adore Beauty over time.

DIVIDENDS

No dividends have been paid during the financial year or since the end of the financial year. No dividends were paid in the previous financial year.

REVIEW OF OPERATIONS

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

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

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

DIRECTORS' REPORT

(Continued)

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

STRATEGIC UPDATE

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

We are pursuing a long-term strategy to drive earnings accretion. The drivers of earnings accretions are outlined below:

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

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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

MATTERS SUBSEQUENT TO THE END OF THE FINANCIAL YEAR

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

No other matters or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

ENVIRONMENTAL REGULATION

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

DIRECTORS' REPORT

(Continued)

INFORMATION ON DIRECTORS

Name:	Marina Go
Title:	Non-Executive Chair
Qualifications:	B.Arts, MBA
Experience and expertise:	With a background in media, Marina has worked in executive roles across a range of listed and private companies and in non-executive roles across a diverse range of sectors. Marina is a member of O'Connell Street Associates, The Australian Institute of Company Directors and Chief Executive Women.
Other current directorships¹:	Non-Executive Director of Autosports Group Ltd (appointed October 2016) Non-Executive Director of Transurban Group (appointed 1 December 2021)
Former directorships (last 3 years)²:	Non-Executive Director of Pro-Pac Packaging Ltd (appointed 2018, resigned 23 November 2021) Non-Executive Director of Booktopia Group Ltd (appointed November 2020, resigned 31 March 2022)
Special responsibilities:	Chair of the People and Remuneration Committee (until 3 June 2022) Member of the Audit and Risk Management Committee
Interests in shares:	27,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None
<hr/>	
Name:	Kate Morris
Title:	Executive Director (part-time)
Qualifications:	B.Bus. (Management)
Experience and expertise:	Kate is a co-founder of Adore Beauty, and was Director and joint CEO with James Height since the Company's formation in 2000 until 2018 when she became an Executive Director. Kate is a two-time winner of the Telstra Business Women's Awards (2010 and 2014), and the first woman to be awarded the Industry Recognition Award for e-commerce at the StarTrack ORIA's in 2017.
Other current directorships¹:	Nil
Former directorships (last 3 years)²:	Nil
Special responsibilities:	Chief of Innovation Member of the People and Remuneration Committee
Interests in shares:	10,400,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

DIRECTORS' REPORT

(Continued)

Name:	James Height
Title:	Executive Director (part-time)
Qualifications:	B.Arts, B.Law, MBusMgt
Experience and expertise:	James is a co-founder of Adore Beauty, and was Director and joint CEO since the Company's formation in 2000 until 2018 and then sole CEO between 2018 and August 2020. James is currently Chief Data Officer at Adore Beauty.
Other current directorships¹:	Nil
Former directorships (last 3 years)²:	Nil
Special responsibilities:	Chief of Data and Analytics Member of the Audit and Risk Management Committee (between 5 November 2021 and 3 June 2022)
Interests in shares:	10,400,000 ordinary shares
Interests in options:	None
Contractual rights to shares:	None
<hr/>	
Name:	Sandra Birkenleigh
Title:	Non-Executive Director
Qualifications:	B.Com
Experience and expertise:	Sandra is an experienced independent non-executive director. She serves on the boards of a diverse range of entities across financial services, convenience, retail and resource companies. Sandra was formerly a partner of PwC for 16 years. Sandra is a member of the Institute of Chartered Accountants in Australia and New Zealand, a member of the Australia Institute of Company Directors and a life member of the Governance, Risk and Compliance Institute of Australia and a Certified Compliance Professional (Fellow).
Other current directorships¹:	Non-Executive Director of Collection House Ltd (appointed September 2018) Non-Executive Director of Horizon Oil Ltd (appointed February 2016) Non-Executive Director and Chair of Auswide Bank Ltd (appointed January 2015)
Former directorships (last 3 years)²:	Nil
Special responsibilities:	Chair of the Audit and Risk Management Committee Member of the People and Remuneration Committee
Interests in shares:	7,407 ordinary shares
Interests in options:	None
Contractual rights to shares:	None

DIRECTORS' REPORT

(Continued)

Name:	Lisa Hennessy
Title:	Non-Executive Director
Qualifications:	B.Sci (Electrical Engineering), MBA, GAICD
Experience and expertise:	Lisa has extensive non-executive director experience across listed, private and not-for-profit organisations. Lisa is currently Lead Independent and Non-Executive Director of ASX listed Nitro Software Limited and a Non-Executive Director of Cleanspace Holdings Limited. Previously, Ms Hennessy has held executive roles within global organisations and enterprise software businesses, including Bain, General Electric and Del Monte Foods working across the USA, Australia and EMEA. Lisa is a graduate of Australian Institute of Company Directors.
Other current directorships¹:	Non-Executive Director of Cleanspace Holdings Ltd (appointed December 2021) Non-Executive Director of Nitro Software Ltd (appointed November 2019)
Former directorships (last 3 years)²:	Nil
Special responsibilities:	Chair of the People and Remuneration Committee (from 3 June 2022) Member of the Audit and Risk Management Committee
Interests in shares:	None
Interests in options:	None
Contractual rights to shares:	None
Name:	Justin Ryan
Title:	Non-Executive Chairman (resigned 1 November 2021)
Qualifications:	B.Ec., B.Law, MBA
Experience and expertise:	Justin was previously Managing Partner of Quadrant Private Equity and in that capacity was Chair and Non-Executive Director of a number of e-commerce businesses including Modibodi, Grays and Quad Lock. Prior to that Justin was the Managing Director and CEO of Alesco Corporation. Justin joined the Board of Adore Beauty Group Limited as Chair and Non-Executive Director in September 2019. Justin is a Fellow of the Australian Institute of Company Directors and a Fellow of the Financial Services Institute of Australia.
Other current directorships¹:	Nil
Former directorships (last 3 years)²:	Nil
Special responsibilities:	Chair
Interests in shares:	Nil
Interests in options:	None
Contractual rights to shares:	None

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

DIRECTORS' REPORT

(Continued)

JOINT COMPANY SECRETARIES

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

Melissa Jones has held the role of Company Secretary since October 2020. Melissa is the General Manager of Company Matters, Link Group's governance and company secretarial team. Melissa has over 20 years' experience as a lawyer, company secretary and governance professional. Melissa is admitted as a Solicitor of the Supreme Court of New South Wales and holds a Bachelor of Laws (Honours).

MEETINGS OF DIRECTORS

The number of meetings of the Company's Board of Directors ('the Board') and of each Board committee held during the year ended 30 June 2022, and the number of meetings attended by each director were:

	FULL BOARD		PEOPLE AND REMUNERATION COMMITTEE		AUDIT AND RISK MANAGEMENT COMMITTEE	
	Attended	Held	Attended	Held	Attended	Held
Marina Go	14	14	4 ¹	4	5	5
Kate Morris	13	14	5	5	–	–
James Height	14	14	–	–	4 ²	4
Sandra Birkenleigh	14	14	5	5	5	5
Lisa Hennessy	2 ³	2	1	1	1	1
Justin Ryan	6 ⁴	6	–	–	2	2

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

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

3. Lisa Hennessy was appointed as a Director on 3 June 2022.

4. Justin Ryan ceased as a Director on 1 November 2021.

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

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

REMUNERATION REPORT

Dear Shareholder,

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

OVERVIEW

FINANCIAL PERFORMANCE

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

TALENT LANDSCAPE

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

KEY MANAGEMENT PERSONNEL (KMP) CHANGES

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

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

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

REMUNERATION CHANGES DURING THE FINANCIAL YEAR

STI

Financial Year 22 saw the introduction of a short-term incentive plan for Executive Management KMP¹. Performance targets are linked directly to company financial results for FY22 and individual performance including alignment with values and behaviours. This plan was introduced to retain and incentivise Executive Management KMP and provides them an 'at risk' incentive to remain clearly focused on the elements of the strategic plan that mostly impact profitable growth.

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

FIXED REMUNERATION

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

1. Please see page 28 for definition of Executive KMP.

REMUNERATION REPORT

(Continued)

LOOKING AHEAD TO FY23

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

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

CONCLUSION

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

Sincerely,



Lisa Hennessy
People and Remuneration Committee



Marina Go

REMUNERATION REPORT

(Continued)

THE CONTENTS

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

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

1. REWARD OVERVIEW

A. WHAT DOES THIS REPORT COVER

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

B. KEY MANAGEMENT PERSONNEL (KMP)

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

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

REMUNERATION REPORT

(Continued)

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

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

C. ROLE OF THE PEOPLE AND REMUNERATION COMMITTEE

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

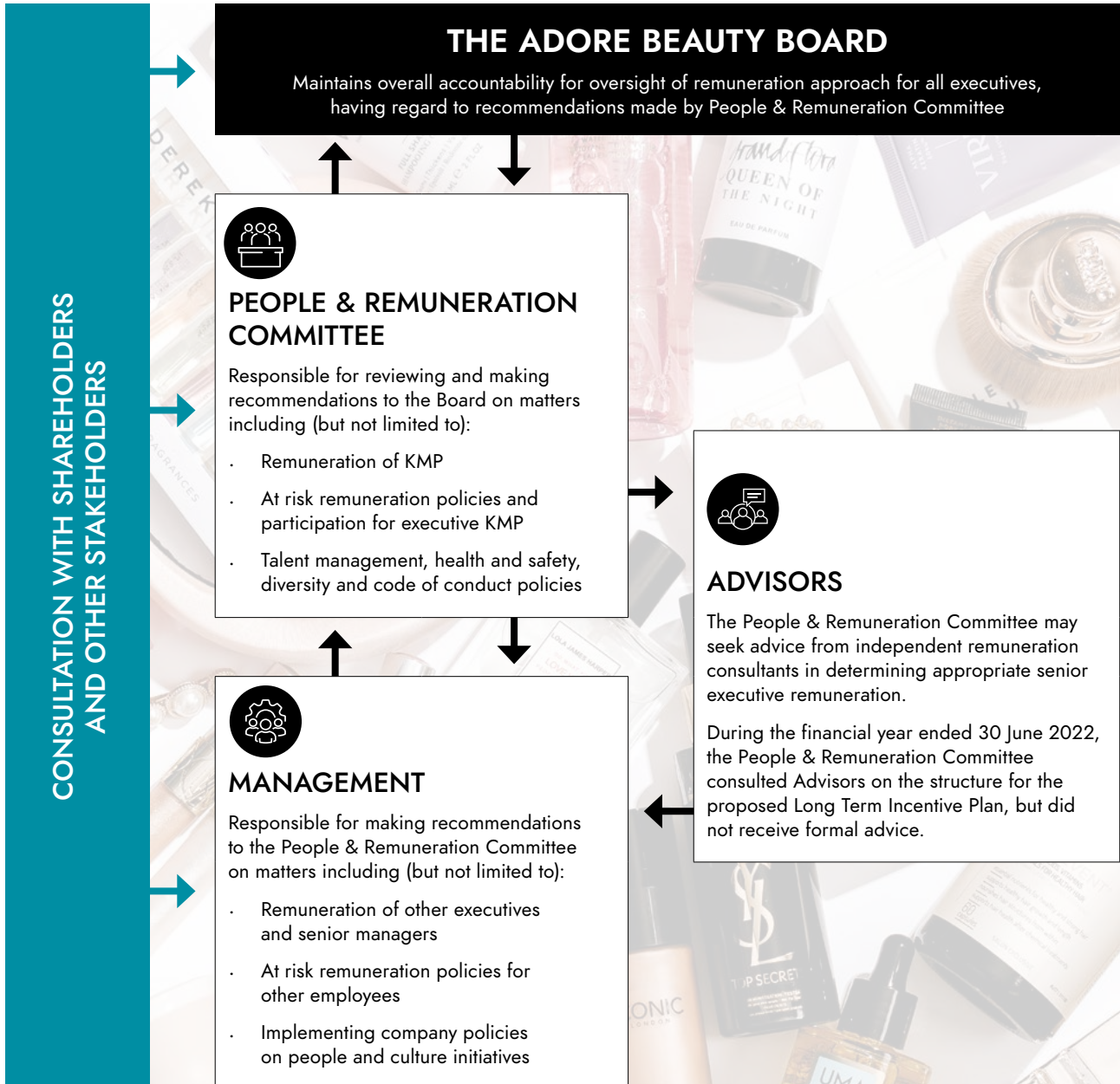
D. GOVERNANCE FRAMEWORK

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

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

REMUNERATION REPORT

(Continued)



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

E. REMUNERATION FRAMEWORK

The executive reward framework consists of the following components:

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

REMUNERATION REPORT

(Continued)

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

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

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

REMUNERATION REPORT

(Continued)

F. REWARD PRINCIPLES

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

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



2. EXECUTIVE REMUNERATION

A. FIXED REMUNERATION

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

B. SHORT-TERM REMUNERATION

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

Who participates?	The CEO and CFO are the only KMP who participated in FY22. The Executive Directors did not participate. Other members of senior management are also eligible to participate, provided they were employed on 1 January 2022 (minimum of 6 months service).
What is the performance period?	1 July 2021 – 30 June 2022
What are potential earnings?	Participants have a target opportunity based on a percentage of base salary that varies by role. The STI opportunities for KMP participants are set out below: <ul style="list-style-type: none"> · CEO: 16.34% of base salary at target (19.6% at maximum, i.e. \$100,000 at maximum) · CFO: 20% of base salary at target (24% at maximum, i.e. \$61,200 at maximum) For FY22 the maximum STI opportunity was 120% of the target opportunity.

REMUNERATION REPORT

(Continued)

How is it paid?	The CEO and CFO receive their rewards in cash. Superannuation may be payable, subject to the Superannuation Guarantee and Maximum Contribution Base.
Is there a gateway?	Yes, there is a minimum level of financial performance that must be reached to ensure alignment with shareholder interests.
How is performance measured?	<p>The STI is based on two components: financial results and individual performance.</p> <ul style="list-style-type: none"> Financial Results: Subject to achievement of the EBITDA gateway, the Company revenue target determines the pool available. Individual Performance: The individual performance rating may reduce the payment. The maximum individual performance modifier is 100%. <p>Performance between threshold and target is a cliff, there is no linear interpolation.</p> <p>The Board reserves the right to exercise discretion.</p>
When is it paid?	The STI award is determined after the end of the financial year following a review of performance against measures. Payments are made in September, following the release of statutory audited results.
What happens if a participant leaves?	<p>If a participant resigns or is terminated prior to payment, no STI is awarded.</p> <p>The Board reserves the right to apply discretion in the case of a participant leaving due to ill health, death, redundancy or other circumstances.</p>

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

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

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

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

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

The amounts paid under this retention arrangement will be included in the FY23 and FY24 Remuneration Reports.

C. LONG-TERM REMUNERATION

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

REMUNERATION REPORT

(Continued)

D. SERVICE AGREEMENTS

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

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

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

REMUNERATION REPORT

(Continued)

E. LOOKING AHEAD TO FY23

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

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

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

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

REMUNERATION REPORT

(Continued)

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

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

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

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

REMUNERATION REPORT

(Continued)

3. NON-EXECUTIVE REMUNERATION

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

The maximum aggregate Directors' remuneration for the purposes of the ASX Listing Rules and the Constitution is \$800,000 per annum of which \$440,000 is currently utilised.

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

- Chair – Marina Go \$200,000
- Non-Executive Director – Sandra Birkenleigh \$100,000
- Non-Executive Director – Lisa Hennessy \$100,000

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

- Audit and Risk Management Committee – Sandra Birkenleigh \$20,000
- People and Remuneration Committee – Lisa Hennessy \$20,000

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

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

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

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

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

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

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

REMUNERATION REPORT

(Continued)

4. SHARE-BASED COMPENSATION

ISSUE OF SHARES

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

ISSUE OF OPTIONS

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

5. OVERVIEW OF GROUP PERFORMANCE AND REMUNERATION OUTCOMES

CONSOLIDATED ENTITY PERFORMANCE AND LINK TO REMUNERATION

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

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

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

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

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

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

REMUNERATION REPORT

(Continued)

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

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

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

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

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

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

REMUNERATION REPORT

(Continued)

6. ADDITIONAL DISCLOSURES RELATING TO KEY MANAGEMENT PERSONNEL

SHAREHOLDING

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

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

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

(a) 25% of the loan shares will vest on completion of the IPO (6 October 2020);

(b) a further 25% of the loan shares vested on 30 June 2021;

(c) a further 25% of the loan shares vested on 30 June 2022; and

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

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

RECONCILIATION OF OPTIONS MOVEMENT (DETAILING AWARDS, VESTED OUTCOME, AND EXPIRY DURING THE YEAR)

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

REMUNERATION REPORT

(Continued)

OPTION VESTING CONDITIONS

Options will vest based on performance of the Company measured at the end of the performance period. Of the total number of options granted:

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

REVENUE COMPONENT

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

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

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

Threshold and maximum level of performance set by the Board.

EBITDA COMPONENT

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

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

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

Threshold and maximum level of performance set by the Board.

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

REMUNERATION REPORT

(Continued)

SUMMARY OF LOAN FUNDED MANAGEMENT EQUITY (DETAILING AWARDS, VESTED OUTCOME, AND CHANGES DURING THE YEAR)

Executive	Number of Loan Shares Held	Grant Date	Loan amount	Vesting	At 30 June 2022 Vested	At 30 June 2022 Unvested
Tennealle O'Shannessy	868,502	31-Aug-20	\$868,502	Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company: <ul style="list-style-type: none"> a. 25% of the Loan Shares will vest on completion of the IPO; b. a further 25% of the Loan Shares will vest on 30 June 2021; c. a further 25% of the Loan Shares will vest on 30 June 2022; and d. the final 25% of the Loan Shares will vest on 30 June 2023. 	651,377	217,125
Stephanie Carroll	86,850	31-Aug-20	\$86,850	Subject to the participant continuing to be employed or engaged by the Company or a subsidiary of the Company: <ul style="list-style-type: none"> a. 25% of the Loan Shares will vest on completion of the IPO; b. a further 25% of the Loan Shares will vest on 30 June 2021; c. a further 25% of the Loan Shares will vest on 30 June 2022; and d. the final 25% of the Loan Shares will vest on 30 June 2023. 	65,137	21,713

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

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

REMUNERATION REPORT

(Continued)

MANAGEMENT EQUITY – FUTURE VESTING PROFILE

Executive	Plan	Grant Year	Grant Amount	% Vesting Previous Periods	Vesting in FY22	% Incentive at Risk	Vesting % FY23	Vesting % FY24	Vesting % FY25	Comments
Tennealle O'Shannessy	Options	2021	555,000	0%	0%	100%	0%	100%		Subject to performance hurdles and vesting conditions being met as detailed on p41
	Loan Funded Mgt Equity Plan	2021	868,502	50%	25%	25%	25%			
Stephanie Carroll	Options	2021	50,000	0%	0%	100%	0%	100%		Subject to performance hurdles and vesting conditions being met as detailed on p41
	Loan Funded Mgt Equity Plan	2021	86,850	50%	25%	25%	25%			

OTHER TRANSACTIONS WITH KEY MANAGEMENT PERSONNEL AND THEIR RELATED PARTIES

During the financial year, payments for goods from director-related entities of Kate Morris and James Height of \$25,092 (2021: \$25,684) were made. The current trade payable balance as at 30 June 2022 was \$5,170 (2021: \$2,163). All transactions were made on normal commercial terms and conditions and at market rates.

This concludes the remuneration report, which has been audited.

DIRECTORS' REPORT

(Continued)

SHARES UNDER OPTION

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

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

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

SHARES ISSUED ON THE EXERCISE OF OPTIONS

No ordinary shares of Adore Beauty Group Limited were issued during the year ended 30 June 2022 and up to the date of this report on the exercise of options granted.

INDEMNITY AND INSURANCE OF OFFICERS

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

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

INDEMNITY AND INSURANCE OF AUDITOR

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

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

PROCEEDINGS ON BEHALF OF THE COMPANY

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

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in note 22 to the financial statements.

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

DIRECTORS' REPORT

(Continued)

The directors are of the opinion that the services as disclosed in note 22 to the financial statements do not compromise the external auditor's independence requirements of the *Corporations Act 2001* for the following reasons:

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

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF GRANT THORNTON AUDIT PTY LTD

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

ROUNDING OF AMOUNTS

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

AUDITOR'S INDEPENDENCE DECLARATION

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

AUDITOR

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

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

On behalf of the directors



Marina Go
Chair

29 August 2022
Melbourne

AUDITOR'S INDEPENDENCE DECLARATION



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Auditor's Independence Declaration

To the Directors of Adore Beauty Group Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Adore Beauty Group Limited for the year ended 30 June 2022, I declare that, to the best of my knowledge and belief, there have been:

- a no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

C S Gangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 29 August 2022

www.grantthornton.com.au
ACN-130 913 594

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FINANCIAL STATEMENTS

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GENERAL INFORMATION

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

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

REGISTERED OFFICE & PRINCIPAL PLACE OF BUSINESS

Level 1
421 High Street
Northcote VIC 3070

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 29th August 2022. The directors have the power to amend and reissue the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2022

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

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2022

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

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 30 June 2022

	Note	Issued capital \$'000	Foreign currency translation reserve \$'000	Corporate re- organisation reserve \$'000	Share based payments reserve \$'000	Retained profits/ (Accum- ulated losses) \$'000	Total equity \$'000
Balance at 1 July 2020		85,000	(5)	(68,104)	–	(1,531)	15,360
<i>Transactions with owners</i>							
Share-based payments		279	–	–	978	–	1,257
Return of capital		(17,000)	–	–	–	–	(17,000)
Contributions of equity, net of transaction costs		33,797	–	–	–	–	33,797
Total transactions with owners	16	17,076	–	–	978	–	18,054
<i>Comprehensive income</i>							
Profit for the year		–	–	–	–	845	845
Total comprehensive income		–	–	–	–	845	845
Balance at 30 June 2021		102,076	(5)	(68,104)	978	(686)	34,259
Balance at 1 July 2021		102,076	(5)	(68,104)	978	(686)	34,259
<i>Transactions with owners</i>							
Share-based payments		–	–	–	682	–	682
Total transactions with owners	16	–	–	–	682	–	682
<i>Comprehensive income</i>							
Profit for the year		–	–	–	–	2,377	2,377
Total comprehensive income		–	–	–	–	2,377	2,377
Balance at 30 June 2022		102,076	(5)	(68,104)	1,660	1,691	37,318

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 30 June 2022

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

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

NOTES TO THE FINANCIAL STATEMENTS

30 June 2022

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES

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

NEW OR AMENDED ACCOUNTING STANDARDS AND INTERPRETATIONS ADOPTED

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

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

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

BASIS OF PREPARATION

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

HISTORICAL COST CONVENTION

The financial statements have been prepared under the historical cost convention.

CRITICAL ACCOUNTING ESTIMATES

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

PARENT ENTITY INFORMATION

In accordance with the *Corporations Act 2001*, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 26.

PRINCIPLES OF CONSOLIDATION

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Adore Beauty Group Limited ('company' or 'parent entity') as at 30 June 2022 and the results of all subsidiaries for the year then ended. Adore Beauty Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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

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

OPERATING SEGMENTS

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

FOREIGN CURRENCY TRANSLATION

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

FOREIGN CURRENCY TRANSACTIONS

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

REVENUE RECOGNITION

SALE OF GOODS

The Group's contracts with customers generally include one performance obligation. Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Cash payment is generally received at the point of sale.

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

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

INTEREST INCOME

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

OTHER INCOME

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

INCOME TAX

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

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

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

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

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

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

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

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

INTERPRETATION 23 – UNCERTAINTY OVER INCOME TAX TREATMENTS

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CURRENT AND NON-CURRENT CLASSIFICATION

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

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

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

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

CASH AND CASH EQUIVALENTS

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

INVENTORIES

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

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

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

OTHER FINANCIAL ASSETS

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

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

IMPAIRMENT OF FINANCIAL ASSETS

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

PROPERTY, PLANT AND EQUIPMENT

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

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

Computer equipment 50%

Plant and equipment 2.5% – 20%

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

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

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

RIGHT-OF-USE ASSETS

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

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

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

INTANGIBLE ASSETS

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

PRODUCT DEVELOPMENT

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

PATENTS AND TRADEMARKS

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

WEBSITE AND MOBILE APP

Website and mobile app costs are capitalised when it is probable that the project will be a success considering its commercial and technical feasibility; the consolidated entity is able to use or sell the asset; the consolidated entity has sufficient resources and intent to complete the development; and its costs can be measured reliably. Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 4 years.

IMPAIRMENT OF NON-FINANCIAL ASSETS

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

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

TRADE AND OTHER PAYABLES

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

BORROWINGS

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

LEASE LIABILITIES

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

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

FINANCE COSTS

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

PROVISIONS

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

EMPLOYEE BENEFITS

SHORT-TERM EMPLOYEE BENEFITS

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

OTHER LONG-TERM EMPLOYEE BENEFITS

The liability for annual leave and long service leave not expected to be settled within 12 months of the reporting date are measured at the present value of expected future payments to be made in respect of services provided by employees up to the reporting date using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the reporting date on corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

DEFINED CONTRIBUTION SUPERANNUATION EXPENSE

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

SHARE-BASED PAYMENTS

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services.

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

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

FAIR VALUE MEASUREMENT

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

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 1. SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

ISSUED CAPITAL

Ordinary shares are classified as equity.

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

DIVIDENDS

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

EARNINGS PER SHARE

BASIC EARNINGS PER SHARE

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

DILUTED EARNINGS PER SHARE

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

GOODS AND SERVICES TAX ('GST') AND OTHER SIMILAR TAXES

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

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

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

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

ROUNDING OF AMOUNTS

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

NEW ACCOUNTING STANDARDS AND INTERPRETATIONS NOT YET MANDATORY OR EARLY ADOPTED

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2022. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 2. CRITICAL ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

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

SHARE-BASED PAYMENT TRANSACTIONS

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

LEASE TERM

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

INCOME TAX

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

RECOVERY OF DEFERRED TAX ASSETS

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

ESTIMATION OF USEFUL LIVES OF INTANGIBLE ASSETS

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 3. OPERATING SEGMENTS

IDENTIFICATION OF REPORTABLE OPERATING SEGMENTS

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

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

NOTE 4. REVENUE

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
<i>Revenue from contracts with customers</i>		
Sale of goods – point in time	199,660	179,277
Revenue	199,660	179,277

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 5. EXPENSES

Profit before income tax includes the following specific expenses:

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 6. INCOME TAX EXPENSE

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

NOTE 7. CURRENT ASSETS – INVENTORIES

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Finished goods	17,389	14,733
Less provision for stock obsolescence	(100)	–
Goods in transit	202	212
	17,491	14,945

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 8. NON-CURRENT ASSETS – PROPERTY, PLANT AND EQUIPMENT

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Plant and equipment – at cost	1,586	1,480
Less: Accumulated depreciation	(823)	(591)
	763	889

RECONCILIATIONS

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

Consolidated	\$'000
Balance at 1 July 2020	964
Additions	206
Disposals	(49)
Depreciation expense	(232)
Balance at 30 June 2021	889
Additions	106
Disposals	–
Depreciation expense	(232)
Balance at 30 June 2022	763

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

NOTE 9. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Land and buildings – right-of-use	2,334	2,701
Less: Accumulated depreciation	(1,342)	(1,536)
	992	1,165

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

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 9. NON-CURRENT ASSETS – RIGHT-OF-USE ASSETS (CONTINUED) RECONCILIATIONS

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

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

NOTE 10. NON-CURRENT ASSETS – INTANGIBLES

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 10. NON-CURRENT ASSETS – INTANGIBLES (CONTINUED) RECONCILIATIONS

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

Consolidated	Website & mobile app \$'000	Patents & trademarks \$'000	Product development \$'000	Total \$'000
Balance at 1 July 2020	1,535	42	9	1,586
Additions	1,718	64	9	1,791
Amortisation expense	(781)	(2)	(2)	(785)
Balance at 30 June 2021	2,472	104	16	2,592
Additions	1,779	2	–	1,781
Amortisation expense	(1,118)	(11)	(2)	(1,131)
Balance at 30 June 2022	3,133	95	14	3,242

NOTE 11. NON-CURRENT ASSETS – DEFERRED TAX

Deferred tax assets/(liabilities) comprises temporary differences attributable to:

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 12. CURRENT LIABILITIES – TRADE AND OTHER PAYABLES

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Trade payables	16,037	15,726
Accrued expenses	1,111	2,430
Other payables	1,334	–
	18,482	18,156

Refer to note 20 for further information on financial instruments.

NOTE 13. CURRENT LIABILITIES – CONTRACT LIABILITY

	Consolidated	
	2022 \$'000	2021 \$'000
Gift voucher liability	1,034	1,329

NOTE 14. NON-CURRENT LIABILITIES – BORROWINGS

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

ASSETS PLEDGED AS SECURITY

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 14. NON-CURRENT LIABILITIES – BORROWINGS (CONTINUED) FINANCING ARRANGEMENTS

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

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Total facilities		
Multi-option revolving credit facility	10,000	10,000
	10,000	10,000
Used at the reporting date		
Multi-option revolving credit facility	–	–
	–	–
Unused at the reporting date		
Multi-option revolving credit facility	10,000	10,000
	10,000	10,000

Refer to note 20 for further information on financial instruments.

NOTE 15. CURRENT LIABILITIES – EMPLOYEE BENEFITS

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Employee benefits	1,061	1,075

AMOUNTS NOT EXPECTED TO BE SETTLED WITHIN THE NEXT 12 MONTHS

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 16. EQUITY – ISSUED CAPITAL

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

MOVEMENTS IN ORDINARY SHARE CAPITAL

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

ORDINARY SHARES

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

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

SHARE BUY-BACK

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

CAPITAL AND GOING CONCERN RISK MANAGEMENT

The consolidated entity's objectives when managing capital is to safeguard its ability to continue as a going concern, so that it can provide returns for shareholders and benefits for other stakeholders and to maintain an optimum capital structure to reduce the cost of capital.

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents. In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment.

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

The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 17. EQUITY – RESERVES

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

CORPORATE RE-ORGANISATION RESERVE

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

SHARE BASED PAYMENTS RESERVE

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

FOREIGN CURRENCY RESERVE

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

MOVEMENTS IN RESERVES

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

Consolidated	Share based payments \$'000	Foreign currency \$'000	Corporate re-organisation \$'000	Total \$'000
Balance at 1 July 2020	–	(5)	(68,104)	(68,109)
Share-based payment transactions	978	–	–	978
Balance at 30 June 2021	978	(5)	(68,104)	(67,131)
Share-based payment transactions	682	–	–	682
Balance at 30 June 2022	1,660	(5)	(68,104)	(66,449)

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 18. EQUITY – RETAINED EARNINGS

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

NOTE 19. EQUITY – DIVIDENDS

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

FRANKING CREDITS

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

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

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

NOTE 20. FINANCIAL INSTRUMENTS

FINANCIAL RISK MANAGEMENT OBJECTIVES

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 20. FINANCIAL INSTRUMENTS (CONTINUED)

MARKET RISK

FOREIGN CURRENCY RISK

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

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

PRICE RISK

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

INTEREST RATE RISK

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

CREDIT RISK

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

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

Generally, trade receivables are written off when there is no reasonable expectation of recovery. Indicators of this include the failure of a debtor to engage in a repayment plan, no active enforcement activity and a failure to make contractual payments for a period greater than 1 year.

LIQUIDITY RISK

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

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

FINANCING ARRANGEMENTS

Unused borrowing facilities at the reporting date:

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Multi-option revolving credit facility	10,000	10,000

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 20. FINANCIAL INSTRUMENTS (CONTINUED)

REMAINING CONTRACTUAL MATURITIES

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

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

Consolidated – 2021	Weighted average interest rate %	1 year or less \$'000	Between 1 and 2 years \$'000	Between 2 and 5 years \$'000	Over 5 years \$'000	Remaining contractual maturities \$'000
Trade and other payables	–	18,156	–	–	–	18,156
Lease liabilities	5%	420	376	550	–	1,346
Total		18,576	376	550	–	19,502

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

FAIR VALUE OF FINANCIAL INSTRUMENTS

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

NOTE 21. KEY MANAGEMENT PERSONNEL DISCLOSURES

COMPENSATION

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

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 22. REMUNERATION OF AUDITORS

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

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

NOTE 23. CONTINGENT LIABILITIES

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

NOTE 24. COMMITMENTS

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

NOTE 25. RELATED PARTY TRANSACTIONS

PARENT ENTITY

Adore Beauty Group Limited is the parent entity.

SUBSIDIARIES

Interests in subsidiaries are set out in note 27.

KEY MANAGEMENT PERSONNEL

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

TRANSACTIONS WITH RELATED PARTIES

The following transactions occurred with related parties:

	CONSOLIDATED	
	2022 \$	2021 \$
Payment for goods and services:		
Purchase of goods from director related entities	25,092	25,684

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 25. RELATED PARTY TRANSACTIONS (CONTINUED) RECEIVABLE FROM AND PAYABLE TO RELATED PARTIES

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

	CONSOLIDATED	
	2022 \$	2021 \$
Current payables:		
Trade payables to director related entities	5,170	2,163

LOANS TO/FROM RELATED PARTIES

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

TERMS AND CONDITIONS

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

NOTE 26. PARENT ENTITY INFORMATION

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

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

	PARENT	
	2022 \$'000	2021 \$'000
Profit/(Loss) after income tax	(1,986)	(6,716)
Total comprehensive income	(1,986)	(6,716)

STATEMENT OF FINANCIAL POSITION

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 26. PARENT ENTITY INFORMATION (CONTINUED)

GUARANTEES ENTERED INTO BY THE PARENT ENTITY IN RELATION TO THE DEBTS OF ITS SUBSIDIARIES

- (i) The parent entity has entered into a cross deed of guarantee with the subsidiaries listed in note 27.
- (ii) The parent entity has provided a guarantee in respect of a facility agreement with Commonwealth Bank of Australia (the Lender) for the provision of debt financing of \$10 million. Refer to note 14 for further information in respect of the facility.

CAPITAL COMMITMENTS – PROPERTY, PLANT AND EQUIPMENT

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2022 and 30 June 2021.

SIGNIFICANT ACCOUNTING POLICIES

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

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

NOTE 27. INTERESTS IN SUBSIDIARIES

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

Name	Principal place of business/ Country of incorporation	OWNERSHIP INTEREST	
		2022 %	2021 %
Tate Midco Pty Ltd	Australia	100.00%	100.00%
Tate Bidco Pty Ltd	Australia	100.00%	100.00%
Adore Beauty Pty Ltd	Australia	100.00%	100.00%
Northside Brands Pty Ltd	Australia	100.00%	100.00%
Jakat Pte Ltd	Singapore	100.00%	100.00%

NOTE 28. EVENTS AFTER THE REPORTING PERIOD

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

No other matter or circumstance has arisen since 30 June 2022 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 29. RECONCILIATION OF PROFIT AFTER INCOME TAX TO NET CASH FROM OPERATING ACTIVITIES

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

NOTE 30. NON-CASH INVESTING AND FINANCING ACTIVITIES

	CONSOLIDATED	
	2022 \$'000	2021 \$'000
Modifications to right-of-use assets	320	571

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 31. CHANGES IN LIABILITIES ARISING FROM FINANCING ACTIVITIES

Consolidated	Bank loans \$'000	Lease Liability \$'000	Total \$'000
Balance at 1 July 2020	3,212	1,261	4,473
Net cash from/(used in) financing activities	(3,212)	(486)	(3,698)
Lease modification	–	571	571
Balance at 30 June 2021	–	1,346	1,346
Net cash from/(used in) financing activities	–	(494)	(494)
Lease modification	–	320	320
Balance at 30 June 2022	–	1,172	1,172

NOTE 32. EARNINGS PER SHARE

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

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 33. SHARE-BASED PAYMENTS

(A) MANAGEMENT EQUITY PLAN

(I) DETAILS OF THE MANAGEMENT EQUITY PLAN OF THE COMPANY

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

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

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

(II) MANAGEMENT EQUITY PLAN SHARES ISSUED DURING THE PERIOD

During the period, the Company granted nil Loan Shares to eligible personnel.

(III) MOVEMENTS IN MANAGEMENT EQUITY PLAN SHARES DURING THE PERIOD

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

	Year ended 30/6/22 No.	Year ended 30/6/21 No.
Balance at the beginning of the period	2,643,820	–
Granted during the year	–	2,643,820
Balance at the end of the period	2,643,820	2,643,820

(IV) THE FOLLOWING MANAGEMENT EQUITY PLAN SHARES WERE IN EXISTENCE AT THE END OF THE PERIOD

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

2,404,982 of the Management Equity Plan Shares have vested, but have not been exercised as at the end of the reporting period.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 33. SHARE-BASED PAYMENTS (CONTINUED)

(B) LONG-TERM INCENTIVE PLAN

(I) DETAILS OF THE LONG-TERM INCENTIVE PLANS OF THE COMPANY

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

(II) LONG-TERM INCENTIVE PLAN OPTIONS ISSUED DURING THE PERIOD

There were no options issued during the period.

(III) FAIR VALUE OF SHARE OPTIONS GRANTED DURING THE PERIOD

There were no options issued during the period.

(IV) SHARE OPTIONS EXERCISED DURING THE YEAR

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

(V) MOVEMENTS IN SHARE OPTIONS DURING THE PERIOD

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

	YEAR ENDED 30/6/22	YEAR ENDED 30/6/22	YEAR ENDED 30/6/21	YEAR ENDED 30/6/21
	Number of options	Weighted average exercise price	Number of options	Weighted Average Exercise Price
Balance at the beginning of the year	605,000	\$6.75	–	–
Granted during the year	–	–	605,000	\$6.75
Forfeited during the year	–	–	–	–
Balance at the end of the year	605,000	\$6.75	605,000	\$6.75

(VI) THE FOLLOWING SHARE-BASED PAYMENT OPTIONS WERE IN EXISTENCE AT THE END OF THE CURRENT PERIOD

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

No options have vested to date.

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 34. DEED OF CROSS GUARANTEE

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

Adore Beauty Group Ltd

Adore Beauty Pty Ltd

Tate Midco Pty Ltd

Tate Bidco Pty Ltd

Jakat Pte Ltd

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

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

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

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

Statement of profit or loss and other comprehensive income	2021 \$'000
Revenue	179,277
Cost of sales	(120,002)
Other income	21
Advertising and marketing expense	(23,073)
Employee benefits expense	(18,241)
Initial public offering and transactions costs	(129)
Depreciation and amortisation expense	(1,501)
Finance costs	(125)
Other operating expenses	(9,891)
Profit before income tax expense	6,336
Income tax expense	(1,325)
Profit after income tax expense	5,011
Other comprehensive income	
Other comprehensive income for the year, net of tax	–
Total comprehensive income for the year	5,011
Equity – retained profits	
Accumulated losses at the beginning of the financial year	(1,531)
Profit after income tax expense	5,011
Retained profits/(Accumulated losses) at the end of the financial year	3,480

NOTES TO THE FINANCIAL STATEMENTS

(Continued)

NOTE 34. DEED OF CROSS GUARANTEE (CONTINUED)

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

DIRECTORS' DECLARATION

30 June 2022

In the directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 1 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable; and

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

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

On behalf of the directors



Marina Go

Chair

29 August 2022

INDEPENDENT AUDITOR'S REPORT



Grant Thornton Audit Pty Ltd
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Independent Auditor's Report

To the Members of Adore Beauty Group Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Adore Beauty Group Limited (the Company) and its subsidiaries (the Consolidated Entity), which comprises the consolidated statement of financial position as at 30 June 2022, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

- a giving a true and fair view of the Consolidated Entity's financial position as at 30 June 2022 and of its performance for the year ended on that date; and
- b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

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INDEPENDENT AUDITOR'S REPORT

(Continued)

Key audit matters

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

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

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

The Directors are responsible for the other information. The other information comprises the information included in the Consolidated Entity's annual report for the year ended 30 June 2022, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors' for the financial report

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

Grant Thornton Australia Limited

INDEPENDENT AUDITOR'S REPORT

(Continued)

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

Auditor's responsibilities for the audit of the financial report

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

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

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in pages 10 to 27 of the Directors' report for the year ended 30 June 2022.

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

Responsibilities

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



Grant Thornton Audit Pty Ltd
Chartered Accountants



C S Gangemi
Partner – Audit & Assurance
Melbourne, 29 August 2022

SHAREHOLDER INFORMATION

VOTING RIGHTS

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

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

Holders of options have no voting rights.

The below information is current as at 5 September 2022.

DISTRIBUTION OF EQUITY SECURITIES

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

RANGE	NUMBER OF HOLDERS	% OF HOLDERS	NUMBER OF SECURITIES	% OF SECURITIES
1 to 1,000	6,333	69.36	2,295,204	2.44
1,001 to 5,000	2,088	22.87	4,843,624	5.15
5,001 to 10,000	410	4.49	3,141,897	3.34
10,001 to 100,000	269	2.95	6,235,198	6.62
100,001 and over	30	0.33	77,608,574	82.45
Total number of security holders	9,130	100.00	94,124,497	100.00
 Holders holding less than a marketable parcel of shares*	3,465	37.95	565,984	0.60

* Marketable parcel of shares calculated based on closing market price on 5 September 2022 of \$1.600.

RESTRICTED SECURITIES AND VOLUNTARY ESCROW

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

ON-MARKET BUY BACK

There is no current on-market buy back.

TOTAL OF QUOTED AND RESTRICTED SECURITIES

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

UNQUOTED SECURITIES

TYPE OF SECURITY	NUMBER OF HOLDERS	NUMBER OF SECURITIES
Options	2	605,000

SHAREHOLDER INFORMATION

(Continued)

OPTION SHARES

RANGE	NUMBER OF HOLDERS	% OF HOLDERS	NUMBER OF SECURITIES	% OF SECURITIES
1 to 1,000	0	0	0	0
1,001 to 5,000	0	0	0	0
5,001 to 10,000	0	0	0	0
10,001 to 100,000	1	50	50,000	8.26
100,001 and over	1	50	555,000	91.74
Total number of security holders	2	100	605,000	100.00

TWENTY LARGEST QUOTED EQUITY SECURITY HOLDERS

NO.	SHAREHOLDER	NUMBER OF SHARES	% OF ISSUED EQUITY
1	QPE GROWTH, LP	30,600,001	32.51
2	KATY ANN MORRIS	10,200,000	10.84
2	JAMES ALEXANDER HEIGHT	10,200,000	10.84
3	CITICORP NOMINEES PTY LIMITED	7,460,857	7.93
4	BRISPOD NOMINEES PTY LTD	3,656,941	3.89
5	HSBC CUSTODY NOMINEES AUSTRALIA PTY LIMITED -A/C 2	2,355,801	2.50
6	JP MORGAN NOMINEES AUSTRALIA PTY LIMITED	2,322,801	2.47
7	BNP PARIBAS NOMINEES PTY LTD	2,228,077	2.37
8	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	1,256,953	1.34
9	TENNEALLE O'SHANNESY	868,502	0.92
10	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED	861,904	0.92
11	MRS SARAH MARY MENZIES MULLEN	823,192	0.87
12	HSBC CUSTODY NOMINEES (AUSTRALIA) LIMITED-GSCO ECA	689,652	0.73
13	DANIEL ANDREW FERGUSON	619,452	0.66
14	GARETH WILLIAMS	597,427	0.63
15	BNP PARIBAS NOMINEES PTY LTD HUB24 CUSTODIAL SERV LTD	366,515	0.39
16	SARWELL PTY LTD	275,000	0.29
17	SUPERHERO SECURITIES LIMITED	253,264	0.27
18	SBL POSITIONS	244,733	0.26
19	CITICORP NOMINEES PTY LIMITED	210,797	0.22
20	HAJA HOLDINGS PTY LTD ACN642 738 172	203,740	0.22
	Total	76,295,609	81.06
	Balance of register	17,828,888	18.94
	Grand total	94,124,497	100.00

SHAREHOLDER INFORMATION

(Continued)

SUBSTANTIAL HOLDERS

SHAREHOLDER	DATE OF NOTICE	NUMBER OF SHARES	% OF ISSUED EQUITY ¹
QPE Growth, LP	27/10/2020	30,600,001	32.51
Kate Morris	27/10/2020	20,400,000	21.67
James Height	27/10/2020	20,400,000	21.67
Woodson Funds	23/08/2022	6,190,458	6.58

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

CORPORATE GOVERNANCE STATEMENT

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

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

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

CORPORATE DIRECTORY

DIRECTORS

Marina Go – Non-Executive Chair
(appointed 6 October 2020, appointed
Non-Executive Chair 1 November 2021)

Kate Morris – Executive Director

James Height – Executive Director

Sandra Birkenleigh – Non-Executive Director

Lisa Hennessy – Non-Executive Director
(appointed 3 June 2022)

Justin Ryan – Non-Executive Chair
(resigned 1 November 2021)

COMPANY SECRETARY

Stephanie Carroll

Melissa Jones

REGISTERED OFFICE

Level 1
421 High Street
Northcote VIC 3070

Phone: (03) 9344 1671

PRINCIPAL PLACE OF BUSINESS

Level 1
421 High Street
Northcote VIC 3070

WEBSITE

www.adorebeauty.com.au

SHARE REGISTER

LINK MARKET SERVICES

Level 12
680 George Street
Sydney NSW 2000

Phone: 1300 554 474

AUDITOR

GRANT THORNTON AUDIT PTY LTD

Collins Square, Tower 5
727 Collins Street
Melbourne VIC 3008

SOLICITORS

GILBERT + TOBIN

Level 35
International Towers Sydney
200 Barangaroo Avenue
Sydney NSW 2000

STOCK EXCHANGE LISTING

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

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ADOREBEAUTY

adorebeauty.com.au