# Step One Clothing Pty Ltd and its controlled entities

**ABN 34 616 696 318**

## Consolidated Annual Report - 30 June 2021

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**Director's report**
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The sole Director presents his report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Step One Clothing Pty Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021.

**Director**
The following person was the sole Director of Step One Clothing Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Greg Taylor

**Principal activities**
During the financial year the principal continuing activities of the Group consisted of online retail sales of men's underwear.

**Dividends**
Dividends paid during the financial year were as follows:

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Final dividend for the year ended 30 June 2021 (30 June 2020) | 77,712 | 1,055,646 |

**Review of operations**
The profit for the Group after providing for income tax amounted to $600,373 (30 June 2020: $3,741,133).

The results of the Group for the current financial year included the following expenses:

| | Impact on profit before tax $ | Impact on profit after tax $ |
|---|---|---|
| Fair value of share-based payment expense (refer note 16) | 8,000,000 | 8,000,000 |
| Legal settlement and associated costs (included in professional, legal and insurance fees) [1] | 1,000,000 | 700,000 |
| IPO costs (included in professional, legal and insurance fees) [2] | 605,000 | 423,500 |

1 Legal settlement and associated costs

The Company was a party to proceedings in the Federal Court of Australia with Sojo Pty Ltd (Sojo), in relation to claims made by Sojo that the Company had engaged in misleading and deceptive conduct in an advertisement broadcast by the Company on television and online, and various additional claims made by both Sojo and the Company. Those proceedings have been settled and discontinued, and claims released, without admission of liability by either the Company or Sojo, and with each party paying its own costs (amounting to $500,000 for the Company), but Step One has paid Sojo a settlement amount of $500,000 and the parties have agreed to various provisions in relation to future advertising. Among other things, these provisions prevent the Company (and various related entities) from referring to the “TRADIE” brand, and prevent Sojo (and various related entities) from the referring to the “STEP ONE” and “ULTRAGLYDE” brands, in each case for seven years, and prevent the Company (and various related entities) from using the term “tradie” or referring to Mr Nick Cummins for four years. The Company does not consider that the matters that have been agreed will be material to it in the conduct of its business.

2 IPO costs

The Company incurred professional advisory fees to evaluate the merits of listing on the ASX and conducting initial due diligence. As progression to IPO was not certain at 30 June 2021, these fees have been expensed and included in professional, legal and insurance fees.

**Significant changes in the state of affairs**
During the financial year, the Group submitted an in-principle advice application for listing on the Australian Securities Exchange (ASX).

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

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

On 16 August 2021, the Board approved the splitting of the Company's shares from 1,000 ordinary shares into 150,000,000 ordinary shares.

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

**Likely developments and expected results of operations**

Information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the Director believes it would be likely to result in unreasonable prejudice to the Group.

**Environmental regulation**

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

**Shares under option**

There were 12 unissued ordinary shares of Step One Clothing Pty Ltd under option outstanding at the date of this report.

**Indemnity and insurance of officers**

The Company has indemnified the Director and executives of the Company for costs incurred, in their capacity as Director or executives, 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 Director 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 Group has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Group or any related entity against a liability incurred by the auditor.

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

**Proceedings on behalf of the Group**

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

**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 Director's report.

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

Greg Taylor
Director

6 September 2021

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# Auditor's Independence Declaration

## To the Directors of Step One Clothing Pty Ltd

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

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

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

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 6 September 2021

**Step One Clothing Pty Ltd and its controlled entities**
**Statement of profit or loss and other comprehensive income**
**For the year ended 30 June 2021**

| | Note | Consolidated 2021 $ | 2020 $ |
|---|---|---|---|
| Sales revenue | 4 | 61,716,841 | 22,246,795 |
| Cost of sales | | (10,732,624) | (4,096,272) |
| **Gross profit** | | 50,984,217 | 18,150,523 |
| Net foreign exchange gain | | 22,530 | 32,855 |
| Interest income calculated using the effective interest method | | 21,967 | 5,108 |
| Other income | | 90,000 | 10,000 |
| **Expenses** | | | |
| Depreciation and amortisation expense | | (3,869) | (610) |
| Distribution and fulfilment expense | | (6,190,361) | (1,754,065) |
| Advertising and marketing expense | | (26,856,128) | (8,278,421) |
| Merchant fees | | (1,402,504) | (675,553) |
| Professional, legal and insurance fees | | (2,605,922) | (140,345) |
| Administration expense | 5 | (1,826,503) | (2,162,069) |
| Share-based payment expense | 16 | (8,000,000) | - |
| **Profit before income tax expense** | | 4,233,427 | 5,187,423 |
| Income tax expense | 6 | (3,633,054) | (1,446,290) |
| **Profit after income tax expense for the year attributable to the owners of Step One Clothing Pty Ltd** | 19 | 600,373 | 3,741,133 |
| **Other comprehensive income** | | | |
| *Items that may be reclassified subsequently to profit or loss* | | | |
| Foreign currency translation | | 163,271 | 9,529 |
| Other comprehensive income for the year, net of tax | | 163,271 | 9,529 |
| **Total comprehensive income for the year attributable to the owners of Step One Clothing Pty Ltd** | | 763,644 | 3,750,662 |
| | | **$** | **$** |
| Basic earnings per share | 33 | 600 | 3,741 |
| Diluted earnings per share | 33 | 560 | 3,741 |

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

**Step One Clothing Pty Ltd and its controlled entities**
**Statement of financial position**
**As at 30 June 2021**

| | Note | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|---|
| **Assets** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 7 | 10,844,992 | 6,735,152 |
| Inventories | 8 | 9,730,386 | 1,560,559 |
| Derivative financial instruments | 21 | 134,382 | 32,855 |
| Related party receivables | 9 | 3,408,667 | 86,349 |
| Other assets | 10 | 1,302,982 | 842,230 |
| Total current assets | | 25,421,409 | 9,257,145 |
| **Non-current assets** | | | |
| Plant and equipment | 11 | 1,830 | 2,440 |
| Intangibles | 12 | 56,146 | 13,200 |
| Deferred tax asset | 6 | 1,322,162 | 630,779 |
| Related party receivables | 9 | - | 372,001 |
| Total non-current assets | | 1,380,138 | 1,018,420 |
| **Total assets** | | 26,801,547 | 10,275,565 |
| **Liabilities** | | | |
| **Current liabilities** | | | |
| Trade and other payables | 13 | 7,276,496 | 1,827,238 |
| Contract liabilities | 14 | 2,620,189 | 2,142,174 |
| Income tax | 6 | 3,677,241 | 1,886,819 |
| Employee benefits | 15 | 33,959 | 8,909 |
| Other financial liability | 16 | 8,000,000 | - |
| Total current liabilities | | 21,607,885 | 5,865,140 |
| **Non-current liabilities** | | | |
| Deferred tax liability | 6 | 201,282 | 102,968 |
| Employee benefits | 15 | 1,649 | 2,658 |
| Total non-current liabilities | | 202,931 | 105,626 |
| **Total liabilities** | | 21,810,816 | 5,970,766 |
| **Net assets** | | 4,990,731 | 4,304,799 |
| **Equity** | | | |
| Issued capital | 17 | 1,000 | 1,000 |
| Reserves | 18 | 172,800 | 9,529 |
| Retained earnings | 19 | 4,816,931 | 4,294,270 |
| **Total equity** | | 4,990,731 | 4,304,799 |

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

**Step One Clothing Pty Ltd and its controlled entities**
**Statement of changes in equity**
**For the year ended 30 June 2021**

| Consolidated | Issued capital $ | Reserves $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2019 | 1,000 | - | 1,608,783 | 1,609,783 |
| Profit after income tax expense for the year | - | - | 3,741,133 | 3,741,133 |
| Other comprehensive income for the year, net of tax | - | 9,529 | - | 9,529 |
| Total comprehensive income for the year | - | 9,529 | 3,741,133 | 3,750,662 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Dividends paid (note 20) | - | - | (1,055,646) | (1,055,646) |
| Balance at 30 June 2020 | 1,000 | 9,529 | 4,294,270 | 4,304,799 |

| Consolidated | Issued capital $ | Reserves $ | Retained earnings $ | Total equity $ |
|---|---|---|---|---|
| Balance at 1 July 2020 | 1,000 | 9,529 | 4,294,270 | 4,304,799 |
| Profit after income tax expense for the year | - | - | 600,373 | 600,373 |
| Other comprehensive income for the year, net of tax | - | 163,271 | - | 163,271 |
| Total comprehensive income for the year | - | 163,271 | 600,373 | 763,644 |
| *Transactions with owners in their capacity as owners:* | | | | |
| Dividends paid (note 20) | - | - | (77,712) | (77,712) |
| Balance at 30 June 2021 | 1,000 | 172,800 | 4,816,931 | 4,990,731 |

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

**Step One Clothing Pty Ltd and its controlled entities**
**Statement of cash flows**
**For the year ended 30 June 2021**

| | Note | Consolidated 2021 $ | 2020 $ |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Receipts from customers (inclusive of GST/VAT) | | 70,480,355 | 25,883,860 |
| Payments to suppliers and employees (inclusive of GST/VAT) | | (61,582,731) | (19,386,963) |
| Receipts from government stimulus package | | 90,000 | 10,000 |
| Interest received | | 21,967 | 5,108 |
| Income taxes paid | | (2,414,735) | (718,952) |
| Net cash from operating activities | 32 | 6,594,856 | 5,793,053 |
| **Cash flows from investing activities** | | | |
| Payments for intangibles | 12 | (45,900) | (13,200) |
| Net cash used in investing activities | | (45,900) | (13,200) |
| **Cash flows from financing activities** | | | |
| Payments to related parties | | (2,467,455) | (658,457) |
| Dividends paid | 20 | (77,712) | (1,055,646) |
| Net cash used in financing activities | | (2,545,167) | (1,714,103) |
| Net increase in cash and cash equivalents | | 4,003,789 | 4,065,750 |
| Cash and cash equivalents at the beginning of the financial year | | 6,735,152 | 2,629,423 |
| Effects of exchange rate changes on cash and cash equivalents | | 106,051 | 39,979 |
| Cash and cash equivalents at the end of the financial year | 7 | 10,844,992 | 6,735,152 |

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

## Note 1. General information

The financial statements cover Step One Clothing Pty Ltd as a Group consisting of Step One Clothing Pty Ltd and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Step One Clothing Pty Ltd's functional and presentation currency.

Step One Clothing Pty Ltd is a Company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

5/69 Reservoir Street
Surrey Hills NSW 2010

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

The financial statements were authorised for issue, in accordance with a resolution of the sole Director, on 6 September 2021.

## Note 2. Significant accounting policies

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

### New or amended Accounting Standards and Interpretations adopted

The Group has adopted all of 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 been early adopted from 1 July 2020.

### Basis of preparation

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

*Historical cost convention*

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

*Critical accounting estimates*

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group'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 3.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the Group only. Supplementary information about the parent entity is disclosed in note 29.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Step One Clothing Pty Ltd ('Company' or 'parent entity') as at 30 June 2021 and the results of all subsidiaries for the year then ended. Step One Clothing Pty Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

## Note 2. Significant accounting policies (continued)

Subsidiaries are all those entities over which the Group has control. The Group controls an entity when the Group 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 Group. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the Group 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 Group.

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.

Where the Group 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 Group 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.

### Foreign currency translation

The financial statements are presented in Australian dollars, which is Step One Clothing Pty Ltd'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.

*Foreign operations*

The assets and liabilities of foreign operations are translated into Australian dollars using the exchange rates at the reporting date. The revenues and expenses of foreign operations are translated into Australian dollars using the average exchange rates, which approximate the rates at the dates of the transactions, for the period. All resulting foreign exchange differences are recognised in other comprehensive income through the foreign currency reserve in equity.

On consolidation, assets and liabilities have been translated into Australian dollars at the closing rate at the reporting date. Exchange differences are charged or credited to other comprehensive income and recognised in the foreign currency translation reserve in equity. On disposal of a foreign operation, the related cumulative translation differences recognised in equity are reclassified to profit or loss and are recognised as part of the gain or loss on disposal.

### Revenue recognition

The Group recognises revenue as follows:

Revenue is recognised at an amount that reflects the consideration to which the Group is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the Group: identifies the contract with a customer; identifies the performance obligations in the contract; determines the transaction price which takes into account estimates of variable consideration and the time value of money; allocates the transaction price to the separate performance obligations on the basis of the relative stand-alone selling price of each distinct good or service to be delivered; and recognises revenue when or as each performance obligation is satisfied in a manner that depicts the transfer to the customer of the goods or services promised.

**Note 2. Significant accounting policies (continued)**

Variable consideration within the transaction price, if any, reflects concessions provided to the customer such as discounts, rebates and refunds, any potential bonuses receivable from the customer and any other contingent events. Such estimates are determined using either the 'expected value' or 'most likely amount' method. The measurement of variable consideration is subject to a constraining principle whereby revenue will only be recognised to the extent that it is highly probable that a significant reversal in the amount of cumulative revenue recognised will not occur. The measurement constraint continues until the uncertainty associated with the variable consideration is subsequently resolved. Amounts received that are subject to the constraining principle are recognised as a refund liability.

*Sales revenue*
Sales revenue is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery. Amounts disclosed as revenue are net of sales returns and trade discounts.

*Interest income calculated using the effective interest method*
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 the promised performance obligation is satisfied.

**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 Group'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 Group'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.

**Share-based payments**
The Group operates equity and cash-settled share-based remuneration plans for its employees and non-employees, respectively.

All goods and services received in exchange for the grant of any share-based payment are measured at their fair values.

The cost of equity-settled transactions with employees are measured at fair value on grant date. Fair value is determined 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 company value 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 Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions. Company valuation was determined by the shareholders after considering a range of valuation estimates which included discounted cash flows.

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 the statement of profit or loss and other comprehensive income 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 the statement of profit or loss and other comprehensive income is the cumulative amount calculated at each reporting date less amounts already recognised in previous periods.

## Note 2. Significant accounting policies (continued)

The cost of cash-settled transactions with non-employees are measured at fair value on grant date and is accounted for as a compound financial instrument which is an instrument that contains both a debt and equity component. The financial liability component of the instrument is subsequently remeasured at each reporting period and upon settlement, taking any differences to the statement of profit or loss and other comprehensive income. Where the award is subsequently settled in equity, the liability is transferred to equity. Otherwise, where settled in cash, the cash payments are applied against the financial liability. No subsequent changes are required to the equity component on grant date.

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

Upon exercise of share options, the proceeds received, net of any directly attributable transaction costs, are allocated to share capital up to the nominal value of the shares issued with any excess being recorded as share premium.

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

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

### Provisions, contingent assets and contingent liabilities
Provisions for legal disputes, onerous contracts or other claims are recognised when the Group has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic resources will be required from the Group and amounts can be estimated reliably. The timing or amount of the outflow may still be uncertain.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the reporting date, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. Provisions are discounted to their present values, where the time value of money is material.

Any reimbursement that the Group is virtually certain to collect from a third party with respect to the obligation is recognised as a separate asset. However, this asset may not exceed the amount of the related provision.

No liability is recognised if an outflow of economic resources as a result of present obligations is not probable. Such situations are disclosed as contingent liabilities unless the outflow of resources is remote.

### Goods and Services Tax ('GST'), Value-Added Tax ('VAT'), and other similar taxes
Revenues, expenses and assets are recognised net of the amount of associated GST/VAT, unless the GST/VAT 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/VAT receivable or payable. The net amount of GST/VAT 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/VAT 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/VAT recoverable from, or payable to, the tax authority.

## Note 2. Significant accounting policies (continued)

**New Accounting Standards and Interpretations not yet mandatory or early adopted**
Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the Group for the annual reporting period ended 30 June 2021. The Group's assessment of the impact of these new or amended Accounting Standards and Interpretations, most relevant to the Group, are set out below.

*Conceptual Framework for Financial Reporting (Conceptual Framework)*
The revised Conceptual Framework is applicable to annual reporting periods beginning on or after 1 July 2021 and early adoption is permitted. The Conceptual Framework contains new definition and recognition criteria as well as new guidance on measurement that affects several Accounting Standards. Where the Group has relied on the existing framework in determining its accounting policies for transactions, events or conditions that are not otherwise dealt with under the Australian Accounting Standards, the Group may need to review such policies under the revised framework. At this time, the application of the Conceptual Framework is not expected to have a material impact on the Group's financial statements.

## Note 3. 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.

*Coronavirus (COVID-19) pandemic*
Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the Group based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the Group operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the Group unfavourably as at the reporting date or subsequently as a result of the Coronavirus (COVID-19) pandemic.

*Revenue recognition*
When recognising revenue in relation to the sale of goods to customers, the key performance obligation of the Group is considered to be the point of delivery of the goods to the customer, as this is deemed to be the time that the customer obtains control of the promised goods and therefore the benefits of unimpeded access.

*Provision for impairment of inventories*
The provision for impairment of inventories assessment requires a degree of estimation and judgement. The level of the provision is assessed by taking into account the recent sales experience, the ageing of inventories and other factors that affect inventory obsolescence.

*Income tax*
The Group 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 Group recognises liabilities for anticipated tax audit issues based on the Group'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 Group considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## Note 3. Critical accounting judgements, estimates and assumptions (continued)

*Fair value measurement*
Management uses various valuation techniques to determine the fair value of financial instruments (where active market quotes are not available) and non-financial assets. This involves developing estimates and assumptions consistent with how market participants would price the instrument. Management bases its assumptions on observable data as far as possible.

*Employee benefits provision*
As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

*Share-based payments*
The Group assesses the fair value of options granted applying the Black-Scholes valuation model. The use of this model requires significant judgement and assumptions in regards to the key inputs such as risk-free rate, share price volatility and time to maturity.

## Note 4. Operating segments

*Identification of reportable operating segments*
The Group is organised into one (1) operating segment: online retail sales. The determination of this operating segment is based on the internal reports that are reviewed and used by the Chief Executive Officer and Chief Financial Officer (who are identified as the Chief Operating Decision Makers ('CODM')) in assessing performance and in determining the allocation of resources.

The CODM reviews sales revenue from sale of goods recognised at a point in time. The accounting policies adopted for internal reporting to the CODM are consistent with those adopted in the financial statements.

The information reported to the CODM is on a monthly basis.

*Major customers*
During the current and previous financial years, no individual customer contributed more than 10 per cent of the Group's revenue.

*Disaggregation of revenue by Geographical regions*
The Group operates in Australia and United Kingdom. Revenue is attributed to the country where the goods are delivered. All sales revenue is from sale of goods recognised at a point in time.

| | **Consolidated** | |
|---|---|---|
| | **2021** | **2020** |
| | **$** | **$** |
| Australia [(a)] | 40,666,976 | 21,247,123 |
| United Kingdom | 21,049,865 | 999,672 |
| | 61,716,841 | 22,246,795 |

(a) Australia includes export sales.

*Non-current assets by Geographical regions*
There are no geographical non-current assets exclusive of financial instruments, deferred tax assets, post-employment benefits assets.

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

## Note 5. Administration expense

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Administration expense includes: | | |
| Salaries and wages expense | 340,583 | 1,130,000 |
| Superannuation expense | 29,260 | 44,301 |
| Other employee expenses | 24,041 | 4,511 |
| Contractor fees | 732,162 | 595,357 |
| Rent expense | 207,076 | 5,500 |
| Subscription and licence fees | 141,003 | 45,625 |
| Other operating expenses | 352,378 | 336,775 |
| | 1,826,503 | 2,162,069 |

## Note 6. Income tax

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Income tax expense* | | |
| Current tax | 4,188,115 | 1,879,852 |
| Deferred tax | (593,069) | (433,562) |
| Adjustment recognised for prior periods | 38,008 | - |
| Aggregate income tax expense | 3,633,054 | 1,446,290 |
| Deferred tax included in income tax expense comprises: | | |
| Increase in deferred tax assets | (691,383) | (523,605) |
| Increase in deferred tax liabilities | 98,314 | 90,043 |
| Deferred tax | (593,069) | (433,562) |
| *Numerical reconciliation of income tax expense and tax at the statutory rate* | | |
| Profit before income tax expense | 4,233,427 | 5,187,423 |
| Tax at the statutory tax rate of 30% (2020: 27.5%) | 1,270,028 | 1,426,541 |
| Tax effect amounts which are not deductible/(taxable) in calculating taxable income: | | |
| Entertainment expenses | - | 22,499 |
| Share-based payments | 2,400,000 | - |
| Cash flow boost | (27,000) | (2,750) |
| | 3,643,028 | 1,446,290 |
| Adjustment recognised for prior periods | 38,008 | - |
| Adjustment to deferred tax balances as a result of change in statutory tax rate | (47,982) | - |
| Income tax expense | 3,633,054 | 1,446,290 |

## Note 6. Income tax (continued)

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Deferred tax asset* | | |
| Deferred tax asset comprises temporary differences attributable to: | | |
| Contract liabilities | 786,057 | 589,098 |
| Employee benefits | 10,682 | 3,181 |
| Provision for stock obsolescence | 20,950 | - |
| Other payables | 64,707 | - |
| Blackhole expenditure | 439,766 | 38,500 |
| Deferred tax asset | 1,322,162 | 630,779 |
| Movements: | | |
| Opening balance | 630,779 | 107,174 |
| Credited to profit or loss | 691,383 | 523,605 |
| Closing balance | 1,322,162 | 630,779 |

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Deferred tax liability* | | |
| Deferred tax liability comprises temporary differences attributable to: | | |
| Inventories | 160,967 | 93,933 |
| Derivative financial instruments | 40,315 | 9,035 |
| Deferred tax liability | 201,282 | 102,968 |
| Movements: | | |
| Opening balance | 102,968 | 12,925 |
| Charged to profit or loss | 98,314 | 90,043 |
| Closing balance | 201,282 | 102,968 |

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Provision for income tax* | | |
| Provision for income tax | 3,677,241 | 1,886,819 |

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

## Note 6. Income tax (continued)

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

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

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

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

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

Step One Clothing Pty Ltd (the 'head entity') and its wholly-owned 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.

In addition to the Group's current and the companies' 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.

## Note 7. Cash and cash equivalents

| | Consolidated | |
|---|---|---|
| | **2021** | **2020** |
| | **$** | **$** |
| *Current assets* | | |
| Cash on hand | 1,000 | 1,000 |
| Cash at bank | 10,843,992 | 6,734,152 |
| | 10,844,992 | 6,735,152 |

*Accounting policy for 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.

## Note 8. Inventories

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Current assets* | | |
| Stock on hand - at cost | 6,440,688 | 1,218,984 |
| Less: Provision for impairment | (69,834) | - |
| | 6,370,854 | 1,218,984 |
| Stock in transit - at cost | 3,359,532 | 341,575 |
| | 9,730,386 | 1,560,559 |

*Accounting policy for inventories*
Inventories are measured at standard cost comprising the purchase cost, freight and duty expenses, net of rebates and discounts received or receivable.

The carrying amount of inventories is stated at the lower of cost and net realisable value. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs necessary to make the sale.

## Note 9. Related party receivables

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Current assets* | | |
| Amounts due from related parties | 3,408,667 | 86,349 |
| *Non-current assets* | | |
| Amounts due from related parties | - | 372,001 |

Refer to note 28 for further information on related party transactions.

## Note 10. Other assets

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Current assets* | | |
| Prepayments | 364,444 | - |
| Deposits | 691,723 | 842,230 |
| Other current assets | 246,815 | - |
| | 1,302,982 | 842,230 |

## Note 11. Plant and equipment

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Non-current assets* | | |
| Computer and office equipment - at cost | 3,660 | 3,660 |
| Less: Accumulated depreciation | (1,830) | (1,220) |
| | 1,830 | 2,440 |

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

| **Consolidated** | Computer & office equipment $ | Total $ |
|---|---|---|
| Balance at 1 July 2019 | 3,050 | 3,050 |
| Depreciation expense | (610) | (610) |
| Balance at 30 June 2020 | 2,440 | 2,440 |
| Depreciation expense | (610) | (610) |
| Balance at 30 June 2021 | 1,830 | 1,830 |

*Accounting policy for 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 plant and equipment over their expected useful lives as follows:

| | |
|---|---|
| Computer and office equipment | 5 years |

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

An item of plant and equipment is derecognised upon disposal or when there is no future economic benefit to the Group. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

## Note 12. Intangibles

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Non-current assets* | | |
| Trademarks - at cost | 59,100 | 13,200 |
| Less: Accumulated amortisation | (2,954) | - |
| | 56,146 | 13,200 |

## Note 12. 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** | Intangibles $ | Total $ |
|---|---|---|
| Balance at 1 July 2019 | - | - |
| Additions | 13,200 | 13,200 |
| Balance at 30 June 2020 | 13,200 | 13,200 |
| Additions | 45,900 | 45,900 |
| Amortisation expense | (2,954) | (2,954) |
| Balance at 30 June 2021 | 56,146 | 56,146 |

*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 average of 10 years.

## Note 13. Trade and other payables

| | **Consolidated** | |
|---|---|---|
| | **2021 $** | **2020 $** |
| *Current liabilities* | | |
| Trade payables | 5,461,220 | 1,559,936 |
| GST and VAT net payables | 381,195 | 57,847 |
| Accruals and other payables | 1,434,081 | 209,455 |
| | 7,276,496 | 1,827,238 |

*Accounting policy for trade and other payables*
These amounts represent liabilities for goods and services provided to the Group 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 the agreed credit terms.

## Note 14. Contract liabilities

| | **Consolidated** | |
|---|---|---|
| | **2021 $** | **2020 $** |
| *Current liabilities* | | |
| Deferred revenue | 2,620,189 | 2,142,174 |

*Unsatisfied performance obligations*
The aggregate amount of the transaction price allocated to the performance obligations that are unsatisfied at the end of the reporting period was $2,620,189 as at 30 June 2021 ($2,142,172 as at 30 June 2020) and is expected to be recognised as revenue in next period as follows:

| | **Consolidated** | |
|---|---|---|
| | **2021 $** | **2020 $** |
| Within 6 months | 2,620,189 | 2,142,172 |

## Note 14. Contract liabilities (continued)

*Accounting policy for contract liabilities*
Contract liabilities represent the Group's obligation to transfer goods to a customer and are recognised when a customer pays consideration before the Group has transferred the goods to the customer.

## Note 15. Employee benefits

| | Consolidated | |
|---|---|---|
| | 2021 | 2020 |
| | $ | $ |
| *Current liabilities* | | |
| Annual leave | 33,959 | 8,909 |
| *Non-current liabilities* | | |
| Long service leave | 1,649 | 2,658 |

*Accounting policy for 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 high quality corporate bonds with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.

## Note 16. Other financial liability

| | Consolidated | |
|---|---|---|
| | 2021 | 2020 |
| | $ | $ |
| *Current liabilities* | | |
| Other financial liability | 8,000,000 | - |

On 12 March 2020, the Group issued sixty (60) phantom share units ("PSU") to a non-employee participant. The PSU has fully vested on the effective date of the agreement, being 12 March 2020. As such, there are no vesting conditions.

The PSU entities the participant to a contingent right to receive amounts from the Group based on amounts received by shareholders on exit event as determined in the agreement.

The fair value of the PSU granted was determined based on the Company valuation on grant date and subsequent remeasurement date at the end of the reporting period.

The following principal assumptions were used in the valuation:

| | |
|---|---|
| Grant date | 12 March 2020 |
| Vesting period ends | 12 March 2020 |
| Share price at grant date | $3,800 per share |
| Expiry date | on exit event date |
| Fair value per PSU at grant date - 12 March 2020 | $3,800 per PSU |
| Fair value per PSU at reporting date - 30 June 2021 | $133,333 per PSU |

## Note 16. Other financial liability (continued)

The fair value of the financial liability at 30 June 2021 is $8,000,000. The share-based payment expense recognised during the financial year is $8,000,000.

## Note 17. Issued capital

| | Consolidated | | | |
|---|---|---|---|---|
| | **2021 Shares** | **2020 Shares** | **2021 $** | **2020 $** |
| Ordinary shares - fully paid | 1,000 | 1,000 | 1,000 | 1,000 |

*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.

*Capital risk management*
The Group'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 Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

*Accounting policy for 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 from the proceeds.

## Note 18. Reserves

| | Consolidated | |
|---|---|---|
| | **2021 $** | **2020 $** |
| Foreign currency translation reserve | 172,800 | 9,529 |

*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.

## Note 19. Retained earnings

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Retained earnings at the beginning of the financial year | 4,294,270 | 1,608,783 |
| Profit after income tax expense for the year | 600,373 | 3,741,133 |
| Dividends paid (note 20) | (77,712) | (1,055,646) |
| Retained earnings at the end of the financial year | 4,816,931 | 4,294,270 |

## Note 20. Dividends

*Dividends*
Dividends paid during the financial year were as follows:

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Final dividend for the year ended 30 June 2021 (30 June 2020) | 77,712 | 1,055,646 |

*Franking credits*

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Franking credits available at the reporting date based on a tax rate of 30% (2020: 27.5%) | 351,321 | 1,869 |
| Franking credits that will arise from the payment of the amount of the provision for income tax at the reporting date based on a tax rate of 30% (2020: 27.5%) | 2,351,112 | 724,969 |
| Franking credits that will arise from the payment of dividends at the reporting date based on a tax rate of 30% (2020: 27.5%) | (33,305) | (375,517) |
| Franking credits available for subsequent financial years based on a tax rate of 30% (2020: 27.5%) | 2,669,128 | 351,321 |

*Accounting policy for dividends*
Dividends are recognised when declared during the financial year and no longer at the discretion of the Company.

## Note 21. Derivative financial instruments

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| *Current assets* | | |
| Derivative financial instruments | 134,382 | 32,855 |

Refer to note 23 for further information on fair value measurement.

*Accounting policy for derivative financial instruments*
Derivatives are initially recognised at fair value on the date a derivative contract is entered into and are subsequently remeasured to their fair value at each reporting date. The accounting for subsequent changes in fair value depends on whether the derivative is designated as a hedging instrument, and if so, the nature of the item being hedged.

Derivatives are classified as current or non-current depending on the expected period of realisation.

## Note 22. Financial instruments

***Financial risk management objectives***
The Group's activities expose it to a variety of financial risks: market risk (including foreign currency risk, price risk and interest rate risk), credit risk and liquidity risk. The Group's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the Group. The Group uses 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 the Chief Financial Officer under policies approved by the sole Director. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and hedges financial risks within the Group's operating units. The Chief Financial Officer reports to the Board on a monthly basis.

***Market risk***

*Foreign currency risk*
The Group 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.

| | **Sell Australian dollars** | | **Average exchange rates** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| | **$** | **$** | | |
| **Buy Chinese yuan** | | | | |
| Maturity: | | | | |
| 0 - 3 months | 2,212,268 | 813,307 | 5.1340 | 4.9070 |
| 3 - 6 months | - | 1,342,726 | - | 4.9331 |
| 6 - 12 months | - | 2,684,420 | - | 4.9573 |

The carrying amount of the Group's foreign currency denominated financial assets and financial liabilities at the reporting date were as follows:

| | **Assets** | | **Liabilities** | |
|---|---|---|---|---|
| | **2021** | **2020** | **2021** | **2020** |
| **Consolidated** | **$** | **$** | **$** | **$** |
| Chinese yuan | 134,382 | 32,855 | - | - |

Based on this position, the Group is not exposed to any significant foreign currency sensitivity from its existing financial liabilities.

*Price risk*
The Group is not exposed to any significant price risk.

*Interest rate risk*
The Group is not exposed to any significant interest rate risk.

***Credit risk***
The Group is not exposed to any significant credit risk.

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

## Note 22. Financial instruments (continued)

***Liquidity risk***
Vigilant liquidity risk management requires the Group to maintain sufficient liquid assets (mainly cash and cash equivalents) to be able to pay debts as and when they become due and payable.

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

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

| **Consolidated - 2021** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 7,276,496 | - | - | - | 7,276,496 |
| Other financial liability | - | 8,000,000 | - | - | - | 8,000,000 |
| Total non-derivatives | | 15,276,496 | - | - | - | 15,276,496 |

| **Consolidated - 2020** | Weighted average interest rate % | 1 year or less $ | Between 1 and 2 years $ | Between 2 and 5 years $ | Over 5 years $ | Remaining contractual maturities $ |
|---|---|---|---|---|---|---|
| **Non-derivatives** | | | | | | |
| *Non-interest bearing* | | | | | | |
| Trade and other payables | - | 1,827,238 | - | - | - | 1,827,238 |
| Total non-derivatives | | 1,827,238 | - | - | - | 1,827,238 |

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 23. Fair value measurement

*Fair value hierarchy*
The following tables detail the Group's assets and liabilities, measured or disclosed at fair value, using a three level hierarchy, based on the lowest level of input that is significant to the entire fair value measurement, being:
Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date
Level 2: Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly
Level 3: Unobservable inputs for the asset or liability

| **Consolidated - 2021** | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Assets* | | | | |
| Derivative financial instruments | - | 134,382 | - | 134,382 |
| Total assets | - | 134,382 | - | 134,382 |
| *Liabilities* | | | | |
| Other financial liability | - | - | 8,000,000 | 8,000,000 |
| Total liabilities | - | - | 8,000,000 | 8,000,000 |

| **Consolidated - 2020** | Level 1 $ | Level 2 $ | Level 3 $ | Total $ |
|---|---|---|---|---|
| *Assets* | | | | |
| Derivative financial instruments | - | 32,855 | - | 32,855 |
| Total assets | - | 32,855 | - | 32,855 |

There were no transfers between levels during the financial year.

*Valuation techniques for fair value measurements categorised within level 2 and level 3*
Derivative financial instruments have been valued using quoted market rates. This valuation technique maximises the use of observable market data where it is available and relies as little as possible on entity specific estimates.

*Accounting policy for 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.

## Note 24. Key management personnel disclosures

*Compensation*
The aggregate compensation made to the sole Director and other key management personnel of the Group is set out below:

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Short-term employee benefits and contractor fees | 384,709 | 196,550 |
| Long-term benefits | 1,497 | - |
| | 386,206 | 196,550 |

On 30 June 2021, the Group issued twelve (12) options to key management personnel. The options will vest if certain conditions, as defined in the terms of issue of the options, are met. Participants in this option plan have to be employed until the end of the agreed vesting period. Upon vesting, each option entitles the holder of the option to subscribe for or acquire one ordinary share, unless the sole Director determines otherwise.

The fair value of the options granted were determined using a Black-Scholes Option Pricing Model that takes into account factors specific to the share option plan, such as the vesting period. Company valuation was determined by the shareholders after considering a range of valuation estimates which included discounted cash flows.

The following principal assumptions were used in the valuation:

| | |
|---|---|
| Grant date | 30 June 2021 |
| Vesting period ends | 30 June 2024 |
| Share price at grant date | $179,245 per share |
| Volatility | 40% |
| Option life (expected) | 6.5 years |
| Dividend yield | 0% |
| Risk-free investment rate | 1.18% |
| Fair value per option at grant date | $47,776 per option |
| Exercise price at grant date | $200,000 per option |
| Exercisable from / to | 1 July 2024 / 30 June 2031 |

The fair value of the options issued on grant date (30 June 2021) is $573,312. Given the options were granted on 30 June 2021, no expense has been recognised during the financial year.

## Note 25. 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 Group, and its network firms:

| | Consolidated | |
|---|---|---|
| | 2021 $ | 2020 $ |
| *Audit services - Grant Thornton* | | |
| Audit of the financial statements | 100,000 | 45,000 |
| *Other services* | | |
| Review of the interim financial statements | 30,000 | - |
| Taxation services | 320,179 | 111,402 |
| Financial advisory services | 50,000 | - |
| Other | 16,500 | 5,000 |
| | 416,679 | 116,402 |
| | 516,679 | 161,402 |
| *Audit services - Grant Thornton network firms* | | |
| Audit of the financial statements | 10,000 | - |
| *Other services - network firms* | | |
| Taxation services | 24,782 | - |
| | 34,782 | - |

## Note 26. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2021 and 30 June 2020.

## Note 27. Commitments

The Group had no commitments as at 30 June 2021 and 30 June 2020.

## Note 28. Related party transactions

*Parent entity*
Step One Clothing Pty Ltd is the parent entity.

*Subsidiaries*
Interests in subsidiaries are set out in note 30.

*Key management personnel*
Disclosures relating to key management personnel are set out in note 24.

*Transactions with related parties*
The following transactions occurred with related parties:

| | Consolidated | |
|---|---|---|
| | 2021 $ | 2020 $ |
| Payment for expenses | | |
| Payment for property rental from other related party | 76,503 | - |
| Payment for accounting services from other related party | 213,685 | 12,798 |

## Note 28. Related party transactions (continued)

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

| | Consolidated | |
|---|---|---|
| | **2021** | **2020** |
| | **$** | **$** |
| Current receivables: | | |
| Receivables from related parties | 3,408,667 | 86,349 |
| Non-current receivables | | |
| Receivables from related parties | - | 372,001 |

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

## Note 29. Parent entity information

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

*Statement of profit or loss and other comprehensive income*

| | Parent | |
|---|---|---|
| | **2021** | **2020** |
| | **$** | **$** |
| Profit/(loss) after income tax | (8,014,530) | 3,071,102 |
| Total comprehensive income/(loss) | (8,014,530) | 3,071,102 |

*Statement of financial position*

| | Parent | |
|---|---|---|
| | **2021** | **2020** |
| | **$** | **$** |
| Total current assets | 7,456,663 | 8,253,000 |
| Total assets | 7,962,068 | 9,271,420 |
| Total current liabilities | 12,406,030 | 5,540,554 |
| Total liabilities | 12,448,162 | 5,646,180 |
| Equity | | |
| Issued capital | 1,000 | 1,000 |
| Foreign currency translation reserve | (13,327) | - |
| Retained earnings/(accumulated losses) | (4,473,767) | 3,624,240 |
| Total equity/(deficiency) | (4,486,094) | 3,625,240 |

*Guarantees entered into by the parent entity in relation to the debts of its subsidiaries*
The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021 and 30 June 2020.

*Contingent liabilities*
Refer to note 26.

## Note 29. Parent entity information (continued)

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

*Lease commitments*
The parent entity had no lease commitments for a term greater than 12 months as at 30 June 2021 and 30 June 2020.

*Significant changes in state of affairs*
On 1 July 2020, domestic trading operations were transferred from Step One Clothing Pty Ltd to Step One Clothing Australia Pty Ltd. The Parent entity retains ownership of brands and provides executive management services to the Group.

*Significant accounting policies*
The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, 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 30. Interests in subsidiaries

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 2:

| | | Ownership interest | |
|---|---|---|---|
| Name | Principal place of business / Country of incorporation | 2021 % | 2020 % |
| Step One Clothing Australia Pty Ltd | Australia | 100.00% | 100.00% |
| Step One Clothing UK Limited | United Kingdom | 100.00% | 100.00% |
| Step One Clothing USA Inc. | USA | 100.00% | - |
| Step One Production Pty Ltd | Australia | 100.00% | - |

Step One Clothing USA Inc. and Step One Production Pty Ltd were dormant during the year ended 30 June 2021.

## Note 31. Events after the reporting period

On 16 August 2021, the Board approved the splitting of the Company's shares from 1,000 ordinary shares into 150,000,000 ordinary shares.

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

## Note 32. Reconciliation of profit after income tax to net cash from operating activities

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Profit after income tax expense for the year | 600,373 | 3,741,133 |
| Adjustments for: | | |
| Depreciation and amortisation | 3,869 | 610 |
| Foreign exchange differences | (495,781) | (32,855) |
| Provision for stock obsolescence | 69,834 | - |
| Share-based payment expense | 8,000,000 | - |
| Change in operating assets and liabilities: | | |
| Increase in inventories | (8,169,828) | (1,176,457) |
| Increase in deferred tax assets | (691,383) | (523,605) |
| Increase in other operating assets | (562,279) | (473,186) |
| Increase in trade and other payables | 5,449,259 | 1,233,871 |
| Increase in contract liabilities | 478,015 | 1,768,088 |
| Increase in provision for income tax | 1,790,422 | 1,160,900 |
| Increase in deferred tax liabilities | 98,314 | 90,043 |
| Increase in employee benefits | 24,041 | 4,511 |
| Net cash from operating activities | 6,594,856 | 5,793,053 |

## Note 33. Earnings per share

| | Consolidated 2021 $ | Consolidated 2020 $ |
|---|---|---|
| Profit after income tax attributable to the owners of Step One Clothing Pty Ltd | 600,373 | 3,741,133 |
| | **Number** | **Number** |
| Weighted average number of ordinary shares used in calculating basic earnings/loss per share | 1,000 | 1,000 |
| Adjustments for calculation of diluted earnings per share: | | |
| Phantom share units (PSU) | 60 | - |
| Options over ordinary shares | 12 | - |
| Weighted average number of ordinary shares used in calculating diluted earnings/loss per share | 1,072 | 1,000 |
| | **$** | **$** |
| Basic earnings per share | 600 | 3,741 |
| Diluted earnings per share | 560 | 3,741 |

*Accounting policy for earnings/loss per share*

*Basic earnings per share*
Basic earnings per share is calculated by dividing the profit attributable to the owners of Step One Clothing Pty Ltd, 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.

## Note 33. Earnings per share (continued)

*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.

**Step One Clothing Pty Ltd and its controlled entities**
**Director's declaration**
**30 June 2021**

In the sole Director's opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, Australian Accounting Standards (including the Australian Accounting Interpretations), 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 2 to the financial statements;

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

- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

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

Greg Taylor
Director

6 September 2021

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# Independent Auditor's Report

## To the Members of Step One Clothing Pty Ltd

### Report on the audit of the financial report

#### Opinion

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

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

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

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

#### Basis for opinion

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Report* section of our report. We are independent of the Group in accordance with the *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.

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

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

Our opinion on the financial report does not cover the other information and accordingly 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*. The Directors' responsibility also includes such internal control as the Directors determine is necessary to enable the preparation of the financial report that gives a true and fair view and is free from material misstatement, whether due to fraud or error.

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

## 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/ar3.pdf. This description forms part of our auditor's report.

Grant Thornton

Grant Thornton Audit Pty Ltd
Chartered Accountants

A C Pitts
Partner – Audit & Assurance

Melbourne, 6 September 2021