APPENDIX 4E

Preliminary final report

STEP ONE

1. Company details

Name of entity:	Step One Clothing Limited
ABN:	34 616 696 318
Reporting period:	For the year ended 30 June 2023
Previous period:	For the year ended 30 June 2022

2. Results for announcement to the market

				$'000
Revenues from ordinary activities	down	9.7%	to	65,184
Profit from ordinary activities after tax attributable to the owners of Step One Clothing Limited	up	386.9%	to	8,616
Profit for the year attributable to the owners of Step One Clothing Limited	up	386.9%	to	8,616

Dividends

There were no dividends paid in the financial year. On 24 August 2023, Step One declared a fully franked dividend of 5 cents per share ($9,267,000). Records/register close date will be 12 September 2023 for a payment on 25 September 2023.

During the previous financial year, a dividend of $4,800,000 was paid on 30 September 2021 prior to the initial public offering representing 3.2 cents per ordinary share.

Comments

The profit for the Group after providing for income tax amounted to $8,616,000 (30 June 2022: loss of $3,003,000).

Step One focused on business profitability in preference to revenue growth in the current financial year. Revenue decreased 9.7% on the prior year however the non-IFRS measure of proforma EBITDA increased 33.1% to $12,023,000 (30 June 2022: $9,033,000). Gross profit as a percent of revenue decreased to 80.7% (30 June 2022: 82.0%). Customers who have purchased Step One products increased by 257,000 to 1,358,000.

Cash holdings of $38,313,000 (30 June 2022: $34,104,000) provide financial capacity to pursue expansion when global trading conditions are more supportive of growth.

Refer to the Review of operations in the Directors' report for further commentary on the results.

3. Net tangible assets

	REPORTING PERIOD CENTS	PREVIOUS PERIOD CENTS
Net tangible assets per ordinary security	30.77	26.22

Net tangible assets per ordinary security has been calculated as follows:

	CONSOLIDATED	
	2023 $'000	2022 $'000
Net assets	57,073	48,641
Less: Intangibles	(45)	(50)
Net tangible assets	57,028	48,591

	NUMBER	NUMBER
Total shares issued	185,340,291	185,340,291

4. Control gained over entities

Step One established an Employee Share Ownership Plan Trust. While Step One has no legal ownership of the Trust, it is considered a controlled entity and is consolidated.

5. Loss of control over entities

Not applicable.

6. Dividend reinvestment plans

Not applicable.

7. Details of associates and joint venture entities

Not applicable.

8. Foreign entities

Details of origin of accounting standards used in compiling the report:

Not applicable.

9. Audit qualification

Details of audit dispute or qualification (if any):

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

10. Attachments

Details of attachments (if any):

The Annual Report of Step One Clothing Limited for the year ended 30 June 2023 is attached.

11. Signed

Approved for release by the Board of Directors

Signed ______________________ Date: 24 August 2023

David Gallop AM
Chair
Surry Hills

ANNUAL REPORT 2023

STEP ONE™

STEP ONE CLOTHING LIMITED
ABN 34 616 696 318

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1 PREVENTS CHAFING
2 PREVENTS RIDE-UP
3 REDUCES SWEAT


STEP ONE

FINANCIAL & OPERATIONAL HIGHLIGHTS

$12.0M
EBITDA
UP 33.1%

IT'S OFFICIAL
FIRST AUSTRALIAN FSC® CERTIFIED CLOTHING COMPANY (FSC® C183245)

5¢ DIVIDEND
CONFIDENCE
IN OUR FUTURE

1,358,000
PEOPLE WEARING STEP ONE
UP 23%

$72.2M
REVENUE
DOWN 9.7%

14.7M
WEBSITE VISITS
4.4% CONVERSION RATE

80.7%
GROSS MARGIN
DOWN 0.6%

GROWTH
IN WOMEN'S LINE
EXPANDING OUR RANGE AND OUR CUSTOMER BASE

HIGHLIGHTS

HYPOALLERGENIC
MOISTURE WICKING
ANTI-BACTERIAL
BREATHABLE

BIKINI/BRIEF

LETTER FROM THE CHAIRMAN

Dear Shareholders,

On behalf of the Directors of Step One Clothing Limited, I am pleased to present the Annual Report for the 2023 Financial Year.

A nimble and adaptable business

This financial year, Step One experienced challenging trading conditions across all of its markets. These challenges were driven by weak consumer sentiment, resulting from inflationary pressures and rising interest rates, which in turn impacted discretionary spending.

In response, Step One successfully pivoted to prioritise profitability over growth, delivering proforma EBITDA of $12.0 million (up 33.1% vs proforma $9.0 million in FY22). Concurrently, Step One has continued to build its position as a leading brand for sustainable and quality innerwear products.

Our product solves a problem

Step One was founded to innovate the innerwear market, and our disruptive product, customer engagement model and strong ESG focus have underpinned our growth since 2017.

The fundamentals of our business remain strong: we have a significant opportunity to capture more of the global underwear market, our business is capital light and adaptable, supported by a flexible supply chain and distribution network. Furthermore, we have an abundance of opportunity for product development and adjacencies within the innerwear category.

Sustainability at our core

I am very proud of our strong ESG progress and practises, with our sustainable credentials baked into our entire product lifecycle, from inception to delivery. We have a transparent production process, beginning with ethically grown Bamboo from responsible sources and a strict ethical manufacturing process the entire way across our supply chain. We are constantly reviewing and improving our processes to continue to take the lead in sustainability.

During this year we achieved a significant milestone, receiving Forest Stewardship Council® (FSC®) certification (FSC® C183245). This completes our journey of attaining FSC® certification of the suppliers within the Company's supply chain. The FSC® is an international NGO dedicated to promoting responsible management of the world's forests. By choosing products with FSC® labels, customers know that all the materials used by Step One are sourced from forests that have been audited by an independent third party to confirm adherence to FSC®'s rigorous social and environmental standards.

Rewarding shareholders

Following a strong financial performance, Step One is able to distribute a dividend of 5 cents per share to its shareholders, with full franking. Step One maintains a solid financial stance. The Board intends to assess capital needs annually, aiming to allocate surplus funds derived from profits as dividends, franked to the maximum extent possible.

In closing

On behalf of the Board, I would like to thank my fellow Directors, Greg Taylor and the management team for their dedication and commitment to the Company. I would also like to take this opportunity to thank our shareholders who have continued to support us. While I note the share price pressure, I would like to reassure my fellow shareholders that the fundamentals of our business remain very strong.

The Board maintains a high level of confidence in our product, team and strategic direction as we enter FY24. I look forward to providing you with more updates as we progress on our journey.

Yours faithfully,

David Gallop AM
Chairperson

Following a period of strong financial performance, the Board and I are delighted to reward shareholders by distributing a dividend of 5 cents per share, fully franked. This decision reflects our confidence in our ability to continue to generate profit and cash to fund growth in the business.

LETTER FROM THE FOUNDER

Fellow shareholders,

I am delighted to present my review of Step One Clothing Limited (**Step One**) for the 2023 financial year.

FY23 was another significant year in Step One's journey, and our first full year as a listed company.

Some highlights for the FY23 year include:

- Revenue of $65.2 million, representing a 9.7% decrease to pcp[1] (FY22: $72.2 million)
- Statutory EBITDA of $12.0 million, up 4393.9% vs pcp (FY22: loss of $0.3 million)
- Proforma EBITDA[2] of $12.0 million, up 33.1% vs pcp (FY22: $9.0 million)
- Gross margin remains at a strong level of 80.7%, down 1.3% vs pcp (FY22: 82.0%)
- Average order value (AOV[3]) up 19% to $89.49 (FY22: $74.99)
- Over 1.3 million[3] global customers
- Inventory reduction plans in place as the speed and flexibility within global supply chains improve
- Strong financial position, with closing cash of $38.3 million and no debt
- Dividend of 5 cents per share fully franked reflecting confidence in the business
- Achieved Forest Stewardship Council® (FSC®) certification

We know that once our customers put their Step One's on, they are likely to return for more – with over 63% of sales attributable to returning customers, with very strong reviews.

While our marketing strategy continues to evolve, it retains its direct nature, driven by in-house video content and paid social media and influencer channels. Our customer first approach continues to support strong customer conversion and retention, backed by our 30-Day First Pair guarantee, a 12-month manufacturing warranty and rapid customer service response.

FY23 Performance

FY23 EBITDA of $12.0 million increased by $3.0 million from the proforma FY22 EBITDA of $9.0 million. This was achieved by:

- Returning to clear messaging – what problems does a pair of Step One solve: stops chafing, stops ride-up, reduces sweat – as well as being the most comfortable pair of underwear you will ever pull on
- Responding to customer feedback and launching the Bikini Brief women's line in March 2023
- Reducing advertising spend on customer recruitment when return was low, requiring a temporary pivot away from growth to preserve profitability
- Reducing the cadence of colour releases while maintaining focus on reducing inventory levels
- Increasing local "in-real-life" activations as nothing better lets a customer know how good our underwear is than trying on a pair
- Expanding distribution channels beyond DTC to include Amazon to broaden customer reach and establish a new revenue stream
- Having the confidence to pause our growth ambitions in the USA while we evaluate and test new approaches
- Finding fun again in our naming conventions and advertising

FY23 successfully demonstrated the ability of our business's agility in pivoting when conditions change, and the ability to execute its strategic plans. Step One will maintain this nimble approach across its business and operations.

1. Prior corresponding period (pcp) is the 12 months ending 30 June 2022, also referred to as FY22.
2. Refer to page 25 for reconciliation of Statutory to Proforma amounts and definitions of metric calculations. There are no proforma adjustments in the FY23 financial results.
3. Operational data is for Step One DTC sales and excludes transactions with Amazon customers.

Responsibility

Each stage within Step One's supply chain possesses formal accreditations for their environmental and social practices. During FY23, the final step in the full supply chain accreditation was attained when Step One itself received certification from the FSC® (FSC® C183245). While this is a source of great pride to me personally, it also assures our customers that the Step One underwear they've chosen was manufactured to the highest ethical and environmental standards.

Step One is the first Australian clothing company to be certified by the FSC®.

Furthermore, Step One is the first Australian company to join the FSC®'s "Fashion Forever Green Pact" which involves responsible procurement and certified sourcing.

Our strategy

Our strategic goal is to grow profitably. The addressable market in each of our key locations is sizeable as innerwear is a daily necessity for most people. Step One has a great product that strongly resonates with customers across all our markets. Our confidence in the existing opportunity remains steadfast.

Our strategies to achieve growth include:

- building brand recognition through innovative and engaging content which provides a compelling reason for consumers to try our product
- maintaining a strong focus on customer retention by maintaining a dialogue post purchase and early access to new releases
- investing in product innovation and extensions, as well as adjacencies
- investing in partnerships with marketplaces and other organisations with large customer and/or membership bases.

In closing

I would like to thank the Board, our Step One team, suppliers and service providers for their unwavering commitment throughout the year. I would also like to thank our shareholders for their ongoing support and for their trust in our vision.

My belief in our products and my commitment to continuing to build this business remain unwavering. I am confident that as macro-economic conditions ease Step One will be well positioned to pursue its international ambitions.

Greg Taylor
Founder and CEO

SUSTAINABILITY

SUSTAINABILITY REPORT

Overview

Sustainability Risk Management (Sustainability) is about embracing opportunities and managing business risks related to non-financial resources. This includes identifying opportunities to reduce dependency on limited resources, reduce waste in their use, and ultimately lessen the cost to the Group for utilising valuable resources. Sustainability evaluates how fragile environmental assets are managed over the long term, ensuring an appropriate balance between consumption and conservation.

Step One's continued focus on sustainability encompasses:

- **sustainable material sourcing and ethical manufacturing;**
- **responsible marketplace interactions with suppliers and customers;**
- **employee diversity and talent; and**
- **community support.**

Step One has considered the environmental and social impacts of its operations and has focused this report on the most important matters for a broad range of stakeholders. Step One focuses on identifying areas that provide opportunities for positive and meaningful change and that deliver long-term positive societal outcomes. At the heart of this goal is a belief in the harmony of financial performance and Environmental, Social and Governance ('ESG') considerations.

Who we are

Step One is comprised of a team of 43 people in 4 countries, with a shared goal of providing comfortable, sustainable and ethical manufactured underwear.

Recognising the importance of attracting and retaining the most highly skilled employees, Step One provides a safe and flexible work environment free of discrimination. Through Step One's Diversity Policy, a risk management approach is adopted to remove factors that could limit diversity whilst continuing to encourage merit-based recruitment and promotion based on performance. Step One is committed to developing a culture that values and achieves diversity in both its workforce and on its Board of Directors.

Step One employees are a diverse and talented workforce. Step One is committed to complying with all legislative workplace requirements, providing development opportunities and encouraging its employees to be the best version of themselves.

Step One is committed to the development of sustainable and responsible business practices in order to achieve its diversity objectives. Step One is proud of its workforce mix, with 51% of Step One's workforce being female and 49% male. Step One is looking to increase female representation in senior management positions. Step One has a strong belief that diversity garners the creativity of ideas and fabrication of strong teams.

Continual Improvement

Step One will progressively extend coverage of its own sustainability programs, and to the extent it is commercially viable, seek to align these practices with those of suppliers and production partners.

Step One's sustainability program ensures robust protection of future growth, as well as ensuring costs are not uneconomically exposed to sustainability risk factors.

Governance

Step One defines risk broadly which includes a focus on governance, climate change, greenhouse gas emissions, exposure to Environment, Social and Governance (ESG) obligations, changing stakeholder perception, customer preferences and legislative changes.

All ESG areas are considered risks, as the failure to properly address them will compromise the sustainable growth of the business. The Board has delegated to executive management the responsibility to identify actual and emerging risks and set in place programs to appropriately mitigate those risks. Step One complies with the requirements of the Modern Slavery Act (2018) despite not yet achieving the revenue threshold. Core to achieving compliance is the level of certification required throughout Step One's Supply chain.

Step One's risk management framework is described in the Corporate Governance Statement of this Annual Report.

Supply Chain

The following information is provided to assist assessment of Step One's sustainability risk and mitigations. It is important to note that Step One:

- does not own or manage forests;
- is not a manufacturer but does specify and control product design; and
- does not own or manage logistics or warehouse infrastructure.

Fibre Production - Emissions, Effluents and Waste

Sustainable forestry practices work in harmony with the environment and preclude products grown in areas where the natural forest has been cleared. Organic farmers use only natural products to nurture their crops. Bamboo grows rapidly with minimal water (compared to irrigated cotton) and is sourced from areas with high annual rainfall, therefore reducing the impact on the region's fresh water supply.

The fibre extraction process recycles the water it uses by adding biological mould to the waste water treatment process. The treated water can then be used for agriculture irrigation.

Fabric Manufacturing - Supplier Credentials

Factories involved in the conversion of bamboo fibre into fabric must be OEKO-TEX certified. This is an independent certification that ensures materials manufactured in each stage of the supply chain are tested for harmful substances. Each link in our supply chain is OEKO-TEX certified.

Garment Manufacturing - Supplier Credentials

Factories involved in garment manufacturing require BSCI certification to ensure they, among other elements, treat their workers ethically and legally. Contracts with the manufacturers enable contracts to be terminated for breaches of their ethical obligations.

Logistics - Carbon

Finished products are exported directly to warehouses in the selling countries to minimise export miles. Exporting is undertaken using containers via sea as much as possible as this has the lowest carbon impact and is the most inexpensive option.

Packaging - Emissions, Effluents and Waste

Step One's packaging is 100% home compostable which is independently verified.

OUR BRAND IS MUCH MORE THAN EXCEPTIONAL UNDERWEAR

HIGH QUALITY #GETSOME
VISCOSE FROM
ORGANIC BAMBOO
12 MONTH WARRANTY
EXCEPTIONAL CUSTOMER
SERVICE LIFE CHANGING
SPEND HALF YOUR LIFE IN
YOUR UNDERWEAR
STEP 1: STEP ONE, STEP 2:
HAVE A GREAT LIFE
ONE EARTH, WORK WITH IT,
NOT AGAINST IT
DESIGNED WITH PURPOSE
FIRST PAIR FIT GUARANTEE
BIODEGRADABLE
PACKAGING
CERTIFIED SUPPLY CHAIN

100% DIGITALLY NATIVE
GLOBAL EXPANSION
MEN, WOMEN, JUNIORS
DISCIPLINED MARKETING
PROFITABLE
LOW FIXED OVERHEAD
CAPITAL LIGHT
STRONG CASH FLOW
STRONG ESG CREDENTIALS
SCALABLE PRODUCTION
SCALABLE DISTRIBUTION
DIGITAL MARKETING
EXCELLENCE

STEP ONE SUPPLY CHAIN 2023

BAMBOO FABRIC

Bamboo Plantation › Fiber Extraction › Yarn Spinning › Fabric Knitting › Fabric Dying

NYLON FABRIC

Yarn Spinning › Fabric Knitting › Fabric Dying

WAISTBAND

Waistband Weaving

PACKAGING

Packaging Supplier

Australia's first FSC® certified clothing company.

Australia's first signatory to FSC®'s Fashion Forever Green Pact.

What is Oeko-Tex 100?

Oeko-Tex certifies non-hazardous end-products and all of their components. Products that carry the Standard 100 label have been tested and proven free of harmful levels of toxic substances.

What is FSC®?

FSC® chain of custody certification verifies that FSC®-certified material has been identified and separated from non-certified and uncontrolled material as it moves along the supply chain.

What is OCS 100?

The Organic Content Standard (OCS) is a standard for tracking and verifying the content of organically grown materials in a final product.

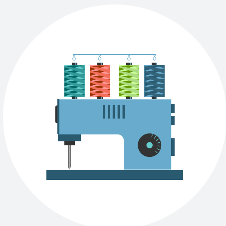
CERTIFIED END-TO-END

FACTORIES

FSC

OEKO-TEX® CONFIDENCE IN TEXTILES STANDARD 100

BSCI Business Social Compliance Initiative



Garment Manufacture

FINAL PRODUCT

FSC
www.fsc.org
FSC® C183245

The mark of responsible forestry

BSCI Business Social Compliance Initiative

What is BSCI?

The amfori Business Social Compliance Initiative (BSCI) is an industry-driven movement that aims to monitor and assess workplace standards across the global supply chain.

AS 5810 ABAX 9999

What is AS5810?

The ABA is dedicated to promoting plastics that are biodegradable, compostable and based on renewable esources. A55810 is the standard for Home Compostable Bio-plastics.

HOME OK compost TÜV AUSTRIA HOME S0329

What is TUV Compost Home?

The TUV certification program confirms biodegradability in a home composting environment.

The first-ever organisation in Australia to introduce labelled FSC®-certified underwear

The Forest Stewardship Council®

The Forest Stewardship Council (FSC®) is a non-profit organisation that provides the world's most credible sustainable forestry solution, covering more than 150 million hectares of certified forest. The FSC® system is trusted by NGOs, consumers, and businesses to help promote healthy and resilient forests.

Equally governed by environmental, social, and economic perspectives, FSC® helps forest managers, smallholders, and governments ensure thriving forest ecosystems and safeguard the livelihoods of forest communities. FSC®'s forestry standards, linked to a strict chain of custody certification, are a proven solution to fight the climate and biodiversity crises. The FSC® logo is the most recognised mark for responsible forestry.

In October 2022, Step One achieved FSC® Chain of Custody Certification, marking our entry into the FSC® forest community. This achievement bestowed upon us, the distinction of being the first-ever organisation in Australia to introduce labelled FSC®-certified underwear for purchase. This milestone enables Step One to verify that the FSC®-certified forest-based materials in our underwear have been credibly used along our product's path from the forest to finished goods. As FSC® Chain of Custody certificate holders, we have also demonstrated compliance with FSC®'s Core Labour Requirements, including the following:

- no child or forced labour;
- no discrimination in employment and occupation;
- freedom of association and the right to collective bargaining.

Building upon this commitment, Step One further distinguished ourselves in August 2023 by becoming the first Australian signatory of the FSC® Fashion Forever Green Pact. This momentous step reflects our public pledge to support FSC® certification for fabrics and yarns, reinforcing our dedication to responsible and sustainable fashion practices.

Why Step One Chose to Become FSC® Certified:

The FSC® standards are among the most rigorous certification standards in the world.

FSC® is also the only forest certification system that is code compliant with ISEAL, the global association for social and environmental standards.

FSC®'s standards are globally consistent and nationally adapted.

Operating in over 80 countries, the FSC® forest stewardship standards are based on the same Principles and Criteria. These national forest standards are adapted to fit the environmental, social, and economic context in which they are applied while upholding our rigorous standards.

FSC® is governed by economic, social, and environmental perspectives equally.

FSC® balances the needs of all forest stakeholders – environmental, social, and economic – through an open, member-led democracy. Their policies are uniquely shaped, set, and guided by over 1,200 individuals and member organisations.

FSC® is backed by some of the largest NGOs.

FSC®'s members include some of the world's most reputable environmental NGOs, such as WWF and Rainforest Alliance, who highly regard our strict standards and participative governance approach.

IT'S OFFICIAL!

FSC
www.fsc.org
FSC® C183245

Step One is the first clothing company In Australia to achieve FSC® certification.

Here's why it's important

FSC® certification guarantees that the bamboo used to make our products is sourced sustainably and responsibly, whilst benefiting the lives of local people and workers. Our commitment to sustainability is at the core of everything we do, and this certification is a testament to our dedication to creating a better future.

100% Naturally Irrigated Bamboo

Our bamboo plantations are 100% naturally irrigated and farmed without any deforestation or destruction of natural habitats. We even add biological mould to our waste water to be reused for further irrigation. We don't waste a drop!

Minimal Wastage

FSC® chain of custody certification verifies that FSC®-certified material has been identified, tracked and traced throughout our production process. From our plantation to your parcel, your Step Ones are verified as sustainable and ethical!

Production

Step One contracts clothing manufacturers. The supply chain therefore spans from sustainably grown forests to ethically managed factories.

Contracts are with garment manufacturers directly, however these contracts specify that they are to source materials that are certified compliant. Each contract provides for termination should a manufacturer operate in a manner inconsistent with Step One's standards and values. Factory compliance is monitored periodically but reliance is placed on external certifications to ensure ongoing compliance as follows:

END-TO-END CERTIFIED

Certificate				
Certifier	**Forest Stewardship Council®**	**Independent OEKO-TEX® test institutes**	**Textile Exchange**	**The amfori Business Social Compliance Initiative**
Explanation	Bamboo fibre is responsibly sourced including no destruction of natural habitat and minimal use of water resources.	STANDARD 100 by OEKO-TEX® is one of the world's best-known labels for textiles tested for harmful substances. It stands for customer confidence and high product safety.	The Organic Content Standard (OCS) is a standard for tracking and verifying the content of organically grown materials in a final product.	BSCI aims to monitor and assess workplace standards across the global supply chain. There is a growing expectation that companies not only ensure their own businesses are responsible, but that their suppliers are also demonstrating social responsibility.

These certifications represent the highest standard available for clothing manufacturing.

FSC® chain of custody certification verifies that FSC®-certified material has been identified, tracked and traced throughout our production process. From our plantation to your parcel, your Step Ones are verified as sustainable and ethical!

Packaging

Step One's packaging is home composable. This claim is independently certified.

Community Engagement

Step One firmly believes in being a responsible corporate citizen and developing lasting and meaningful engagement with the communities in which it operates. During the year, Step One has made donations of underwear to charities who need them and has given stock, with damaged packaging to the warehousing staff, to distribute to their communities.

Step One is constantly pursuing community engagement opportunities that align with its values and have a positive impact.

People

Workplace Health and Safety

Step One will never compromise on quality and never compromise on safety. Factory safety is reviewed via the BSCI certification process, while employee safety is governed by workplace policies such as a Speak-up Policy, Equal Opportunity and Discrimination as well as the Code of Conduct. The Board agenda has a standing item to receive a report on people including historic and prospective issues.

Modern Slavery

- Step One does not recruit for, employ, or contract with individuals under 18
- Step One does not exploit underaged people in employment or marketing processes
- Step One prohibits forced and compulsory labour. All employees and contractors have included in their contracts the right to provide notice and cease providing services to Step One

Income Equality

- All subcontractor agreements entered into are short-term in nature or otherwise at the individual's preference
- When multiple contract renewals have occurred, or a significant timeframe has passed, consideration is given to establishing an employment contract at least matching their FTE
- Step One respects the wishes of subcontractors to maintain their engagement status if it is their preference and will not apply undue pressure to change the nature of the relationship
- Hourly rates and salaries used in employee contracts and subcontracting arrangements are all above minimum acceptable rates in their respective jurisdictions (living wage)

Capability and Diversity

Capability and performance culture is a source of competitive advantage. Step One applies a high-performance framework which considers 'how actions are done' with as much emphasis as 'what actions are done'.

In addition to performance, Step One encourages workplace diversity to ensure the voice of the customer is heard and understood.

Step One targets 50% of the executive management (the Board and key management personnel) being female and for any new executive management recruitment we would actively look to increase female participation.

Shareholder Value

Brand Value - Reputation and Brand

The Step One brand is the company's most important asset. Stewardship of the brand reflects the values of the company.

Stakeholder Communication - Informed Shareholders

Distinction is drawn between marketing Step One's products and providing information about Step One's company. As a company, Step One provides information to the market as soon as there is a material change in circumstances and/or a false market is forming. Refer to the Continuous Disclosure Policy.

OPERATING AND FINANCIAL REVIEW

This report forms part of the of Directors' report which follows on page 32.

Business

Step One is a leading online, direct to consumer, innerwear brand. Step One offers an exclusive range of high quality, organically grown and certified, sustainable, and ethically manufactured innerwear that suits a broad range of body types.

Step One owns the designs for its innerwear and contracts the manufacturing of its products in Asia for export to warehouses in Australia, the United Kingdom and the United States. Order fulfilment is undertaken locally in each market by third party logistics providers.

Step One conceives and produces its own advertising content at its head office in Australia, while utilising local expertise to both produce and/or adapt content for overseas markets.

During FY23, Step One strengthened its sustainability credentials by attaining accreditation at the brand level. For more information about how Step One's supply chain accreditation extends back to the growing of organic bamboo, refer to the Sustainability Report.

Business strategy

Step One operates in a highly competitive market that is constantly innovating. The business strategy relies upon the following key elements:

- Producing/offering products that solve a problem or improve on an existing product in the market. Our core range of underwear solves the problems of: reducing chafing, managing sweat, and preventing ride-up;
- Expanding the product range to includes women's underwear;
- Expanding the sales channels to include Amazon and other retailers;
- Contract manufacturing which allows the Company to benefit from the world's best manufacturers and at favourable costs;
- Focusing on product innovation to cater to changing customer preferences and styles; and
- Maintaining a flexible marketing and distribution model.

Underpinning this strategy are strong environmental, social and governance (ESG) credentials. The primary raw material for our products is organic bamboo which is grown, converted to material and manufactured into garments in independently accredited factories.

Step One's strategy is to ethically manufacture comfortable innerwear for all body types using sustainable materials. Our product and marketing approach remains fun and inclusive with a focus on continuing to build a brand with a loyal following.

Financial performance

Earnings before interest, taxation, depreciation and amortisation ('EBITDA') is a financial measure not prescribed by the Australian Accounting Standards ('AASs'). The directors consider EBITDA to be a key financial measure of the Group.

EBITDA of $12.0 million increased $3.0 million from the proforma FY22 EBITDA of $9.0 million. This demonstrates the achievement of a strategic pivot from growth to profitability during a period of challenging trading conditions in which revenue reduced by 9.7%.

Highlights

KEY METRICS		FY23	FY22	VARIANCE	
Financial [1]					
Revenue	$'000	65,184	72,187	(7,003)	-9.7%
Gross Margin [2]	%	80.7%	82.0%		-1.3pcp
EBITDA Statutory	$'000	12,023	(280)	12,303	4,393.9%
EBITDA Proforma	$'000	12,023	9,033	2,990	33.1%
EBITDA Proforma as % of Revenue	%	18.4%	12.5%		5.9pcp
NPAT Statutory	$'000	8,616	(3,003)	11,619	386.9%
NPAT Proforma	$'000	8,616	5,327	3,289	61.7%
Operational					
Website visits	#m	14.8	16.5	(1.7)	-10.3%
Conversion rate	%	4.4%	5.2%		-0.8pcp
Customer Orders	#'000	697	945	(248)	-26.2%
New Customers	#'000	257	375	(118)	-31.5%
Returning customers rate	%	63%	60%		3pcp

1. Reconciliation to non-IFRS measures is provided in the section labelled Proforma Adjustments.
2. Gross Margin is Gross Profit (Revenue less Costs of Goods Sold) expressed as a percentage of Revenue.

Revenue

Step One's revenue declined in all markets as profitability was prioritised over growth during challenging trading conditions in key markets.

	FY23 $M	FY22 $M	VARIANCE $M	%
Australia	43.0	46.6	(3.6)	-7.7%
UK	20.3	22.0	(1.7)	-7.6%
US	1.9	3.6	(1.7)	-48.9%
Total	65.2	72.2	(7.0)	-9.7%

Revenue was supported by the introduction of the Women's Bikini Brief line. The Women's lines contributed $7.2 million to revenue. Amazon provides a new revenue stream in FY23 and contributed $2.6 million revenue.

The Company's primary sale events in the year are the Black Friday Cyber Monday in November and the Mid-Year Sale in June. Combined, these events contributed 22% (FY22: 20%) of revenue.

Step One continues to have strong customer support, with over 63% of orders in the year attributed to repeat customers. On average a returning customer purchased 1.44 times in the year (Total Orders / Total Unique Customers).

The Step One customer database grew by 23% in the year to over 1.3 million customers.

Website visits decreased 10.8% to 14.8 million visits. Conversion reduced to 4.4% (FY22: 5.2%). Notwithstanding, this is still a strong conversion rate.

	FY23 #000	FY22 #000	VARIANCE #000	VARIANCE %
New Customers	257	375	(118)	(32)%
Database	1,358	1,101	257	23%

The average order value increased 19.3% to $89.49 as greater emphasis was placed on upselling and bundling, which increased average order quantity 14.7% to 4.4 units per order, with the remaining growth from price.

Conversion rate of 4.4% is strong by industry standards.

Advertising Costs

Advertising costs were $23.3 million (FY22: $32.1 million) largely driven by improved return on advertising spend from savings in digital and TV media spend.

Advertising efficiency is measured by Return on Advertising Spend (ROAS) which calculates the dollar revenue derived from each dollar of advertising spend. Improvements in advertising efficiency were achieved in all countries and follows the pivot to pursue profitability over growth during challenging trading conditions. Key advertising metrics follow:

Advertising spend by country	FY23		FY22	
	$M	% OF TOTAL	$M	% OF TOTAL
Australia	12.5	54%	15.2	47%
UK	9.5	41%	12.7	40%
US	1.3	6%	4.2	13%
Total	**23.3**	**100%**	**32.1**	**100%**

Advertising efficiency	FY23		FY22	
	ROAS X[1]	% OF REVENUE	ROAS X[1]	% OF REVENUE
Australia	3.4	29%	3.1	33%
UK	2.1	47%	1.7	58%
US	1.4	72%	0.9	118%
Total	**2.8**	**36%**	**2.3**	**45%**

1. A ROAS of 2 means for every $1 invested in advertising returns $2 in revenue. This could also be expressed as for every $2 or revenue, 50% was invested in advertising.

A 21% improvement in ROAS to 2.8 times.

Advertising spend by nature	FY23		FY22	
	$M	% OF TOTAL	$M	% OF TOTAL
Digital	18.8	81%	21.3	66%
TV	1.6	7%	7.3	23%
Other	2.9	12%	3.5	11%
Total	**23.3**	**100%**	**32.1**	**100%**

Advertising recruitment effectiveness	FY23		FY22	
	NEW CUSTOMERS #'000	$ PER NEW CUSTOMER	NEW CUSTOMERS #'000	$ PER NEW CUSTOMER
Australia	148	84.5	186	81.7
UK	102	92.9	154	82.6
US	6	208.3	36	116.3
Total	**256**	**90.9**	**376**	**85.4**

The cost to acquire new customers continues to increase. It is not possible to separately attribute advertising costs between new customers and returning customers. The above data attributes 100% of advertising costs to the acquisition of new customers.

While ROAS improved in all countries, the cost to acquire new customers in the USA was over double that required in Australia and the UK. The increase on the prior period reflects the reduced revenue, which reduces economies of scale, which remain below Australia and the UK.

Distribution and Fulfilment Costs

Warehouse and distribution costs increased in FY23 to 12.8% of revenue (FY22: 12.3%). This increase reflects the general cost pressures in the logistics industry as well as the cost to hold a larger inventory range.

Workforce

On 30 June 2023, Step One had a team of 43 (FY22: 39) people of which 22 (FY22: 22) identified as female and 21 (FY22: 17) as male. Nineteen (FY22: 21) team members were located in Australia. Total workforce costs were $4.3m (FY22: $3.0m) excluding share-based payment incentives.

Headcount	30 JUNE 2023	30 JUNE 2022
Customer Service	22	16
Content Management	4	6
Creative	4	6
Executive and Support	9	7
Board (excl CEO)	4	4
Total Team	**43**	**39**

Headcount peaked at 52 people during the year prior to undertaking a reorganisation.

The leadership team includes the Board and Key Management Personnel (as defined in the Remuneration Report). The leadership team comprises one female and five male representatives. Step One has a policy to place a positive bias on recruiting females to new or vacant leadership positions (although noting that when a Board member stands for reelection, this is not considered a vacant position).

Share-based payment expenses were $0.1 million (FY22: $6.5 million). In FY23, the cost of $0.3 million represents the cost of executive share plans recognised over the minimum vesting period. This amount was offset by $0.2 million written back to the share-based payment expenses when the instrument was forfeited by resignation or termination. The $6.5 million in FY22 included share-based payment expenses of $6.3 million incurred pre-IPO. Refer Note 7 for more information.

Merchant and Transaction Fees

Fees of $2.2 million (FY22: $1.9 million) are paid to system providers and credit providers levied on a mix of per transaction, and percent of transaction value, basis. They have increased to 4.1% (FY22: 3.1%) of revenue reflecting a change of transaction mix towards the more expensive buy-now pay-later providers.

Taxation

The tax expense was $3.8 million representing an effective tax rate of 30.7%. This differs from the Australian corporate tax rate as the tax benefit from losses in the USA have not been recognised as well as non-deductible items per the table below.

Reconciliation of Tax Expense to Australia Corporate Tax Rate

$'000	FY23	FY22
Profit before tax	12,438	(275)
Prima facie tax at 30%	3,731	(83)
- share based payments (options)	18	1,962
- USA loss	199	840
- Non-deductible expenses	13	9
- Other incl adjustments made when completing the prior year tax return	(139)	-
Tax expense	**3,822**	**2,728**
Effective Tax Rate	30.7%	na

Excluding prior adjustments to period tax returns, the effective tax rate is 31.8%.

The US operation is a USA domiciled taxpayer for which no asset has been recognised for accumulated losses – now totalling $3.7 million (FY22: $3.0 million). This will however be available to offset tax on future profits made in the USA.

Step One remains in discussions with the ATO regarding the historic GST claim. A provision of $1.8 million ($1.3 million after tax) (FY22: $1.8 million, $1.3 million after tax) continues to be set aside to pay this obligation when the ATO advises their conclusions.

Pro-forma Adjustments in Comparative Financial Information

There are no pro-forma adjustments in the current financial year. Pro-forma adjustments have been made to the comparative financial information to aid understanding of the financial result but are not prescribed by the Australian Accounting Standards. The adjustments made to prior periods were as follows:

P&L/Tax Effect	FY23 $'000	FY22 $'000
Statutory EBITDA	12,023	(280)
- Share based payments[1]	-	6,076
- IPO costs[2]	-	3,927
- Legal fees[3]	-	(256)
- Public company costs[4]	-	(434)
Proforma EBITDA	**12,023**	**9,033**

P&L/Tax Effect	FY23 $'000	FY22 $'000
Statutory NPAT	8,616	(3,003)
- Share based payments[1]	-	6,076
- IPO costs[2]	-	3,927
- Legal fees[3]	-	(256)
- Public company costs[4]	-	(434)
- Tax impact[5]	-	(983)
Proforma NPAT	**8,616**	**5,327**

1. Relates to an historic share-based payments plan for which movements in the valuation were expensed.
2. IPO costs relate to the costs incurred but not capitalised.
3. Legal fees and settlement costs relate to a legal dispute net of insurance proceeds recovered.
4. Public company adds in costs that would have been incurred, had the Company been listed (eg ASX fees).
5. Tax impact of the above adjustments and tax adjustments specific to the IPO and capital raise.

Financial position

Net assets $57.1 million (FY22: $48.6 million) with cash holdings of $38.3 million (FY22: $34.1 million) with no net debt. Step One remains a capital light business.

	30 JUNE 2023 $'000	30 JUNE 2022 $'000	VARIANCE $'000	VARIANCE %
Current Assets				
Cash and cash equivalents	38,313	34,104	4,209	12.3%
Inventories	23,326	25,383	(2,057)	8.1%
Other assets	1,248	1,093	155	14.2%
	62,887	**60,580**	**2,307**	**3.8%**
Non-current Assets				
Property, plant and equipment	74	19	55	289.5%
Intangibles	45	50	(5)	-10.0%
Deferred Tax Assets	3,118	2,569	549	21.4%
	3,237	**2,638**	**599**	**22.7%**
Total assets	**66,124**	**63,218**	**2,906**	**4.6%**
Current Liabilities				
Trade and other payables	4,289	10,215	(5,926)	-58.0%
Provisions	1,860	1,860	-	-
Contract liabilities	1,341	1,507	(166)	-11.0%
Income tax	1,300	779	521	66.9%
Employee benefits	231	197	34	17.3%
	9,021	**14,558**	**(5,537)**	**-38.0%**
Non-current Liabilities				
Employee benefits	30	19	11	57.9%
	30	**19**	**11**	**57.9%**
Total Liabilities	**9,051**	**14,577**	**(5,526)**	**-37.9%**
Net Assets	**57,073**	**48,641**	**8,432**	**17.3%**
Equity				
Issued capital	52,496	52,496	0	0.0%
Treasury shares (ESOP)	(571)	0	(571)	0.0%
Reserves	481	94	387	411.7%
Retained profits/(accumulated losses) (post IPO)	9,429	813	8,616	1059.8%
Retained profits/(accumulated losses) (pre IPO)	(4,762)	(4,762)	-	-
Total Equity	**57,073**	**48,641**	**8,432**	**17.3%**

Net tangible assets are $0.31 (FY22: $0.26) per share and cash is $0.21 (FY22: $0.18) per share.

Inventory has decreased by $2.1 million to $23.3 million (FY22: $25.4 million), $1.0 million of which was an increase in the obsolescence provision. Inventory equates to almost two years of inventory based on FY23 trading. Women's products represent 22% of total inventory (FY22: 11%).

While a higher inventory reduces the risk resulting from interruptions to the supply chain, it is higher than target levels (of approximately 12 months). At 30 June 2023, there were no production orders outstanding, although replenishment of key product lines, as well as building inventory of the Women's line, will be required in FY24.

Notwithstanding the inventory is not perishable, it may require disposal if the packaging is damaged or quantities are too small to justify allocating website screen space or warehouse shelf space to it. The provision for obsolescence was increased to approximately 5% (FY22: 1%) of inventory (as a program to rationalise the number of product lines is undertaken), in advance of expanding the Women's range.

Efforts will be made to use older products in promotional activities directed to customer recruitment, however some will need to be disposed of. All products that are to be disposed of are either given to charities and/or to the warehouse and distribution staff who work so hard to support us.

Share Trust

Step One established an Employee Share Ownership Plan (ESOP) for the management of the rights based equity remuneration plan.

Step One contracted with Pacific Custodians Pty Limited (Trustee) to manage the issue of equity to ESOP participants. During the period, the Trustee purchased 1,677,646 shares on-market for a total cost of $570,793. The value of these shares is deducted from Issued Capital in the Group's Statement of Financial Position. It is intended that dividends and other capital returns received by the Trust be passed through to the participants, although this will remain at Board discretion at each declaration.

Dividend

Subsequent to year end, the Board has declared a dividend of 5.0 cents per share totalling $9.3 million, which is fully franked. This dividend represents almost all retained earnings earned after the initial public offer (IPO) as per the table below.

Retained Earnings	PRE-IPO $'000	POST-IPO $'000	TOTAL $'000
Balance at 31 December 2021	(4,762)	-	(4,762)
Profit/(loss) for the period	-	813	813
Dividends	-	-	-
Balance at 30 June 2022	**(4,762)**	**813**	**(3,949)**
Profit/(loss) for the period	-	8,616	8,616
Dividends	-	-	-
Balance at 30 June 2023	**(4,762)**	**9,429**	**4,667**

Pre-IPO retained earnings are defined as retained earnings at 31 December 2021. This time frame provided 2 months from the IPO on 1 November 2021 for all IPO related costs to be recognised.

Pre-IPO retained earnings includes $13.8 million in pre-IPO share-based payments that were expensed and $4.4 million IPO costs that were expensed. Adjusting for these on a proforma basis results in pre-IPO retained earnings being $13.4 million and a proforma retained earnings at 30 June 2023 of $22.8 million.

Dividend Policy

The dividend demonstrates the Board's confidence in the Company's future ability to generate cash sufficient to fund its operations and future growth. Any future dividend will depend on the Company's capital requirements at the time. The Board will review is capital requirements at the end of each reporting period. It is intended to return surplus funds (generated from after tax earnings) to shareholders in the form of a dividend subject to any such requirement. It is also intended that future dividends will be franked to the maximum extent possible.

Business risks

Business risk information is available in the Risk Report which, while disclosed under a separate heading, forms part of this Operating and Financial Review.

Prospects for future financial years

Step One remains confident of the opportunities in each country and its ability to execute on the Company's strategy as the economic environment improves. Step One will pursue profitable growth in Australia and the UK, while it will continue to balance growth and profitability in the US.

During FY24, the Company's strategy will be to focus on:

- Expanding the customer funnel
- Expanding partnerships with retailers and other organisations
- Expanding the range of products for both men and women
- Investing in capability and product innovation
- Expanding sales channels and marketplaces
- Continuing to improve the customer experience

Due to this economic uncertainty in all jurisdictions, Step One is not providing guidance for FY24.

wearing underwear is a need for most people

RISK REPORT

This report forms part of the of Directors' report which follows on page 32.

The following is a summary of material business risks that could adversely affect financial performance and growth in future years.

RISK	DESCRIPTION	RESPONSE
Strategic	The risk that the Company's strategy fails to deliver the expected outcomes due to unexpected internal or external events.	Regular evaluation of strategies and responsive to unexpected events. Maintain a high appetite to explore new products and customer engagement activities.
Operational	The risk that systems to order, manufacture, transport, sell or distribute products, fail. This risk includes disruption to global supply chains.	Maintain contracts with several key suppliers in different locations. Ensure days inventory is sufficient to cover supply chain disruptions. Maintain a low appetite for product failure and a moderate appetite for stock outs (after product is launched).
Marketing	The risk that advertising ceases to be effective or costs increase above economic levels. This risk may manifest itself with declining new customer recruitment.	Maintain engagement with digital platform owners to evaluate planned changes and opportunities they bring. Monitor consumer trends in product and digital usage. Maintain a high appetite for 'edgy' marketing content. Expand communication options and distributed channels to recruit new customers.
System	The risk that system providers or their systems fail and cannot be restored within a reasonable time frame and/or without data loss. This risk includes cyber security risks, both denial of service/ access and loss of private data.	Continue to use 'tier 1' systems in primary operations, for limited mitigation is available. Step One will not hold private information (e.g., credit cards) outside of specialist systems.
Governance	The risk that systems and processes fail to detect and report changes in financial results, forecasts, assets or liability positions.	Maintain regular oversight and no tolerance for Policy breach. Financial and governance systems are subject to a doctrine of continuous improvement.

RISK REPORT continued

The following provides details of risks specific to Step One's business:

TOPIC	SUMMARY
Change in customer preferences and purchasing patterns	Demand for Step One's products is sensitive to its successful range development and customer demand for design and production features that are distinct from more established underwear brands. Step One's range development may fail to satisfy evolving customer preferences, or customers may not see value in Step One's distinct design and production features.
Disruption in product supply or distribution and issues relating to supplier contracts may adversely affect Step One's operations	Step One does not manufacture the products which it sells and is reliant on third party suppliers which exposes it to risks relating to the actions or operations of those suppliers. Step One's relationships with its suppliers may deteriorate or geopolitical tensions or restrictions (including the imposition of tariffs or other protectionist measures) may have an impact on trade or the supply chain between Step One and its suppliers. Supply arrangements may also be terminated or discontinued (which may occur at short notice). There may also be potential delays in sourcing new products or disruptions in identifying and engaging alternative suppliers. Given the majority of suppliers are located outside Australia (predominantly in China), Step One is also subject to foreign exchange risks, as well as challenges associated with enforcing contractual arrangements in foreign jurisdictions.
Environmental Risks	Step One is reliant on the production of organically grown bamboo as a primary ingredient in the manufacture of its product. The bamboo is grown in China. As this is a natural product, there is a risk that it is affected by climatic changes in that region. Should Step One suppliers need to source bamboo from a different region, there are risks that it could cost more, not have the organic, environmental, or labour practice certifications the existing supply chain has established.
Accreditation Risk	Step One products are ethically manufactured using sustainable materials as the primary inputs. Step One directly inspects the final manufacturing facilities on a sample basis however is reliant on third parties to inspect these and the upstream suppliers and their facilities. The third parties are globally accredited experts in this area and Step One places reliance on their local presence and expertise. If an accreditation was incorrectly claimed, contracts could be cancelled immediately, however remediation would be limited.
Logistic and supply chain disruption	There remains a risk that the global logistics disruptions continue. Disruption may result from economic disruption, conflict, or pandemic related disruptions on Step One's supply chain.

TOPIC	SUMMARY
Performance and reliability of Step One's website, databases and risk of data security breaches	Step One's IT systems and website are provided and managed by specialist service providers. A failure in the systems of a third party provider is likely to have a material impact on Step One's systems and operations. Mitigation is not available against a failure of critical suppliers at a global level. As these are global companies with industry standing, such outcomes are considered unlikely, however remain possible.
Digital advertising may be impacted by changes to advertising or technology platforms	Step One utilises third party platforms such as Google Analytics, Google Ad Manager, Meta, and Instagram to plan, execute and monitor the performance of paid media advertisements. These platforms operate across other technology platforms, such as the Android operating platform and Apple operating platforms, which are regularly updated and these changes are outside the control of Step One. These platforms are regularly changed in response to a range of factors, including privacy legislation such as GDPR in the United Kingdom and the CCPA in the United States of America. Future changes to these platforms may impact Step One's ability to effectively plan, execute and monitor its media campaigns, which may reduce the effectiveness of digital campaigns and have an adverse effect on Step One's operating and financial performance.
Increase in the cost of or reliance upon paid marketing	Step One may be materially adversely affected by any increase in the cost of, or in reliance on, search engine and social media platform marketing, or any decrease in the effectiveness of its search engine and social media platform marketing.
Step One may lose key management personnel	Step One's future success is dependent on its ability to retain and/or attract individuals that will complement its culture and retain an experienced senior management team, including the founder and chief executive officer Greg Taylor. Step One has arrangements in place with key employees including employment agreements and short and long-term incentives, and key employee equity holdings.
There may be adverse exchange rate movements	Step One purchases the majority of its products from suppliers in China. Most of the arrangements for purchase of products are denominated in Chinese renminbi, US dollars and Australian dollars in that descending order. Step One is therefore exposed to the foreign exchange rate movements. Step One sells its products in a range of currencies including British Pounds and US Dollars, and is therefore exposed to currency movements on those revenues.

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of Step One Clothing 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 2023 (refer to note 29).

Directors

The following persons were Directors of Step One Clothing Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

David Gallop AM
Gregory Taylor
Richard Dennis
Michael Reddie
Catherine Thompson

Principal activities

During the financial year the principal continuing activities of the Group consisted of an online, direct to customer, innerwear brand.

There have been no changes to the principal activities during the financial year.

Review of operations

The profit for the Group after providing for income tax amounted to $8,616,000 (30 June 2022: loss of $3,003,000).

Revenue for the financial year was $65,184,000 (30 June 2022: $72,187,000), a decrease of 9.7% on the previous financial year.

Step One attracted over 14.8m (30 June 2022: 16.5m) website visits with an average conversion rate of 4.4% (30 June 2022: 5.2%).

There were 257,000 (FY22: 375,000) first-time customers in the period bringing the total to over 1,358,000 (FY22: 1,101,000). Customer retention remains high, with over 63.2% (FY22: 60.3%) of orders being placed by returning customers.

Dividends

Dividends paid during the financial year were as follows:

	CONSOLIDATED	
	2023 $'000	2022 $'000
Pre-IPO dividend of 3.2 cents per ordinary share	–	4,800

There were no dividends paid, recommended or declared during the financial year.

On 24 August 2023, Step One declared a fully franked dividend of 5 cents per share ($9,267,000).

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

There were no material events subsequent to 30 June 2023 and until the authorisation of the financial statements that have impacted on the amounts recognised in these financial statements on which are required to be separately disclosed.

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 Directors believe 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.

Information on Directors

David Gallop AM
Chairperson and Independent Non-Executive Director

Qualifications:	BA (ANU), LLB (Syd Uni), Graduate AICD
Experience and expertise:	David is a lawyer and has extensive experience and background in sports administration, media rights and broadcasting, digital content delivery, customer experience, legal and regulatory frameworks and stakeholder relationship management. David was previously CEO of Football Federation Australia and CEO of the National Rugby League.
Other current directorships:	▪ Tabcorp Holdings Ltd - non executive director ▪ Cricket NSW Ltd - non executive director
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Board, Member of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee
Interests in shares:	182,900 ordinary shares
Interests in options:	None
Interests in rights:	None
Contractual rights to shares:	None

Information on Directors continued

Gregory Taylor
Chief Executive Officer (CEO) and Executive Director

Qualifications:	B Comm
Experience and expertise:	Gregory held various roles in e-commerce and technology companies prior to founding Step One.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	None
Interests in shares:	124,272,996 ordinary shares
Interests in options:	None
Interests in rights:	None
Contractual rights to shares:	None

Richard Dennis
Independent Non-Executive Director

Qualifications:	B Comm, LLB
Experience and expertise:	Richard serves on the Boards and Audit & Risk committees of several listed and private Australian companies. Richard held various leadership roles at EY including Managing Partner Queensland, COO in Oceania and CFO/Deputy COO in Asia-Pacific.
Other current directorships:	Motorcycle Holdings Ltd, Apiam Animal Health Ltd, Cettire Ltd, AF Legal Group Ltd, Energy Resources of Australia Limited
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Audit and Risk Committee, Member of the Remuneration and Nomination Committee
Interests in shares:	30,000 ordinary shares
Interests in options:	None
Interests in rights:	None
Contractual rights to shares:	None

Michael Reddie
Chief Legal & Commercial Officer (CLO) and Executive Director

Qualifications:	B Comm, LLB
Experience and expertise:	Michael is a corporate and commercial lawyer and Director of Reddie Lawyers. Michael also held roles at Gadens Lawyers and Lander & Rogers. Michael has worked with Step One since inception as an independent legal advisor.
Other current directorships:	None
Former directorships (last 3 years):	Cellnet Limited (16 January 2017 to 1 May 2020)
Special responsibilities:	Chief Legal and Commercial Officer
Interests in shares:	9,132,000 ordinary shares
Interests in options:	None
Interests in rights:	None
Contractual rights to shares:	None

Information on Directors continued

Catherine Thompson
Independent Non-Executive Director

Qualifications:	LLB (Hons)
Experience and expertise:	In 2012, Catherine joined M.H. Carnegie & Co, an alternative asset manager based in Sydney, where she is currently Partner and COO. Catherine has also held roles at Herbert Smith Freehills, King & Wood Mallesons and Lazard, where she was Director, Senior Legal Counsel and Head of Compliance. Catherine is Chairperson of Revtech Media and Carsingha Investments (owner of the Entertainment Quarter, Moore Park, Sydney) and serves as a NED on a number of Boards.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Chair of the Remuneration and Nomination Committee, Member of the Audit and Risk Committee
Interests in shares:	171,500 ordinary shares
Interests in options:	None
Interests in rights:	None
Contractual rights to shares:	None

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'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.

Company secretary

William Hundy, LLB, B. Com, B.Sc., FAICD, FGIA, Diploma of Corporate Management,

Mr Hundy joined Step One as Company Secretary in October 2021. He is a Solicitor and Senior Company Secretary with Company Matters Pty Limited. He was previously Company Secretary of Origin Energy Limited and a number of other public listed companies since 1987.

Mr Hundy is an admitted solicitor in New South Wales and is a fellow of the Governance Institute of Australia, the Chartered Governance Institute and the Australian Institute of Company Directors.

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 2023, and the number of meetings attended by each Director were:

	BOARD		REMUNERATION AND NOMINATION COMMITTEE		AUDIT AND RISK COMMITTEE	
	ATTENDED	HELD	ATTENDED	HELD	ATTENDED	HELD
David Gallop AM	13	13	4	4	5	5
Gregory Taylor	13	13	-	-	-	-
Richard Dennis	13	13	4	4	5	5
Michael Reddie	13	13	-	-	-	-
Catherine Thompson	13	13	4	4	5	5

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

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the Group, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly, including all Directors.

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

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Service agreements
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

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

- competitiveness and reasonableness;
- acceptability to shareholders;
- performance linkage / alignment of executive compensation; and
- transparency.

The Remuneration and Nomination Committee is responsible for determining and reviewing remuneration arrangements for its Directors and executives. The performance of the Group depends on the quality of its Directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The Remuneration and Nomination Committee has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the Group.

The reward framework is designed to align executive reward to shareholders' interests. The Board has considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design;
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value; and
- attracting and retaining high calibre executives.

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience;
- reflecting competitive reward for contribution to growth in shareholder wealth; and
- providing a clear structure for earning rewards.

In accordance with best practice corporate governance, the structure of non-executive Director and executive Director remuneration is separate.

Remuneration report (audited) continued

Non-executive Directors' 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 Remuneration and Nomination Committee. The Remuneration and Nomination 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 chairman's fees are determined independently to the fees of other non-executive Directors based on comparative roles in the external market. The chairman is not present at any discussions relating to the determination of his own remuneration. Non-executive Directors do not receive share options or other incentives.

The total aggregate amount provided to all non-executive directors of the Group for their services as directors must not exceed in any financial year the amount fixed by the shareholders in a general meeting. This amount is fixed at $1,200,000 (FY22: $1,200,000) per annum.

Executive remuneration

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

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits;
- short-term performance incentives;
- long-term performance including share-based payments or cash alternatives; and
- other remuneration such as superannuation and long service leave.

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, are reviewed annually by the Remuneration and Nomination Committee based on individual and business unit performance, the overall performance of the Group and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.

The short-term incentives ('STI') program is designed to align the targets of the business units with the performance hurdles of executives. STI payments are subject to Board discretion but take into account annual targets and key performance indicators including profit contribution, cash flow, governance and culture.

The long-term incentives ('LTI') include long service leave and share-based payments. Shares are awarded to executives over a period of three years based on long-term incentive measures. The Remuneration and Nomination Committee reviewed the long-term equity-linked performance incentives specifically for executives during the year ended 30 June 2023.

Remuneration report (audited) continued

Remuneration for executives is linked to the performance of the Group as follows:

COMPONENT	PERFORMANCE MEASURE	PURPOSE AND LINK TO OBJECTIVES
Fixed remuneration (salary and other benefits including superannuation)	The level of remuneration is determined with reference to the role and responsibility and experience and qualifications required to competently undertake that role.	Attract, retain and motivate executives with the rights skills, capability and experience to meet the objectives of Step One
STI (performance based incentives delivered in cash)	Aligns KMP remuneration with short-term shareholder objectives in the areas of growth, profitability, governance and culture.	Delivery of key financial and operational outcomes that are key to Step One achieving its strategic and operational objectives.
	Performance measures will be set annually and include both financial and non-financial criteria. Assessment and payment is at Board discretion.	The mix of measures rewards achievement of a balance between financial and non-financial measures considered essential for all long term growth and stakeholder support.
LTI (performance based incentives delivered in cash or equity with vesting based on growth in a range of criteria including shareholder wealth)	Equity LTI grants were issued with vesting over 3 years. Future LTI design and settlement instrument (cash or equity) is under review.	Aligns KMP remuneration with long-term shareholder value creation.

Target remuneration mix for executives is under review.

	FIXED	STI	LTI	TOTAL
Target	60 - 80%	0 - 20%	40 - 0%	100%
As % of Fixed		20 - 30%	20 - 50%	40 - 80%

The CEO and CLO do not participate in the performance incentive program as they already have a material interest in increasing company value.

Consolidated entity performance and link to remuneration

FY23 STI

The FY23 STI payout was 100% reflecting improved financial performance and achievement of non-financial criteria. No STI was paid in FY22.

STI payments in future periods will remain at Board discretion.

The Remuneration and Nomination Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Remuneration report (audited) continued

The following table outlines the FY23 outcomes for Executives.

EXECUTIVES	YEAR	STI AWARD	STI AS % OF FIXED REMUNERATION %	STI AS % OF OPPORTUNITY %
Gregory Taylor, CEO	FY23	-	-	-
	FY22	-	-	-
Michael Reddie, CLO	FY23	-	-	-
	FY22	-	-	-
Nigel Underwood, CFO	FY23	75,500	20.00%	100.00%
	FY22	-	-	-

FY23 LTI

Details of rights granted in FY23 are provided later in this report.

The Remuneration and Nomination Committee is of the opinion that the continued improved results can be attributed in part to the adoption of performance based compensation and is satisfied that this improvement will continue to increase shareholder wealth if maintained over the coming years.

Use of remuneration consultants

The Group did not use a remuneration consultant. Should remuneration consultants be used in the future, an agreed set of protocols will be put in place to ensure that the remuneration recommendations would be free from undue influence from key management personnel.

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the Group are set out in the following tables.

The key management personnel of the Group consisted of the following non-executive and executive Directors of Step One Clothing Limited:

- David Gallop AM
- Gregory Taylor
- Richard Dennis
- Michael Reddie
- Catherine Thompson

And the following person:

- Nigel Underwood, CFO

Changes since the end of the reporting period:

- None.

Remuneration report (audited) continued

2023	SHORT-TERM BENEFITS CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY* $	POST-EMPLOYMENT BENEFITS SUPER-ANNUATION $	LONG-TERM BENEFITS LONG SERVICE LEAVE $	SHARE-BASED PAYMENTS EQUITY-SETTLED $	TOTAL $
Non-Executive Directors:							
David Gallop AM	140,000	-	-	14,700	-	-	154,700
Richard Dennis	80,000	-	-	8,400	-	-	88,400
Catherine Thompson	80,000	-	-	8,400	-	-	88,400
Executive Directors:							
Gregory Taylor	472,500	-	29,619	27,500	-	-	529,619
Michael Reddie	80,000	-	-	8,400	-	-	88,400
Other Key Management Personnel:							
Nigel Underwood	325,000	75,500	15,365	27,500	-	142,018	585,383
	1,177,500	75,500	44,984	94,900	-	142,018	1,534,902

* Including accrual of untaken annual leave.

2022	SHORT-TERM BENEFITS CASH SALARY AND FEES $	CASH BONUS $	NON-MONETARY $	POST-EMPLOYMENT BENEFITS SUPER-ANNUATION $	LONG-TERM BENEFITS LONG SERVICE LEAVE $	SHARE-BASED PAYMENTS EQUITY-SETTLED $	TOTAL $
Non-Executive Directors:							
David Gallop AM	70,000	-	-	7,000	-	106,643	183,643
Richard Dennis	40,000	-	-	4,000	-	32,316	76,316
Catherine Thompson	-	-	-	-	-	72,711	72,711
Executive Directors:							
Gregory Taylor	472,500	-	174,346	27,500	-	-	674,346
Michael Reddie	80,000	-	-	8,000	-	-	88,000
Other Key Management Personnel:							
Nigel Underwood	302,500	-	27,500	27,500	-	95,552	453,052
	965,000	-	201,846	74,000	-	307,222	1,548,068

Remuneration report (audited) continued

	FIXED REMUNERATION %	AT RISK - STI %	AT RISK - LTI %
Non-executive Directors			
David Gallop AM	100.00%	-	-
Richard Dennis	100.00%	-	-
Catherine Thompson	100.00%	-	-
Executive Directors:			
Gregory Taylor	100.00%	-	-
Michael Reddie	100.00%	-	-
Other Key Management Personnel:			
Nigel Underwood	61.80%	13.20%	25.00%

The proportion of the cash bonus paid/payable or forfeited is as follows:

	CASH BONUS PAID/PAYABLE 2023 %	CASH BONUS FORFEITED 2023 %	CASH BONUS PAID/PAYABLE 2022 %	CASH BONUS FORFEITED 2022 %
Non-executive Director				
David Gallop AM	-	-	-	-
Richard Dennis	-	-	-	-
Catherine Thompson	-	-	-	-
Executive Directors:				
Gregory Taylor	-	-	-	-
Michael Reddie	-	-	-	-
Other Key Management Personnel:				
Nigel Underwood	100.00%	-	-	100.00%

Remuneration report (audited) continued

Service agreements

Remuneration and other terms of employment for key management personnel are formalised in service agreements. Details of these agreements are as follows:

Name:	David Gallop AM
Title:	Chairperson and Non-Executive Director
Agreement commenced:	6 October 2021
Term of agreement:	Open
Details:	Directors' fee of $154,700 inclusive of superannuation plus reimbursement of travelling and other expenses incurred in attending meetings or otherwise discharging their duties. There is no additional fee for chairing sub-committees.

Name:	Gregory Taylor
Title:	Chief Executive Officer (CEO) and Executive Director
Agreement commenced:	6 October 2021
Term of agreement:	Open
Details:	Base Salary for the year ending 30 June 2023 of $500,000 inclusive of superannuation, to be reviewed annually by the Remuneration and Nomination Committee. 6 month termination notice for either party, no cash bonus or equity incentive participation. Immediate termination for serious misconduct. 12 month post employment non-solicitation and non-compete constraints.

Name:	Richard Dennis
Title:	Non-Executive Director, Chair of the Audit and Risk Committee
Agreement commenced:	6 October 2021
Term of agreement:	Open
Details:	Directors' fee of $88,400 inclusive of superannuation plus reimbursement of travelling and other expenses incurred in attending meetings or otherwise discharging their duties. There is no additional fee for chairing sub-committees.

Name:	Michael Reddie
Title:	Chief Legal & Commercial Officer (CLO) and Executive Director
Agreement commenced:	1 July 2023
Term of agreement:	Open
Details:	FY23 Director's fee of $88,400 inclusive of superannuation plus reimbursement of traveling and other expenses incurred in attending meetings or otherwise discharging their duties. FY24 Reddie Lawyers Pty Ltd (an entity related to Michael Reddie) was engaged on 23 August 2023 to provide legal and consulting services from 1 September 2023. Reddie Lawyers Pty Ltd will receive a fee of $24,000 per month ($288,000 per annum) (exclusive of GST). The agreement can be terminated by notice at any time. The Directors are satisfied that these terms of the services agreement are commensurate with normal commercial terms for similar services.

Remuneration report (audited) continued

Name:	Catherine Thompson
Title:	Non-Executive Director, Chair of the Remuneration and Nomination Committee
Agreement commenced:	6 October 2021
Term of agreement:	Open
Details:	Directors' fee of $88,400 inclusive of superannuation plus reimbursement of travelling and other expenses incurred in attending meetings or otherwise discharging their duties. There is no additional fee for chairing sub-committees.

Name:	Nigel Underwood
Title:	Chief Financial Officer
Agreement commenced:	30 March 2021
Term of agreement:	Open
Details:	Base Salary for the year ending 30 June 2024 of $377,500 inclusive of superannuation, to be reviewed annually by the Remuneration and Nomination Committee. 6 month termination notice for either party, cash bonus of 20% (of base salary) uncapped and equity incentive participation of 20-30% (of base salary). Immediate termination for serious misconduct. 12 month post employment non-solicitation and non-compete constraints.

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

Share-based compensation

Issue of shares

There were no shares issued to Directors and other key management personnel as part of compensation during the year ended 30 June 2023.

Options

There were no options granted this financial year.

Rights

Details of rights granted this financial year are provided later in this report.

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 Group, including their personally related parties, is set out below:

	BALANCE AT THE START OF THE YEAR	RECEIVED AS PART OF REMUNERATION	ADDITIONS	DISPOSALS/ OTHER	BALANCE AT THE END OF THE YEAR
Ordinary shares					
David Gallop AM	182,900	-	-	-	182,900
Gregory Taylor	124,272,996	-	-	-	124,272,996
Richard Dennis	30,000	-	-	-	30,000
Michael Reddie	9,132,000	-	-	-	9,132,000
Catherine Thompson	171,500	-	-	-	171,500
Nigel Underwood	200,000	-	-	-	200,000
	133,989,396	-	-	-	133,989,396

Remuneration report (audited) continued

Rights and Option holdings

The number of rights and options over ordinary shares in the Company held during the financial year by each Director and other members of key management personnel of the Group, including their personally related parties, is set out below:

	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED/ OTHER	BALANCE AT THE END OF THE YEAR
Rights and Options over ordinary shares					
Nigel Underwood - Options	900,000	-	-	-	900,000
Nigel Underwood - Rights	-	957,646	-	-	957,646
	900,000	957,646	-	-	1,857,646

INSTRUMENT	GRANT DATE	VESTING DATE AND EXERCISABLE DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER INSTRUMENT AT GRANT DATE
Rights	17/11/2022	17/11/2025	17/11/2032	$0.0000	$0.2350
Options	30/06/2021	01/07/2024	30/06/2031	$1.3333	$0.3185

The participant in the right or option plans have to be employed until the end of the agreed vesting period. Upon vesting, each right or option entitles the holder of the option to subscribe for or acquire one ordinary share, unless the Board determines otherwise.

Loans to key management personnel and their related parties

None (FY22: none)

Other transactions with key management personnel and their related parties

Payment for accounting services from CMB Services Pty Ltd (trading as Bendigo Bookkeeping) (entity related to Gregory Taylor) for the current financial year was $192,773 (30 June 2022: $300,908).

Payment for digital advertising to The Fable Clothing Pty Ltd (entity related to Gregory Taylor) for the current financial year was $30,000 (30 June 2022: $80,000).

This concludes the remuneration report, which has been audited.

Shares under option

There were 2,100,000 unissued ordinary shares of Step One Clothing Limited under option outstanding at the date of this report.

Unissued ordinary shares of Step One Clothing Limited under option at the date of this report are as follows:

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	NUMBER UNDER OPTION
30 June 2021	30 June 2031	$1.3333	1,800,000
6 October 2021	30 June 2031	$1.3333	300,000
			2,100,000

Remuneration report (audited) continued

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

There were no other ordinary shares of Step One Clothing Limited issued on the exercise of options during the year ended 30 June 2023 and up to the date of this report.

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 24 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.

The Directors are of the opinion that the services as disclosed in note 24 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 (including Independence Standards) 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.

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.

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

David Gallop AM
Chair

Gregory Taylor
Director and Chief Executive Officer

24 August 2023
Surry Hills

AUDITOR'S INDEPENDENCE DECLARATION

Grant Thornton Audit Pty Ltd
Level 22 Tower 5
Collins Square
727 Collins Street
Melbourne VIC 3008
GPO Box 4736
Melbourne VIC 3001

T +61 3 8320 2222

Auditor's Independence Declaration

To the Directors of Step One Clothing Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of Step One Clothing Limited for the year ended 30 June 2023, 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

CGangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 August 2023

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

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 30 June 2023

	NOTE	CONSOLIDATED 2023 $'000	2022 $'000
Sales revenue	5	65,184	72,187
Cost of goods sold		(12,580)	(13,014)
Gross margin		52,604	59,173
Interest income calculated using the effective interest method		443	31
Other income	6	-	500
EXPENSES			
Advertising and marketing expense		(23,266)	(32,089)
Distribution and fulfilment expense		(8,324)	(8,846)
Employee benefits and contractor expense	7	(4,306)	(3,027)
Share-based payments expense	7	(115)	(6,539)
Depreciation and amortisation expense	7	(28)	(8)
Merchant and transaction fees		(2,162)	(1,857)
Net foreign exchange gain/(loss)		888	(761)
Professional, legal and insurance fees		(1,626)	(1,699)
Listing and capital raise fees		-	(3,927)
Administration expense	7	(1,670)	(1,226)
PROFIT/(LOSS) BEFORE INCOME TAX EXPENSE		12,438	(275)
Income tax expense	8	(3,822)	(2,728)
PROFIT/(LOSS) AFTER INCOME TAX EXPENSE FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF STEP ONE CLOTHING LIMITED	19	8,616	(3,003)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Items that may be reclassified subsequently to profit or loss Foreign currency translation		271	(330)
Other comprehensive income/(loss) for the year, net of tax		271	(330)
TOTAL COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR ATTRIBUTABLE TO THE OWNERS OF STEP ONE CLOTHING LIMITED		8,887	(3,333)

		CENTS	CENTS
Basic earnings/(loss) per share	9	4.65	(1.73)
Diluted earnings/(loss) per share	9	4.62	(1.73)

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 2023

		CONSOLIDATED	
	NOTE	2023 $'000	2022 $'000
ASSETS			
Current assets			
Cash and cash equivalents	10	38,313	34,104
Trade and other receivables	11	619	80
Inventories	12	23,326	25,383
Other assets	13	629	1,013
Total current assets		62,887	60,580
Non-current assets			
Property, plant and equipment		74	19
Intangibles		45	50
Deferred tax asset	8	3,118	2,569
Total non-current assets		3,237	2,638
TOTAL ASSETS		66,124	63,218
LIABILITIES			
Current liabilities			
Trade and other payables	14	4,289	10,215
Contract liabilities	15	1,341	1,507
Income tax payable	8	1,300	779
Employee benefits		231	197
Provisions	16	1,860	1,860
Total current liabilities		9,021	14,558
Non-current liabilities			
Employee benefits		30	19
Total non-current liabilities		30	19
TOTAL LIABILITIES		9,051	14,577
NET ASSETS		57,073	48,641

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2023

		CONSOLIDATED	
	NOTE	2023 $'000	2022 $'000
EQUITY			
Issued capital	17	51,925	52,496
Reserves	18	481	94
Retained profits/(accumulated losses)	19	4,667	(3,949)
TOTAL EQUITY		57,073	48,641

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 2023

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2021	1	173	3,854	4,028
Loss after income tax expense for the year	-	-	(3,003)	(3,003)
Other comprehensive income for the year, net of tax	-	(330)	-	(330)
Total comprehensive income for the year	-	(330)	(3,003)	(3,333)
Transactions with owners in their capacity as owners:				
Contributions of equity, net of transaction costs (note 17)	38,513	-	-	38,513
Share-based payments (note 31)	-	463	-	463
Issue of shares on settlement of PSU liability (note 31)	13,770	-	-	13,770
Shares issued in lieu of directors' fees (note 31)	212	(212)	-	-
Dividends paid (note 20)	-	-	(4,800)	(4,800)
BALANCE AT 30 JUNE 2022	52,496	94	(3,949)	48,641

CONSOLIDATED	ISSUED CAPITAL $'000	RESERVES $'000	RETAINED PROFITS $'000	TOTAL EQUITY $'000
Balance at 1 July 2022	52,496	94	(3,949)	48,641
Profit after income tax expense for the year	-	-	8,616	8,616
Other comprehensive income for the year, net of tax	-	271	-	271
Total comprehensive income for the year	-	271	8,616	8,887
Transactions with owners in their capacity as owners:				
Share-based payments (note 31)	-	116	-	116
Treasury shares (held in trust) (note 31)	(571)	-	-	(571)
BALANCE AT 30 JUNE 2023	51,925	481	4,667	57,073

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 2023

	NOTE	CONSOLIDATED 2023 $'000	2022 $'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers (inclusive of GST and sales taxes)		73,288	80,204
Payments to suppliers and employees (inclusive of GST and sales taxes)		(65,234)	(83,061)
		8,054	(2,857)
Interest received		443	165
Income taxes paid		(3,850)	(5,957)
Net cash from/(used in) operating activities	30	4,647	(8,649)
CASH FLOWS FROM INVESTING ACTIVITIES			
Payments for property, plant and equipment		(77)	(19)
Net cash used in investing activities		(77)	(19)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issue of shares	17	-	40,000
Settlement of financial liability		-	(306)
Payments for purchase of treasury shares		(571)	-
Share issue transaction costs		-	(6,027)
Dividends paid	20	-	(4,800)
Repayment of borrowings		-	3,409
Net cash (used in)/from financing activities		(571)	32,276
Net increase in cash and cash equivalents		3,999	23,608
Cash and cash equivalents at the beginning of the financial year		34,104	10,741
Effects of exchange rate changes on cash and cash equivalents		210	(245)
Cash and cash equivalents at the end of the financial year	10	38,313	34,104

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

Note 1. General information

The financial statements cover Step One Clothing Limited as a group consisting of Step One Clothing Limited ('Company' or 'parent entity') and the entities it controlled at the end of, or during, the year. Step One Clothing Limited and its subsidiaries together are referred to in these financial statements as the 'Group' (note 29). The financial statements are presented in Australian dollars, which is Step One Clothing Limited's functional and presentation currency.

Step One Clothing Limited is a listed public company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Level 2
120 Chalmers Street
Surry Hills NSW 2010

A description of the nature of the Group'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 24 August 2023. The Directors have the power to amend and reissue the financial statements.

Note 2. 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 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 not been early adopted.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the 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.

Going concern

The financial statements have been prepared on a going concern basis. This contemplates continuity of normal business activities and the realisation of assets and settlement of liabilities in the ordinary course of business.

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 28.

Note 2. Significant accounting policies continued

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Step One Clothing Limited as at 30 June 2023 and the results of all subsidiaries for the year then ended.

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.

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.

Foreign currency translation

The financial statements are presented in Australian dollars, which is Step One Clothing Limited's functional and presentation currency.

Foreign currency transactions

Foreign currency transactions are translated into the entity's functional currency 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 the entity's functional currency 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.

Note 2. Significant accounting policies continued

Revenue recognition

The Group recognises revenue as follows:

Revenue is recognised as 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.

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 of goods

The Group's contracts with customers for the sale of goods generally include one performance obligation. Revenue for the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, typically at either the point of sale or at the time of delivery of the goods to the customer, as this is when the Group's performance obligation is fulfilled. Cash payment is generally received at the point of sale. Amounts disclosed as revenue are net of sales returns and trade discounts.

A right of return is not a separate performance obligation and the Group recognises revenue net of estimated returns. The Group has assessed the value of this right of return as being 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 the realisation of income is virtually certain.

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.

Note 2. Significant accounting policies continued

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 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.

The benefit of tax losses that are held in the relevant entity are not recognised until recovery of those losses through reduction in future tax payments is probable.

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.

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Trade and other receivables

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Note 2. Significant accounting policies continued

Inventories

Inventories are measured at average 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.

A provision for inventory obsolescence represents the value of inventory that is expected to be sold at less than carrying value on disposal.

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 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 property, 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.

Leases

The Group 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.

Impairment of non-financial assets

A review of whether there are indicators of impairment, which would trigger a review of impairment is performed at each reporting date.

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.

Trade and other payables

Trade and other payables 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.

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.

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

Note 2. Significant accounting policies continued

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.

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 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. 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.

Share-based payments

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

The cost of equity-settled transactions with employees using options 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 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.

The cost of equity - settled transactions with employees using rights are measured at fair value on grant date. Fair value of a right is determined as the share price at the time of grant.

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.

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. Forfeited options and rights are applied to reduce the share - based payment expense at the time of forfeiture.

Note 2. Significant accounting policies continued

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.

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 used to measure fair value are those that are appropriate in the circumstances and which maximise the use of relevant observable inputs and minimise 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.

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.

Repurchase and reissue of ordinary shares (treasury shares)

When shares recognised as equity are repurchased, the amount of the consideration paid, which includes directly attributable costs, is recognised as a deduction from equity. Repurchased shares are classified as treasury shares and are presented as a reduction to issued capital. When treasury shares are sold or reissued subsequently, the amount received is recognised as an increase in equity and the resulting surplus or deficit on the transaction is presented within share premium.

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 Step One Clothing 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 additional ordinary shares that would have been outstanding assuming conversion of all dilutive potential ordinary shares to dilutive potential ordinary shares.

Note 2. Significant accounting policies continued

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.

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 Group for the annual reporting period ended 30 June 2023. 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.

The Directors have reviewed all new and revised Standards and Interpretations that have been issued but are not yet effective for the year ended 30 June 2023. As a result of this review the Directors have determined that there is no impact, material or otherwise, of the new and revised Standards and Interpretations on the company and, therefore, no change is necessary to the Group's accounting policies.

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.

Judgements

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.

Note 3. Critical accounting judgements, estimates and assumptions continued

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. Based on current and projected performance, the Directors have assessed that it is probable that future taxable amounts will be available, and therefore have recognised deferred tax assets on the Statement of Financial Position. Refer to note 8 for further information.

Estimates

Provision for inventory obsolescence

A provision for inventory obsolescence represents the value of inventory that is expected to be sold at less than carrying value or disposed. The provision amount was determined after assessing product lines that where first released over 12 months before 30 June 2023. The items included are for colour releases that did not sell through, and the prospect of future re-release is limited and/or the cost does not justify maintaining the line. Cost in this context includes both holding and opportunity cost (distracting customers from more popular lines). The provision also includes damaged stock or returned (and opened) inventory for which sale is not possible.

At 30 June 2023, the provision amount was $1,200,000 (5% of stock on hand) (FY22: $239,000, 1% of stock on hand). Every 1% increase in the inventory obsolescence provision costs $242,000 in expense. The expense is recognised in the cost of goods sold. The increase on prior year reflects the aging of inventory that was first sold in FY22 noting that this year had more colour releases than any year prior or subsequent. It also reflects a reassessment of the holding cost at a time when the product range is being expanded to include a broader Women's line.

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.

The key assumptions applied in determining the value of share-based payment transactions are shown in note 31.

Note 4. Operating segments

Identification of reportable operating segments

The Group is organised into one 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 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.

Note 4. Operating segments continued

Disaggregation of revenue by geographical regions

The Group operates in Australia, United Kingdom and United States of America. Revenue is attributed to the country where the goods are despatched from :

	CONSOLIDATED	
	2023 $'000	2022 $'000
Australia	43,006	46,596
United Kingdom	20,367	22,045
United States of America	1,811	3,546
	65,184	72,187

Non-current assets by Geographical regions

There are no geographical non-current assets.

Note 5. Revenue

	CONSOLIDATED	
	2023 $'000	2022 $'000
Sales revenue	65,184	72,187

All sales revenue is from sale of goods recognised at a point in time. Refer to note 4 for revenue by geographical region.

Note 6. Other income

	CONSOLIDATED	
	2023 $'000	2022 $'000
Insurance recoveries	-	500

Note 7. Expenses

	CONSOLIDATED	
	2023 $'000	2022 $'000
Profit/(loss) before income tax includes the following specific expenses:		
Depreciation		
Computer and office equipment	22	2
Amortisation		
Trademarks	6	6
Total depreciation and amortisation	28	8
Administration expense		
Short term lease	279	229
Subscription and licence fees	518	405
Other operating expenses	873	592
Total administration expense	1,670	1,226
Employee benefits and contractor expense		
Salaries and wages expense	2,968	1,367
Superannuation expense	179	101
Other employee expenses	304	180
Contractor fees	855	1,379
Total employee benefits and contractor expense	4,306	3,027
Share-based payments expense		
Phantom share units ('PSU') liability revaluation prior to settlement	-	5,770
Phantom share units payment (refer to note 17)	-	306
Management share options and rights	316	251
Forfeiture of management share options and rights	(201)	-
Directors' shares issued in lieu of fees	-	212
Total share-based payments expense	115	6,539

Note 8. Income tax

	CONSOLIDATED 2023 $'000	CONSOLIDATED 2022 $'000
Income tax expense		
Current tax	4,427	3,126
Deferred tax - origination and reversal of temporary differences and tax losses	(549)	(398)
Adjustment for prior year unders/overs	(56)	-
Aggregate income tax expense	3,822	2,728
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(549)	(398)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit/(loss) before income tax expense	12,438	(275)
Tax at the statutory tax rate of 30%	3,731	(83)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	18	1,962
US tax losses not recognised	199	840
Other non-deductible expense	13	9
(Over)/Under provision in respect of prior year	(139)	-
Income tax expense	3,822	2,728

	CONSOLIDATED 2023 $'000	CONSOLIDATED 2022 $'000
Amounts credited directly to equity		
Deferred tax assets	-	(637)

Tax losses in the USA total AUD $3,710,000 (FY22: $3,050,000)

Note 8. Income tax continued

	CONSOLIDATED 2023 $'000	CONSOLIDATED 2022 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Contract liabilities	390	440
Employee benefits	78	65
Other payables	390	121
Blackhole expenditure	1,395	1,819
Inventories	452	(289)
GST potential overclaim	413	413
Deferred tax asset	3,118	2,569
Movements:		
Opening balance	2,569	1,534
Credited to profit or loss	549	398
Credited to equity	-	637
Closing balance	3,118	2,569

	CONSOLIDATED 2023 $'000	CONSOLIDATED 2022 $'000
Provision for income tax		
Provision for income tax	1,300	779

An income tax benefit will arise for the financial year where an income tax loss is incurred and, where permitted to do so, is carried-back against a qualifying prior period's tax payable to generate a refundable tax offset.

Note 9. Earnings per share

	CONSOLIDATED	
	2023 $'000	2022 $'000
Profit/(loss) after income tax attributable to the owners of Step One Clothing Limited	8,616	(3,003)

	NUMBER	NUMBER
Weighted average number of ordinary shares used in calculating basic earnings per share	185,340,291	173,431,097
Adjustments for calculation of diluted earnings per share: Options over ordinary shares	1,200,000	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	186,540,291	173,431,097

	CENTS	CENTS
Basic earnings/(loss) per share	4.65	(1.73)
Diluted earnings/(loss) per share	4.62	(1.73)

In the previous year 2,100,000 options have been excluded from the diluted earnings per share calculation as they were anti-dilutive. These options have been included in the current year calculation. Please refer to note 31 for further information on options.

Note 10. Cash and cash equivalents

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current assets		
Cash at bank	18,313	24,104
Cash on deposit	20,000	10,000
	38,313	34,104

Cash on deposit has maturity of less than 6 months.

Note 11. Trade and other receivables

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current assets		
Other receivables	619	80

Note 12. Inventories

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current assets		
Stock on hand - at cost	24,221	24,291
Less: Provision for inventory obsolescence	(1,200)	(239)
	23,021	24,052
Stock in transit - at cost	305	1,331
	23,326	25,383

The inventory provision was increased in the period after charging $928,000 (30 June 2022: $169,000) to cost of goods sold.

Note 13. Other assets

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current assets		
Prepayments	600	980
Other current assets	29	33
	629	1,013

There is no expected credit loss on these assets.

Note 14. Trade and other payables

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current liabilities		
Trade payables	1,522	8,821
Sales taxes (net)	1,298	566
Accruals and other payables	1,469	828
	4,289	10,215

Refer to note 21 for further information on financial instruments.

Sale taxes (net) includes GST, VAT and other similar sales and use taxes as appropriate in the jurisdictions within which the Group operates

Note 15. Contract liabilities

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current liabilities		
Deferred revenue	1,341	1,507

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 $1,341,000 as at 30 June 2023 (30 June 2022: $1,507,000) and is expected to be recognised as revenue in future periods as follows:

	CONSOLIDATED	
	2023 $'000	2022 $'000
Within 6 months	1,341	1,507
6 to 12 months	-	-
12 to 18 months	-	-
	1,341	1,507

The balance of $1,507,000 at the end of the prior reporting period was all realised in the current financial year.

Note 16. Provisions

	CONSOLIDATED	
	2023 $'000	2022 $'000
Current liabilities		
Provision for GST payable	1,860	1,860

Provision for GST payable

As disclosed in the 2022 annual report, the Group identified a potential overclaim of GST credits resulting from the incorrect application of GST rules to imported digital products and services. Discussions with the Australian Taxation Office are ongoing with regards to the appropriateness of GST refunds claimed on costs incurred from GST registered vendors. A liability of $1,860,000 ($1,302,000 after tax) (30 June 2022: $1,860,000) has been recognised for this matter. The Directors are satisfied that the liability is materially correct.

Note 17. Issued capital

	CONSOLIDATED			
	2023	2022	2023	2022
	SHARES	**SHARES**	**$'000**	**$'000**
Ordinary shares - fully paid	185,340,291	185,340,291	52,496	52,496
Treasury shares	(1,677,646)	-	(571)	-
	183,662,645	185,340,291	51,925	52,496

Movements in ordinary share capital

DETAILS	DATE	SHARES	ISSUE PRICE	$'000
Balance	1 July 2021	1,000		1
Share split*	16 August 2021	149,999,000	$0.0000	-
Shares issued in lieu of directors' fees	1 November 2021	196,500	$1.0772	212
Issue of shares on IPO	1 November 2021	53,143,791	$1.5300	81,310
Founder share sell-down on IPO	1 November 2021	(27,000,000)	$1.5300	(41,310)
Issue of shares on settlement of PSU liability	1 November 2021	9,000,000	$1.5300	13,770
Less: share issue transaction costs		-	$0.0000	(1,487)
Balance	30 June 2022	185,340,291		52,496
Balance	30 June 2023	185,340,291		52,496

* On 16 August 2021, the Company's shares were split from 1,000 ordinary shares to 150,000,000 ordinary shares.

Movements in treasury share capital

DETAILS	DATE	SHARES	Issue/ On-market purchase price	$'000
Balance	1 July 2021	-		-
Balance	30 June 2022	-		-
Shares acquired Apr - Jun 2023		(1,677,646)	$0.3402	(571)
Balance	30 June 2023	(1,677,646)		(571)

Ordinary shares

Ordinary shares entitle the holder to participate in any dividends declared and any proceeds attributable to shareholders should the Company be wound up, in proportions that consider both the number of shares held and the extent to which those shares are paid up. 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.

Note 17. Issued capital continued

Share buy-back

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

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.

Note 18. Reserves

	CONSOLIDATED	
	2023 $'000	2022 $'000
Foreign currency translation reserve	114	(157)
Share-based payments reserve	367	251
	481	94

Foreign currency translation reserve

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

Share-based payments reserve

The reserve is used to recognise the value of equity benefits provided to employees and Directors as part of their remuneration, and other parties as part of their compensation for services.

Movements in reserves

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

	FOREIGN CURRENCY TRANSLATION	SHARE-BASED PAYMENTS	TOTAL
Consolidated	$'000	$'000	$'000
Balance at 1 July 2021	173	-	173
Foreign currency translation	(330)	-	(330)
Share-based payments	-	463	463
Shares issued	-	(212)	(212)
Balance at 30 June 2022	(157)	251	94
Foreign currency translation	271	-	271
Share-based payments	-	116	116
Balance at 30 June 2023	114	367	481

Note 19. Retained profits/(accumulated losses)

Consolidated	TOTAL RETAINED EARNINGS $'000
Balance at 31 December 2021	(4,762)
Profit/(loss) for the period	813
Dividends	-
Balance at 30 June 2022	(3,949)
Profit/(loss) for the year	8,616
Dividends	-
Balance at 30 June 2023	4,667

Note 20. Dividends

Dividends

Dividends paid during the financial year were as follows:

	CONSOLIDATED	
	2023 $'000	2022 $'000
Pre-IPO dividend of 3.2 cents per ordinary share	-	4,800

There were no dividends paid, recommended or declared during the financial year.

On 24 August 2023, Step One declared a fully franked dividend of 5 cents per share ($9,267,000).

Franking credits

	CONSOLIDATED	
	2023 $'000	2022 $'000
Franking credits available at the reporting date based on a tax rate of 30%	6,620	2,669
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%	8,918	6,008
Franking credits that will arise from the payment of dividends based on a tax rate of 30%	-	(2,057)
Franking credits available for subsequent financial years based on a tax rate of 30%	15,538	6,620

Note 21. 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 and ageing analysis for credit risk.

Risk management is carried out by the Chief Financial Officer under policies approved by the Board. These policies include identification and analysis of the risk exposure of the Group and appropriate procedures, controls and risk limits. Finance identifies, evaluates and, where appropriate, 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	
Buy Chinese yuan Maturity:	2023 $'000	2022 $'000	2023	2022
0 – 3 months	681	6,292	4.7925	4.6825
3 – 6 months	-	-	-	-
6 – 12 months	-	-	-	-

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

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 21. Financial instruments continued

Liquidity risk

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

The Group manages liquidity risk by maintaining adequate cash reserves 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 - 2023	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	OVER 5 YEARS $'000	REMAINING CONTRACTUAL MATURITIES $'000
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	4,289	-	-	-	4,289
Other financial liability	-	-	-	-	-	-
Total non-derivatives		4,289	-	-	-	4,289

Consolidated - 2022	WEIGHTED AVERAGE INTEREST RATE %	1 YEAR OR LESS $'000	BETWEEN 1 AND 2 YEARS $'000	BETWEEN 2 AND 5 YEARS $'000	OVER 5 YEARS $'000	REMAINING CONTRACTUAL MATURITIES $'000
Non-derivatives						
Non-interest bearing						
Trade and other payables	-	10,215	-	-	-	10,215
Other financial liability	-	-	-	-	-	-
Total non-derivatives		10,215	-	-	-	10,215

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 are a reasonable approximation of their fair value.

Note 22. 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 - 2023	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Derivative financial instruments	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Other financial liability	-	-	-	-
Total liabilities	-	-	-	-

CONSOLIDATED - 2022	LEVEL 1 $'000	LEVEL 2 $'000	LEVEL 3 $'000	TOTAL $'000
Assets				
Derivative financial instruments	-	-	-	-
Total assets	-	-	-	-
Liabilities				
Other financial liability	-	-	-	-
Total liabilities	-	-	-	-

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.

Note 22. Fair value measurement continued

Level 3 assets and liabilities

Movements in level 3 assets and liabilities during the current and previous financial year are set out below:

CONSOLIDATED	OTHER FINANCIAL LIABILITY $'000
Balance at 1 July 2021	8,000
Settlement of liability	(13,770)
Fair value movement	5,770
Balance at 30 June 2022	-
Settlement of liability	-
Fair value movement	-
Balance at 30 June 2023	-

Note 23. Key management personnel disclosures

Compensation

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

	CONSOLIDATED	
	2023 $	2022 $
Short-term employee benefits and contractor fees	1,177,500	965,000
Post-employment benefits	94,900	74,000
Short-term incentive	75,500	-
Share-based payments	142,018	307,222
Non-cash benefits	6,002	6,351
Leave not taken	38,982	195,495
	1,534,902	1,548,068

Note 24. Remuneration of auditors

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

	CONSOLIDATED	
	2023 $	2022 $
Audit services - Grant Thornton Audit Pty Ltd		
Audit and review of the financial statements	155,000	167,000
Other services - Grant Thornton Australia Pty Ltd		
Taxation services	125,000	204,512
Financial advisory services	-	256,300
	125,000	460,812
	280,000	627,812
Audit services - network firms		
Audit of the financial statements	10,250	10,000
Other services - network firms		
Taxation services	24,080	31,565
	34,330	41,565

Note 25. Contingent liabilities

The Group had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Note 26. Commitments

The Group has commitments of $nil as at 30 June 2023 (30 June 2022: $5,725,000) for production orders placed.

Note 27. Related party transactions

Parent entity

Step One Clothing Limited is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 29.

Key management personnel

Disclosures relating to key management personnel are set out in note 23 and the remuneration report included in the Directors' report.

Note 27. Related party transactions continued

Transactions with related parties

The following transactions occurred with related parties:

	CONSOLIDATED	
	2023 $	2022 $
Payment for expenses:		
Payment for accounting services from CMB Services Pty Ltd (trading as Bendigo Bookkeeping) (entity related to Gregory Taylor)	192,773	300,908
Payment for digital advertising to The Fable Clothing Pty Ltd (entity related to Gregory Taylor)	30,000	80,000

The phantom share units ('PSU') were issued to Faraday Capital Pty Ltd ('Faraday'), an entity controlled by a Director of the Company, Michael Reddie. The 60 PSU issued to Faraday were settled in November 2021, resulting in the issuance of 9,000,000 of the Company's shares.

Receivable from and payable to related parties

There were no trade receivables from or trade payables to 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 28. Parent entity information

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

Statement of profit or loss and other comprehensive income

	PARENT	
	2023 $'000	2022 $'000
Profit/(loss) after income tax	595	(9,780)
Total comprehensive income/(loss)	595	(9,780)

Note 28. Parent entity information continued

Statement of financial position

	PARENT	
	2023 $'000	2022 $'000
Total current assets	33,468	32,980
Total assets	35,044	35,190
Total current liabilities	956	1,252
Total liabilities	986	1,271
Net assets	34,058	33,919
Equity		
Issued capital	52,495	52,495
Treasury shares	(571)	-
Foreign currency translation reserve	(13)	(13)
Share-based payments reserve	367	251
Accumulated losses	(18,220)	(18,814)
Total equity	34,058	33,919

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 2023 and 30 June 2022. The parent entity will not call intercompany receivables if that would result in the subsidiary being insolvent.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2023 and 30 June 2022.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2023 and 30 June 2022.

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.
- 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 29. 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 OR CONTROL %	
NAME	PRINCIPAL PLACE OF BUSINESS/COUNTRY OF INCORPORATION	2023 %	2022 %
Step One Clothing Australia Pty Ltd	Australia	100%	100%
Step One Production Pty Ltd	Australia	100%	100%
Step One Clothing UK Limited	United Kingdom	100%	100%
Step One Clothing USA Inc	United States of America	100%	100%
Step One Employee Share Trust*	Australia	100%	-

* On 6 March 2023, Step One established a Trust for the purposes of managing its employee share ownership plans. The Trustee is Pacific Custodians Pty Limited (ACN 009 268 866). While Step One has no legal ownership of the Trust, it is considered a controlled entity per Australian Accounting Standards and is consolidated.

Note 30. Cash flow information

Reconciliation of profit/(loss) after income tax to net cash from/(used in) operating activities

	CONSOLIDATED	
	2023 $'000	2022 $'000
Profit/(loss) after income tax expense for the year	8,616	(3,003)
Adjustments for:		
Depreciation and amortisation	27	8
Share-based payments	116	251
Interest received - non-cash	-	134
Other revenue - non-cash	-	(500)
Other expenses - non-cash	-	(1,442)
Finance costs - non-cash	-	(134)
Foreign currency differences	-	(85)
Change in operating assets and liabilities:		
Decrease in trade and other receivables	1,752	16,348
Decrease/(increase) in inventories	2,057	(15,652)
Increase in deferred tax assets	(596)	(397)
Decrease in derivative assets	-	134
Decrease/(increase) in prepayments	380	(616)
Decrease in other operating assets	4	906
Increase/(decrease) in trade and other payables	(8,156)	7,164
Decrease in contract liabilities	(166)	(1,113)
Increase/(decrease) in provision for income tax	568	(2,832)
Increase in employee benefits	45	180
Decrease in other operating liabilities	-	(8,000)
Net cash from/(used in) operating activities	4,647	(8,649)

Note 31. Share-based payments

Options

On 30 June 2021, the Group granted 12 options (converted to 1,800,000 with the share split on 16 August 2021) to two employees. Of these share options, 900,000 was granted to a KMP. The options will vest if participants remain employed until the end of the agreed vesting period, as defined in the terms of grant of the options. Upon vesting, each option entitles the holder of the option to subscribe for and acquire one ordinary share, unless the Board determines otherwise.

On 6 October 2021, the granted issued 300,000 options to an employee. The options will vest if participants remain employed until the end of the agreed vesting period. Upon vesting, each option entitles the holder of the option to subscribe for and acquire one ordinary share, unless the Board determines otherwise.

The fair value of options granted on 16 August 2021 was $211,670 and on the grant date of 6 October 2021 was $180,930. The fair value of the options issued on the grant date of 30 June 2021 was $573,312, however no expense was recognised for this grant during the FY21 financial year.

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 for pre-IPO option was determined by the shareholders after considering a range of valuation estimates which included discounted cash flows.

No options were granted in FY23. 900,000 options were forfeited in FY23.

Set out below are summaries of options granted under various plans:

2023

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	FORFEITED	BALANCE AT THE END OF THE YEAR
30/06/2021	30/06/2031	$1.3333	1,800,000	-	-	(900,000)	900,000
06/10/2021	30/06/2031	$1.3333	300,000	-	-	-	300,000
			2,100,000	-	-	(900,000)	1,200,000
Weighted average exercise price			$1.3333	$0.0000	$0.0000	-	$1.3333

2022

GRANT DATE	EXPIRY DATE	EXERCISE PRICE	BALANCE AT THE START OF THE YEAR	GRANTED	EXERCISED	EXPIRED/ FORFEITED/ OTHER	BALANCE AT THE END OF THE YEAR
12/03/2020	Open	$0.0000	9,000,000	-	(9,000,000)	-	-
30/06/2021	30/06/2031	$1.3333	1,800,000	-	-	-	1,800,000
16/08/2021	16/08/2031	$0.0000	-	196,500	(196,500)	-	-
06/10/2021	30/06/2031	$1.3333	-	300,000	-	-	300,000
			10,800,000	496,500	(9,196,500)	-	2,100,000
Weighted average exercise price			$1.3333	$0.8056	-	-	$1.3333

Note 31. Share-based payments continued

Option balances have been adjusted to reflect the share split on 16 August 2021.

Set out below are the options exercisable at the end of the financial year:

GRANT DATE	EXPIRY DATE	2023 NUMBER	2022 NUMBER
30/06/2021	30/06/2031	900,000	1,800,000
06/10/2021	30/06/2031	300,000	300,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 8 years (2022: 9 years).

GRANT DATE	EXPIRY DATE	SHARE PRICE AT GRANT DATE	EXERCISE PRICE	EXPECTED VOLATILITY	DIVIDEND YIELD	RISK-FREE INTEREST RATE	FAIR VALUE AT GRANT DATE
06/10/2021	30/06/2031	$1.3686	$1.3333	40.00%	-	1 - 18%	$0.6031

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

Rights

The Group granted 2,903,178 rights in FY23. The right is available to be converted to an ordinary share on vesting. Vesting requires the participant to be employed until the vesting date. The valuation of the right equals to the company's share price at the time the right was issued. The share based payment expensed is recognised evenly over the vesting period. The value of forfeitures (1,225,532 in FY23, worth $50,621) are applied reduce the expense.

The terms and conditions of each grant of right over ordinary shares affecting the remuneration of Directors, key management personnel and other management in this financial year or future reporting years are as follows:

GRANT DATE	VESTING DATE	EXPIRY DATE	EXERCISE PRICE	FAIR VALUE PER RIGHT AT GRANT DATE
Issued to KMP				
17 November 2022	17 November 2025	17 Number 2032	$0	$0.235
Issued to other Management				
1 May 2023	1 May 2026	1 May 2033	$0	$0.270
29 May 2023	29 May 2026	29 May 2033	$0	$0.300

Value of rights over ordinary shares granted, exercised and lapsed for Directors and other key management personnel as part of compensation during the year ended 30 June 2023 are set out below:

NAME	VALUE OF RIGHTS GRANTED DURING THE YEAR $	VALUE OF RIGHTS EXERCISED DURING THE YEAR $	VALUE OF RIGHTS LAPSED DURING THE YEAR $	REMUNERATION CONSISTING ON RIGHTS FOR THE YEAR %
N Underwood	255,047	-	-	8.2

Note 31. Share-based payments continued

Key terms of plans

A comparison of the key terms of the Share Plans are:

	OPTIONS	RIGHTS
Quantity on issue at 30 June 2023	1,200,000	1,677,646
Grant dates	30 June 2021 6 October 2021	17 November 2022 1 May 2023 29 May 2023
Vesting period	3 years from date of grant	3 years from date of grant
Early vesting	Early vesting is at board discretion	Early vesting is at board discretion
Vesting condition	Employed at conclusion of vesting period	Employed at conclusion of vesting period
Term	Expiry 10 years after grant	Expiry 10 years after grant
Re-organisation	Adjusted to eliminate material advantage/disadvantage, at Board discretion	Adjusted to eliminate material advantage/disadvantage, at Board discretion
Dividend and capital return	Adjusted strike price	Subject to Board discretion. It is intended to pass through dividends received on shares held in the employee share trust to the participants after they have been employed for 12 months
Change of control	Vesting at Board discretion	Vesting at Board discretion
Clawback	In specified circumstances including material breach of obligations, fraud or dishonesty	In specified circumstances including material breach of obligations, fraud or dishonesty.
Dilution	Yes, on vesting, share are to be issued	Yes, however all rights at 30 June 2023 purchased on-market and have been held in trust. There is no dilution impact at 30June 2023

Employee Share Ownership Plan

Step One established an ESOP for the management of the Rights based equity renumeration. Step One contracted with Pacific Custodians Pty Limited (Trustee) to manage the issue of equity to ESOP participants. During FY23, the Trustee purchased 1,677,646 shares on market for a total cost of $570,793. The value of these shares is deducted from Contributed Capital in the Group's Balance Sheet. It is intended that Dividends and other Capital returns received by the Trust be passed through to the participants, although this will remain at Board discretion at each declaration.

Note 32. Events after the reporting period

There were no material events subsequent to 30 June 2023 and until the authorisation of the financial statements that have impacted on the amounts recognised in these financial statements on which are required to be separately disclosed.

DIRECTORS' DECLARATION

30 June 2023

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 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 2023 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.

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

David Gallop AM
Chair

Gregory Taylor
Director and Chief Executive Officer

24 August 2023
Surry Hills

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF STEP ONE CLOTHING LIMITED

GrantThornton

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Independent Auditor's Report

To the Members of Step One Clothing Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of Step One Clothing Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2023, 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 2023 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 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.

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 2 and Note 5]	
For the year ended 30 June 2023, the Group recognised revenue of $65.184m (2022: $72.187m) from sale of goods. Revenue is recognised in accordance with AASB 15 *Revenue from Contracts with Customers*. The Group recognises revenue at an amount that reflects the consideration to which they expect to be entitled in exchange for transferring goods to a customer. 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 and the performance obligation is satisfied in accordance with AASB 15 Revenue from Contracts with Customers. Given the Group recognises revenue when they make a delivery to customers, to ensure revenue is recognised appropriately, an assessment is required at the end of the reporting period for all orders shipped but not yet delivered. This area is a key audit matter due to the judgement involved in this assessment, and the daily volume of transactions.	Our procedures included, amongst others: • Obtaining a detailed understanding of the underlying processes for revenue recognition, through discussion with individuals across the organisation and review of relevant documentation. • Assessing the design and implementation of relevant controls in relation to estimating revenue at the year-end date. • Utilising data analytics to risk profile revenue transactions throughout the year, identifying and testing transactions which are higher risk. • Testing a sample of revenue transactions throughout the year to evaluate the occurrence and accuracy of the amounts recorded during the year. • For year-end revenue specifically, assessing management's estimates (including input data and assumptions) on cut-off of revenue and provision for returns of sales and developing an independent auditor's estimate, to assess whether management's estimate is reasonable. • Assessing whether the disclosures in the financial statements, including critical judgements and estimates, are appropriate.

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 2023, but does not include the financial report and our auditor's report thereon.

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

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

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

Responsibilities of the Directors for the financial report

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

In preparing the financial report, the Directors are responsible for assessing the 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/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 36 to 44 of the annual report for the year ended 30 June 2023.

In our opinion, the Remuneration Report of Step One Clothing Limited, for the year ended 30 June 2023 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

Grant Thornton Audit Pty Ltd
Chartered Accountants

C Gangemi

C S Gangemi
Partner – Audit & Assurance

Melbourne, 24 August 2023

SHAREHOLDER INFORMATION

30 June 2023

The shareholder information set out below was applicable as at 31 July 2023

Distribution of equity securities

Analysis of number of equity security holders by size of holding:

	ORDINARY SHARES		OPTIONS OVER ORDINARY SHARES		RIGHTS OVER ORDINARY SHARES	
	NUMBER OF HOLDERS	% OF TOTAL SHARES ISSUED	NUMBER OF HOLDERS	% OF TOTAL OPTIONS ISSUED	NUMBER OF HOLDERS	% OF TOTAL RIGHTS ISSUED
1 to 1,000	512	0.14	-	-	-	-
1,001 to 5,000	747	1.10	-	-	-	-
5,001 to 10,000	344	1.44	-	-	-	-
10,001 to 100,000	452	7.60	-	-	-	-
100,001 and over	65	89.72	2	100	3	100
	2,120	100.00	2	100	3	100
Holding less than a marketable parcel	634	0.51	-	-	-	-

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Dallard Road Pty Ltd & Gregory Taylor	124,272,996	67.05
Faraday Capital Pty Ltd	9,132,000	4.93
HSBC Custody Nominees (Australia) Limited	6,057,121	3.27
BNP Paribas Nominees (NZ) Ltd	4,135,341	2.23
National Nominees Limited	3,403,384	1.84
Pacific Custodians Pty Limited	1,677,646	0.91
Elyuma Enterprises Pty Ltd	1,625,000	0.88
Bros Partners Investments Pty Ltd	1,423,717	0.77
BNP Paribas Nominees Pty Ltd	1,149,366	0.62
Jjna No 2 Pty Ltd	1,000,000	0.54
Citicorp Nominees Pty Limited	525,798	0.28
Hoffman Capital Pty Limited	525,000	0.28
Mr Thanh Vu	512,223	0.28
Capital J Investments Pty Ltd	500,000	0.27
Grayson Nominees Pty Ltd	500,000	0.27
Duddy 2020 Pty Ltd	450,000	0.24
Hancroft Pty Ltd	448,196	0.24
Mr Michael Alon Jaconbson	400,000	0.22
MSG Holdings Pty Limited	380,000	0.21
Invia Custodian Pty Limited	372,699	0.20
	158,490,487	85.53
Shares on issue	185,340,291	100.00%

Unquoted equity securities

	NUMBER ON ISSUE	NUMBER OF HOLDERS
Options over ordinary shares issued	1,200,000	2
Performance rights	1,677,646	3

Options and performance rights have been issued under employee share schemes.

Substantial holders

Substantial holders in the Company are set out below:

	ORDINARY SHARES	
	NUMBER HELD	% OF TOTAL SHARES ISSUED
Dallard Road Pty Ltd	123,000,000	66.36
Other entities related to Greg Taylor	1,272,996	0.69

Voting rights

The voting rights attached to ordinary shares are set out below:

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.

There are no other classes of equity securities.

Restricted Securities

There are 105,600,000 ordinary shares subject to voluntary escrow restrictions at 30 June 2023

The escrow restrictions for 105,600,000 shares will end at the close of trading on the ASX on the fifth day following the announcement of the Company's financial results for the financial year ending 30 June 2023. This is expected to be 31 August 2023

There is no on-market buy-back.

Securities purchased on-market during the reporting period to satisfy the entitlements of the holders of options or rights to acquire securities granted under an Employee Share Scheme.

Number of Securities Purchased (Ordinary Fully Paid Shares) :	1,677,646
Average Price paid per security:	$0.3402

CORPORATE DIRECTORY

30 June 2023

Directors	David Gallop AM - Chair	Appointed 6 October 2021
	Gregory Taylor - Chief Executive Officer	Appointed 6 January 2017
	Richard Dennis	Appointed 6 October 2021
	Michael Reddie	Appointed 6 October 2021
	Catherine Thompson	Appointed 6 October 2021
Company secretary	William Hundy, Company Matters Pty Limited	
Notice of annual general meeting	The annual general meeting of Step One Clothing Limited will be held on 15 November 2023. Further details will be provided with the Notice of Meeting.	
Registered office	Level 2, 120 Chalmers Street Surry Hills NSW 2010 Tel: +61 2 8095 6350	
Share register	Link Market Services Limited Level 12, 680 George Street Sydney NSW 2000 Tel: +61 1300 554 474	
Auditor	Grant Thornton Audit Pty Ltd Collins Square, Tower 5 727 Collins Street Melbourne VIC 3008	
Solicitors	Herbert Smith Freehills Level 34 161 Castlereagh Street Sydney NSW 2000	
Bankers	HSBC Bank Australia Limited Level 1 271 Collins Street Melbourne VIC 3000	
Stock exchange listing	Step One Clothing Limited shares are listed on the Australian Securities Exchange (ASX code: STP)	
Website	www.stepone.group	
Business objectives	In accordance with Listing Rule 4.10.19, the Company confirms that the Group has been utilising the cash and assets in a form readily convertible to cash that it held at the time of its admission to the Official List of ASX since its admission to the end of the reporting period in a way that is consistent with its business objectives.	
Corporate Governance Statement	The Directors and management are committed to conducting the business of Step One Clothing Limited in an ethical manner and in accordance with the highest standards of corporate governance. Step One Clothing Limited 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. The Corporate Governance Statement, which sets out the corporate governance practices that were in operation during the financial year and identifies and explains any Recommendations that have not been followed, which is approved at the same time as the Annual Report can be found at: https://www.stepone.group/investor-centre/?page=corporate-governance	