



FY22

Annual Report



**Design Milk Co Limited**

**ABN 15 006 908 701**

**Annual Report - 30 June 2022**

**Design Milk Co Limited**  
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**30 June 2022**

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Sydney, Australia and Columbus, OH, USA

## Chairperson Update

Dear Shareholder,

On behalf of the Board of Directors of Design Milk Co., I am pleased to present the FY2022 Annual Report.

The 2022 financial year has brought a number of challenges to the Design Milk business. On the eCommerce front, despite our large and growing audience of close to 10 million followers, converting them to shoppers on the site has proven to be difficult. On the other hand, our advertising revenue has remained strong, up 26% on FY21, supported by the high-quality editorial contents produced by our media and marketing teams.

The Board has assessed a number of strategic options available to the business and decided to refocus Design Milk's activities on advertising revenue and shutting down its eCommerce operations. By simplifying the business operation, the Company will be able to reduce its cost base and reposition for profitability.

We continue to see the value in the Design Milk brand, given its established influencer status and large follower base built from over 16 years of developing social media, editorial and advertising contents. A transition to an advertising revenue business model will allow Design Milk to continue to grow its brand in a sustainable and cost effective manner.

We continue to explore trade sale and partnership opportunities with a number of strategic parties, aimed at maximising value for shareholders.

Thank you for your continued support and thanks to Rob and the management team for their continuing energy and efforts.

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**Mike Hill**

Chairman

31 August 2022



Sydney, Australia and Columbus, OH, USA

## CEO Update

Dear Shareholder,

FY22 has been a challenging year for many digital businesses and Design Milk was not an exception. A number of factors have weighed on the performance of eCommerce businesses, including customers returning to physical stores, the iOS privacy updates, Instagram algorithm changes, ongoing supply chain disruptions and inflationary pressures.

We reported FY22 total revenue of US\$1.5m, up 11% on FY21. Our advertising revenue has remained strong at US\$1.1m, up 26% on FY21, which shows the strength of the Design Milk brand, supported by our large and engaged audience of close to 10 million followers.

During FY22, the team explored multiple channels to grow the business, including exclusive brand partnerships, the expansion of our product assortment, Trade/B2B, pop-up retail and new media partnerships.

Despite our effort to keep the team lean and operational discipline strong, the significant amount of capital required to grow the eCommerce segment of the business has put the business on an unsustainable trajectory. After assessing the strategic options available to Design Milk, the Board and management have decided to switch off the eCommerce operation and reposition the business to focus on an advertising revenue only model. This has been a very difficult decision for us, given the amount of effort the team has put into building our eCommerce presence, growing vendor base and improving customer experience and conversion. However, we believe the transition to a capital-light advertising revenue model will put the business on a more sustainable path to profitability and improve shareholder value.

As we look forward to FY23, the team remains committed to continue to produce high quality content, grow our community and expand our advertising revenue.

The Board have committed to supporting and investing in the business as we navigate these opportunities. I'd like to thank them, our shareholders, and my team as we continue to grow Design Milk.

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**Robert Mancini**  
Chief Executive Officer

31 August 2022

**Design Milk Co Limited**  
**Directors' report**  
**30 June 2022**

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

**Directors**

The following persons were directors of Design Milk Co Limited during the whole of the financial year and up to the date of this report, unless otherwise stated:

Mike Hill - Chairman  
Michael Everett  
Christopher Colfer  
Arnaud Massenet  
Jaime Derringer (appointed on 1 March 2022, resigned on 10 June 2022)

**Principal activities**

During the financial year, the principal continuing activities of the consolidated entity were advertising revenue and commission from the sale of goods of premium lifestyle and design products through multiple e-commerce platforms.

As noted in the '*matters subsequent to the end of the financial year*' section below, the Board has decided to reposition the consolidated entity to an advertising revenue-only model and has decided to close down the eCommerce operations.

**Dividends**

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

**Review of operations**

The loss for the consolidated entity after providing for income tax amounted to US\$2,688,886 (30 June 2021: US\$1,012,844).

Underlying EBITDA ('earnings before interest, taxation, depreciation and amortisation') adjusted for one-off impairment is a financial measure not prescribed by Australian Accounting Standards ('AAS') and represents the loss under AAS adjusted for non-cash items, interest revenue, finance costs and tax expenses. The following table summarises key reconciling items between statutory loss after tax and the underlying EBITDA. The directors consider EBITDA to reflect the core earnings of the consolidated entity.

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>US\$</b>	<b>US\$</b>
EBITDA	(1,431,909)	(970,596)
Interest revenue	2	3
Finance cost	(12,247)	(13,363)
Depreciation and amortisation expenses	(38,004)	(28,888)
Impairment expenses <sup>1</sup>	(1,183,333)	-
Share-based payments	(233,553)	-
Non-cash income (subsidies and grants) <sup>2</sup>	210,158	-
	<u>(2,688,886)</u>	<u>(1,012,844)</u>
Statutory loss after income tax expense	<u>(2,688,886)</u>	<u>(1,012,844)</u>

<sup>1</sup> As detailed in note 13 of notes to the financial statements, the statutory loss during the year was impacted by the impairment of intangible assets. In view of the indicators of impairment noted in the current financial year, a decision was made to fully impair the intangible assets resulting in an impairment expense of \$1,183,333.

<sup>2</sup> During the 2020 financial year, the consolidated entity received financial assistance as a result of the COVID-19 pandemic in the form of a U.S. Small Business Administration ('SBA') loan from Comerica Bank. The SBA provided a full waiver of the loan during the current financial year. As a result, the consolidated entity's results included \$210,158 loan forgiveness income in the statement of profit or loss.

Refer to the Chairman and Chief Executive Officer's report for further commentary on the review of operations.

### Significant changes in the state of affairs

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

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

#### *Corporate strategy*

Due to the challenging retail trading conditions and significant capital requirements for growing the eCommerce segment of the business, the Board has decided to reposition the consolidated entity to an advertising revenue-only model and shut down the eCommerce operations. The business model transition is aimed at improving the consolidated entity's cashflows and positioning it for a more sustainable growth path going forward.

#### *Trade sale and strategic partnership opportunities*

The consolidated entity continues to progress trade sale and strategic partnership discussions with a number of parties. The company's shares on the Australian Securities Exchange will remain in suspension as the Board finalises the capital raise and considers possible asset sales.

#### *Short-term loan*

On 19 August 2022, the consolidated entity received US\$137,000 (A\$200,000) from Bombora Investment Management (a director-related entity). The working capital facility is expected to be converted into a convertible note facility as noted below.

#### *Capital raising*

The consolidated entity is in discussions to raise US\$274,000 (A\$400,000) by way of a proposed issue of convertible notes. Tranche 1 of US\$137,000 (A\$200,000) to be provided by Bombora Investment Management in replacement of a short-term bridging loan to the consolidated entity on 19 August 2022. Tranche 2 of US\$137,000 (A\$200,000) to be provided by Bombora and other investors, with the ability to accept oversubscriptions at the company's discretion. The convertible notes have a maturity date of 3 years and interest is payable at 12% per annum from the date of issue. The notes are convertible to ordinary shares at a conversion price of A\$0.07 per ordinary share. The Notes included a free attaching option of 1 for 2 options with A\$0.15 strike price and 2-year term, attached to each share issued from convertible note conversion.

The above terms are indicative based on current discussions and remain subject to the company finalising discussions with investors and execution of binding subscription documentation. The issue of the convertible notes is expected to be subject to shareholder approval at the upcoming AGM.

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

### Going concern

The consolidated financial statements have been prepared on a going concern basis. This assumes that the consolidated entity will be able to continue trading, realise its assets and discharge its liabilities in the ordinary course of business, for a period of at least 12 months from the date that these financial statements are approved.

The directors have reviewed a detailed cash budget showing the need for continued improvements in the operating performance of the business in order to generate positive operating cash flows. The directors have considered the funding and operational status of the business in arriving at their assessment that the going concern basis of preparation is appropriate. As detailed in the 'matters subsequent to the end of the financial year' section above, the directors have considered the following:

- Due to the challenging retail trading conditions and significant capital requirements for growing the eCommerce segment of the business, the Board has decided to reposition the consolidated entity to an advertising revenue-only model and shut down the eCommerce operations. The business model transition is aimed at improving the consolidated entity's cashflows and positioning it for a more sustainable growth path going forward;
- The consolidated entity continues to progress trade sale and strategic partnership discussions with a number of parties;
- On 19 August 2022, the consolidated entity received US\$137,000 (A\$200,000) from Bombora Investment Management (a director-related entity); and
- The consolidated entity is in discussions to raise US\$274,000 (A\$400,000) by way of a proposed issue of convertible notes.

Due to the uncertainty surrounding the above matters, there is material uncertainty that may cast significant doubt upon the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and liabilities in the normal course of business. However, the directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

### Likely developments and expected results of operations

Likely developments in the operations of the consolidated entity and the expected results of those operations are contained in the Chairman's report and Chief Executive Officer's report.

### Material business risks

The business has previously identified the following material risks that are still relevant: Failure to retain existing clients and attract new clients, economic challenges impacting the advertising market, cyber-security and data hacks and changes in technology. In all cases, risks are recorded and actions are assigned to address the likelihood and impact of those events occurring.

### Environmental regulation

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

### Information on directors

Name:	Mike Hill
Title:	Non-Executive Chairman
Qualifications:	Member of Chartered Accountants Australia and New Zealand
Experience and expertise:	Formerly a partner at Ernst & Young, Mike has been involved in working with management teams and boards across a number of companies and industries for more than 20 years. He is the Managing Director and Chief Information Officer and Founder of the Bombora Special Investment Growth Fund. Prior to Bombora he was an investment partner with Ironbridge, a private equity Investment fund which invested US\$1.5 billion. Mike has served as Chairman of multiple ASX-listed companies over the past six years.
Other current directorships:	Janison Education Limited (ASX: JAN) (Non-executive chairman) - appointed on 7 July 2014; Beamtree Holdings Limited (ASX: BMT) (formerly Pacific Knowledge Systems Limited (ASX: PKS) (Non-executive chairman) - appointed on 26 June 2018; Mad Paws Holdings Limited (ASX: MPA) (Non-Executive Director) - appointed on 23 December 2020 and Gratifii Limited (ASX: GTI) (Non-Executive Director) - appointed on 29 December 2020.
Former directorships (last 3 years):	Acrow Formwork and Construction Limited (ASX: ACF) (Non-executive director, resigned on 19 September 2019)
Special responsibilities:	Member of the Audit and Risk Committee
Interests in shares:	818,027 ordinary shares
Interests in options:	441,330 options over ordinary shares
Interests in rights:	None
Name:	Michael Everett
Title:	Non-Executive Director
Experience and expertise:	Michael has more than 25 years of capital markets and advisory experience. Michael retired from Goldman Sachs in 2013 after 11 years where he was Managing Director and co-head of the Financing Group within the Investment Banking Division in Australia. Prior to joining Goldman Sachs, he worked internationally for a large investment bank and has broad experience across the securities industry. During his career, he has advised a broad range of companies in a variety of industries. In late 2013, he established an independent capital markets advisory firm, Reunion Capital Partners.
Other current directorships:	None
Former directorships (last 3 years):	None
Special responsibilities:	Member of the Audit and Risk Committee
Interests in shares:	949,178 ordinary shares
Interests in options:	441,330 options over ordinary shares
Interests in rights:	None



**Name:** Christopher Colfer  
**Title:** Non-Executive Director  
**Experience and expertise:** Christopher is an international Chairman, Chief Executive and Board Director with an exemplary track record in multiple industry sectors including luxury goods, branded goods, Digital Transformation and e-commerce. He is highly skilled in strategy, e-commerce, business development, retail and marketing. For nine years he served as a Non-Executive Board Member of online luxury fashion retailer The Net-A-Porter Group Limited, and subsequently led the full acquisition. He also served on the Board of global online marketplace LYST for five years. Christopher currently serves on the Board of Woolworths Holdings in South Africa along with other directorships in verticals such as Fashion, Cosmetics, Skincare and Technology. Christopher was the Interim Chief Executive Officer of the consolidated entity from 23 March 2018 until the appointment of new CEO Robert Mancini on 30 July 2018.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 1,386,190 ordinary shares  
**Interests in options:** 641,330 options over ordinary shares  
**Interests in rights:** None

**Name:** Arnaud Massenet  
**Title:** Non-Executive Director  
**Qualifications:** CPA and an MBA from UNCC (North Carolina)  
**Experience and expertise:** Arnaud is a board member and the CEO of de-pury.com, an online art platform which he started with Simon and Michaela de Pury. Arnaud is the former CEO and founding partner of Luma, a leading alternative managed account platform in Europe, which was established with Gottex Asset Management Group in 2010. Arnaud is also a founding partner of the leading online fashion destination, The Net-A-Porter Group Limited, and was an active board member for over 10 years. Arnaud has also worked for over 13 years in investment banking, with leading firms such as Morgan Stanley and Lehman Brothers. Arnaud is the Chairman of GRIP.

**Other current directorships:** None  
**Former directorships (last 3 years):** None  
**Special responsibilities:** None  
**Interests in shares:** 3,676,923 ordinary shares  
**Interests in options:** 741,330 options over ordinary shares  
**Interests in rights:** 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**

Sapir Elias holds a Bachelor of Property Valuation. She has held the role of company secretary since 4 June 2020. Sapir previously served in the Israeli Defence Force from 2012 to 2014. Sapir works in property management dealing with contractual leasing in Sydney's east.

### Meetings of directors

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

	Full Board		Audit and Risk Committee	
	Attended	Held	Attended	Held
Mike Hill	5	7	-	-
Michael Everett	5	7	-	-
Christopher Colfer	5	7	-	-
Arnaud Massenet	2	7	-	-
Jaime Derringer	2	2	-	-

No separate Audit and Risk Committee meetings were scheduled. Conversations were had during the Board Meetings.

Held: represents the number of meetings held during the time the director held office.

### Remuneration report (audited)

The remuneration report details the key management personnel ('KMP') remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

KMP are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, 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 information
- Additional disclosures relating to KMP

#### **Principles used to determine the nature and amount of remuneration**

The objective of the consolidated entity'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 of Directors ('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 Board is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity 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 Board has structured an executive remuneration framework that is market competitive and complementary to the reward strategy of the consolidated entity.

The reward framework is designed to align executive reward to shareholders' interests. The Board have 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.

#### *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 Board. The Board 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.

As prescribed by the Listing Rules of the ASX, the aggregate remuneration of non-executive directors is determined from time to time by shareholders at general meeting. Non-executive directors' fees (including statutory superannuation) are determined within an aggregate directors' fee pool limit. The pool currently stands at a maximum of \$500,000 per annum in total, which was approved by shareholders on 10 March 2014.

The Board resolved that no short-term remuneration was payable to the directors for the years ended 30 June 2022 and 30 June 2021. On 30 November 2020, the shareholders approved a grant of 500,000 share options to two non-executive directors. On 23 November 2021, the shareholders approved the grant of 1,200,000 share options to directors. Refer to section 'share-based compensation' for details of vesting and other conditions.

#### *Executive remuneration*

The consolidated entity 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 three components:

- base pay and non-monetary benefits;
- discretionary cash bonus;
- share-based payments; and
- other remuneration such as superannuation.

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 Board based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

Short Term Incentives ('STI') are payable to KMP and other executives at the discretion of the Board and are not directly linked to the consolidated entity's profitability. During the year ended 30 June 2022, a discretionary cash bonus was determined payable to the Chief Executive Officer. No STI was paid to KMP and other executives for the year ended 30 June 2021.

The long-term incentives ('LTI') include share-based payments. On 30 July 2018, 338,179 options and performance rights valued at US\$296,119 were issued to KMP as part of executive remuneration. Refer to 'share-based compensation' section below for vesting conditions and other particulars relating to LTI.

#### *Consolidated entity performance and link to remuneration*

LTI comprising of share-based payments are directly linked to the performance of the consolidated entity. Share-based payments include executive options and performance options. LTI have various vesting conditions including: a continuous period of service with the consolidated entity; volume-weighted average share price; consolidated entity revenue targets; and/or cash flow targets. Refer to the section 'Additional information' below for details of the earnings and total shareholders return for the current year.

*Use of remuneration consultants*

During the financial year ended 30 June 2022, the consolidated entity did not engage any remuneration consultants.

*Voting and comments made at the company's 2021 Annual General Meeting ('AGM')*

At the 2021 AGM, shareholders voted to approve the adoption of the remuneration report of the company for the year ended 30 June 2021. The company did not receive any specific feedback at the AGM regarding its remuneration practices.

**Details of remuneration**

The KMP of the consolidated entity consisted of the following directors of Design Milk Co Limited:

- Mike Hill - Non-Executive Chairman
- Michael Everett - Non-Executive Director
- Christopher Colfer - Non-Executive Director
- Arnaud Massenet - Non-Executive Director
- Jaime Derringer - Non-Executive Director (from 1 March 2022 until 10 June 2022)

And the following person:

- Robert Mancini - Chief Executive Officer ('CEO')

Amounts of remuneration:

Details of the remuneration of KMP of the consolidated entity are set out in the following tables.

	Short-term benefits			Post-employment benefits	Long-term benefits		Share-based payments Equity settled	
	Salary and fees US\$	Cash bonus US\$	Non-monetary US\$	Super-annuation US\$	Long service leave US\$	Termination benefits US\$	options/ rights US\$	Total US\$
<b>2022</b>								
<i>Non-Executive Directors:</i>								
Mike Hill - Chairman	-	-	-	-	-	-	58,388	58,388
Michael Everett	-	-	-	-	-	-	58,388	58,388
Christopher Colfer	-	-	-	-	-	-	58,388	58,388
Arnaud Massenet	-	-	-	-	-	-	58,388	58,388
Jaime Derringer*	-	-	-	-	-	-	-	-
<i>Other KMP:</i>								
Robert Mancini	166,250	87,931	104	-	-	-	-	254,285
	166,250	87,931	104	-	-	-	233,552	487,837

\* Non-executive Director from 1 March 2022 until 10 June 2022. No remuneration was received during the period Jaime Derringer was a KMP

**Design Milk Co Limited**  
**Directors' report**  
**30 June 2022**

	Short-term benefits		Post-employment benefits	Long-term benefits			Share-based payments Equity settled	
	Salary and fees US\$	Cash bonus US\$	Non-monetary US\$	Super-annuation US\$	Long service leave US\$	Termination benefits US\$	options/ rights US\$	Total US\$
<b>2021</b>								
<i>Non-Executive Directors:</i>								
Mike Hill - Chairman	-	-	-	-	-	-	(9,862)	(9,862)
Michael Everett	-	-	-	-	-	-	(9,862)	(9,862)
Christopher Colfer	-	-	-	-	-	-	(6,864)	(6,864)
Arnaud Massenet	-	-	-	-	-	-	(5,366)	(5,366)
<i>Other KMP:</i>								
Robert Mancini	224,000	-	-	-	-	-	(1,785)	222,215
	224,000	-	-	-	-	-	(33,739)	190,261

The proportion of remuneration linked to performance and the fixed proportion are as follows:

Name	Fixed remuneration		STI		At risk - LTI	
	2022	2021	2022	2021	2022	2021
<i>Non-Executive Directors:</i>						
Mike Hill	-	-	-	-	100%	100%
Michael Everett	-	-	-	-	100%	100%
Christopher Colfer	-	-	-	-	100%	100%
Arnaud Massenet	-	-	-	-	100%	100%
Jaime Derringer	-	-	-	-	-	-
<i>Other KMP:</i>						
Robert Mancini	65%	100%	35%	-	-	-

**Service agreements**

The employment agreements contain substantially the same terms which include usual statutory entitlements, typical confidentiality and intellectual property provisions intended to protect the consolidated entity's intellectual property rights and other proprietary information and non-compete clauses.

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

Name:	Mike Hill
Title:	Non-Executive Chairman
Agreement commenced:	1 August 2015
Term of agreement:	Ongoing
Details:	Termination by the consolidated entity with reason, immediately with no notice period. Termination by the consolidated entity without reason, 3 months' written notice period. Termination by the director with or without reason, 3 months' written notice period.
Name:	Michael Everett
Title:	Non-Executive Director
Agreement commenced:	1 August 2015
Term of agreement:	Ongoing
Details:	Termination by the consolidated entity with reason, immediately with no notice period. Termination by the consolidated entity without reason, 3 months' written notice period. Termination by the director with or without reason, 3 months' written notice period.

Name: Christopher Colfer  
 Title: Non-Executive Director  
 Agreement commenced: 23 March 2016  
 Term of agreement: Ongoing  
 Details: Termination by the consolidated entity with reason, immediately with no notice period. Termination by the director at the request of the consolidated entity, 3 months' written notice period. Termination by the director at his own election, immediately with no notice.

Name: Arnaud Massenet  
 Title: Non-Executive Director  
 Agreement commenced: 1 October 2017  
 Term of agreement: Ongoing  
 Details: Termination by the consolidated entity with reason, immediately with no notice period. Termination by the consolidated entity without reason, 3 months' written notice period. Termination by the director with or without reason, 3 months' written notice period.

Name: Robert Mancini  
 Title: Chief Executive Officer ('CEO')  
 Agreement commenced: 30 July 2018  
 Term of agreement: Ongoing  
 Details: Termination by consolidated entity for any reason, 4 months' written notice. Termination by the director for any reason, 4 months' written notice. Termination by the consolidated entity with reason, immediately with no notice.

Name: Jaime Derringer  
 Title: Non-executive director  
 Agreement commenced: Appointed as KMP on 1 March 2022 and resigned on 10 June 2022

KMP 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 KMP as part of compensation during the year ended 30 June 2022.

### Options

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

Grant date	Expiry date	Particulars	Exercise price	Fair value per option at grant date
27/11/2019	27/11/2024	807,600 options: Each of the four directors were issued 201,900 options. Options vest following the end of July 2020 when US\$ 6 million revenue is achieved (30% vest); following the end of July 2021 when US\$ 11 million revenue is achieved (30% vest); following the end of July 2022 when US\$ 16 million revenue is achieved (30% vest); and once the consolidated entity achieves break-even EBITDA within a rolling 12 month period (10% vest).	A\$0.65	A\$0.335
30/07/2018	30/07/2025	Robert Mancini: 338,179 options which vest when the consolidated entity's Booked Sales in a rolling 12 month period exceeds US\$10 million (30% vest), US\$15 million (30% vest), US\$20million (30% vest); and once the consolidated entity achieves break-even EBITDA within a rolling 12 month period (10% vest).	30-day volume weighted share price following each month's vesting	A\$0.70
30/11/2020	30/11/2025	500,000 options: Christopher Colfer was issued 200,000 options and Arnaud Massenet was issued 300,000 options. Options vest following the end of July 2021 when US\$6 million revenue is achieved (30% vest); following the end of July 2022 when US\$11 million revenue is achieved (30% vest); following the end of July 2023 when US\$16 million revenue is achieved (30% vest); and once the consolidated entity achieves break-even EBITDA within a rolling 12 month period (10% vest).	A\$0.40	A\$0.22
23/11/2021	23/11/2024	1,200,000 options: Each of the four non-executive directors were issued 300,000 fully vested options at an exercise price of A\$0.50 per option.	A\$0.50	A\$0.26

The number of options over ordinary shares granted to and vested in directors and other KMP as part of compensation during the year ended 30 June 2022 are set out below:

Name	Number of options granted during the year 2022	Number of options granted during the year 2021	Number of options vested during the year 2022	Number of options vested during the year 2021
Mike Hill	300,000	-	300,000	-
Michael Everett	300,000	-	300,000	-
Christopher Colfer	300,000	200,000	300,000	-
Arnaud Massenet	300,000	300,000	300,000	-
Robert Mancini	-	-	-	-
Jaime Derringer	-	-	-	-

### Performance rights

The number of performance rights over ordinary shares granted to and vested in directors and other KMP as part of compensation during the year ended 30 June 2022 are set out below:

Name	Number of rights granted during the year 2022	Number of rights granted during the year 2021	Number of rights vested during the year 2022	Number of rights vested during the year 2021
Robert Mancini*	-	-	-	239,548

\* Performance rights valued at US\$220,000 were granted in 2019. 1/12 of the value of performance rights vest at the end of every month for the 12 month period beginning August 2018. The number of shares to be issued will be based on Design Milk Co Limited share price on vesting dates. Further performance rights valued at US\$76,119 were granted in 2019 to be issued in the period from August 2019 to January 2020.

### Additional information

The earnings of the consolidated entity for the five years to 30 June 2022 are summarised below:

	2022 US\$	2021 US\$	2020 US\$	2019 US\$	2018 US\$
Sales revenue*	1,497,610	1,351,993	878,071	3,222,433	4,904,034
Loss after income tax	(2,688,886)	(1,012,844)	(1,958,206)	(2,643,241)	(2,691,460)

\* Due to change in the accounting policy with effect from the 2020 financial year, sales revenue is disclosed on a net basis. The revenue disclosure for 2019 and 2018 is on a gross basis consistent with the revenue previously reported.

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

	2022	2021	2020	2019	2018
Share price at financial year end (A\$) (cents per share)*	29.00	36.00	35.00	35.00	75.00
Basic earnings per share (cents per share)	(7.41)	(3.47)	(8.92)	(19.00)	(26.00)

\* The share price at financial year end for the years prior to 2021 has been adjusted for the impact of the share consolidation that occurred in February 2021.

### Additional disclosures relating to KMP

#### Shareholding

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

	Balance at the start of the year	Vesting of options/ rights	Additions	Disposal/ others	Balance at the end of the year
<b>Ordinary shares</b>					
Mike Hill	818,027	-	-	-	818,027
Michael Everett	949,178	-	-	-	949,178
Christopher Colfer	1,386,190	-	-	-	1,386,190
Arnaud Massenet	3,676,923	-	-	-	3,676,923
Robert Mancini	214,286	-	-	-	214,286
Jaime Derringer*	395,767	-	-	(395,767)	-
	7,440,371	-	-	(395,767)	7,044,604

\* For Jamie Derringer 'balance at the start of the year' represents shares held on the appointment date as a KMP.



#### Option holding

The number of options over ordinary shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, 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
<i>Options over ordinary shares</i>					
Mike Hill	141,330	300,000	-	-	441,330
Michael Everett	141,330	300,000	-	-	441,330
Christopher Colfer	341,330	300,000	-	-	641,330
Arnaud Massenet	441,330	300,000	-	-	741,330
Robert Mancini	236,737	-	-	-	236,737
Jaime Derringer	-	-	-	-	-
	<u>1,302,057</u>	<u>1,200,000</u>	<u>-</u>	<u>-</u>	<u>2,502,057</u>

		Vested and exercisable	Vested and unexercisable	Balance at the end of the year
<i>Options over ordinary shares</i>				
Mike Hill		303,500	-	303,500
Michael Everett		304,250	-	304,250
Christopher Colfer		300,000	-	300,000
Arnaud Massenet		300,000	-	300,000
Robert Mancini		-	-	-
		<u>1,207,750</u>	<u>-</u>	<u>1,207,750</u>

#### Performance rights

The number of performance rights over ordinary shares in the company held during the financial year by each director and other members of KMP of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested*	Expired/ forfeited/ other	Balance at the end of the year
<i>Performance rights over ordinary shares</i>					
Robert Mancini*	861,090	-	-	-	861,090
	<u>861,090</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>861,090</u>

\* Performance rights valued at US\$220,000 were granted in 2019. 1/12 of the value of performance rights vest at the end of every month for the 12 month period beginning August 2018. The number of shares to be issued is based on Design Milk Co Limited's share price on vesting dates. Further performance rights valued at US\$76,119 were granted in 2019. The value of the performance rights vested over a 6 month period beginning 1 August 2019. As a result of vesting, 861,090 rights are exercisable/issuable to Robert Mancini as at 30 June 2022.

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

#### Shares under option

There were 2,502,057 unissued ordinary shares of Design Milk Limited under option outstanding at the date of this report. These options are exercisable at a weighted average exercise price of US\$0.56 per share.

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 under performance rights

861,090 performance rights have vested and are exercisable as at the date of this report.

No person entitled to exercise the performance rights had or has any right by virtue of the performance right 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 ordinary shares of Design Milk Co Limited issued on the exercise of options during the year ended 30 June 2022 and up to the date of this report.

#### Shares issued on the exercise of performance rights

There were no ordinary shares of Design Milk Co Limited issued on the exercise of performance rights during the year ended 30 June 2022 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

There were no non-audit services provided during the financial year by the auditor.

#### Officers of the company who are former partners of Crowe Sydney

There are no officers of the company who have been audit partners of Crowe Sydney for the past three years.

#### Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the Corporations Act 2001 follows 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



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Mike Hill  
Chairman

31 August 2022  
Sydney

31 August 2022

The Board of Directors  
Design Milk Co Limited  
Level 5  
126 Phillip Street  
Sydney NSW 2000

Dear Board Members

## Design Milk Co Limited

In accordance with section 307C of the *Corporations Act 2001*, I am pleased to provide the following declaration of independence to the Directors of Design Milk Co Limited.

As lead audit partner for the audit of the financial report of Design Milk Co Limited for the financial year ended 30 June 2022, I declare that to the best of my knowledge and belief, that there have been no contraventions of:

- (i) the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (ii) any applicable code of professional conduct in relation to the audit.

Yours sincerely



**Crowe Sydney**



**Barbara Richmond**  
Partner

*Liability limited by a scheme approved under Professional Standards Legislation.*

*The title 'Partner' conveys that the person is a senior member within their respective division, and is among the group of persons who hold an equity interest (shareholder) in its parent entity, Findex Group Limited. The only professional service offering which is conducted by a partnership is external audit, conducted via the Crowe Australasia external audit division and Unison SMSF Audit. All other professional services offered by Findex Group Limited are conducted by a privately owned organisation and/or its subsidiaries.*

*Findex (Aust) Pty Ltd, trading as Crowe Australasia is a member of Crowe Global, a Swiss verein. Each member firm of Crowe Global is a separate and independent legal entity. Findex (Aust) Pty Ltd and its affiliates are not responsible or liable for any acts or omissions of Crowe Global or any other member of Crowe Global. Crowe Global does not render any professional services and does not have an ownership or partnership interest in Findex (Aust) Pty Ltd. Services are provided by Crowe Sydney, an affiliate of Findex (Aust) Pty Ltd. Liability limited by a scheme approved under Professional Standards Legislation.*

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**Design Milk Co Limited**  
**Statement of profit or loss and other comprehensive income**  
**For the year ended 30 June 2022**

	Note	Consolidated 2022 US\$	2021 US\$
<b>Revenue</b>			
Commission from sale of goods		407,997	485,869
Advertising revenue		1,089,613	866,124
Total sales revenue	5	1,497,610	1,351,993
Other income	6	210,197	-
Interest revenue calculated using the effective interest method		2	3
<b>Expenses</b>			
Employee benefit expenses	7	(1,806,142)	(1,309,983)
Contractors and commission expenses		(491,549)	(298,479)
Marketing expenses		(289,215)	(281,345)
Technology expenses		(135,679)	(139,205)
Freight and warehousing expenses		(132,624)	(72,466)
Impairment expenses	13	(1,183,333)	-
Occupancy and administrative expenses		(86,308)	(106,184)
Professional fees		(221,594)	(114,927)
Depreciation and amortisation expenses	7	(38,004)	(28,888)
Finance costs	7	(12,247)	(13,363)
<b>Loss before income tax expense</b>		(2,688,886)	(1,012,844)
Income tax expense	8	-	-
<b>Loss after income tax expense for the year attributable to the owners of Design Milk Co Limited</b>		(2,688,886)	(1,012,844)
<b>Other comprehensive income</b>			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation		(69,733)	(20,918)
Other comprehensive income for the year, net of tax		(69,733)	(20,918)
<b>Total comprehensive income for the year attributable to the owners of Design Milk Co Limited</b>		<u>(2,758,619)</u>	<u>(1,033,762)</u>
		<b>Cents</b>	<b>Cents</b>
Basic earnings per share	29	(7.41)	(3.36)
Diluted earnings per share	29	(7.41)	(3.36)

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

**Design Milk Co Limited**  
**Statement of financial position**  
**As at 30 June 2022**

	Note	Consolidated 2022 US\$	2021 US\$
<b>Assets</b>			
<b>Current assets</b>			
Cash and cash equivalents	9	220,024	1,670,290
Trade and other receivables	10	100,435	351,814
Inventories		6,009	21,039
Other assets	11	21,353	37,873
Total current assets		<u>347,821</u>	<u>2,081,016</u>
<b>Non-current assets</b>			
Property, plant and equipment	12	39,581	7,386
Intangibles	13	-	1,208,333
Total non-current assets		<u>39,581</u>	<u>1,215,719</u>
<b>Total assets</b>		<u>387,402</u>	<u>3,296,735</u>
<b>Liabilities</b>			
<b>Current liabilities</b>			
Trade and other payables	14	165,950	167,610
Borrowings	15	-	166,375
Contract liabilities		42,080	211,811
Other liabilities	16	5,660	8,378
Total current liabilities		<u>213,690</u>	<u>554,174</u>
<b>Non-current liabilities</b>			
Borrowings	15	-	43,783
Total non-current liabilities		<u>-</u>	<u>43,783</u>
<b>Total liabilities</b>		<u>213,690</u>	<u>597,957</u>
<b>Net assets</b>		<u>173,712</u>	<u>2,698,778</u>
<b>Equity</b>			
Contributed equity	17	57,004,215	57,004,215
Reserves	18	1,768,533	1,604,713
Accumulated losses		(58,599,036)	(55,910,150)
<b>Total equity</b>		<u>173,712</u>	<u>2,698,778</u>

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

**Design Milk Co Limited**  
**Statement of changes in equity**  
**For the year ended 30 June 2022**

<b>Consolidated</b>	<b>Contributed equity US\$</b>	<b>Reserves US\$</b>	<b>Accumulated losses US\$</b>	<b>Total equity US\$</b>
Balance at 1 July 2020	54,893,691	1,661,861	(54,897,306)	1,658,246
Loss after income tax expense for the year	-	-	(1,012,844)	(1,012,844)
Other comprehensive income for the year, net of tax	-	(20,918)	-	(20,918)
Total comprehensive income for the year	-	(20,918)	(1,012,844)	(1,033,762)
<i>Transactions with owners in their capacity as owners:</i>				
Contributions of equity, net of transaction costs (note 17)	2,110,524	-	-	2,110,524
Share-based payments (note 31)	-	(36,230)	-	(36,230)
Balance at 30 June 2021	<u>57,004,215</u>	<u>1,604,713</u>	<u>(55,910,150)</u>	<u>2,698,778</u>
<b>Consolidated</b>	<b>Contributed equity US\$</b>	<b>Reserves US\$</b>	<b>Accumulated losses US\$</b>	<b>Total equity US\$</b>
Balance at 1 July 2021	57,004,215	1,604,713	(55,910,150)	2,698,778
Loss after income tax expense for the year	-	-	(2,688,886)	(2,688,886)
Other comprehensive income for the year, net of tax	-	(69,733)	-	(69,733)
Total comprehensive income for the year	-	(69,733)	(2,688,886)	(2,758,619)
<i>Transactions with owners in their capacity as owners:</i>				
Share-based payments (note 31)	-	233,553	-	233,553
Balance at 30 June 2022	<u>57,004,215</u>	<u>1,768,533</u>	<u>(58,599,036)</u>	<u>173,712</u>

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

**Design Milk Co Limited**  
**Statement of cash flows**  
**For the year ended 30 June 2022**

	Note	Consolidated 2022 US\$	2021 US\$
<b>Cash flows from operating activities</b>			
Receipts from customers		2,585,301	2,366,039
Payments to suppliers and employees		(3,978,162)	(3,624,827)
Interest received		2	3
Receipts from other income		39	-
Interest and other finance costs paid		(12,247)	(13,363)
Net cash used in operating activities	30	(1,405,067)	(1,272,148)
<b>Cash flows from investing activities</b>			
Payments for property, plant and equipment	12	(45,199)	(5,652)
Net cash used in investing activities		(45,199)	(5,652)
<b>Cash flows from financing activities</b>			
Proceeds from issue of shares	17	-	2,137,491
Share issue transaction costs	17	-	(26,967)
Net cash from financing activities		-	2,110,524
Net increase/(decrease) in cash and cash equivalents		(1,450,266)	832,724
Cash and cash equivalents at the beginning of the financial year		1,670,290	837,566
Cash and cash equivalents at the end of the financial year	9	<u>220,024</u>	<u>1,670,290</u>

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

## Note 1. General information

The financial statements cover Design Milk Co Limited (referred to as the 'company' or 'parent') as a consolidated entity consisting of Design Milk Co Limited and the entities it controlled at the end of, or during, the year (referred to as the 'consolidated entity'). The financial statements are presented in United States dollars, which is Design Milk Co Limited's presentation currency. The functional currency of Design Milk Co. is United States dollars and Design Milk Co Limited is Australian dollars. Design Milk Co. is a 100% controlled subsidiary and the main operating entity of the consolidated entity.

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

Registered office	Principal place of business
Level 5, 126 Phillip Street Sydney, NSW 2000 Australia	1209 Hill Rd N Ste 256 Pickerington, OH 43147 United States of America

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 31 August 2022. 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 consolidated entity 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. The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

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

### Going concern

The financial statements have been prepared on the going concern basis, which contemplates the continuity of normal business activity and the realisation of assets and settlement of liabilities in the normal course of business.

During the year ended 30 June 2022, the consolidated entity incurred a net loss after tax of \$2,688,886 (2021: loss of \$1,012,844) and net cash outflows used in operating activities of \$1,405,067 (2021: \$1,272,148). As at 30 June 2022, the consolidated entity had cash and cash equivalents of \$220,024 (2021: \$1,670,290), net assets of \$173,712 (2021: \$2,698,778) and net current assets of \$134,131 (2021: \$1,526,842).

The directors have reviewed a detailed cash budget showing the need for continued improvements in the operating performance of the business in order to generate positive operating cash flows. The directors have considered the funding and operational status of the business in arriving at their assessment that the going concern basis of preparation is appropriate. Further to note 32, the directors have considered the following:

- Due to the challenging retail trading conditions and significant capital requirements for growing the eCommerce segment of the business, the Board has decided to reposition the consolidated entity to an advertising revenue-only model and shut down the eCommerce operations. The business model transition is aimed at improving the consolidated entity's cashflows and positioning it for a more sustainable growth path going forward;
- The consolidated entity continues to progress trade sale and strategic partnership discussions with a number of parties;
- On 19 August 2022, the consolidated entity received US\$ 137,000 (A\$ 200,000) from Bombora Investment Management (a director-related entity); and
- The consolidated entity is in discussions to raise US\$274,000 (A\$400,000) by way of a proposed issue of convertible notes.



## Note 2. Significant accounting policies (continued)

Due to the uncertainty surrounding the above matters, there is material uncertainty that may cast significant doubt upon the consolidated entity's ability to continue as a going concern and, therefore, that it may be unable to realise its assets and liabilities in the normal course of business. However, the directors believe that the consolidated entity will be successful in the above matters and, accordingly, have prepared the financial report on a going concern basis.

### Basis of preparation

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

### Historical cost convention

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

### Critical accounting estimates

The preparation of the financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the consolidated entity's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in note 3.

### Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 27.

### Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Design Milk Co Limited as at 30 June 2022 and the results of all subsidiaries for the year then ended.

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

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

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

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

### Operating segments

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 United States dollars, which is Design Milk Co Limited's presentation currency.

## Note 2. Significant accounting policies (continued)

### *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.

### *Non-US functional currency operations*

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

The foreign currency reserve is recognised in profit or loss when the foreign operation or net investment is disposed of.

### **Revenue recognition**

The consolidated entity recognises revenue as follows:

#### *Revenue from contracts with customers*

Revenue is recognised at an amount that reflects the consideration to which the consolidated entity is expected to be entitled in exchange for transferring goods or services to a customer. For each contract with a customer, the consolidated entity: identifies the contract with the customer at the point when the customer has placed an order; identifies the performance obligation in the contract; determines the transaction price; 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 the performance obligation is satisfied.

Variable consideration within the transaction price, reflects concessions provided to the customer such as promotional discounts, the right of the customer to return the goods or services, the redemption of store credit, or the redemption of gift cards. 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 initially recognised as deferred revenue in the form of a separate refund liability.

#### *Commission from sale of goods*

The consolidated entity owns and operates multiple e-commerce websites, acting as a commercial intermediary between independent brands and designers and the end consumer, earning a commission for this service.

The consolidated entity has determined that it does not control the goods before they are transferred to the consumer. Hence, it is an agent in these contracts as it does not have the ability to direct the use of the goods or obtain benefits from the goods. Commission is recognised on a net basis, once the consolidated entity has fulfilled its obligation to the customer. The performance obligation is to facilitate the transaction between the brand partner and the end consumer, which is satisfied when the goods are dispatched to the end consumer by the brand partner.

A provision is made for commission that would be refunded if the end consumer returns the goods, and the consolidated entity uses historical data and patterns to estimate its return provision.

#### *Advertising revenue*

Display advertising revenue is recognised over time as advertisements are displayed. Sponsored online content revenue is recognised at the point in time when published.

#### *Interest*

Interest revenue 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.

## Note 2. Significant accounting policies (continued)

### Government grant

Grants from the government are recognised at their fair value when there is reasonable assurance that the grant will be received and the consolidated entity will comply with all attached conditions. Government grants relating to costs are deferred and recognised in profit or loss over the period necessary to match them with the costs that they are intended to compensate. They are only recognised when there is reasonable assurance that the conditions attached to them are also satisfied.

### Income tax

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

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

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

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

The carrying amount of recognised and unrecognised deferred tax assets is 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.

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

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

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

### Cash and cash equivalents

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

### Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

## Note 2. Significant accounting policies (continued)

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

### Inventories

Inventories are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

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

### 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:

Furniture and fixtures	7 years
Machinery and equipment	5 years
Computer equipment	3 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 consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

### Intangible assets

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

### Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

### Trade name and trademarks

Trade name and trademarks acquired in a business combination are not amortised on the basis that they have an indefinite life. This is reassessed every year. Instead, they are tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and are carried at cost less accumulated impairment losses. Management considers that the useful life of trade name and trademarks is indefinite because there is no foreseeable limit to the cash flows these assets can generate.

### Customer relationships

Customer relationships acquired are amortised on a straight-line basis over the period of their expected benefit, being their finite useful life of ten years.

## Note 2. Significant accounting policies (continued)

### Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other 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 consolidated entity prior to the end of the financial year and which are unpaid. Due to their short-term nature they are measured at amortised cost and are not discounted. The amounts are unsecured and are usually paid within 30 days of recognition.

### Contract liabilities

Contract liabilities represent the consolidated entity's obligation to transfer goods or services to a customer and are recognised when a customer pays consideration, or when the consolidated entity recognises a receivable to reflect its unconditional right to consideration (whichever is earlier) before the consolidated entity has transferred the goods or services to the customer.

### Borrowings

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

### Leases

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

### Finance costs

Finance costs are expensed to profit or loss in the period in which they are incurred using the effective interest rate method.

### Employee benefits

#### *Short-term employee benefits*

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

#### *Defined contribution superannuation expense*

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

#### *Share-based payments*

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

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

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

## Note 2. Significant accounting policies (continued)

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

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.

If equity-settled awards are modified, as a minimum an expense is recognised as if the modification has not been made. An additional expense is recognised, over the remaining vesting period, for any modification that increases the total fair value of the share-based compensation benefit as at the date of modification.

If the non-vesting condition is within the control of the consolidated entity or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the consolidated entity or employee and is not satisfied during the vesting period, any remaining expense for the award is recognised over the remaining vesting period, unless the award is forfeited.

If equity-settled awards are cancelled, they are treated as if they had vested on the date of cancellation, and any remaining expense is recognised immediately. If a new replacement award is substituted for the cancelled award, the cancelled and new award is treated as if they were a modification.

### 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.

### Contributed equity

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.

### Earnings per share

#### *Basic earnings per share*

Basic earnings per share is calculated by dividing the profit attributable to the owners of Design Milk Co 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 or share splits 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.

### Goods and Services Tax ('GST') and other similar taxes

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

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

## Note 2. Significant accounting policies (continued)

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

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

### **New Accounting Standards and Interpretations not yet mandatory or early adopted**

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2022. The adoption of these Accounting Standards and Interpretations is not expected to have any significant impact on the consolidated entity's financial statements.

## Note 3. Critical accounting judgements, estimates and assumptions

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

### *Coronavirus (COVID-19) pandemic*

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

### *Share-based payment transactions*

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

### *Allowance for expected credit losses*

The allowance for expected credit losses assessment requires a degree of estimation and judgement. It is based on the lifetime expected credit loss, grouped based on days overdue, and makes assumptions to allocate an overall expected credit loss rate for each group. These assumptions include recent sales experience and historical collection rates.

### *Goodwill and other indefinite life intangible assets*

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows. Refer to note 13 for further information.

#### Note 4. Operating segments

##### *Identification of reportable operating segments*

The consolidated entity's operating segments are based on the internal reports that are reviewed and used by the Board of Directors who are identified as the Chief Operating Decision Makers ('CODM') in assessing performance and in determining the allocation of resources.

The directors have determined that there is one operating segment identified and located in the United States of America. The information reported to the CODM is the consolidated results of the consolidated entity.

The operating segment information is the same information as provided throughout the financial statements and is therefore not duplicated.

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

##### *Major customers*

During the year ended 30 June 2022, there were no external customers (2021: nil) where revenue exceeded 10% of the consolidated revenue.

#### Note 5. Revenue

##### *Disaggregation of revenue*

The disaggregation of revenue from contracts with customers is as follows:

	Consolidated 2022 US\$	2021 US\$
<i>Major product or services</i>		
Commission from sale of goods	407,997	485,869
Advertising revenue	1,089,613	866,124
	<u>1,497,610</u>	<u>1,351,993</u>
<i>Timing of revenue recognition</i>		
Commission from sale of goods recognised at a point in time	407,997	485,869
Services transferred at a point in time	415,130	378,526
Services recognised over time	674,483	487,598
	<u>1,497,610</u>	<u>1,351,993</u>

The revenue from contracts with customers is generated substantially from the United States of America.

#### Note 6. Other income

	Consolidated 2022 US\$	2021 US\$
Subsidies and grants	210,158	-
Other income	39	-
	<u>210,197</u>	<u>-</u>

##### *Paycheck protection programme loan:*

During the 2020 financial year, the consolidated entity received a U.S. Small Business Administration ('SBA') loan from Comerica Bank which represented financial assistance as a result of the COVID-19 pandemic. This loan was subsequently forgiven during the current financial year. As a result, the consolidated entity has recognised the loan forgiveness as other income during the current financial year.



**Note 7. Expenses**

	Consolidated 2022 US\$	2021 US\$
Loss before income tax includes the following specific expenses:		
<i>Depreciation</i>		
Fixtures and fittings	393	611
Machinery and equipment	322	820
Computer equipment	12,289	2,457
Total depreciation	13,004	3,888
<i>Amortisation</i>		
Customer relationships	25,000	25,000
Total depreciation and amortisation	38,004	28,888
<i>Employee benefit expenses</i>		
Salaries and wages	1,572,589	1,346,213
Share-based payments expense	233,553	(36,230)
Total employee benefit expenses	1,806,142	1,309,983
<i>Finance costs</i>		
Bank fees paid/payable	12,247	13,363

**Note 8. Income tax expense**

	Consolidated 2022 US\$	2021 US\$
<i>Numerical reconciliation of income tax expense and tax at the statutory rate</i>		
Loss before income tax expense	(2,688,886)	(1,012,844)
Tax at the statutory tax rate of 21%	(564,666)	(212,697)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment of goodwill and other intangible assets	248,500	-
	(316,166)	(212,697)
Current year tax losses not recognised	316,166	212,697
Income tax expense	-	-

The statutory tax rate of 21% (2021: 21%) relates to the United States of America tax jurisdiction where the main operating entity Design Milk Co. is incorporated.

	Consolidated 2022 US\$	2021 US\$
<i>Tax losses not recognised</i>		
Unused tax losses for which no deferred tax asset has been recognised	42,785,288	41,663,649
Potential tax benefit at statutory tax rates	8,984,910	8,749,366

**Note 8. Income tax expense (continued)**

The potential tax benefit for tax losses has not been recognised in the statement of financial position. The tax losses will begin to expire in 2030 unless previously utilised. Utilisation of the carry forward tax losses may be subject to a substantial annual limitation due to the ownership change limitations provided by the tax code, if a change in ownership occurs. Any annual limitation may result in the expiration of net operating losses before utilisation.

**Sales Tax**

Sales tax is a consumption tax imposed by state governments within the United States on the sale of goods and services. It is levied at the point of sale, collected by the retailer, and passed on to the relevant State government. In June 2018 the US Supreme Court ruled in favour of States requiring internet retailers to collect sales taxes based on the existence of an economic nexus rather than a physical presence. The consolidated entity will act in accordance with individual State requirements to collect and remit sales tax based on the laws within each State where it is deemed an economic nexus exists and where it has met or exceeded local sales tax thresholds.

**Note 9. Cash and cash equivalents**

	Consolidated	
	2022	2021
	US\$	US\$
<i>Current assets</i>		
Cash at bank and on hand	220,024	1,670,290

**Note 10. Trade and other receivables**

	Consolidated	
	2022	2021
	US\$	US\$
<i>Current assets</i>		
Trade and other receivables	207,935	459,314
Less: Allowance for expected credit losses	(107,500)	(107,500)
	100,435	351,814

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

	Expected credit loss rate		Carrying amount		Allowance for expected credit losses	
	2022	2021	2022	2021	2022	2021
Consolidated	%	%	US\$	US\$	US\$	US\$
Not overdue	-	-	68,419	20,097	-	-
0 to 3 months overdue	-	-	31,454	328,961	-	-
Over 6 months overdue	99.48%	97.50%	108,062	110,256	107,500	107,500
			207,935	459,314	107,500	107,500

The consolidated entity has increased its monitoring of debt recovery as there is an increased probability of customers delaying payment or being unable to pay, due to the Coronavirus (COVID-19) pandemic. This did not result in any significant change to the expected credit loss rates.

**Note 11. Other assets**

	Consolidated 2022 US\$	2021 US\$
<i>Current assets</i>		
Prepayments	18,204	32,051
GST receivable	3,149	5,822
	<u>21,353</u>	<u>37,873</u>

**Note 12. Property, plant and equipment**

	Consolidated 2022 US\$	2021 US\$
<i>Non-current assets</i>		
Furniture and fixtures - at cost	7,498	7,498
Less: Accumulated depreciation	(6,032)	(5,639)
	<u>1,466</u>	<u>1,859</u>
 Machinery and equipment - at cost	 26,858	 26,858
Less: Accumulated depreciation	(25,792)	(25,470)
	<u>1,066</u>	<u>1,388</u>
 Computer equipment - at cost	 116,342	 71,289
Less: Accumulated depreciation	(79,293)	(67,150)
	<u>37,049</u>	<u>4,139</u>
	<u>39,581</u>	<u>7,386</u>

*Reconciliations*

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

Consolidated	Furniture and fixtures US\$	Machinery and equipment US\$	Computer equipment US\$	Total US\$
Balance at 1 July 2020	1,963	1,613	2,046	5,622
Additions	507	595	4,550	5,652
Depreciation expense	(611)	(820)	(2,457)	(3,888)
Balance at 30 June 2021	1,859	1,388	4,139	7,386
Additions	-	-	45,199	45,199
Depreciation expense	(393)	(322)	(12,289)	(13,004)
Balance at 30 June 2022	<u>1,466</u>	<u>1,066</u>	<u>37,049</u>	<u>39,581</u>

**Note 13. Intangibles**

	Consolidated 2022 US\$	2021 US\$
<i>Non-current assets</i>		
Goodwill - at cost	-	286,666
Trade name and trademarks - at cost	-	730,000
Customer relationships - at cost	-	250,000
Less: Accumulated amortisation	-	(58,333)
	-	191,667
	-	1,208,333

*Reconciliations*

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

Consolidated	Goodwill US\$	Trade name and trademarks US\$	Customer relationships US\$	Total US\$
Balance at 1 July 2020	286,666	730,000	216,667	1,233,333
Amortisation expense	-	-	(25,000)	(25,000)
Balance at 30 June 2021	286,666	730,000	191,667	1,208,333
Impairment expense	(286,666)	(730,000)	(166,667)	(1,183,333)
Amortisation expense	-	-	(25,000)	(25,000)
Balance at 30 June 2022	-	-	-	-

The consolidated entity identifies a single cash-generating unit ('CGU') and, therefore, the recoverable amount has been determined at the consolidated entity level. In view of the indicators of impairment noted in the current financial year, a decision was made to fully impair the intangibles assets. Accordingly, an impairment expense of US\$1,183,333 has been recognised during the current financial year (2021: US\$ Nil)

**Note 14. Trade and other payables**

	Consolidated 2022 US\$	2021 US\$
<i>Current liabilities</i>		
Trade payables	68,056	85,338
Accrued expenses	97,894	82,272
	165,950	167,610

Refer to note 20 for further information on financial instruments.

**Note 15. Borrowings**

	Consolidated 2022 US\$	2021 US\$
<i>Current liabilities</i>		
Paycheck protection programme loan	-	166,375
<i>Non-current liabilities</i>		
Paycheck protection programme loan	-	43,783
	-	210,158

Refer to note 20 for further information on financial instruments.

*Paycheck protection programme loan:*

The full amount of the loans were forgiven by the SBA during the current financial year. Such amounts were therefore recognised as other income during the year (refer to note 6).

**Note 16. Other liabilities**

	Consolidated 2022 US\$	2021 US\$
<i>Current liabilities</i>		
Sales tax payable	5,660	8,378

**Note 17. Contributed equity**

	2022 Shares	Consolidated 2021 Shares	2022 US\$	2021 US\$
Ordinary shares - fully paid	36,292,792	36,292,792	57,004,215	57,004,215

*Movements in ordinary share capital*

Details	Date	Shares	US\$
Balance	1 July 2020	1,329,988,534	54,893,691
Shares issued on capital raising	31 December 2020	70,448,275	325,556
Shares issued on capital raising	1 February 2021	995,586	224,753
Shares issued on capital raising	26 February 2021	6,757,703	1,587,182
Share consolidation (one share for 50 shares held) approved by shareholders*	February 2021*	(1,372,428,073)	-
Shares issued on exercise of options at \$Nil exercise price	1 April 2021	530,767	-
Share issue transaction costs, net of tax		-	(26,967)
Balance	30 June 2021	36,292,792	57,004,215
Balance	30 June 2022	36,292,792	57,004,215

\* On 12 February 2021, the shareholders approved share consolidation (issuing one share for every 50 shares held) with a record date of 17 February 2021.

## Note 17. Contributed equity (continued)

### 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.

### Share buy-back

There was no buy-back of shares during the current year.

### Capital risk management

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

Capital is regarded as total equity, as recognised in the statement of financial position, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

In order to maintain or adjust the capital structure, the consolidated entity may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debt.

The consolidated entity would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current company's share price at the time of the investment. The capital risk management policy remains unchanged from the 30 June 2021 Annual Report.

## Note 18. Reserves

	Consolidated	
	2022	2021
	US\$	US\$
Foreign currency reserve	46,982	116,715
Share-based payments reserve	1,454,885	1,221,332
Share acquisition reserve	266,666	266,666
	<u>1,768,533</u>	<u>1,604,713</u>

### Foreign currency reserve

The reserve is used to recognise exchange differences arising from the translation of the financial statements of non-US functional currency operations to United States 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.

### Share acquisition reserve

The reserve is used to recognise equity benefits provided to the vendors on the acquisition of subsidiaries. This includes the fair value of shares and options which are expected to be converted into issued capital in the future.

**Note 18. Reserves (continued)**

*Movements in reserves*

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

<b>Consolidated</b>	Foreign currency reserve US\$	Share-based payments reserve US\$	Share acquisition reserve US\$	Total US\$
Balance at 1 July 2020	137,633	1,257,562	266,666	1,661,861
Foreign currency translation	(20,918)	-	-	(20,918)
Share-based payments	-	(36,230)	-	(36,230)
Balance at 30 June 2021	116,715	1,221,332	266,666	1,604,713
Foreign currency translation	(69,733)	-	-	(69,733)
Share-based payments	-	233,553	-	233,553
Balance at 30 June 2022	46,982	1,454,885	266,666	1,768,533

**Note 19. Dividends**

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

**Note 20. Financial instruments**

***Financial risk management objectives***

The consolidated entity's activities expose it to a variety of financial risks: market risk, credit risk and liquidity risk. The consolidated entity's overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the financial performance of the consolidated entity. The consolidated entity uses different methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and foreign exchange risks and ageing analysis for credit risk.

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

***Market risk***

***Foreign currency risk***

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 consolidated entity is not exposed to any significant foreign currency risk.

***Price risk***

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

***Interest rate risk***

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

***Credit risk***

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the consolidated entity. The maximum exposure to credit risk at the reporting date to recognised financial assets is the carrying amount, net of any provisions for impairment of those assets, as disclosed in the statement of financial position and notes to the financial statements. The consolidated entity does not hold any collateral.

**Note 20. Financial instruments (continued)**

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

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

**Liquidity risk**

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

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

**Remaining contractual maturities**

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

	1 year or less US\$	Between 1 and 2 years US\$	Between 2 and 5 years US\$	Over 5 years US\$	Remaining contractual maturities US\$
<b>Consolidated - 2022</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	68,056	-	-	-	68,056
Total non-derivatives	68,056	-	-	-	68,056
<b>Consolidated - 2021</b>					
<b>Non-derivatives</b>					
<i>Non-interest bearing</i>					
Trade payables	85,338	-	-	-	85,338
<i>Interest-bearing - fixed rate</i>					
Paycheck protection programme loan	166,456	55,485	-	-	221,941
Total non-derivatives	251,794	55,485	-	-	307,279

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

**Note 21. Fair value measurement**

The carrying amounts of trade and other receivables and trade and other payables approximate their fair values due to their short-term nature. The fair value of financial liabilities is estimated by discounting the remaining contractual maturities at the current market interest rate that is available for similar financial liabilities.



## Note 22. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by Crowe Sydney, the auditor of the company:

	Consolidated	
	2022	2021
	US\$	US\$
<i>Audit services - Crowe Sydney</i>		
Audit or review of the financial statements	50,743	51,800

The fee above relates to auditing the statutory financial report of the parent company covering the consolidated entity and auditing the statutory financial reports of any controlled entities.

## Note 23. Contingent assets and liabilities

There were no contingent assets or contingent liabilities which would have a material effect on the consolidated entity's financial statements as at 30 June 2022 and 30 June 2021.

## Note 24. Commitments

The consolidated entity had no commitments as at 30 June 2022 and 30 June 2021.

## Note 25. Key management personnel disclosures

### *Compensation*

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

	Consolidated	
	2022	2021
	US\$	US\$
Short-term employee benefits	254,285	224,000
Share-based payments	233,552	(33,739)
	487,837	190,261

## Note 26. Related party transactions

### *Parent entity*

Design Milk Co Limited is the parent entity.

### *Subsidiaries*

Interests in subsidiaries are set out in note 28.

### *Key management personnel*

Disclosures relating to key management personnel are set out in note 25 and the remuneration report included in the directors' report.

### *Transactions with related parties*

There were no transactions with related parties during the current and previous financial year.

### *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.

### *Loans to/from related parties*

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

**Note 27. Parent entity information**

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

*Statement of profit or loss and other comprehensive income*

	Parent	
	2022 US\$	2021 US\$
Loss after income tax	(383,914)	(118,251)
Total comprehensive income	(383,914)	(118,251)

*Statement of financial position*

	Parent	
	2022 US\$	2021 US\$
Total current assets	166,049	1,533,328
Total assets	6,480,387	8,369,353
Total current liabilities	53,792	32,937
Total liabilities	53,792	32,937
Equity		
Contributed equity	28,144,835	28,144,835
Other reserves	(51,833)	1,474,074
Accumulated losses	(21,666,407)	(21,282,493)
Total equity	6,426,595	8,336,416

*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 2022 and 30 June 2021.

*Contingent liabilities*

The parent entity had no contingent liabilities as at 30 June 2022 and 30 June 2021.

*Capital commitments - Property, plant and equipment*

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

*Significant accounting policies*

The accounting policies of the parent entity are consistent with those of the consolidated entity, as disclosed in note 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 28. 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:

Name	Principal place of business / Country of incorporation	Ownership interest	
		2022 %	2021 %
Design Milk Co.	United States of America	100%	100%
AHA Life LLC	United States of America	100%	100%
Design Milk Holdings, LLC	United States of America	100%	100%

**Note 29. Earnings per share**

	Consolidated	
	2022 US\$	2021 US\$
Loss after income tax attributable to the owners of Design Milk Co Limited	<u>(2,688,886)</u>	<u>(1,012,844)</u>
	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	<u>36,292,792</u>	<u>30,158,079</u>
Weighted average number of ordinary shares used in calculating diluted earnings per share	<u>36,292,792</u>	<u>30,158,079</u>
	Cents	Cents
Basic earnings per share	(7.41)	(3.36)
Diluted earnings per share	(7.41)	(3.36)

For the purpose of calculating the diluted earnings per share the denominator has excluded 2,520,295 options (2021: 1,333,110) and 861,090 performance rights (2021: 861,090) as the effect would be anti-dilutive.

**Note 30. Cash flow information**

*Reconciliation of loss after income tax to net cash used in operating activities*

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>US\$</b>	<b>US\$</b>
Loss after income tax expense for the year	(2,688,886)	(1,012,844)
Adjustments for:		
Depreciation and amortisation	38,004	28,888
Impairment expenses	1,183,333	-
Share-based payments	233,553	(36,230)
Other income - non-cash adjustment to borrowings	(210,158)	-
Other non-cash adjustments	(69,733)	(20,918)
Change in operating assets and liabilities:		
Decrease/(increase) in trade and other receivables	251,379	(305,017)
Decrease/(increase) in inventories	15,030	(8,701)
Decrease in prepayments	13,847	702
Decrease in other operating assets	2,673	27,629
Decrease in trade and other payables	(4,378)	(61,401)
(Decrease)/increase in contract liabilities	(169,731)	115,744
Net cash used in operating activities	<u>(1,405,067)</u>	<u>(1,272,148)</u>

*Non-cash investing and financing activities*

	<b>Consolidated</b>	
	<b>2022</b>	<b>2021</b>
	<b>US\$</b>	<b>US\$</b>
Non-cash adjustment of paycheck protection programme loan to other income	<u>210,158</u>	<u>-</u>

*Changes in liabilities arising from financing activities*

<b>Consolidated</b>	Paycheck protection programme loan
	US\$
Balance at 1 July 2020	<u>210,158</u>
Balance at 30 June 2021	210,158
Loan waiver recognised as other income (note 6)	<u>(210,158)</u>
Balance at 30 June 2022	<u>-</u>

### Note 31. Share-based payments

The consolidated entity has a long term incentive plan ('LTIP') which provides eligible employees with an additional incentive to work to improve the performance of the consolidated entity by granting options or rights to acquire shares.

During the financial year 1,200,000 (2021 : 500,000) options valued at US\$233,553 (2021 : \$78,183) were granted.

The share-based payments expense for the year was US\$233,553 ( 2021: credit of US\$36,230).

On 23 November 2021, the company issued 1,200,000 management incentive options at a fair value of A\$0.26 per option. The options are fully vested and have no performance hurdles. Each option is exercisable at A\$0.50 for one fully paid ordinary share. The options will expire on the date which is 3 years from the date of issue.

Set out below are summaries of options granted under the plan:

2022			Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Exercise price	Expiry date					
27/07/2015	US\$4.25	05/10/2021	9,549	-	-	(9,549)	-
27/07/2015	US\$4.25	26/10/2021	3,266	-	-	(3,266)	-
27/07/2015	US\$4.55	08/11/2022	3,584	-	-	-	3,584
27/07/2015	US\$4.90	22/03/2023	6,531	-	-	-	6,531
27/07/2015	US\$4.90	31/07/2023	1,274	-	-	-	1,274
27/07/2015	US\$4.75	19/08/2024	6,531	-	-	-	6,531
27/07/2015	US\$20.00	27/07/2025	318	-	-	-	318
30/07/2018	A\$0.70	30/07/2028	236,737	-	-	-	236,737
27/11/2019	A\$0.65	27/11/2024	565,320	-	-	-	565,320
30/11/2020	A\$0.40	30/11/2025	500,000	-	-	-	500,000
23/11/2021	A\$0.50	23/11/2024	-	1,200,000	-	-	1,200,000
			<u>1,333,110</u>	<u>1,200,000</u>	<u>-</u>	<u>(12,815)</u>	<u>2,520,295</u>
2021			Balance at the start of the year	Granted	Exercised	Expired/ forfeited/ other	Balance at the end of the year
Grant date	Exercise price	Expiry date					
27/07/2015	US\$4.25	05/10/2021	9,549	-	-	-	9,549
27/07/2015	US\$4.25	26/10/2021	3,266	-	-	-	3,266
27/07/2015	US\$4.55	08/11/2022	3,584	-	-	-	3,584
27/07/2015	US\$4.90	22/03/2023	6,531	-	-	-	6,531
27/07/2015	US\$4.90	31/07/2023	1,274	-	-	-	1,274
27/07/2015	US\$4.75	19/08/2024	6,531	-	-	-	6,531
27/07/2015	US\$20.00	27/07/2025	318	-	-	-	318
30/07/2018	A\$0.70	30/07/2028	338,179	-	-	(101,442)	236,737
27/11/2019	A\$0.65	27/11/2024	807,600	-	-	(242,280)	565,320
30/11/2020	A\$0.40	30/11/2025	-	500,000	-	-	500,000
			<u>1,176,832</u>	<u>500,000</u>	<u>-</u>	<u>(343,722)</u>	<u>1,333,110</u>

1,302,057 options disclosed above are issued to the participants but not yet vested as at 30 June 2022 ( 2021: 1,302,057).

1,218,238 options outstanding as at 30 June 2022 are vested and exercisable ( 2021: 31,053).

The weighted average share price during the financial year was US\$0.26/A\$0.37 (2021: US\$0.30/A\$0.40). The weighted average remaining contractual life of options outstanding at the end of the financial year was 5.6 years ( 2021: 4.4 years).

For the options granted during the current financial year, the valuation model inputs used to determine the fair value at the grant date, are as follows:

**Note 31. Share-based payments (continued)**

Grant date	Expiry date	Share price at grant date	Exercise price	Expected volatility %	Dividend yield %	Risk-free interest rate %	Fair value at grant date
23/11/2021	23/11/2024	A\$0.48	A\$0.50	90.00%	-	0.50%	A\$0.26

*Performance rights*

861,090 performance rights have vested and are exercisable as at 30 June 2022 (2021: 861,090).

**Note 32. Events after the reporting period**

*Corporate strategy*

Due to the challenging retail trading conditions and significant capital requirements for growing the eCommerce segment of the business, the Board has decided to reposition the consolidated entity to an advertising revenue-only model and shut down the eCommerce operations. The business model transition is aimed at improving the consolidated entity's cashflows and positioning it for a more sustainable growth path going forward.

*Trade sale and strategic partnership opportunities*

The consolidated entity continues to progress trade sale and strategic partnership discussions with a number of parties. The company's shares on the Australian Securities Exchange will remain in suspension as the Board finalises the capital raise and considers possible asset sales.

*Short-term loan*

On 19 August 2022, the consolidated entity received US\$137,000 (A\$200,000) from Bombora Investment Management (a director-related entity). The working capital facility is expected to be converted into a convertible note facility as noted below.

*Capital raising*

The consolidated entity is in discussions to raise US\$274,000 (A\$400,000) by way of a proposed issue of convertible notes. Tranche 1 of US\$137,000 (A\$200,000) to be provided by Bombora Investment Management in replacement of a short-term bridging loan to the consolidated entity on 19 August 2022. Tranche 2 of US\$137,000 (A\$200,000) to be provided by Bombora and other investors, with the ability to accept oversubscriptions at the company's discretion. The convertible notes have a maturity date of 3 years and interest is payable at 12% per annum from the date of issue. The notes are convertible to ordinary shares at a conversion price of A\$0.07 per ordinary share. The Notes included a free attaching option of 1 for 2 options with A\$0.15 strike price and 2-year term, attached to each share issued from convertible note conversion.

The above terms are indicative based on current discussions and remain subject to the company finalising discussions with investors and execution of binding subscription documentation. The issue of the convertible notes is expected to be subject to shareholder approval at the upcoming AGM.

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

**Design Milk Co Limited**  
**Directors' declaration**  
**30 June 2022**

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2022 and of its performance for the financial year ended on that date; 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



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Mike Hill  
Chairman

31 August 2022  
Sydney

# Independent Auditor's Report to the Members of Design Milk Co Limited

## Report on the Audit of the Financial Report

### Opinion

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

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

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

### Basis for Opinion

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

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

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## Material uncertainty related to going concern

We draw attention to Note 2 of the financial report, which indicates that the Consolidated Entity has incurred a loss before tax of \$2,688,886 for year ended June 30, 2022 and net operating cash outflows during the same period amounted to \$1,405,067. As a result, the continuing viability of the Consolidated Entity is dependent upon continued support from shareholders along with revenue growth and cost containment strategies. These conditions, along with other matters as set forth in Note 2 indicate that a material uncertainty exists that may cast significant doubt on the Consolidated Entity's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

## 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 we addressed the Key Audit Matter
<b>Revenue Recognition</b> <i>Refer to Note 2 and Note 5</i> <p>The Consolidated Entity generates revenue from commission from sale of goods and advertising. The Consolidated Entity's accounting policies for the recognition of revenue are outlined in Note 2 to the financial statements.</p> <p>As disclosed in Note 2 and Note 5 to the financial statements, the Consolidated Entity's revenue streams are either recognised over time or at a point in time, depending on the identified performance obligations.</p> <p>Due to the differing revenue recognition criteria and high volume of transitions, revenue recognition is considered to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>Assessed whether the revenue recognition policy applied to the terms and conditions of the sale is in accordance with Australian Accounting Standard AASB 15 <i>Revenue from Contracts with Customers</i>.</li> <li>Selected a sample of commission from sale of goods transactions to determine whether the revenue was recorded in the appropriate period by tracing through to evidence of dispatch to the customer. This included testing whether the sale transactions were recognised as deferred revenue at balance date where applicable.</li> <li>Selected a sample of advertising transactions to determine whether the revenue was recorded in the appropriate period by tracing through to evidence of displayed or published advertisement. This included testing whether the sale transactions were recognised as deferred revenue at balance date where applicable.</li> <li>Considered the impact of customer returns and credit notes issued subsequent to 30 June 2022, where these related to sales recognised in the 2022 financial year.</li> <li>Considered the adequacy of the revenue related policy disclosures contained in Note 2 and Note 5 to the financial statements.</li> </ul>
<b>Goodwill Impairment Testing</b> <i>Refer Note 2 and Note 13</i> <p>Goodwill is required to be tested for impairment at least annually or whenever there is an indicator of impairment.</p> <p>Due to the significance of the goodwill balance to the financial statements in the current year, and the quantum of the impairment charge, this is considered to be a key audit matter.</p>	<p>Our audit procedures included the following:</p> <ul style="list-style-type: none"> <li>Considered the existence of indicators of impairment. <ul style="list-style-type: none"> <li>Considered the current year performance of the business.</li> <li>Assessed the impact of the August 2022 decision to shut down eCommerce services, resulting in no future revenue from commission from sale of goods.</li> </ul> </li> </ul>

Key Audit Matter	How we addressed the Key Audit Matter
	<ul style="list-style-type: none"> <li>○ Reviewed the cashflow forecast provided by management and considered the requirement for shareholder support.</li> <li>• Reviewed management's impairment assessment and the decision to impair the intangible assets at 30 June 2022.</li> <li>• Considered the adequacy of the related disclosures contained in Note 2 and Note 13 to the financial statements.</li> </ul>

## Other Information

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

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

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

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

## Responsibilities of the Directors for the Financial Report

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

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

## Auditor's Responsibilities for the Audit of the Financial Report

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

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

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

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

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

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

## Report on the Remuneration Report

### Opinion on the Remuneration Report

We have audited the remuneration report included in the directors' report from pages 8 to 15 of the annual report for the year ended 30 June 2022.

In our opinion, the remuneration report of Design Milk Co Limited, for the year ended 30 June 2022, complies with section 300A of the *Corporations Act 2001*.

### Responsibilities

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



**Crowe Sydney**



**Barbara Richmond**  
Partner

31 August 2022  
Sydney

Directors	Mike Hill - Non-Executive Chairman Michael Everett - Non-Executive Director Christopher Colfer - Non-Executive Director Arnaud Massenet - Non-Executive Director
Key Management Personnel	Robert Mancini - Chief Executive Officer
Company secretary	Sapir Elias
Registered office	Level 5, 126 Phillip Street Sydney, NSW 2000 Australia Tel: 1300 266 517 or +61 2 8072 1400
Principal place of business	1209 Hill Rd N Ste 256 Pickerington, OH 43201 United States of America
Share register	Automic Registry Services Level 5, 126 Phillip Street, Sydney, NSW 2000 Tel: 02 9698 5414 Email: hello@automic.com.au
Auditor	Crowe Sydney Level 15, 1 O'Connell Street Sydney NSW 2000
Stock exchange listing	Design Milk Co Limited shares are listed on the Australian Securities Exchange (ASX code: DMC)
Website	<a href="http://www.design-milk.com">www.design-milk.com</a>
Corporate Governance Statement	<p>The directors and management are committed to conducting the business of Design Milk Co Limited in an ethical manner and in accordance with the highest standards of corporate governance. Design Milk Co 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.</p> <p>The consolidated entity's 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 and ASX Appendix 4G are released to the ASX on the same day the Annual Report is released. The Corporate Governance Statement and Corporate Governance Compliance Manual can be found on the company's website at <a href="https://design-milk.com/design-milk-co-investor-relations/">https://design-milk.com/design-milk-co-investor-relations/</a></p>

The shareholder information set out below was applicable as at 15 August 2022.

#### Distribution of equitable securities

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

	Ordinary shares	
	Number of holders	% of total shares issued
1 to 1,000	199	37.27
1,001 to 5,000	123	23.03
5,001 to 10,000	48	8.99
10,001 to 100,000	104	19.48
100,001 and over	60	11.23
	<b>534</b>	<b>100.00</b>
Holding less than a marketable parcel	9	-

#### 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
NATIONAL NOMINEES LIMITED	6,820,148	18.79
EARLY FORCE PTY LTD	4,147,686	11.43
J P MORGAN NOMINEES AUSTRALIA	3,913,156	10.78
BOATLIFE HOLDINGS PTY LTD	1,386,190	3.82
BROOKAVA PTY LTD	1,367,722	3.77
REUNION INVESTMENTS PTY LTD	949,178	2.62
DMX CAPITAL PARTNERS LIMITED	916,667	2.53
CRANPORT PTY LTD	900,000	2.48
ONMELL PTY LTD	862,438	2.38
JARUMITO PTY LTD	588,168	1.62
JETOSEA PTY LTD	562,667	1.55
ANTOINE HADDAD	500,000	1.38
ARNAUD MASSENET	500,000	1.38
JMR CAPITAL LIMITED	500,000	1.38
MARK MOORE	461,538	1.27
NETWEALTH INVESTMENTS LIMITED	453,847	1.25
GAILFORCE MARKETING & PR PTY	438,857	1.21
MCROD INVESTMENTS PTY LIMITED	392,857	1.08
RASK PTY LTD	372,667	1.03
OZEBOATS PTY LIMITED	352,034	0.97
	<b>26,385,820</b>	<b>72.72</b>

##### Unquoted equity securities

	Number on issue	Number of holders
Options over ordinary shares issued	1,957,466	13
Performance rights over ordinary shares issued	861,090	1

### Substantial holders

Substantial holders in the company are set out below:

	Ordinary shares % of total shares issued
Number held	
ARNAUD MASSENET	3,676,923 10.13
EARLY FORCE PTY LTD	4,147,686 11.43
BOMBORA INVESTMENT MANAGEMENT P/L (BOMBORA SPECIAL INVESTMENTS GROWTH FUND)	868,027 2.39
BOATLIFE HOLDINGS PTY LTD (COLFER FAMILY A/C)	1,386,190 3.82
REUNION INVESTMENTS	949,178 2.62

### 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.