



K Sleep Holdings Pty Ltd and its controlled entities

ABN 48 619 538 671

Annual Report - 30 June 2024

K Sleep Holdings Pty Ltd and its controlled entities
Contents
30 June 2024



Directors' report	2
Auditor's independence declaration	5
Consolidated statement of profit or loss and other comprehensive income	6
Consolidated statement of financial position	7
Consolidated statement of changes in equity	8
Consolidated statement of cash flows	9
Notes to the consolidated financial statements	10
Directors' declaration	36
Independent auditor's report to the members of K Sleep Holdings Pty Ltd	37



The directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group') consisting of K Sleep Holdings Pty Ltd (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2024.

Directors

The following persons were directors of K Sleep Holdings Pty Ltd during the whole of the financial year and up to the date of this report, unless otherwise stated:

Daniel William Milham	Appointed 5 June 2017
Mitchell James Taylor	Appointed 5 June 2017
Michael Jonathan Gordon	Appointed 13 February 2023

Principal activities

The principal activities of the Group during the course of the financial year were the sale of home furnishings.

The Group commenced trading in the USA during FY24.

There were no significant changes in the nature of the activities of the Group during the year.

Dividends

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

Review of operations

The Operating Profit for the Group was \$14,000 in FY24, delivering a turn around from the operating loss reported in FY23 and assisted by an improved Gross margin of 61% (FY23 57%) .

	2024	2023
	\$'000	\$'000
Revenue and other Income	195,069	183,234
Raw materials and consumables used	<u>(76,222)</u>	<u>(78,218)</u>
Gross margin	<u>118,847</u>	<u>105,016</u>
Statutory operating profit/(loss)	<u>14</u>	<u>(1,688)</u>

Group grew revenues by 6% to \$195 million during FY24 with Koala’s home market of Australia delivering \$123 million revenues despite 50% fewer days on sale, as part of a strategic focus on profitable growth that has delivered improved margins.

The Group’s successful expansion into international markets, under its capital-light model, continued during FY24 with Japan and the USA delivering 21% year-on-year revenue growth to \$71 million, and we continue to see Koala’s distinctive brand and innovative products resonate with international consumers.

The Group’s focused range of innovative, high-quality products delivered a strong and growing average selling price and improved margins during the year. Customer satisfaction remains high, with a market-leading customer NPS.

In FY25 to date, The Group has continued to perform well in all markets, with a focus on profitable growth and free cash generation in established markets funding growth in new markets. In Q1, the Group’s ordered revenues were up 50%, with a continued improvement in EBITDA. The Australian business has returned to strong and profitable growth, with revenues up 30% year-on-year reflecting the strength of a strong brand and differentiated business model.

The Group remains committed to a range of environmental causes, driven by its mission to see koalas removed from the endangered species list. In partnership with WWF-Australia, the Group donated \$750,000 to koala protection programs in FY24, taking lifetime donations to WWF to almost \$3.8 million. As a certified B-Corp and signatory to the ‘1% For The Planet’ initiative, the Group has pledged 1% of total sales to environmental solutions and has donated \$6.5 million to environmental partners to date.



The Group continues to employ circular design principles by reusing raw materials and refurbishing and reselling returned products, saving tonnes of waste from landfill annually and benefiting profitability. The Group also partners with charities across Australia to donate returned products to those doing it tough, donating more than 3,000 units in FY24 through its 'Second Home' initiative.

Management steps to strengthen the balance sheet continued into FY24. During the FY24 year we have continued to pay down third-party debt balances, redeemed convertible notes and effected a convertible note restructure to materially reduce short term and gross liabilities carried on the balance sheet. The Group believes that these actions will be beneficial to its long-term growth and success.

Non-IFRS information has not been separately audited.

Significant changes in the state of affairs

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

Matters subsequent to the end of the financial year

No matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

Likely developments and expected results of operations

The Group expects further growth in sales and profits over the next few years, driven by continued range expansion and repeat custom in Australia and Japan. Geographical growth will arise from expansion to new regions, in addition to continued growth in existing markets. We will continue to invest behind a robust product pipeline, in addition, the Group will explore opportunities for expansion of its physical retail footprint.

Detailed information on likely developments in the operations of the Group and the expected results of operations have not been included in this report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental regulation

The Group is not subject to any significant environmental regulation under Australian Commonwealth or State law. However, the Board believes that the Group has adequate systems in place for the management of any of its environmental requirements and is not aware of any breach of those environmental requirements as they may apply to the Group.

Shares under option

Unissued ordinary shares of K Sleep Holdings Pty Ltd under option at the date of this report are as follows:

Expiry date	Exercise price	Number under option
Financial year ended 30 June 2033	\$0.1484	162,350
Financial year ended 30 June 2034	\$0.7352	54,100
Financial year ended 30 June 2034	\$0.7354	369,200
Financial year ended 30 June 2034	\$0.0100	63,618
Financial year ended 30 June 2034	\$0.0000	1,309,579
Financial year ended 30 June 2034	\$2.5900	2,437,248
Financial year ended 30 June 2035	\$0.0002	2,200
Financial year ended 30 June 2035	\$2.4376	108,250
Financial year ended 30 June 2035	\$2.7468	65,800
Financial year ended 30 June 2036	\$0.0002	8,350
Financial year ended 30 June 2036	\$2.7468	75,000
Financial year ended 30 June 2036	\$6.1550	62,000
Financial year ended 30 June 2036	\$6.1654	60,000
Financial year ended 30 June 2037	\$0.0002	14,550
Financial year ended 30 June 2037	\$2.7468	750
Financial year ended 30 June 2037	\$6.1450	50,000
Financial year ended 30 June 2037	\$6.1550	283,800
Financial year ended 30 June 2038	\$3.2262	124,150
Financial year ended 30 June 2038	\$0.0002	19,800
		5,270,745

These options do not entitle the holder to participate in any share issue of the Company or any other body corporate.

During the financial year, the Company granted no share options to employees of the Group (30 June 2023: nil).

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.

No share options were issued to key management personnel during the year ended 30 June 2024 and 30 June 2023.

Shares issued on the exercise of options

There were no ordinary shares of K Sleep Holdings Pty Ltd issued on the exercise of options during the year ended 30 June 2024 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.

Rounding of amounts

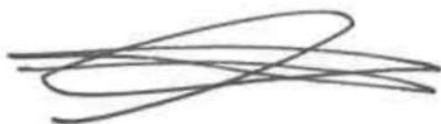
The Company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain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

Auditor's independence declaration

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

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

On behalf of the directors



Mitchell James Taylor
Director

22 October 2024
Sydney



Lead Auditor's Independence Declaration under Section 307C of the Corporations Act 2001

To the Directors of K Sleep Holdings Pty Ltd

I declare that, to the best of my knowledge and belief, in relation to the audit of K Sleep Holdings Pty Ltd for the financial year ended 30 June 2024 there have been:

- i. no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and
- ii. no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG

Trent Duvall
Partner
Sydney
22 October 2024

K Sleep Holdings Pty Ltd and its controlled entities
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2024



	Note	Consolidated 2024 \$'000	2023 \$'000
Revenue	4	194,614	183,047
Other income		455	187
Expenses			
Raw materials and consumables used		(76,222)	(78,218)
Employee benefits expense	5	(31,170)	(26,133)
Depreciation and amortisation expense		(3,505)	(3,020)
Advertising and marketing expense		(39,514)	(36,133)
Merchant fees		(6,315)	(5,332)
Transportation expense		(18,470)	(15,607)
Other expenses	5	<u>(19,859)</u>	<u>(20,479)</u>
Operating profit/(loss)		14	(1,688)
Finance income		878	60
Finance costs	5	<u>(2,279)</u>	<u>(8,636)</u>
Loss before income tax benefit		(1,387)	(10,264)
Income tax benefit	6	<u>-</u>	<u>613</u>
Loss after income tax benefit for the year		(1,387)	(9,651)
Other comprehensive income/(loss)			
<i>Items that may be reclassified subsequently to profit or loss</i>			
Foreign currency translation	22	<u>1,945</u>	<u>(183)</u>
Other comprehensive income/(loss) for the year, net of tax		<u>1,945</u>	<u>(183)</u>
Total comprehensive income/(loss) for the year		<u><u>558</u></u>	<u><u>(9,834)</u></u>

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

K Sleep Holdings Pty Ltd and its controlled entities
Consolidated statement of financial position
As at 30 June 2024



	Note	Consolidated 2024 \$'000	2023 \$'000
Assets			
Current assets			
Cash and cash equivalents	7	24,124	37,250
Trade and other receivables	8	1,525	1,596
Inventories	9	25,615	14,442
Derivative financial instruments	10	607	776
Other	11	2,981	2,946
Total current assets		<u>54,852</u>	<u>57,010</u>
Non-current assets			
Property, plant and equipment	12	415	714
Right-of-use assets	13	7,427	6,669
Intangibles	14	4,703	3,248
Total non-current assets		<u>12,545</u>	<u>10,631</u>
Total assets		<u>67,397</u>	<u>67,641</u>
Liabilities			
Current liabilities			
Trade and other payables	15	31,604	20,327
Contract liabilities	16	15,295	14,841
Borrowings	17	4,295	8,118
Lease liabilities	18	2,468	1,800
Derivative financial instruments	10	7,302	10,233
Employee benefits	19	1,672	1,432
Provisions	20	2,995	1,736
Total current liabilities		<u>65,631</u>	<u>58,487</u>
Non-current liabilities			
Borrowings	17	38,195	62,530
Lease liabilities	18	5,919	5,682
Derivative financial instruments	10	1,488	18,842
Employee benefits	19	408	265
Provisions	20	1,292	818
Total non-current liabilities		<u>47,302</u>	<u>88,137</u>
Total liabilities		<u>112,933</u>	<u>146,624</u>
Net liabilities		<u>(45,536)</u>	<u>(78,983)</u>
Equity			
Share capital	21	32,295	315
Other capital contributions		2	2
Reserves	22	7,637	4,783
Accumulated losses		<u>(85,470)</u>	<u>(84,083)</u>
Total deficiency in equity		<u>(45,536)</u>	<u>(78,983)</u>

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

K Sleep Holdings Pty Ltd and its controlled entities
Consolidated statement of changes in equity
For the year ended 30 June 2024



Consolidated	Share capital \$'000	Other capital contributions \$'000	Translation reserve \$'000	Options reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2022	315	2	380	4,198	(74,432)	(69,537)
Loss after income tax benefit for the year	-	-	-	-	(9,651)	(9,651)
Other comprehensive loss for the year, net of tax	-	-	(183)	-	-	(183)
Total comprehensive loss for the year	-	-	(183)	-	(9,651)	(9,834)
<i>Transactions with owners in their capacity as owners:</i> Share-based payments (note 32)	-	-	-	388	-	388
Balance at 30 June 2023	<u>315</u>	<u>2</u>	<u>197</u>	<u>4,586</u>	<u>(84,083)</u>	<u>(78,983)</u>
Consolidated	Share capital \$'000	Other capital contributions \$'000	Translation reserve \$'000	Options reserve \$'000	Accumulated losses \$'000	Total deficiency in equity \$'000
Balance at 1 July 2023	315	2	197	4,586	(84,083)	(78,983)
Loss after income tax expense for the year	-	-	-	-	(1,387)	(1,387)
Other comprehensive income for the year, net of tax	-	-	1,945	-	-	1,945
Total comprehensive income/(loss) for the year	-	-	1,945	-	(1,387)	558
<i>Transactions with owners in their capacity as owners:</i> Share-based payments (note 32)	-	-	-	909	-	909
Issue of ordinary shares upon exercise of options	31,980	-	-	-	-	31,980
Balance at 30 June 2024	<u>32,295</u>	<u>2</u>	<u>2,142</u>	<u>5,495</u>	<u>(85,470)</u>	<u>(45,536)</u>

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

K Sleep Holdings Pty Ltd and its controlled entities
Consolidated statement of cash flows
For the year ended 30 June 2024



	Note	Consolidated	
		2024 \$'000	2023 \$'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		215,055	189,118
Payments to suppliers and employees (inclusive of GST)		<u>(206,983)</u>	<u>(168,567)</u>
		8,072	20,551
Interest received		878	60
Interest and other finance costs paid		(934)	(1,752)
Income taxes refunded		<u>-</u>	<u>613</u>
Net cash from operating activities		<u>8,016</u>	<u>19,472</u>
Cash flows from investing activities			
Payments for property, plant and equipment	12	(212)	(196)
Payments for intangibles	14	(2,342)	(3,177)
Proceeds from disposal of property, plant and equipment		<u>-</u>	<u>4</u>
Net cash used in investing activities		<u>(2,554)</u>	<u>(3,369)</u>
Cash flows from financing activities			
Proceeds from borrowings		-	10,000
Repayment of leases		(2,417)	(1,887)
Repayment of borrowings		<u>(17,098)</u>	<u>(1,254)</u>
Net cash from/(used in) financing activities		<u>(19,515)</u>	<u>6,859</u>
Net (decrease)/increase in cash and cash equivalents		(14,053)	22,962
Cash and cash equivalents at the beginning of the financial year		37,250	14,357
Effects of exchange rate changes on cash and cash equivalents		<u>927</u>	<u>(69)</u>
Cash and cash equivalents at the end of the financial year	7	<u><u>24,124</u></u>	<u><u>37,250</u></u>

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

Note 1. General information

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

K Sleep Holdings Pty Ltd is a company limited by shares, incorporated and domiciled in Australia. Its registered office and principal place of business is:

Unit 12
37-41 O'Riordan Street
Alexandria
NSW 2015

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

The financial statements were authorised for issue, in accordance with a resolution of directors, on 22 October 2024. The directors have the power to amend and reissue the financial statements.

Note 2. Material accounting policy information

New or amended Accounting Standards and Interpretations adopted

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

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

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the Group.

Basis of preparation

These general purpose financial statements have been prepared in accordance with the Australian Accounting Standards - Simplified Disclosures issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities.

Historical cost convention

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

Critical accounting estimates

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

Going concern

The financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

The Group's total liabilities exceeded total assets by \$45,536,000 (2023: \$78,983,000) and had a net current asset deficiency of \$10,779,000 (2023: \$1,477,000); the Group had positive operating cash flows of \$8,016,000 (2023: \$19,472,000) and a loss after tax of \$1,387,000 (2023: \$9,651,000).

The Directors consider that the Group has sufficient resources to meet all of its obligations as and when they fall due and are of the view that there are no indicators, events or conditions that may cast significant doubt on the Group's ability to continue as a going concern.

Note 2. Material accounting policy information (continued)

The Directors have prepared a risk adjusted cash flow forecast for a period of at least 12 months from the date of this financial report which supports the use of the going concern assumption.

The Group continues to consider additional capital raising options which would be used to fund further growth initiatives rather than support the existing business operations used in the risk adjusted forecasts.

Therefore, the financial report has been prepared on a going concern basis, which contemplates continuity of normal business activities and realisation of assets and settlement of liabilities in the ordinary course of business.

Parent entity information

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

Principles of consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of K Sleep Holdings Pty Ltd ('Company' or 'parent entity') as at 30 June 2024 and the results of all subsidiaries for the year then ended. K Sleep Holdings Pty Ltd and its subsidiaries together are referred to in these financial statements as the 'Group'.

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

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

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

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

Foreign currency translation

The financial statements are presented in Australian dollars, which is K Sleep Holdings Pty Ltd's functional and presentation currency.

Foreign currency transactions

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

Foreign operations

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

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

Note 2. Material accounting policy information (continued)

Revenue recognition

The Group recognises revenue as follows:

Revenue from contracts with customers

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

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

Sale of goods

Revenue from the sale of goods is recognised at the point in time when the customer obtains control of the goods, which is generally at the time of delivery.

The Group offers a 120-day customer satisfaction guarantee from the date of purchase. A returns provision is maintained (recorded in "contract liabilities") that has been estimated based on historical returns data associated with similar products over the last 12-month period.

Other revenue

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

Finance income and finance costs

The Group's finance income and finance costs includes:

- interest income on funds invested;
- interest expense;
- changes in the fair value of warrants and other financial instruments;
- amortisation of borrowing costs; and
- the net foreign exchange gain or loss on financial assets and financial liabilities.

Interest income or expense is recognised using the effective interest method.

The 'effective interest rate' is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortised cost of the financial liability.

In calculating interest income and expense, the effective interest rate is applied to the gross carrying amount of the asset (when the asset is not credit-impaired) or to the amortised cost of the liability.

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.

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

Note 2. Material accounting policy information (continued)

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

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

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

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

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

Current and non-current classification

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

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

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

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

Cash and cash equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, 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.

The Group 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.

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

Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value on a 'average costs' basis. Cost comprises of direct materials and delivery costs, direct labour, import duties and other taxes, an appropriate proportion of variable and fixed overhead expenditure based on normal operating capacity, and, where applicable, transfers from cash flow hedging reserves in equity. Costs of purchased inventory are determined after deducting rebates and discounts received or receivable.

Note 2. Material accounting policy information (continued)

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.

Derivative financial instruments

The derivative financial instruments held by the Group include warrants, embedded derivatives and instruments to hedge its foreign currency exposures.

The Group has recognised the conversion option of the convertible notes as an embedded derivative and is recognised in accordance with the policy below.

Derivatives are recognised initially at fair value; any directly attributable transaction costs are recognised in profit or loss as they are incurred. Subsequent to initial recognition, derivatives are measured at fair value, and changes therein are generally recognised in profit or loss.

The fair value of forward exchange contracts is their quoted market price at balance sheet date, being the present value of the quoted forward price. The fair value of open commodity contracts is the estimated amount that the Group would receive or pay to terminate the contract at balance date. The fair value of futures contracts is their quoted market price at balance sheet date, converted to Australian dollars at the prevailing exchange rate.

Derivatives are only used for economic hedging purposes and not as speculative investments. However, where derivatives do not meet the hedge accounting criteria, they are classified as 'held for trading' for accounting purposes and are accounted for at fair value through profit or loss (**FVTPL**). They are presented as current assets or liabilities to the extent they are expected to be settled within 12 months after the end of the reporting period.

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. The rates of depreciation are as follows:

Computer equipment	10% - 33%
Office equipment	10% - 50%
Leasehold improvements	3% - 33%
Motor vehicles	33%

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

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

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

Right-of-use assets

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

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

Note 2. Material accounting policy information (continued)

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

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.

Website

Significant costs associated with the development of the revenue generating aspects of the website, including the capacity of placing orders, are deferred and amortised on a straight-line basis over the period of their expected benefit of 15 years.

Patents and trademarks

Significant costs associated with patents and trademarks are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 15 years.

Software

Significant costs associated with software are deferred and amortised on a straight-line basis over the period of their expected benefit, being their finite life of 3-5 years.

SaaS arrangements

SaaS arrangements are service contracts providing the Group with the right to access the cloud provider's application software over the contract period, as such the Group does not receive a software intangible asset at the contract commencement date. Distinct configuration and customisation costs are expensed as incurred as the software is configured or customised (i.e. upfront). Non-distinct configuration and customisation costs are expensed over the SaaS contract term.

Costs incurred for use of application software (licence fee) and customisation costs are recognised as an operating expense over the term of the service contract.

Configuration costs, data conversion and migration costs, testing cost, training costs, and change management costs are recognised as an operating expense as the service is received.

Product development

Significant costs associated with product development are capitalised and amortised on a straight-line basis over the period of their expected benefit, that is between 1-5 years.

Impairment of non-financial assets

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

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

Trade and other payables

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

Note 2. Material accounting policy information (continued)

Contract liabilities

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

The component of the convertible notes that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs.

On the issue of the convertible notes the fair value of the liability component is determined using a market rate for an equivalent non-convertible bond and this amount is carried as a non-current liability on the amortised cost basis until extinguished on conversion or redemption. The increase in the liability due to the passage of time is recognised as a finance cost. The remainder of the proceeds are allocated to the conversion option that is recognised as derivative and measured at fair value. Refer to the accounting policy on derivatives.

Lease liabilities

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

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

Finance costs

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

Provisions

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

Employee benefits

Short-term employee benefits

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

Other long-term employee benefits

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

Note 2. Material accounting policy information (continued)

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. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

The cost of equity-settled transactions are measured at fair value on grant date. Fair value is independently determined using the 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 Group receives the services that entitle the employees to receive payment. No account is taken of any other vesting conditions.

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

All changes in the liability are recognised in profit or loss. The ultimate cost of cash-settled transactions is the cash paid to settle the liability.

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 Group or employee, the failure to satisfy the condition is treated as a cancellation. If the condition is not within the control of the Group 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, it is treated as if it has 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.

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

Share capital

Ordinary shares are classified as equity.

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

Note 2. Material accounting policy information (continued)

Preference shares

The Group's preference shares are classified as financial liabilities and are carried at amortised cost.

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

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

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

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

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

The accounting policies that are material to the Group are set out below. The accounting policies adopted are consistent with those of the previous financial year, unless otherwise stated.

Rounding of amounts

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

Note 3. Critical accounting judgements, estimates and assumptions

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

Share-based payment transactions

The Group 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. 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.

Provision for impairment of inventories

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

Impairment of non-financial assets and other indefinite life intangible assets

The Group assesses impairment of non-financial assets and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the Group and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

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

Valuation of financial instruments

When the fair values of financial assets and financial liabilities recorded in the statement of financial position cannot be measured based on quoted prices in active markets, their fair value is measured using valuation techniques including the discounted cash flow (DCF) model. The inputs to these models are taken from observable markets where possible, but where this is not feasible, a degree of judgement is required in establishing fair values. Judgements include considerations of inputs such as liquidity risk, credit risk and volatility.

Note 4. Revenue

	Consolidated	
	2024	2023
	\$'000	\$'000
Revenue net of discounts and returns	194,614	183,047

Disaggregation of revenue

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

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Geographical regions</i>		
Australia	123,302	124,282
Rest of the world	71,312	58,765
	<u>194,614</u>	<u>183,047</u>
<i>Timing of revenue recognition</i>		
Goods transferred at a point in time	<u>194,614</u>	<u>183,047</u>



Note 5. Expenses

Consolidated
2024 **2023**
\$'000 **\$'000**

Loss before income tax includes the following specific expenses:

Other expenses

Storage and handling	9,451	10,675
Software	4,585	4,055
Consulting	1,515	1,933
Research and development	1,482	1,074
Others	2,826	2,742
	19,859	20,479

Finance costs

Interest and finance charges paid/payable on borrowings	1,722	2,180
Interest and finance charges paid/payable on lease liabilities	379	410
Net foreign exchange loss/(gain)	158	(523)
Change in fair value of convertible notes	20,300	14,273
Change in fair value of derivative	(17,354)	(6,082)
Change in fair value of warrants	(2,931)	(1,622)
Amortisation of borrowing costs	5	18
Other	-	(18)
	2,279	8,636

Finance costs expensed

Leases

Short-term and low-value assets lease payments	84	179
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Employee benefits expense

Defined contribution superannuation expense	2,048	1,868
Share-based payments expense	909	388
Employee benefits expense excluding superannuation and share-based payments	28,213	23,877

Total employee benefits expense

31,170 26,133

Note 6. Income tax

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Income tax benefit</i>		
Current tax	2,240	2,736
Origination and reversal of temporary differences	(2,145)	(265)
Recognition of tax losses previously not brought to account	(95)	(2,471)
(Over) / under provision of overseas tax expense in prior year	-	(613)
	<u>-</u>	<u>(613)</u>
<i>Numerical reconciliation of income tax benefit and tax at the statutory rate</i>		
Loss before income tax benefit	(1,387)	(10,264)
Tax at the statutory tax rate of 30%	(416)	(3,079)
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Non-deductible expenses	841	4,281
	<u>425</u>	<u>1,202</u>
Temporary differences not brought to account	(2,145)	(265)
Overseas tax losses not recognised	1,815	1,534
Recognition of tax losses and offsets not previously brought to account	(95)	(2,471)
(Over)/under provision of overseas tax expense in prior years	-	(613)
	<u>-</u>	<u>(613)</u>
Income tax benefit	<u>-</u>	<u>(613)</u>

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Deferred tax assets not recognised</i>		
Deferred tax assets not recognised comprises temporary differences attributable to:		
Temporary differences (will never expire)	(2,145)	(265)
Tax losses (indefinite expiration)	3,554	3,649
	<u>1,409</u>	<u>3,384</u>
Total deferred tax assets not recognised	<u>1,409</u>	<u>3,384</u>

The above potential tax benefit, which excludes tax losses, for deductible temporary differences has not been recognised in the statement of financial position as the recovery of this benefit is uncertain.

Note 7. Cash and cash equivalents

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current assets</i>		
Cash at bank	24,124	37,250
	<u>24,124</u>	<u>37,250</u>

The Group has deposits for financial institutions for a value of \$1,258,000 as at 30 June 2024 (2023: \$1,670,000). The Group has restricted cash amounting to \$558,000 (2023: \$503,000) held as bank guarantees over a property lease and credit facility.

Note 8. Trade and other receivables

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current assets</i>		
Trade receivables	983	1,116
Less: Allowance for expected credit losses	-	-
	983	1,116
Other receivables*	542	480
	1,525	1,596

* Other receivables include loan to shareholders of \$542,000 (2023: \$480,000). These loans have a maturity date of 30 December 2024 at which time they are to be settled in cash. These loans are secured against shares held in the Group by the relevant shareholders.

Note 9. Inventories

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current assets</i>		
Raw materials and stores	3,659	2,210
Finished goods	21,956	12,232
	25,615	14,442

Note 10. Derivative financial instruments

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current assets</i>		
Forward foreign exchange contracts	607	776
<i>Current liabilities</i>		
Warrants	(7,302)	(10,233)
<i>Non-current liabilities</i>		
Convertible notes payable	(1,488)	(18,842)
Total net derivative liability	(8,183)	(28,299)

Forward foreign exchange contracts

Forward foreign exchange contracts relate to derivatives used for economic hedging purposes and not as speculative investments.

Warrants

2023, 2022, 2021, 2019 and 2017 warrants

The terms of the 2023, 2022, 2021, 2019 and 2017 warrants permit the holder (financier) to either redeem the warrant for a fixed amount of cash or to convert to a number of ordinary shares. The consideration received for the warrants does not equate to the value of cash that may have to be paid on redemption. The warrant is considered to be a financial liability which is in the nature of a derivative and measured at FVTPL. The value of the warrants will fluctuate with the price of the Company's ordinary shares



Note 10. Derivative financial instruments (continued)

2018 warrant:

The terms of the 2018 warrant permit the holder (financier) to require the Group to settle the warrant for a variable number of ordinary shares. This warrant is also considered to be a derivative and is measured at FVTPL. Changes in the fair value of the warrant is recorded as finance cost in profit or loss.

Convertible notes payable

The Group has issued several interest-bearing convertible notes with a total face value of \$19,888,000, convertible only into shares of the company. During the financial year convertible notes with face value of \$6,562,000 were redeemed in cash at the election of the noteholder.

The Group has also negotiated an extension to the remaining convertible notes, which will mature by July 2025, as such they are classified as non-current liabilities on the balance sheet. Convertible notes with face value of \$22,350,000 were converted to equity during the current financial year.

The Group could redeem options up to 50% prematurity date on the election of the Group.

As the conversion feature requires settlement by the Company by issuing a variable number of shares, calculated based on a future fair value of the business, the convertible notes continue to be presented as a financial liability on the balance sheet, rather than being reclassified as equity.

Note 11. Other

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current assets</i>		
Prepayments	2,046	2,470
Other current assets	935	476
	2,981	2,946

Other assets include deferred gift card expense of \$153,000 (2023: \$nil) and rental deposits of \$785,000 (2023: \$410,000).

Note 12. Property, plant and equipment

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Non-current assets</i>		
Leasehold improvements - at cost	1,161	1,220
Less: Accumulated depreciation	(958)	(792)
	203	428
Motor vehicles - at cost	68	62
Less: Accumulated depreciation	(63)	(62)
	5	-
Computer equipment - at cost	1,448	1,272
Less: Accumulated depreciation	(1,272)	(1,027)
	176	245
Office equipment - at cost	157	148
Less: Accumulated depreciation	(126)	(107)
	31	41
	415	714

Reconciliations

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

Consolidated	Leasehold improvements \$'000	Motor vehicles \$'000	Computer equipment \$'000	Office equipment \$'000	Total \$'000
Balance at 1 July 2023	428	-	245	41	714
Additions	9	6	185	12	212
Exchange differences	(24)	-	-	(2)	(26)
Depreciation expense	(210)	(1)	(254)	(20)	(485)
	203	5	176	31	415
Balance at 30 June 2024	203	5	176	31	415

Note 13. Right-of-use assets

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Non-current assets</i>		
Land and buildings - right-of-use	11,260	9,437
Less: Accumulated depreciation	(3,833)	(2,768)
	7,427	6,669

Additions to the right-of-use assets during the year were \$2,954,000 and depreciation charged to profit or loss was \$2,147,000.

The Group leases a number of properties. The lease typically runs for a period of 3 to 5 years, with an option to renew the lease after that date. Lease payments are renegotiated every 5 years to reflect market rentals. Some leases provide for additional rent payments that are based on changes in local price indices. For certain leases, the Group is restricted from entering into any sublease arrangements.

Note 13. Right-of-use assets (continued)

The Group leases IT equipment with contract terms of one to three years. These leases are short-term and/or leases of low-value items. The Group has elected not to recognise ROUA and lease liabilities for these leases.

The Group has the option to renew the leases for a period of five years at the end of the lease agreements. The Group does not plan to exercise these extension options.

Note 14. Intangibles

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Non-current assets</i>		
Website - at cost	379	379
Less: Accumulated amortisation	(188)	(163)
	191	216
Patents and trademarks - at cost	214	169
Less: Accumulated amortisation	(88)	(43)
	126	126
Software development - at cost	2,638	1,784
Less: Accumulated amortisation	(504)	(96)
	2,134	1,688
Intangible assets - WIP - at cost	972	923
Product development - at cost	1,850	469
Less: Accumulated amortisation	(570)	(174)
	1,280	295
	4,703	3,248

Reconciliations

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

Consolidated	Website \$'000	Patents and trademarks \$'000	Software development \$'000	Intangible assets - WIP \$'000	Product development \$'000	Total \$'000
Balance at 1 July 2023	216	126	1,688	923	295	3,248
Additions	-	45	485	1,812	-	2,342
Disposals	-	-	-	(14)	-	(14)
Transfers out	-	-	369	(1,749)	1,380	-
Amortisation expense	(25)	(45)	(408)	-	(395)	(873)
Balance at 30 June 2024	191	126	2,134	972	1,280	4,703

Note 15. Trade and other payables

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current liabilities</i>		
Trade payables	14,561	8,297
Accrued expenses	13,792	9,898
Other payables	3,251	2,132
	31,604	20,327
	31,604	20,327

Note 16. Contract liabilities

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current liabilities</i>		
Contract liabilities	15,295	14,841
	15,295	14,841
	15,295	14,841

Contract liabilities represent income received in advance for the goods purchased by customers, yet to be delivered.

Note 17. Borrowings

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current liabilities</i>		
Loans (i)	4,295	8,118
<i>Non-current liabilities</i>		
Loans (i)	430	4,331
Preference shares (ii)	13,550	13,550
Convertible notes payable (iii)	24,215	44,649
	38,195	62,530
	42,490	70,648

Notes

(i) Loans

The Group has obtained debt financing from financial institutions with a face value of \$4,857,000 outstanding as at 30 June 2024. This debt is interest bearing with the interest rates varying from 8.75% to 10.25% among the tranches, with a final repayment to be made in June 2025.

(ii) Preference shares

The Group has issued 11,498,300 preference shares. The shares are non-interest bearing and entitled to dividends on the same terms as ordinary shares. The holder may convert the shares to ordinary shares at any time. As the number of shares to issue may vary, the preference shares are classified as a financial liability and carried at amortised cost.

Note 17. Borrowings (continued)

(iii) Convertible notes payable

The Group has issued several interest-bearing convertible notes with a total face value of \$19,888,000, convertible only into shares of the company. During the financial year convertible notes with face value of \$6,562,000 were redeemed in cash at the election of the noteholder. The Group has also negotiated an extension to the remaining convertible notes, which will mature by July 2025, as such they are classified as non-current liabilities on the balance sheet. Convertible notes with face value of \$22,350,000 were converted to equity during the current financial year. The Group could redeem options up to 50% prematurity date on the election of the Group. As the conversion feature requires settlement by the Company by issuing a variable number of shares, calculated based on a future fair value of the business, the convertible notes continue to be presented as a financial liability on the balance sheet, rather than being reclassified as equity.

Assets pledged as security

The loans are secured by a fixed and floating charge over all the assets of the Group.

Terms and debt repayment schedule

Terms and conditions of outstanding loans are as follows:

				2024		2023	
	Currency	Nominal interest rate	Year of maturity	Face value \$'000	Carrying amount \$'000	Face value \$'000	Carrying amount \$'000
Loans	AUD	8.75% - 10.25%	2024-2025	4,857	4,725	13,013	12,449
Preference shares	AUD	N/A	N/A	13,550	13,550	13,550	13,550
Convertible notes payable	AUD	10%	2025	19,887	24,215	48,800	44,649
				<u>38,294</u>	<u>42,490</u>	<u>75,363</u>	<u>70,648</u>

Financing arrangements

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

	Consolidated	
	2024 \$'000	2023 \$'000
Total facilities		
Loans	<u>4,725</u>	<u>12,449</u>
Used at the reporting date		
Loans	<u>4,725</u>	<u>12,449</u>
Unused at the reporting date		
Loans	<u>-</u>	<u>-</u>

Note 18. Lease liabilities

	Consolidated	
	2024 \$'000	2023 \$'000
<i>Current liabilities</i>		
Lease liability	<u>2,468</u>	<u>1,800</u>
<i>Non-current liabilities</i>		
Lease liability	<u>5,919</u>	<u>5,682</u>
	<u>8,387</u>	<u>7,482</u>

Note 18. Lease liabilities (continued)

Total cash outflow for leases as disclosed in the cash flow statements is \$2,417,000 (2023: \$1,887,000).

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Undiscounted future lease payments</i>		
Undiscounted future lease payments are due as follows:		
Within one year	2,823	2,186
One to five years	6,400	6,249
	<u>9,223</u>	<u>8,435</u>

Note 19. Employee benefits

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current liabilities</i>		
Annual leave	1,672	1,432
<i>Non-current liabilities</i>		
Long service leave	408	265
	<u>2,080</u>	<u>1,697</u>

Note 20. Provisions

	Consolidated	
	2024	2023
	\$'000	\$'000
<i>Current liabilities</i>		
Warranties	2,995	1,736
<i>Non-current liabilities</i>		
Lease make good	155	155
Warranties	1,137	663
	<u>1,292</u>	<u>818</u>
	<u>4,287</u>	<u>2,554</u>

Lease make good

The provision represents the present value of the estimated costs to make good the premises leased by the Group at the end of the respective lease terms.

Warranties

The Group offers a 10 year warranty on its mattress products and a 5 or 1 year warranty on other goods. The provision relates to goods sold that continue to have a valid warranty period. The provision has been estimated based on historical warranty data associated with similar products.

Note 20. Provisions (continued)

Movements in provisions

Movements in each class of provision during the current financial year, other than employee benefits, are set out below:

	Warranties \$'000	Lease make good \$'000
Consolidated - 2024		
Carrying amount at the start of the year	2,399	155
Amounts used	-	-
Net remeasurement of provisions	2,417	-
Provisions used during the year	(684)	-
Carrying amount at the end of the year	<u>4,132</u>	<u>155</u>

Note 21. Share capital

	2024 Shares	Consolidated 2023 Shares	2024 \$'000	2023 \$'000
Ordinary shares - fully paid	<u>63,293,659</u>	<u>47,498,550</u>	<u>32,295</u>	<u>315</u>

Details	Date	Shares	Issue price	\$'000
Balance	1 July 2023	47,498,550		315
Share issue on conversion of notes	26 June 2024	14,552,705	\$1.8900	27,411
Share issue on conversion of notes	26 June 2024	1,242,404	\$3.6800	4,569
Balance	30 June 2024	<u>63,293,659</u>		<u>32,295</u>

The Company does not have authorised capital or par value in respect of its issued shares. All issued shares are fully paid.

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, except where the shares arise from the exercise of ESOP. These shares have no voting rights in the Company.

The Company issued nil (2023: nil) ordinary shares as a result of the exercise of vested share options arising from share option programmes.

During the year, the Company issued 15,795,109 ordinary shares resulting from the conversion of convertible notes.

Note 22. Reserves

	Consolidated 2024 \$'000	2023 \$'000
Foreign currency reserve	2,142	197
Share-based payments reserve	5,495	4,586
	<u>7,637</u>	<u>4,783</u>

Note 22. Reserves (continued)

Foreign currency reserve

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

Share-based payments reserve

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

Movements in reserves

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

Consolidated	Foreign currency \$'000	Share-based payments \$'000	Total \$'000
Balance at 1 July 2023	197	4,586	4,783
Foreign currency translation	1,945	-	1,945
Share-based payments	-	909	909
	<hr/>	<hr/>	<hr/>
Balance at 30 June 2024	<u>2,142</u>	<u>5,495</u>	<u>7,637</u>

Note 23. Dividends

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

Note 24. Key management personnel disclosures

Compensation

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

	Consolidated	
	2024	2023
	\$	\$
Aggregate compensation	<u>1,071,366</u>	<u>525,032</u>

Note 25. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the Company:

	Consolidated	
	2024	2023
	\$	\$
<i>Audit services - KPMG</i>		
Audit of the financial statements	<u>158,441</u>	<u>165,505</u>
<i>Other services - KPMG</i>		
Tax advisory services	76,102	58,478
Other advisory services	<u>47,610</u>	<u>10,350</u>
	<hr/>	<hr/>
	123,712	68,828
	<hr/>	<hr/>
	<u>282,153</u>	<u>234,333</u>

Note 26. Contingent liabilities

The Group has deposits for financial institutions for a value of \$850,000 as at 30 June 2024 (2023: \$1,850,000). The Group has provided bank guarantees over a property lease for a value of \$408,000 as at 30 June 2024 (2023: \$353,000).

Note 27. Commitments

The Group had no capital commitments as at 30 June 2024 and 30 June 2023.

Note 28. Related party transactions

Parent entity

K Sleep Holdings Pty Ltd is the parent entity.

Subsidiaries

Interests in subsidiaries are set out in note 30.

Key management personnel

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

Transactions with related parties

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

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

	Consolidated	
	2024	2023
	\$	\$
Current receivables:		
Loan to shareholders (note 8)	541,522	480,096

Terms and conditions

These loans have a maturity date of 30 December 2024 at which time they are to be settled in cash. These loans are secured against shares held in the Group by the relevant shareholders.

Note 29. Parent entity information

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

Statement of profit or loss and other comprehensive income

	Parent	
	2024	2023
	\$'000	\$'000
Loss after income tax	(1,754)	(10,645)
Total comprehensive loss	(1,754)	(10,645)

Note 29. Parent entity information (continued)

Statement of financial position

	Parent	
	2024 \$'000	2023 \$'000
Total current assets	46,233	63,546
Total assets	50,635	67,953
Total current liabilities	11,603	18,367
Total liabilities	51,287	99,739
Net liabilities	(652)	(31,786)
Equity		
Share capital	32,295	316
Other capital contributions	2	2
Share-based payments reserve	5,495	4,586
Accumulated losses	(38,444)	(36,690)
Total deficiency in equity	(652)	(31,786)

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 2024 and 30 June 2023.

Contingent liabilities

The parent entity had no contingent liabilities as at 30 June 2024 and 30 June 2023.

Capital commitments - Property, plant and equipment

The parent entity had no capital commitments for property, plant and equipment as at 30 June 2024 and 30 June 2023.

Material accounting policy information

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:

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

Note 30. Interests in subsidiaries

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

Name	Principal place of business / Country of incorporation	Ownership interest	
		2024 %	2023 %
Koala Sleep Pty Ltd	Australia	100%	100%
Shanghai Koala Sleep Co., Ltd.	China	100%	100%
Koala Sleep Japan KK	Japan	100%	100%
Koala Inc.	US	100%	100%
Koala Home SK Co. Ltd	South Korea	100%	100%

Note 31. Deed of cross guarantee

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

K Sleep Holdings Pty Ltd
 Koala Sleep Pty Ltd

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

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

Set out below is a consolidated statement of profit or loss and other comprehensive income and statement of financial position of the 'Closed Group'.

	2024	2023
	\$'000	\$'000
Statement of profit or loss and other comprehensive income		
Revenue	151,233	142,973
Other income	455	-
Other expenses	(145,730)	(139,635)
Operating profit	5,958	3,338
Finance income	857	60
Finance costs	(2,152)	(8,548)
Impairment of intergroup receivables	-	(17,950)
Profit/(loss) before income tax expense	4,663	(23,100)
Income tax expense	-	-
Profit/(loss) after income tax expense	4,663	(23,100)
Other comprehensive income for the year, net of tax	-	-
Total comprehensive income/(loss) for the year	4,663	(23,100)
Equity - accumulated losses	2024	2023
	\$'000	\$'000
Accumulated losses at the beginning of the financial year	(80,794)	(57,694)
Profit/(loss) after income tax expense	4,663	(23,100)
Accumulated losses at the end of the financial year	(76,131)	(80,794)

Note 31. Deed of cross guarantee (continued)

	2024 \$'000	2023 \$'000
Statement of financial position		
Current assets		
Cash and cash equivalents	14,040	28,369
Trade and other receivables	17,936	17,443
Inventories	18,131	10,428
Derivative financial instruments	607	776
Other	1,946	2,048
	<u>52,660</u>	<u>59,064</u>
Non-current assets		
Property, plant and equipment	5,006	6,135
Intangibles	4,705	3,248
Other	102	102
	<u>9,813</u>	<u>9,485</u>
Total assets	<u>62,473</u>	<u>68,549</u>
Current liabilities		
Trade and other payables	27,886	25,703
Contract liabilities	10,769	9,083
Borrowings	4,295	8,118
Lease liabilities	1,637	1,414
Derivative financial instruments	7,302	10,233
Employee benefits	1,332	1,220
Provisions	2,409	1,227
	<u>55,630</u>	<u>56,998</u>
Non-current liabilities		
Borrowings	38,195	62,530
Lease liabilities	4,015	5,181
Derivative financial instruments	1,488	18,842
Employee benefits	408	265
Provisions	1,076	624
	<u>45,182</u>	<u>87,442</u>
Total liabilities	<u>100,812</u>	<u>144,440</u>
Net liabilities	<u>(38,339)</u>	<u>(75,891)</u>
Equity		
Share capital	32,295	315
Other capital contributions	2	2
Reserves	5,495	4,586
Accumulated losses	(76,131)	(80,794)
	<u>(76,131)</u>	<u>(80,794)</u>
Total deficiency in equity	<u>(38,339)</u>	<u>(75,891)</u>

Note 32. Share-based payments

At 30 June 2024 the Group had the following share-based payment arrangements:

Share option programmes (equity-settled)

In 2018, the Group established share option programmes that entitle certain employees to purchase shares in the Company.

Under these programmes, holders of vested options are entitled to purchase shares at the market price of the shares at the grant date. Currently, these programmes are limited to senior employees. The key terms and conditions related to the grants under these programmes are as follows; all options are to be settled by physical delivery of shares.

Note 32. Share-based payments (continued)

In 2023 (FY24) the Group launched an additional share option program that involved grants of share options to a broader pool of employees at all levels.

This program includes strike price options for selected employees and zero exercise price options for other employees. In addition to tenure, options issued under the new program also have vesting conditions linked to the financial performance of the Group.

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

	Number of options 2024	Weighted average exercise price 2024	Number of options 2023	Weighted average exercise price 2023
Outstanding at the beginning of the financial year	1,505,300	\$5.1400	49,618	\$272.6600
Share split	-	\$0.0000	2,431,282	\$5.4500
Granted	3,810,445	\$1.6600	15,350	\$0.0000
Expired	<u>(45,000)</u>	\$6.1500	<u>(990,950)</u>	\$5.8500
Outstanding at the end of the financial year	<u>5,270,745</u>	\$2.6100	<u>1,505,300</u>	\$5.1400
Exercisable at the end of the financial year	<u>1,425,205</u>	\$2.2900	<u>1,257,618</u>	\$2.4200

Measurement of fair values

The fair value of the employee share options has been measured using the Black-Scholes formula. Service and non-market performance conditions attached to the arrangements were not taken into account in measuring fair value.

	Consolidated	
	2024	2023
Share-based payments expense	<u>909</u>	<u>388</u>

Note 33. Events after the reporting period

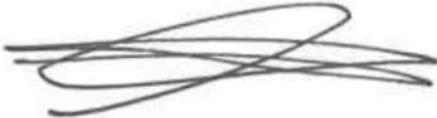
No matter or circumstance has arisen since 30 June 2024 that has significantly affected, or may significantly affect the Group's operations, the results of those operations, or the Group's state of affairs in future financial years.

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Australian Accounting Standards - Simplified Disclosures, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2024 and of its performance for the financial year ended on that date;
- there are reasonable grounds to believe that the Consolidated entity and the Company will be able to pay its debts as and when they become due and payable;
- at the date of this declaration, there are reasonable grounds to believe that the members of the Extended Closed Group will be able to meet any obligations or liabilities to which they are, or may become, subject by virtue of the deed of cross guarantee described in note 31 to the financial statements; and
- the Company is not publicly accountable.

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



Mitchell James Taylor
Director

22 October 2024
Sydney



Independent Auditor's Report

To the shareholders of K Sleep Holdings Pty Ltd

Opinion

We have audited the **Financial Report** of K Sleep Holdings Pty Ltd (the Company).

In our opinion, the accompanying Financial Report of the Company gives a true and fair view, including of the Group's financial position as at 30 June 2024 and of its financial performance for the year then ended, in accordance with the *Corporations Act 2001*, in compliance with *Australian Accounting Standards-Simplified Disclosures* and the *Corporations Regulations 2001*.

The **Financial Report** comprises:

- Consolidated statement of financial position as at 30 June 2024
- Consolidated statement of profit or loss, and other comprehensive income, Consolidated statement of changes in equity, and Consolidated statement of cash flows for the year then ended;
- Notes, including a summary of material accounting policies.
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

We are independent of the Group in accordance with the *Corporations Act 2001* and the ethical requirements of the *Accounting Professional and Ethical Standards Board's APES 110 Code of Ethics for Professional Accountants (including Independence Standards)* (the Code) that are relevant to our audit of the Financial Report in Australia. We have fulfilled our other ethical responsibilities in accordance with these requirements.

Other Information

Other Information is financial and non-financial information in K Sleep Holdings Pty Ltd's annual report which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not express an audit opinion or any form of assurance conclusion thereon.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we 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.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Company, and in compliance with *Australian Accounting Standards-Simplified Disclosures* and the *Corporations Regulations 2001*
- implementing necessary internal control to enable the preparation of a Financial Report in accordance with the *Corporations Act 2001*, including giving a true and fair view of the financial position and performance of the Company, and that is free from material misstatement, whether due to fraud or error
- assessing the Group's and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group and Company or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- 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 *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They 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 the Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the *Auditing and Assurance Standards Board* website at: http://www.auasb.gov.au/auditors_responsibilities/ar3.pdf (Non-listed entities). This description forms part of our Auditor's Report.

KPMG

Trent Duvall
Partner
Sydney
22 October 2024