



# InnovaDerma Plc

## Annual Report

For Year Ended 30 June 2017



**INNOVADERMA™**  
Innovation In Skin

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# Corporate Directory

<b>Directors</b>	Haris Chaudhry Joseph Bayer Rodney Turner Kieran Callan Ross Andrews
<b>Company Secretary</b>	Elemental Company Secretary Limited
<b>Company registration number</b>	09226823
<b>Registered office</b>	27 Old Gloucester Street London United Kingdom WC1N 3AX
<b>Auditor</b>	KSI (WA) Level 2 35 Outram Street West Perth WA 6005 Australia
<b>Domicile of the Company</b>	United Kingdom
<b>Country of incorporation</b>	England and Wales
<b>Legal form of entity</b>	Public Limited Company
<b>London Stock Exchange Code</b>	IDP

# Strategic Report

For the Year Ended 30 June 2017

The Directors present their strategic report on InnovaDerma PLC and its controlled entities (hereafter “the Group”, “the Company” or “InnovaDerma”) for the year ended 30 June 2017.

## Principal activity

InnovaDerma specializes in a range of male and female hair loss and anti-ageing treatments, self-tanning, beauty products and a life sciences portfolio, and is aggressively growing its existing markets and expanding into new ones. In addition to a well-established customer base, brand recognition, intellectual property and a robust operating platform, it has the necessary clinical and regulatory approvals, ongoing research and development work and strategic marketing initiatives to provide it with a solid platform for rapid and sustained growth.

## Financial Highlights

	FY2017 (£m)	FY2016 (£m)	Reported Growth
Revenue	8.858	4.305	105.8%
Gross profit	5.576	2.473	125.5%
Gross profit margin	63.0%	57.4%	560bps
Operating profit	1.029	0.242	325.2%
Pre-tax profit	1.029	0.242	325.2%

As announced in the unaudited interim results for the period ended 31 December 2016, the Company reported one-off costs of £0.287m, which would result in a normalised pre-tax profit for the year ended 30 June 2017 of £1.316m.

## Operational Highlights

The Company has delivered solid organic growth since its successful admission to the main market of the London Stock Exchange in 2016.

### Robust performance from Skinny Tan™

- This flagship and emerging cult brand became the No.1 selling brand in Superdrug by revenue in its category as the Group added 10 new products to the fast-growing brand during the period.

### Established multiple channels which has driven growth and profit

- Proven and differentiated Direct to Consumer (“DTC”) platform with the followers on social media doubling from 151,000 to more than 300,000 in the period under review demonstrating growing momentum in the brand’s appeal to a significant and engaged direct target audience.
- Distribution agreements with leading e-tailers and retailers in the UK, US, Europe, South Korea, South Africa and Australia

### Continued focus on product innovation

- Launched hair loss and hair care brand Roots™ Double Effect through DTC and Superdrug’s top 400 stores
- Developed Body Glow™ for skin care (an extension of Skinny Tan™), an everyday moisturiser range and stocked in the skin care section in more than 500 Superdrug stores
- Launched Skinny Tan™ in South Korea’s largest beauty chain, Olive Young, alongside a skin brightening range
- Skinny Tan™ Professional launched in the London School of Beauty & Make-up and, post-year end, Regis Salons

### Synergistic acquisitions

- Acquired early stage brands Stevie K™ Cosmetics™, a makeup brand, and Charles + Lee™, a men’s skin care range, for A\$50,000 to grow the Group’s stable of brands and monetise them through the Group’s DTC platform and retail distribution channels

# Strategic Report (continued)

For the Year Ended 30 June 2017

- Acquired Prolong™, the world's only medical device for premature ejaculation cleared by the U.S. Food & Drug Administration ("FDA") to be sold through the Group's DTC platform & other distribution channels in multiple territories globally

## Improved supply chain

- Successfully relocated manufacturing from Australia to UK, with significant COGS and overseas freight reductions, and with considerable shortening of supply chain lead times

## Balance Sheet

- Company has no external debt with cash and cash equivalents of £0.207m as at 30 June 2017 (30 June 2016: £0.120m)

## Post-Period End and Outlook

The Company remains focused on continuing to grow Skinny Tan™ and launching its other brands into multiple markets particularly in the first half of the new financial year. As in FY 2017 the Board expects revenue and profit growth to be strongly weighted to the second half.

## Skinny Tan™

- Skinny Tan™ has become the second best-selling brand out of 18 brands in its category for Boots Ireland for the month of August, despite only being made available in stores since July 2017. Owing to the success of Skinny Tan™ in Ireland, a number of the largest retail chains in Ireland have initiated distribution discussions with the Company for stocking Skinny Tan™
- Newly-packaged Skinny Tan™ launched in Australia and New Zealand supported by a new marketing and DTC campaign. The new range launch is expected to accelerate revenue generation from Australia and New Zealand during this financial year
- Continued product innovation with new product extensions expected in the new financial year, including for the Body Glow™ range which has been performing strongly in Superdrug stores in the UK
- Developed and launched a new Skin Brightening/ Skin Toning and Sun care range with SPF 50+, "Skinny Tan Whitening", in 650 independent pharmacy stores in Korea after securing KFDA (Korea Food & Drug Administration) approval. This range will be relaunched under the brand EnBright™ in various new markets including Asia, Africa and Australia, and relaunched in Korea with new high-end branding and packaging

## Future product launches

- Secured ranging of Charles + Lee™ in Australia's largest department store chain Myer with discussions ongoing with multiple retail chains in the region to stock the product
- New product extensions have been developed for Stevie K Cosmetics™ and the brand is expected to be launched in Q1 2018 in the UK in a high street retail chain and on our DTC platform in the UK and Europe
- Finalising a launch and "go to market" strategy for FDA-cleared Prolong™ and HeadMaster prior to the end of 2017 in the US, followed by launch in Australia, UK and Europe in 2018
- Product innovation is a core driver of growth and the Company was pleased to announce as part of its most recent Operational Update two new brands in skincare and facial care which are expected to be launched on its DTC platform and with a large high street retail chain in the UK in early 2018. Together with these two new innovative products the Company will have a retail product portfolio covering bronzing and tanning, body care, skin care and facial skin care

### **Team expansion**

- Appointed Ross Andrews as a UK based Non-Executive Director
- Appointed various business development and marketing staff in UK and Australia tasked to oversee successful launch of new brands in those key markets
- Appointed Amy Newman as Head of UK & Ireland Sales & Marketing

### **Haris Chaudhry, Executive Chairman of InnovaDerma, said:**

"We have delivered a robust financial performance and exceeded nearly every key performance indicator we set for ourselves in FY 2017. The journey, however, has just begun as we prepare to launch multiple new brands that we have either successfully developed in-house or acquired during the past 12 months. The strength in our proven international DTC platform and retail distribution channels should allow us to replicate the success we are experiencing with Skinny Tan™.

"Our sights are set on growing Skinny Tan™ which is fast becoming a cult brand with a large loyal customer base, and launching our highly innovative life science product portfolio in the US.

"This new chapter of becoming a true multi-brand global business in life science, beauty and personal care will be exciting, challenging and I believe very rewarding. Our successful journey thus far has been underpinned by agility, razor-sharp focus on outcome and enabling our core team of decision makers to merge their creativity and commercial acumen using technology and social media to monitor market dynamics and create value for our shareholders.

"On behalf of the Board of InnovaDerma, I would like to express our gratitude to our supportive shareholders and our talented and hardworking team and together we look forward to achieving further successes in this new financial year."

# Strategic Report (continued)

For the Year Ended 30 June 2017

## Executive Chairman's Statement

### Introduction

I am pleased to present an excellent set of results for the year ended 30 June 2017, which are well ahead of our initial expectations. The Group's financial performance reflects management's ability to transform and grow a brand and create a highly effective DTC platform using social media campaigns, which enables greater customer engagement and ownership. This has created a strong platform for sustainable future growth.

Our revenue and profit performance has been consistently strong throughout the year, reflecting the success and popularity of Skinny Tan™ and it is pleasing to note that five out of six months in the second half of the year delivered record revenues. The Group delivered revenues of £8.858 million in the period under review up 105.8% (FY2016: £4.305m). Profit before tax increased by 325.7% to £1.029m (FY2016: £0.242m).

### Self-tanning

The Skinny Tan™ brand has gone from strength to strength and since acquisition in May 2015 we have witnessed an ever-increasing demand for the product range. This has been backed largely through our highly innovative and scalable DTC strategy. We have worked tirelessly with our retail partners to keep growing the product range through product extensions, increasing shelf space and innovative marketing initiatives. Skinny Tan™'s brand appeal has seen it attract more than 300,000 followers on its social media platforms. It is now sold in 12 countries and is fast becoming a cult brand. In the period under review, we launched exciting new product extensions including Skinny Tan™ Salon Effects Spray, a coconut-scented salon quality self-tanner spray for customers who want to attain a salon quality, streak-free instantly-bronzed skin at home. Additionally, we entered the skin care market through Body Glow™, a body moisturising range which is available in 500 Superdrug stores and is performing strongly.

As we enter new regions, products and packaging are tailored to meet market and customer preferences and to this end, we have developed a new Skin Brightening / Skin Toning and Sun Care range with SPF 50+ 'Skinny-Tan Whitening'. This product has been launched in to 650 independent pharmacy stores in Korea after securing KFDA (Korea Food & Drug Administration approval). This range will be relaunched under the brand EnBright™ in various new markets including Asia, Africa and Australia, and relaunched in Korea with new high-end branding and packaging. The decision was taken to bring a globally-consistent brand to a segment the Company believes presents worldwide appeal.

Product innovation is a core driver of growth and the Company was pleased to announce as part of its most recent Operational Update two new brands in skincare and facial care which are expected to be launched on its DTC platform and with a large high street retail chain in the UK in early 2018. Together with these two new innovative products the Company will have a retail product portfolio covering bronzing and tanning, body care, skin care and facial skin care.

### Cosmetic and Skincare

We acquired Stevie K Cosmetics™ and Charles + Lee™ in February 2017. Stevie K Cosmetics™ is an award winning, mid-priced, bold range of cosmetics with strong branding and eye-catching packaging targeted at the irreverent individual in the Millennial and Generation Zero market. Founded in 2016, the brand is positioned as Australian made, cruelty free, high quality and edgy.

Charles + Lee™ is an affordable alternative premium range of men's skin care products, marketed as an effective and understated brand, containing natural and organic ingredients. It is cruelty free and has been certified by the Roundtable on Sustainable Palm Oil (the "RSPO").

Both brands are early stage and revenue generating which are well suited for social media, one of the keys to driving brand loyalty and revenue. Charles + Lee™ was launched in April this year through our DTC platform and has since secured distribution in 30 of Myers' 60 stores. Myer is Australia's largest department store chain, and adds significant credibility to the brand. The Group expects to launch Charles + Lee™ in further new retail channels throughout Australia, New Zealand, UK and Europe during the new financial year. Further momentum will be created through our DTC platform as we grow the product range to include multiple new men's skin care, hygiene and shaving product extensions.

The Company launched Stevie K Cosmetics™'s new website and lip-only products through its DTC platform in Australia in August. Stevie K Cosmetics™'s range of cruelty-free, award winning products include face and eye make-up, and we expect to launch in the UK through our DTC platform and in a high street retail chain in the first quarter of 2018. We plan to launch the brand in other international markets shortly thereafter.

Despite only being launched this year, the two brands are performing in line with management expectations.

## **Haircare**

In August, we launched Roots™ Double Effect, an innovative and highly-effective topical hair care range for men and women to aid hair regrowth and hair thickening. The hair care range currently consists of five products, including uniquely formulated shampoos and conditioners in attractive packaging and is available in Superdrug's top 400 stores. The range of products is available online and will be launched elsewhere in Europe and Australia later in the year. The Company is embarking on creating highly visual and appealing marketing assets and collateral which it will deploy through its DTC channel to create client demand, footfall for its retail channels and to establish the brand in multiple markets globally. It expects gradual and consistent building of the brand in various markets throughout the new financial year.

With product innovation at its core, the Company is developing new products in hair styling and a dry- shampoo range which it expects to launch both in DTC and retail channels.

## **Life Sciences**

In May 2017, we acquired Ergon Medical Limited, the owner of the intellectual property rights of Prolong™, the world's only medical device for premature ejaculation cleared by the U.S. Food & Drug Administration ("FDA"). Prolong™ can be sold without prescription, is patented in 72 countries and ready for mass-market distribution.

The Company is currently finalising its launch strategy for Prolong™ for the US and Australia and has also started receiving interest from distribution companies in Europe and Asia. The Company remains confident of creating a successful launch strategy and in positioning the brand as a highly effective, world leading and side effect-free treatment option for a problem affecting one in four men globally.

Headmaster, a wearable helmet to aid hair generation, is expected to receive regulatory clearance towards the end of this year. The Company is finalising a 'go to market' strategy for FDA- cleared Prolong™ and Headmaster prior to the end of 2017 in the US, followed by launch in Australia, UK and Europe in 2018.

With the aim of creating a significant portfolio of Life Science products, the Company is looking at developing a new range of devices complementary to HeadMaster and Prolong™ in the fast-growing market for acne and skin tightening/wrinkle reducing treatments. These devices will be FDA-cleared before being launched in the US and other regions, and will result in economies of scale with a wider product portfolio in our Life Sciences segment.

## **People**

On behalf of the Board, I would like to welcome Ross Andrews to the Board of Directors. Ross brings with him extensive PLC experience and we look forward to working with him to grow the business. We have made a number of operational appointments including that of Amy Newman who will be working alongside Michael Hume to further the growth in the UK and Europe. We have a very talented team who believe in speed, creativity and work hard for this business. On behalf of the Board, I would like to thank them sincerely for their commitment and helping to deliver this excellent performance.

## **Our strategy and outlook**

We have a very disciplined approach to our strategy which has enabled us to deliver exceptional revenue and profit growth.

The outlook for the Company remains very strong on many fronts; the continuous growth of Skinny Tan™ through new channels and new territories, the ever-growing size of our online community DTC channel, the launch of our new brands through retail and DTC, both for our topical as well as life science portfolio.

# Strategic Report (continued)

For the Year Ended 30 June 2017

With this level of growth expected to continue, we need to invest in new talent in multiple markets, especially growing our teams in the US and Australia. We are on the hunt for new people to underpin the new phase of our growth, backed by high quality but lean marketing campaigns as we launch these brands.

In our quest to become a very significant and fast growing global player, we believe our core strategy is to gain scale through DTC and to create initial footfall to retailers. This requires investment of time and resources but as the momentum grows, the speed of growth will deliver significant return. The first half of this new financial year will see investment in our brands and people to create a solid foundation as we embark on our next stage of growth.

The first half of this financial year will be focused on new brand development and market launch activities in conjunction with growing our established distribution channels. As a result of this activity in the first half, we expect FY 2018 to be more second-half weighted.

In summary, the Company is positioning itself to deliver sustainable future revenue growth. We have developed an agile corporate culture which is centred around delivering expectations and encouraging our highly commercial executive team to deliver value to shareholders. We look forward to sharing this exciting journey and of delivering value to our shareholders.

## Finance Director's Review

### Overview

The Group has delivered a strong profit result on the back of significant sales growth in the UK with the Skinny Tan™ brand and the strategy of moving manufacturing from Australia to the UK, resulting in gross margin improvements. Group revenues grew 105.8% to £8.858m (FY2016: £4.305m) with the growth in the popularity of the Skinny Tan™ brand in the UK reaching across the DTC and retail channels. Profit before tax of £1.029m was 325.2% up on the previous year (FY2016: £0.242m).

The Group has increased Net Asset value to £4.940m as at 30 June 2017. Intangibles increased £1.639m principally as a result of the acquisitions of Ergon Medical, Stevie K™ and Charles + Lee™.

### Operating results

The Group's operating profit was driven by strong sales and a significant improvement in gross margins. Gross margins lifted 560 basis points to 63.0% (FY2016: 57.4%). The increase was primarily influenced by lower cost of manufacture coupled with lower shipping costs. As highlighted in our half year interim results, a substantial investment was focussed on building stock during the first half of this financial year, to facilitate the transfer of manufacturing from Australia to the UK and to provide adequate inventory for the forecasted expansion in to Superdrug. The full benefits of this investment were realised during the second half with lower manufacturing and shipping costs with a much reduced supply chain.

Underlying operating profit was driven higher with the combination of stronger sales and improvements in gross margins. The result of £1.029m was 11.6% of revenue compared to the previous year of 5.6%. Overheads grew 109.9% to £4.752m (FY2016: £2.264m) however the ratio to sales remained consistent at 53.6% (FY2016: 52.5%). There was a focused effort to resource the Company with experienced people capable of driving performance. This has resulted in an increase in personnel numbers in the UK and Australia. We are now in the position to see this investment realised over the coming year.

The key cost driver in the Company is marketing spend both in driving the Skinny Tan™ brand but also the introduction of new brands. Overall marketing spend increased 134.7% to £2.711m (FY2016: £1.155m). This was 30.6% of revenue (FY2016: 26.8%) which reflected the base investment in the UK market and the required further investment in the US and Australian DTC markets which are developing.

Other income of £0.205m was made up of the intercompany profit from internal inventory transfers of £0.140m, the payment of the Australian Export Marketing and Development Grant for £0.059m and a small reduction in our money back guarantee scheme for Leimo™.

Other Comprehensive income of -£0.158m has been recorded as a prior year foreign exchange translation adjustment on equity balances. This came as a result of the move from reporting in AUD (\$A) to GBP (Pounds Sterling). This is a "one off" adjustment as the calculation readjusts to GBP all equity movements back to financial year 2015.

### Cash and net debt

The Group has no external debt and has reduced related party loans outstanding. Cash and cash equivalents as at the 30 June 2017 were £0.207m (FY2016: £0.120m). Related party loans reduced by £0.217m to £0.405m (FY2016: £0.622m). Funding of the business was enhanced by two capital raisings in November and December 2016 which provided gross funds of £1.340m. As highlighted in our interim result announcements, these funds were targeted to assist in the manufacturing transition and market growth inventory build. Overall inventory has grown to £2.259m (FY2016: £0.638m) which comes as the Company meets the requirements of "in full/on time" deliveries to Superdrug. Furthermore, the Company is well placed to supply the growing markets of Ireland and the inventory requirements for other UK customers, Australia and the US markets. At the same time trade and other payables, excluding tax payables, have increased to £2.419m (FY2016: £1.443m).

# Strategic Report (continued)

## For the Year Ended 30 June 2017

### Taxation

A total tax expense of £0.340m has been charged against profit (FY2016: £0.064m). The Group has not recognised any deferred tax liability at this stage and as such no entry has been made in the annual accounts this year.

All corporate tax liabilities across the various geographical regimes have been accounted for.

### Dividends

The Board has elected not to declare a dividend at this time.

### Principal Risks and Uncertainties

The principal risks the Company faces relate to a) the regulatory requirements in each country to which it exports and b) cash flow. If those regulations change, the Company will need to quickly adapt its strategy to ensure compliance and facilitate continuing sales. At this stage, because Australia operates very stringent policies on all products, the Company does not view this as very likely to occur, but have nonetheless recognised the potential risk.

Cashflow is another principal risk as, while the Company is in its growth phase, working capital is under demand to fund the purchase and manufacture of stock in concert with trading terms to retail buyers. However, the Company has support from its shareholders for funding and is anticipating continued sales growth in the coming twelve months to drive the business forward.

### Employees

In line with *Companies Act 2006* requirements, we present the following breakdown of our employee structure:

Role	Number of Men	Number of Women
Directors	5	–
Senior Managers	3	2
Other Employees	4	15

In conjunction with our aforementioned plans to expand into the USA, it is expected that our staff will expand in the coming calendar year as revenues grow, that the Group will be better able to service our customers and partners.

By order of the board



**Haris Chaudhry**  
Executive Chairman

11 October 2017

# Directors' Report

For the Year Ended 30 June 2017

The Directors present their report and financial statements of the Group for the year ended 30 June 2017.

## Directors

The Directors who served the Group during the period are as follows:

- Mr Haris Chaudhry
- Mr Joseph Bayer
- Mr Rodney Turner
- Mr Kieran Callan (appointed 30th January 2017)
- Mr Geert Lemair (resigned 10th January 2017)
- Mr Clifford Giles (resigned 3rd May 2017)

Unless otherwise disclosed, all directors were appointed at the time the Company was incorporated on 19 September 2014 and have remained on the board since that time.

## Company Secretary

The following served as Company Secretary during the period:

- Mr Nick Lindsay, Elemental Company Secretary Limited, London.

## Meetings of the Directors

During the year to 30 June 2017, the directors attended the following meetings of the board of directors:

	Meetings eligible to attend	Meetings attended
Haris Chaudhry	9	9
Joseph Bayer	9	9
Rodney Turner	9	7
Clifford Giles	8	8
Kieran Callan	4	4
Geert Lemair	5	5

## Review of the Business

Please refer to the Strategic Report for information on the Group, its strategic direction, this year's results, and plans for the future.

## Business Model

The Group's business model is to expand its market share by providing innovative products to its customers that meet their needs and wants, while continuing to break into new geographical locations and thus making InnovaDerma a truly global brand.

## Branches outside the UK

The Group's main operations are headquartered in Melbourne, Australia. Two offices are maintained in Australia, and one each in the UK, New Zealand, the USA, and the Philippines.

## Environmental matters

There are no environmental issues arising from the Group's business that might affect the future strategic direction or results of the Group.

# Directors' Report (continued)

## For the Year Ended 30 June 2017

### Carbon Emissions

The Group's operations are in the sale of health and beauty products, in which carbon emissions are estimated to be negligible. The Directors do not consider it practicable to obtain this information at this time.

### Social, Community & Human Rights issues

The Board are constantly monitoring the Group's social & community impact, both for its own staff and the wider community of end-users for its products. The Board are mindful of Human Rights issues in the jurisdictions its operates in, and aims to maintain the highest standards of care and conduct in all its relations to ensure InnovaDerma exceeds any required standard in this area.

### Research and Development

The Group undertakes a variety of research activities into potential new products and new technologies that could form part of their future offerings to customers. The Group classifies all such spending as research and expenses the costs accordingly.

It is the view of the directors at this stage that the Group is unable to confirm the potential flow of benefits from new products until they arrive to market. Given that, it is not possible to capitalise these expenditures as development.

### Financial Instruments

Information regarding the Group's financial risk management objectives and policies, including exposure to market, credit and liquidity risks, are presented in Note 26 to these financial statements.

### Capital Structure

At 30 June 2017, the ordinary share capital of InnovaDerma PLC consisted of 12,569,556 shares, valued at EUR 0.10 each. There are no restrictions on the transfer of securities in the Company, and no restrictions on voting rights.

### Post Balance Sheet Events

On 26 July 2017, 45,249 ordinary shares of EUR 0.10 were allotted.

On 13 September 2017, 37,166 ordinary shares of EUR 0.10 were allotted.

On 27 September 2017, 13,600 ordinary shares of EUR 0.10 were allotted.

On 6 October 2017, 1,600,000 ordinary shares of EUR 0.10 were allotted.

Aside from the above items, the directors are not aware of any significant events since the end of the reporting period.

### Indemnification of Officers

No indemnities have been given, during or since the end of the financial period, for any person who is or has been an officer or auditor of the consolidated group. InnovaDerma PLC has paid for professional indemnity insurance for the directors of the Company. The policies cover the year to 30 June 2017, and subsequent.

### Proceedings on Behalf of the Group

No person has applied for leave of court to bring proceedings on behalf of the Group or intervene in any proceedings to which the Group is a party for the purpose of taking responsibility on behalf of the Group for all or any part of those proceedings.

The Group was not a party to any such proceedings during the period.

## Directors' Interests

At the period end date, the directors of the Company had the following interests in the shares of the Company, through both direct and indirect holdings:

Director	Shares held on 1 July 2016	Shares acquired during the period	Shares disposed during the period	Shares held on 30 June 2017
Haris Chaudhry	5,805,220	–	(25,000)	5,780,220
Joseph Bayer	113,513	–	–	113,513
Rodney Turner	51,097	–	–	51,087
Kieran Callan	–	11,000	–	11,000

## Remuneration Report (audited)

### Policy & Practice

The Group operates on a strictly 'capital efficient' approach and therefore directors' remuneration has been based on conservative market matching rates in order to act in the best interest of the Company during the Company's growth phase. At this time, outside of existing shareholdings, there are no performance components included in directors' remuneration. A remuneration committee has been formed to oversee this aspect of the Group's operations.

The committee is chaired by Mr Rodney Turner, and Mr Kieran Callan is the other participating member. All aspects of key management personnel remuneration are now overseen by the remuneration committee, including the new contracts which have been prepared for the Executive Directors.

The remuneration committee is undertaking a strategic review of the structure of director remuneration to ensure that the correct mix of fixed remuneration and performance-related incentives are provided, to maintain the Company's competitiveness in the corporate marketplace.

### Contracts

Directors' remuneration in its various forms was historically agreed by the Executive Chairman, but is now overseen exclusively by the remuneration committee. All directors are provided with relevant contracts have been executed prior to the appointment.

Mr Chaudhry's contract is continuous, until terminated by either party. Mr Chaudhry may terminate the contract by giving twenty weeks' notice, in writing.

Mr Bayer's contract is continuous, until terminated by either party. Mr Bayer may terminate the contract by giving twelve weeks' notice, in writing.

All other directors' contracts are for a fixed term of three years.

## Amount of emoluments & compensation

### Year to 30 June 2017

£	Salary	Superannuation	Consultancy Fees	Total	Total 2016
Haris Chaudhry	168,773	16,033	–	184,806	84,047
Geert Lemair <sup>1</sup>	–	–	15,686	15,686	17,910
Joseph Bayer	94,573	8,984	–	103,557	54,281
Rodney Turner	17,850	1,696	–	19,546	15,351
Clifford Giles	–	–	16,669	16,669	–
Kieran Callan <sup>2</sup>	–	–	8,236	8,236	–
	<b>281,195</b>	<b>26,714</b>	<b>40,591</b>	<b>348,500</b>	<b>171,588</b>

<sup>1</sup> Geert Lemair resigned from the Board on the 10th of January 2017

<sup>2</sup> Kieran Callan was appointed to the board on the 30th of January 2017

# Directors' Report (continued)

## For the Year Ended 30 June 2017

### Directors' responsibilities

The Directors are responsible for preparing the Strategic Report and the Directors' Report and the financial statements in accordance with applicable law and regulations.

Company law requires the Directors to prepare financial statements for each financial year or period. Under that law the Directors have elected to prepare the financial statements in accordance with applicable United Kingdom law and those International Financial Reporting Standards ("IFRS") as adopted by the European Union. Under company law, the Directors must not approve the financial statements unless they are satisfied that they give a true and fair view of the state of affairs of the Group and of the profit or loss of the Group for that period. In preparing these financial statements, the Directors are required to:

- select suitable accounting policies and then apply them consistently;
- make judgements and accounting estimates that are reasonable and prudent;
- state whether the financial statements have been prepared in accordance with IFRS as adopted by the European Union;
- prepare the financial statements on the going concern basis unless it is inappropriate to presume the Group will continue in business.

The Directors are responsible for keeping adequate accounting records that are sufficient to show and explain the Group's transactions and disclose with reasonable accuracy at any time the financial position of the Group and enable them to ensure that the financial statements comply with the Companies Act 2006 and, as regards the Group's financial statements, Article 4 of the IAS Regulation.

They are also responsible for safeguarding the assets of the Group and hence for taking reasonable steps for the prevention and detection of fraud and other irregularities.

The Directors are responsible for the maintenance and integrity of the corporate and financial information included on the Group's website. Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

### Directors' statement as to disclosure of information to the auditor

The Directors at the date of approval of this report confirm that:

- to the best of their knowledge and belief, there is no relevant audit information of which the Group's auditor is unaware; and
- the Directors have taken all the steps that that might reasonably be expected to have taken as a Director in order to make themselves aware of any relevant audit information and to establish that the Group's auditor is aware of that information.

On behalf of the Board



**Haris Chaudhry**  
Executive Chairman

11 October 2017

# Report of the Independent Auditor to the Members of Innovaderma PLC

For the Year Ended 30 June 2017

## Opinion

In our opinion:

- the financial statements give a true and fair view of the state of the Group's and of the parent company's affairs as at 30 June 2017 and of the Group's profit for the year then ended;
- the Group financial statements have been properly prepared in accordance with International Financial Reporting Standards (IFRSs) as adopted by the European Union;
- the parent company financial statements have been properly prepared in accordance with applicable law and IFRSs as adopted by the European Union; and
- the financial statements have been prepared in accordance with the requirements of the Companies Act 2006 and, as regards the Group financial statements, Article 4 of the IAS Regulation.

## Whom we are reporting to

This report is made solely to the Company's members, as a body, in accordance with Chapter 3 of Part 16 of the Companies Act 2006. Our audit work has been undertaken so that we might state to the Company's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Company and the Company's members as a body, for our audit work, for this report, or for the opinions we have formed.

## What we have audited

The financial report of InnovaDerma PLC for the year ended 30 June 2017, which comprises the following statements:

- Consolidated Statement of Profit or Loss and Other Comprehensive Income,
- Consolidated Statement of Financial Position,
- Consolidated Statement of Changes in Equity,
- Consolidated Statement of Cash Flows,
- Parent Company Statement of Financial Position,
- Parent Company Statement of Changes in Equity, and
- All related notes to the above.

The financial reporting framework that has been applied in the preparation of the Group and parent company financial statements is applicable law and IFRSs as adopted by the European Union.

## Overview of Audit Approach

We identified the key audit risks to be revenue recognition, change of presentation currency, and possible impairment of intangible assets.

We set materiality for the Group at 1% of revenue: £88,580.

We performed full scope audit procedures over all Group entities at the head office in Melbourne, Australia.

## Our Assessment of Risks of Material Misstatement

The assessed risks of material misstatement described below are those that had the greatest effect on our audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team.

# Report of the Independent Auditor to the Members of Innovaderma PLC (continued)

For the Year Ended 30 June 2017

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## REVENUE RECOGNITION

<b>Risk Description</b>	<p>InnovaDerma, as a Group, generates revenues from sales of various health and beauty products, including the Skinny Tan and Leimo lines.</p> <p>The method for recognising revenue varies depending on the type of sale being made:</p> <ul style="list-style-type: none"> <li>– <i>Direct to customer sales</i></li> <li>These sales are made via the internet, and the sale is recognised at the point of purchase, as the customer has paid and accepted responsibility for the purchase of the good.</li> <li>– <i>Retail &amp; Wholesale sales</i></li> <li>These sales are recognised at the date the stock is segregated from other inventory, ready for collection or delivery in accordance with these customers terms of trade.</li> </ul> <p>There are risks around the timing of revenue recognition of product sales, particularly focused on the contractual terms of delivery and location of sale. In addition, due to the volume of transactions in the year, and the different types of revenue, we have identified revenue recognition as a key risk for our audit.</p> <p>The Group's revenue recognition policy is disclosed in note 1.5.</p>
<b>How the scope of our audit responded to the risk</b>	<p>Our audit work assessed the design and implementation of controls over the recognition of revenue. We tested, in detail, a sample of completed orders around the year end date, with specific focus on recognition conditions for revenue.</p> <p>We assessed the transfer of risk and reward to the customer by reviewing dates of transaction completion on Shopify (the Group's online shopping portal), and dates of stock segregation and dispatch for retail and wholesale sales.</p> <p><b>Key Observations:</b> We noted no material instances of inappropriate revenue recognition arising in our testing.</p>

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## CHANGE OF PRESENTATION CURRENCY

<b>Risk Description</b>	<p>The Group decided to change its functional and reporting currency from Australian Dollars ("AUD") to British Pounds Sterling ("GBP") from 1 July 2016.</p> <p>The Group completed this change with reference to IAS 21 <i>The Effects of Changes in Foreign Exchange Rates</i> and IAS 8 <i>Accounting Policies, Changes in Accounting Estimates and Errors</i>, to calculate the appropriate opening balances and effects on historical balances.</p> <p>We identified this as a key risk because of the substantive effect of the change on all balances within the financial statements, and the further impact on comparability in relation to figures from the prior year.</p> <p>The Group's accounting policy regarding the change in presentation currency is disclosed in note 1.4.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We obtained year end foreign exchange rates from third party sources to ensure that management has used the correct and appropriate rates in their calculations;</p> <p>We obtained the Group's change of functional and reporting currency calculations and checked the application of IAS 21 in the translations performed, to ensure the balances were calculated correctly;</p> <p>We evaluated management's approach on this subject with reference to a wide range of industry examples, to ensure the application and interpretation of IAS 21 was comparable to other industry entities.</p> <p><b>Key Observations:</b> We concluded that the method applied by management is in accordance with the requirements of IAS 21 and IAS 8.</p>

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## IMPAIRMENT OF INTANGIBLE ASSETS

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<b>Risk Description</b>	<p>Management are required to assess the carrying value of intangible assets and perform an impairment review under IAS 36 <i>Impairment of Assets</i> on an annual basis and whenever an indication of impairment exists.</p> <p>At 30 June 2017, the net book value of intangible assets was £3.645m, incorporating goodwill from the acquisition of subsidiaries, as well as brands purchased and new products developed internally.</p> <p>Assessment of the carrying value of capitalised development costs and possible impairment is a key risk due to the quantum of the balance recorded on the Group balance sheet, and the number and complexity of judgements involved in assessing the impairment.</p>
<b>How the scope of our audit responded to the risk</b>	<p>We obtained management's impairment review models covering key capitalised development costs. We determined that, of the assumptions underpinning the models, the key assumption was the short-term forecast cash flow projections applied.</p> <p>We focused our assessment on the goodwill arising from the acquisition of InnovaDerma AUS &amp; NZ Pty Ltd, whose brand was showing indicators of potential impairment during the year. We obtained from management, and evaluated in detail, value in use calculations showing future sales of associated product lines.</p> <p><b>Key Observations:</b> We concluded that the assumptions applied in the impairment models were appropriate and no impairments were identified from the work performed.</p>

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## Our application of materiality and an overview of the scope of our audit

### Materiality

We define materiality as the magnitude of a misstatement in the financial statements that makes it probable that the economic decisions of a reasonably knowledgeable person would be changed or influenced. We use materiality in determining the nature, timing and extent of our audit work and in evaluating the results of that work. We determined materiality for the Group financial statements as a whole to be £88,850, which represents 1% of the Group's revenue for the year ended 30 June 2017.

This benchmark is considered the most appropriate because this is a key performance measure used by the Board of Directors to report to investors on the financial performance of the Group.

Materiality for the current year is higher than the level that we determined for the year ended 30 June 2016, reflecting the increase in the Group's revenues during the year to 30 June 2017.

We use a different level of materiality, performance materiality, to drive the extent of our testing and this was set at 75% of financial statement materiality for the audit of the Group financial statements. We also determine a lower level of specific materiality for certain areas such as Directors' remuneration and related party transactions.

We agreed with the Board that we would report all audit differences in excess of £4,440, as well as differences below that threshold that, in our view, warranted reporting on qualitative grounds. We also report to the Audit Committee on disclosure matters that we identified when assessing the overall presentation of the financial statements.

### Overview of the scope of our audit

A description of the generic scope of an audit of financial statements is provided on the Financial Reporting Council's website at [www.frc.org.uk/auditscopeprivate](http://www.frc.org.uk/auditscopeprivate). We conducted our audit in accordance with International Standards on Auditing (ISAs) (UK and Ireland). Our responsibilities under those standards are further described in the 'Responsibilities for the financial statements and the audit' section of our report.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion. We are independent of the Group in accordance with the Auditing Practices Board's Ethical Standards for auditors, and we have fulfilled our other ethical responsibilities in accordance with those Ethical Standards.

# Report of the Independent Auditor to the Members of Innovaderma PLC (continued)

For the Year Ended 30 June 2017

The Group has operations in the UK, the USA, Australia, and the Philippines, but all are managed by the Group's management, which operates from Melbourne. Through our procedures, all Group entities were subjected to a comprehensive audit approach. Our audit approach was based on a thorough understanding of the Group's business and is risk based, and in particular included:

- undertaking interim procedures before the year end date to evaluate the Group's internal control environment, including IT systems and controls;
- at this visit, we performed an evaluation of the design effectiveness of controls over key financial statement risk identified as part of our risk assessment, reviewed the accounts production process and performed certain transactional procedures for the first nine months of the year in advance of the year end;
- at the final audit visit, we undertook substantive testing on significant transactions, balances and disclosures, the extent of which was based on various factors such as our overall assessment of the control environment, the effectiveness of controls over individual systems and the management of specific risks; and
- the scope of the current year audit has remained consistent with the scope of that of the prior year.

## Opinion on Other Matters prescribed by the Companies Act 2006

Our opinions on other matters prescribed by the Companies Act 2006 are unmodified. In our opinion, the part of the Directors' Remuneration Report to be audited has been properly prepared in accordance with the Companies Act 2006.

In our opinion, based on the work undertaken in the course of the audit:

- the information given in the Strategic Report and the Report of the Directors for the financial year for which the financial statements are prepared is consistent with the financial statements; and
- the Strategic Report and the Report of the Directors have been prepared in accordance with applicable legal requirements.

In the light of the knowledge and understanding of the Group and Parent Company and its environment obtained in the course of the audit, we have not identified material misstatements in the Strategic Report or the Report of the Directors.

## Matters on which we are required to report by exception

Under the Companies Act 2006 we are required to report to you if, in our opinion:

- adequate accounting records have not been kept by the parent company, or returns adequate for our audit have not been received from branches not visited by us; or
- the parent company financial statements and the part of the Directors' Remuneration Report to be audited are not in agreement with the accounting records and returns; or
- certain disclosures of Directors' remuneration specified by law are not made; or
- we have not received all the information and explanations we require for our audit.

Under the Listing Rules, we are required to review:

- the Directors' statements in relation to going concern and longer-term viability, set out on pages 25 and 28; and
- the part of the Corporate Governance Statement relating to the Company's compliance with the provisions of the UK Corporate Governance Code specified for our review.

Under the ISAs (UK and Ireland), we are required to report to you if, in our opinion, information in the annual report is:

- materially inconsistent with the information in the audited financial statements; or
- apparently materially incorrect based on, or materially inconsistent with, our knowledge of the Group acquired in the course of performing our audit; or
- otherwise misleading.

In particular, we are required to report to you if:

- we have identified any inconsistencies between our knowledge acquired during the audit and the Directors' statement that they consider the annual report is fair, balanced and understandable; or
- the annual report does not appropriately disclose those matters that were communicated to the Audit Committee which we consider should have been disclosed.

We have nothing to report in respect of any of the above matters.

We also confirm that we do not have anything material to add or to draw attention to in relation to:

- the Directors' confirmation in the annual report that they have carried out a robust assessment of the principal risks facing the Group including those that would threaten its business model, future performance, solvency or liquidity;
- the disclosures in the annual report that describe those risks and explain how they are being managed or mitigated;
- the Directors' statement in the financial statements about whether they have considered it appropriate to adopt the going concern basis of accounting in preparing them, and their identification of any material uncertainties to the Group's ability to continue to do so over a period of at least twelve months from the date of approval of the financial statements; and
- the Directors' explanation in the annual report as to how they have assessed the prospects of the Group, over what period they have done so and why they consider that period to be appropriate, and their statement as to whether they have a reasonable expectation that the Group will be able to continue in operation and meet its liabilities as they fall due over the period of their assessment, including any related disclosures drawing attention to any necessary qualifications or assumptions.

### **Responsibilities for the financial statements and the audit**

What the Directors are responsible for:

As explained more fully in the Statement of Directors' Responsibilities set out on pages 13-14, the Directors are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view.

What we are responsible for:

Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.



**NICHOLAS HOLLENS – Senior Statutory Auditor**

for and on behalf of Greenwich & Co UK

Statutory Auditor, Chartered Accountants  
Perth, Australia

11 October 2017

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the Year Ended 30 June 2017

	Note	Year ended 30 June 2017 £	Year ended 30 June 2016 £
Revenue	7	8,858,173	4,304,777
Cost of sales		(3,281,748)	(1,832,094)
<b>Gross profit</b>		<b>5,576,425</b>	<b>2,472,683</b>
Other income		204,941	33,092
Marketing expenses		(2,711,126)	(1,155,340)
Listing expenses		(85,126)	(33,728)
Wages & salaries expenses		(1,170,039)	(540,516)
Administrative expenses		(785,640)	(534,346)
<b>Profit before tax</b>		<b>1,029,435</b>	<b>241,844</b>
Income Tax expense	6	(340,482)	(64,090)
<b>Net profit for the period</b>		<b>688,953</b>	<b>177,754</b>
Other comprehensive income		(157,966)	224,587
<b>Total comprehensive income for the period</b>		<b>530,987</b>	<b>402,341</b>
<b>Attributable to:</b>			
Owners of the parent		350,173	338,026
Non-controlling interests		180,814	64,315
<b>Basic &amp; diluted profit/(loss) per share</b>	28	<b>£0.06</b>	<b>£0.02</b>

# Consolidated Statement of Financial Position

As at 30 June 2017

	Note	As at 30 June 2017 £	As at 30 June 2016 £	As at 1 July 2015 £
<b>Current assets</b>				
Cash and cash equivalents	8	207,301	119,687	108,116
Trade and other receivables	9	1,781,773	1,135,668	57,024
Inventory	10	2,258,989	638,330	173,802
Prepayment and other assets	11	114,705	43,226	35,295
<b>Total current assets</b>		<b>4,362,768</b>	<b>1,936,911</b>	<b>374,238</b>
<b>Non-current assets</b>				
Property, Plant and Equipment		127,199	8,277	8,395
Intangible assets	12	3,645,198	2,005,987	1,738,297
Other assets		14,031	–	1,677
Deferred tax asset	13	115,905	101,879	–
<b>Total non-current assets</b>		<b>3,902,333</b>	<b>2,116,143</b>	<b>1,748,368</b>
<b>Total assets</b>		<b>8,265,101</b>	<b>4,053,054</b>	<b>2,122,607</b>
<b>Current liabilities</b>				
Trade and other payables	14	2,419,332	1,443,754	400,862
Current tax payable	14	501,408	169,710	–
<b>Total current liabilities</b>		<b>2,920,740</b>	<b>1,613,464</b>	<b>400,862</b>
<b>Non-current liabilities</b>				
Borrowings	15	404,845	621,777	349,880
Deferred tax liability	16	–	4,186	–
<b>Total non-current liabilities</b>		<b>404,845</b>	<b>625,963</b>	<b>349,880</b>
<b>Total liabilities</b>		<b>3,325,585</b>	<b>2,239,427</b>	<b>750,742</b>
<b>Net assets</b>		<b>4,939,516</b>	<b>1,813,627</b>	<b>1,371,865</b>
<b>Equity</b>				
Share Capital	17	1,565,905	1,375,404	1,366,933
Share premium	17	3,890,210	1,405,161	1,374,211
Merger reserve	18	(721,132)	(721,132)	(721,132)
Foreign Exchange reserve		(53,686)	105,040	(119,547)
Retained Profit/(Accumulated Losses)	19	93,738	(415,161)	(528,600)
Non-controlling interest		164,481	64,315	–
<b>Total equity and reserves</b>		<b>4,939,516</b>	<b>1,813,627</b>	<b>1,371,865</b>

These financial statements were approved and authorised for release by the Directors on 11 October 2017 and are signed on its behalf by:



**Haris Chaudhry**

Executive Chairman

Company Registration Number: 09226823

# Consolidated Statement of Changes in Equity

For the Year 1 July 2016 to 30 June 2017

	Ordinary Share Capital £	Share Premium £	Merger Reserve £	Foreign Exchange Reserve £	Accumulated Earnings/ (Losses) £	Non- controlling interests £	Total Equity
Balance as at 1 July 2016	1,375,404	1,405,161	(721,132)	105,040	(415,161)	64,315	1,813,627
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	508,139	180,814	688,953
Other comprehensive income	-	-	-	(157,966)	-	-	(157,966)
<b>Total comprehensive income for the year</b>	-	-	-	(157,966)	508,139	180,814	530,987
<b>Transactions with owners, in their capacity as owners</b>							
Shares issued	187,114	2,563,783	-	-	-	-	2,750,897
Acquisition of intellectual property- C+L and Stevie K™	3,387	27,613	-	-	-	-	31,000
Purchase of additional interest in Skinny Tan™ Pty Ltd	-	-	-	-	-	(80,648)	(80,648)
Cost of shares issued	-	(106,347)	-	-	-	-	(106,347)
<b>Total transactions with owners, in their capacity as owners</b>	190,501	2,485,049	-	-	-	(80,648)	2,594,902
<b>Balance at 30 June 2017</b>	<b>1,565,905</b>	<b>3,890,210</b>	<b>(721,132)</b>	<b>(52,926)</b>	<b>92,978</b>	<b>164,481</b>	<b>4,939,516</b>

# Consolidated Statement of Changes in Equity

For the Year 1 July 2015 to 30 June 2016

	Ordinary Share Capital £	Share Premium £	Merger Reserve £	Foreign Exchange Reserve £	Accumulated Earnings/ (Losses) £	Non- controlling interests £	Total Equity
Balance as at 1 July 2015	1,366,933	1,374,211	(721,132)	(119,547)	(528,600)	-	1,371,865
<b>Comprehensive income</b>							
Profit for the year	-	-	-	-	113,439	64,315	177,754
Other comprehensive income	-	-	-	224,587	-	-	224,587
<b>Total comprehensive income for the year</b>	-	-	-	224,587	113,439	64,315	402,341
<b>Transactions with owners, in their capacity as owners</b>							
Shares issued	8,471	30,950	-	-	-	-	39,421
<b>Total transactions with owners, in their capacity as owners</b>	8,471	30,950	-	-	-	-	39,421
<b>Balance at 30 June 2016</b>	<b>1,375,404</b>	<b>1,405,161</b>	<b>(721,132)</b>	<b>105,040</b>	<b>(415,161)</b>	<b>64,315</b>	<b>1,813,627</b>

# Consolidated Statement of Cash Flows

For the Period 1 July 2016 to 30 June 2017

	Note	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Cash flows from operating activities</b>			
Receipts from customers		8,212,042	3,777,196
Payments to suppliers and employees		(8,820,952)	(4,057,559)
EMDG Grant		59,149	37,196
Taxes Paid		(56,784)	–
Interest received		25	74
<b>Net cash used by operating activities</b>	25	<b>(606,521)</b>	<b>(243,093)</b>
<b>Cash flows from investing activities</b>			
Purchase of property, plant and equipment		(118,922)	–
Payments for product development		(117,163)	(35,918)
<b>Net cash used by investment activities</b>		<b>(236,085)</b>	<b>(35,918)</b>
<b>Cash flows from financing activities</b>			
Proceeds from borrowings		–	225,246
Proceeds from issue of shares		1,529,630	36,660
Repayments of borrowings		(138,508)	–
Payments for convertible notes		(68,233)	–
Transaction costs for shares issued		(106,347)	–
<b>Net cash from financing activities</b>		<b>1,216,542</b>	<b>261,906</b>
<b>Increase in cash and cash equivalents</b>		<b>373,936</b>	<b>(17,105)</b>
Cash and cash equivalents at the beginning of the period		119,687	122,532
Effect of movement in foreign exchange rates		(286,322)	14,260
<b>Cash and cash equivalents at the end of the period</b>	8	<b>207,301</b>	<b>119,687</b>

# Parent Company Statment of Financial Position

As at 30 June 2017

	Note	As at 30 June 2017 £	As at 30 June 2016 £
<b>Non-current assets</b>			
Intercompany receivable	20	3,058,612	1,865,784
Investment in subsidiaries		2,057,865	750,924
Deferred tax asset		–	18,059
<b>Total non-current assets</b>		<b>5,116,477</b>	<b>2,634,767</b>
<b>Total assets</b>		<b>5,116,477</b>	<b>2,634,767</b>
<b>Current liabilities</b>			
Trade and other payables		137,069	20,354
<b>Total current liabilities</b>		<b>137,069</b>	<b>20,354</b>
<b>Non-current liabilities</b>			
Convertible notes	15	–	63,729
<b>Total non-current liabilities</b>		<b>–</b>	<b>63,729</b>
<b>Total liabilities</b>		<b>137,069</b>	<b>84,083</b>
<b>Net assets</b>		<b>4,979,408</b>	<b>2,550,684</b>
<b>Equity</b>			
Share Capital	17	1,565,905	1,375,404
Share premium	17	3,890,210	1,405,161
Foreign exchange reserve		(109,338)	(84,728)
Accumulated Losses		(367,369)	(145,153)
<b>Total equity and reserves</b>		<b>4,979,408</b>	<b>2,550,684</b>

In accordance with section 408 of the UK Companies Act 2006, the Company is availing itself of the exemption from presenting its individual statement of profit or loss and other comprehensive income. The Company's loss for the financial period as determined in accordance with IFRS's is \$222,216. The Company had no cashflow in the period, and therefore no cashflow statement has been prepared.

# Parent Company Statment of Changes in Equity

For the Year 1 July 2016 to 30 June 2017

	Ordinary Share Capital £	Share Premium £	Foreign Exchange £	Retained Losses £	Total Equity £
Balance as at 1 July 2016	1,375,404	1,405,161	(84,728)	(145,153)	2,550,684
<b>Comprehensive income</b>					
Loss for the period	–	–	–	(222,216)	(222,216)
Other comprehensive loss	–	–	(24,610)	–	(24,610)
<b>Total comprehensive income for the period</b>	<b>–</b>	<b>–</b>	<b>(24,610)</b>	<b>(222,216)</b>	<b>(246,826)</b>
<b>Transactions with owners, in their capacity as owners</b>					
Issue of shares	190,501	2,591,396	–	–	2,781,897
Cost of Shares Issued	–	(106,347)	–	–	(106,347)
<b>Total transactions with owners, in their capacity as owners</b>	<b>190,501</b>	<b>2,485,049</b>	<b>–</b>	<b>–</b>	<b>2,675,550</b>
<b>Balance as at 30 June 2017</b>	<b>1,565,905</b>	<b>3,890,210</b>	<b>(109,338)</b>	<b>(367,369)</b>	<b>4,979,408</b>

# Notes to the Financial Statements

For the Year Ended 30 June 2017

## 1. Accounting Policies

### 1.1 Basis of Preparation

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) as adopted by the European Union and with those parts of the Companies Act 2006 applicable to companies reporting under IFRS. The consolidated financial statements are drawn up under the historical cost convention, except for the revaluation of financial assets.

IFRS, issued by the International Accounting Standards Board (IASB) set out accounting policies that the IASB has concluded would result in financial statements containing relevant and reliable information about transactions, events and conditions. Material accounting policies adopted in the preparation of the consolidated financial statements are presented below and have been consistently applied unless otherwise stated.

### 1.2 Going Concern

This report has been prepared on the going concern basis, which contemplates the continuation of normal business activity and the realisation of assets and the settlement of liabilities in the normal course of business.

### 1.3 Principles of Consolidation

The consolidated financial statements incorporate the assets, liabilities and results of entities controlled by InnovaDerma PLC at 30 June 2017. A controlled entity is any entity over which InnovaDerma PLC has the power to govern the financial and operating policies so as to obtain benefits from its activities.

In preparing the consolidated financial statements, all intragroup balances and transactions between entities in the consolidated group have been eliminated in full on consolidation.

#### *Business Combinations*

Business combinations occur where an acquirer obtains control over one or more businesses.

A business combination is accounted for by applying the acquisition method, unless it is a combination involving entities or businesses under common control. The business combination will be accounted for from the date that control is attained, whereby the fair value of the identifiable assets acquired and liabilities (including contingent liabilities) assumed is recognised (subject to certain limited exceptions).

When measuring the consideration transferred in the business combination, any asset or liability resulting from a contingent consideration arrangement is also included. Subsequent to initial recognition, contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity. Contingent consideration classified as an asset or liability is remeasured in each reporting period to fair value, recognising any change to fair value in profit or loss, unless the change in value can be identified as existing at acquisition date.

All transaction costs incurred in relation to business combinations are expensed to the statement of comprehensive income. The acquisition of a business may result in the recognition of goodwill or a gain from a bargain purchase.

#### *Goodwill*

Goodwill is carried at cost less any accumulated impairment losses. Goodwill is calculated as the excess of the sum of:

- (i) the consideration transferred;
- (ii) any non-controlling interest (determined under either the full goodwill or proportionate interest method); and
- (iii) the acquisition date fair value of any previously held equity interest; over the acquisition date fair value of net identifiable assets acquired.

Goodwill on acquisition of subsidiaries is included in intangible assets.

Goodwill is tested for impairment annually and is allocated to the Parent Company's cash-generating units or groups of cash-generating units, representing the lowest level at which goodwill is monitored being not larger than an operating segment. Gains and losses on the disposal of an entity include the carrying amount of goodwill related to the entity disposed of.

Changes in the ownership interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions and do not affect the carrying amounts of goodwill.

#### *Non-controlling interests*

The interest of non-controlling shareholders in subsidiary companies (holdings of greater than 0%, but less than 50%), are initially recognised at fair value. Subsequent results of the subsidiary are apportioned to the non-controlling interests in proportion to their shareholding.

### **1.4 Foreign Currencies**

#### *Functional and presentation currency*

An entity's functional currency is the currency of the primary economic environment in which it operates. Since incorporation, InnovaDerma PLC has had global operations, with its trading subsidiaries using different functional currencies including British pounds, Australian dollars, and United States dollars, reflective of their local operating environments.

At 1 July 2016, the directors reviewed the Group's spread of economic activity in its different functional currencies, and decided to change the presentation currency of the Group from Australian Dollars to British Pounds. The directors believe this will better reflect the levels of activity within the Group, as well as enhance comparability with its industry peer group. The change in presentation currency represents a voluntary change in accounting policy and has been applied retrospectively.

To give effect to the change in presentation currency, the assets and liabilities of the Group, which were presented in Australian dollars as at 30 June 2016, were converted into British pounds at a fixed exchange rate on 1 July 2016 of A\$1: £0.5763 and the contributed equity, reserves and retained earnings were converted at applicable historical rates.

The Australian dollar assets and liabilities at 1 July 2015 were converted at the rate of A\$1: £0.5085 in order to derive British pound opening balances. Revenue and expenses for the twelve months ended 30 June 2016 were converted at the exchange rates ruling at the date of the transaction to the extent practicable (at an average of A\$1: £0.5117 for the reporting period), and equity balances were converted at applicable historical rates.

The above stated procedures resulted in the recognition of a foreign currency translation reserve of (£158,726) on 1 July 2016, as set out in the statement of changes in equity.

#### *Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rate prevailing at the dates of the transactions.

Foreign currency monetary assets and liabilities at the reporting date are translated at the exchange rate existing at the reporting date. Exchange differences are recognised in the statement of comprehensive income in the period in which they arise.

### **1.5 Revenue recognition**

Revenue is measured at the fair value of the consideration received or receivable, and represents amounts receivable for goods supplied, stated net of discounts, returns and value added taxes. The Group recognises revenue when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the entity; and when specific criteria have been met for each of the Group's activities, as described below. The Group bases its estimate of return on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

## *Sales of goods – retail*

The Group manufactures and sells a range of health and beauty products for sale to the retail market. Sales of goods are recognised when an order is executed and stock is segregated from the Group's inventory, ready for collection in accordance with that customer's terms of trade.

The life science products are often sold with volume discounts; customers have a right to return faulty products in the wholesale market. Sales are recorded based on the price specified in the sales contracts, net of the estimated volume discounts and returns at the time of sale. Accumulated experience is used to estimate and provide for the discounts and returns. The volume discounts are assessed based on anticipated annual purchases.

## *Internet revenue*

Revenue from the provision of the sale of goods on the internet is recognised as at the date that payment is received, because that is the point the buyer accepts legal responsibility for the good being sold. Transactions are settled by credit or payment card.

## **1.6 Finance income**

Interest income is recognised on a time proportionate basis that takes into account the effective yield on the financial asset.

## **1.7 Intangible Assets**

### *Brands*

Externally acquired brands, where identifiable, are capitalised as assets of the Group. Brands are initially capitalised at historical cost, or attributable value, when acquired as part of a business combination.

Brands have a limited legal life; however, the Group monitors global expiry dates and renews registrations where required. Brands recorded in the financial statements are not currently associated with products which are likely to become commercially or technically obsolete. Accordingly, the Directors are of the view that brands have an indefinite life.

Brands are tested annually for impairment and carried at cost less accumulated impairment charges.

## **1.8 Impairment**

At the end of each reporting period, the Group assesses whether there is any indication that an asset may be impaired. The assessment will include the consideration of external and internal sources of information. If such an indication exists, an impairment test is carried out on the asset by comparing the recoverable amount of the asset, being the higher of the asset's fair value less costs to sell and value in use, to the asset's carrying amount. Any excess of the asset's carrying amount over its recoverable amount is recognised immediately in profit or loss, unless the asset is carried at a revalued amount in accordance with another Standard. Any impairment loss of a revalued asset is treated as a revaluation decrease in accordance with that other Standard.

## **1.9 Research and Development**

Expenditure during the research phase of a project is recognised as an expense when incurred. Development costs are capitalised only when technical feasibility studies identify that the project is expected to deliver future economic benefits and these benefits can be measured reliably.

Capitalised development costs have a finite useful life and are amortised on a systematic basis based on the future economic benefits over the useful life of the project. At this stage, the useful life of the project has not been determined as development is incomplete, hence amortization has not commenced.

## **1.10 Cash & Cash Equivalents**

In the consolidated statement of cash flows, cash and cash equivalents includes cash in hand, deposits held at call with banks, other short-term highly liquid investments with original maturities of three months or less and

bank overdrafts. In the consolidated balance sheet, bank overdrafts are shown within borrowings in current liabilities.

### **1.11 Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out (FIFO) method. The cost of finished goods and work in progress comprises design costs, raw materials, direct labour, other direct costs and related production overheads (based on normal operating capacity). It excludes borrowing costs. Net realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Costs of inventories include the transfer from equity of any gains/losses on qualifying cash flow hedges for purchases of raw materials.

### **1.12 Trade Receivables**

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection is expected in one year or less (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment.

### **1.13 Trade Payables**

Trade and other payables are recognised when the Group becomes obliged to make future payments resulting from the purchase of goods and services. They are initially recognised at fair value and subsequently at amortised cost using the effective interest rate method. Current liabilities represent those amounts falling due within one year.

### **1.14 Goods and Services Tax (GST)**

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the Australian Taxation Office (ATO).

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

### **1.15 Borrowings**

Borrowings are recognised initially at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognised in the income statement over the period of the borrowings using the effective interest method.

Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw-down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a pre-payment for liquidity services and amortised over the period of the facility to which it relates.

### **1.16 Income Tax**

Income tax expense or benefit represents the sum of current corporation tax payable and provision for deferred income taxes.

Current income tax payable is based on taxable profit for the period. Taxable profit differs from net profit as reported in the statement of comprehensive income because it excludes items of income or expense that are taxable or deductible in other periods and it further excludes items that are never taxable or deductible. The Group's liability for current corporation tax is calculated using tax rates and laws that have been enacted or substantively enacted at the period-end date.

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

Deferred tax is recognised in respect of all timing differences that have originated but not reversed at the date of the statement of financial position where transactions or events have occurred at that date that will result in an obligation to pay more, or a right to pay less or to receive more tax, with the following exceptions:

Deferred tax assets are recognised only to the extent that the Directors consider that it is probable that there will be suitable taxable profits from which the future reversal of the underlying timing differences can be deducted.

Deferred tax is measured on an undiscounted basis at the tax rates that are expected to apply in the periods in which timing differences reverse, based on tax rates and laws enacted or substantively enacted at the period-end date.

## 1.17 Post Retirement Benefits

For salaries paid (all by the Australian subsidiary):

A defined contribution plan is a pension plan under which the Group pays fixed contributions into a separate entity. Superannuation – the Australian defined contribution pension scheme – is mandated by Australian law and presently set at 9.5% of gross salary payable to an employee.

The Group pays contributions to publicly or privately administered pension insurance plans on a mandatory basis. The Group has no further payment obligations once the contributions have been paid. The contributions are recognised as employee benefit expense when they are due.

## 1.18 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. Incremental costs directly attributable to the issue of new shares or options for the acquisition of a business are not included in the cost of the acquisition as part of the purchase consideration.

If the Company reacquires its own equity instruments, e.g. as the result of a share buy-back, those instruments are deducted from equity and the associated shares are cancelled. No gain or loss is recognised in the profit or loss and the consideration paid including any directly attributable incremental costs (net of income taxes) is recognised directly in equity.

## 1.19 Segment Reporting

The operating segments were reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segment, has been identified as the board of directors, which has overall control for strategic decisions.

## 1.20 Estimates and Judgements

The directors evaluate estimates and judgements incorporated into the financial statements based on historical knowledge and best available current information. Estimates assume a reasonable expectation or future events and are based on current trends and economic data, obtained both externally and within the Group.

### *Estimation of useful lives of assets*

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

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

The Group 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 policies described in Note 1.6 and Note 1.7. The recoverable amounts of cash-generating units (required to determine fair value less costs to sell) 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.

## **1.21 New accounting standards for application in future periods**

### **(a) New and amended standards adopted by the Group**

There are no IFRSs or IFRIC interpretations that are effective for the first time for the financial period beginning on 1 July 2016 that would be expected to have a material impact on the Group.

### **(b) New standards and interpretations not yet adopted**

A number of new standards and amendments to standards and interpretations are effective for annual periods beginning on or after 1 July 2017, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the financial statements of the Group, except the following set out below:

IFRS 9, 'Financial instruments', addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in July 2014. It replaces the parts of IAS 39 that relate to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories:

- 1) those measured as at fair value and 2) those measured at amortised cost. The determination is made at initial recognition.

The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Group is yet to assess IFRS 9's full impact. The Group will also consider the impact of the remaining phases of IFRS 9 when completed by the Board.

## **2. Parent Information**

### **Guarantees**

InnovaDerma PLC has not entered into any guarantees, in the financial period, in relation of the debts of its subsidiary.

### **Contingent Liabilities**

At 30 June 2017, InnovaDerma PLC did not have any contingent liabilities.

### **Contractual Commitments**

At 30 June 2017, InnovaDerma PLC had not entered into any contractual commitments.

## **3. Operating segments**

The Group has three (3) geographical/regional segments it operates in the United Kingdom, the United States of America, and the Asia Pacific region respectively. Each region is subject to differing rates of profitability, stage of development, opportunities for growth, future prospects, and risks in the Group's growth stage. The Group's internal management and reporting structure is geographically structured with senior executives responsible for each region. We have specific customers in line with these regions and have acquired assets within each region.

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Revenue by Geographical region</b>		
United Kingdom	7,215,482	2,836,386
United States of America	919,018	948
Australia/NZ/Asia	723,673	1,467,443
	<b>8,858,173</b>	<b>4,304,777</b>
	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Assets by Geographical region</b>		
United Kingdom	5,091,029	1,606,992
United States of America	478,593	77,143
Australia/NZ/Asia	2,695,479	2,368,920
	<b>8,265,101</b>	<b>4,053,054</b>

## 4. Operating profit/(loss)

The following items have been included in arriving at the operating profit:

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<i>Expenses:</i>		
Directors' remuneration	348,500	164,511
Depreciation	13,137	1,657
Auditor's remuneration		
– As auditors (for parent company and consolidation)	20,659	15,351
– Taxation compliance (for parent company and subsidiaries)	3,542	5,117

All remuneration payable to the auditors has been disclosed above. No other non-audit services have been provided. No benefits in kind are payable to the auditors.

Contributions to superannuation (money purchase pension schemes) are made on behalf of four directors of the Group.

## 5. Employees

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Staff costs for the Group during the period:</b>		
Wages and salaries	1,115,912	508,510
Social security costs	–	–
Pension costs (including superannuation)	54,127	32,006
	<b>1,170,039</b>	<b>540,516</b>

The average monthly number of staff (including executive Directors) employed by the Group during the period amounted to:

	Year ended 30 June 2017	Year ended 30 June 2016
Management staff	5	4
Other employees	19	14
	<b>24</b>	<b>18</b>

## 6. Taxation

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
<b>Current Tax</b>		
Current tax on profits in the period	345,651	150,832
Deferred tax expense	(44,644)	(86,742)
Under/over provision for income tax	39,475	–
<b>Income Tax Expense</b>	<b>340,482</b>	<b>64,090</b>

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

## Factors affecting current tax charge

The effective rate of tax for the period is higher than the standard rate of corporation tax in the UK of 19% due to tax on subsidiaries located in higher tax jurisdictions. The differences are explained below:

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
Profit before taxation	1,029,435	241,843
Profit on ordinary activities multiplied by the standard rate of tax in the UK of 19%	195,785	48,368
Differences in tax rates in subsidiary jurisdictions	67,352	41,961
Effect of change in tax rate	(931)	–
Excluded (gain)/loss from foreign jurisdictions	38,801	(26,258)
Losses carried forward	–	–
Under (over) provision in prior years	39,475	–
Permanent differences	–	19
<b>Total current tax</b>	<b>340,482</b>	<b>64,090</b>

## 7. Revenue

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
Haircare Products	144,837	486,946
Skin & Beauty Products	8,713,336	3,817,831
	<b>8,858,173</b>	<b>4,304,777</b>

## 8. Cash and cash equivalents

	30 June 2017 £	30 June 2016 £
Cash at bank	207,301	119,687

Cash at bank is included as cash and cash equivalents in connection with the statement of cash flows.

When in overdraft, this balance is included in trade and other payables.

## 9. Trade and other receivables

	30 June 2017 £	30 June 2016 £
Trade Receivables	1,781,773	1,135,668

## 10. Inventory

	30 June 2017 £	30 June 2016 £
Finished goods (Leimo™)	117,645	178,779
Finished goods (C+L)	47,563	–
Finished goods (Skinny Tan™)	2,093,781	459,551
	<b>2,258,989</b>	<b>638,330</b>

The costs of inventories recognised as an expense and included in cost of sales amounted to £3,281,747 for the year.

## 11. Prepayments and Sundry Assets

	30 June 2017 £	30 June 2016 £
Deposits held	12,351	5,584
Prepayments	77,937	20,657
Input tax	17,412	16,985
Sundry assets	7,006	–
	<b>114,705</b>	<b>43,226</b>

## 12. Intangible Assets

### Group:

	30 June 2017 £	30 June 2016 £
Brands (Skinny Tan™)	357,852	255,994
Brands (Leimo™)	1,604,595	1,695,678
Intellectual Property (Ergon)	1,333,721	–
Development Costs	349,030	54,315
	<b>3,645,198</b>	<b>2,005,987</b>

### Movement in capitalised development costs:

	30 June 2017 £	30 June 2016 £
Balance brought forward	54,315	18,397
Development expenditure during the year	294,715	35,918
	<b>349,030</b>	<b>54,315</b>

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

## 13. Deferred tax asset

	30 June 2017 £	30 June 2016 £
<b>Deferred tax items recognised in income statement:</b>		
– Other timing differences	40,031	21,491
– Income tax losses	75,874	80,388
	<b>115,905</b>	<b>101,879</b>

## 14. Trade and other payables

	30 June 2017 £	30 June 2016 £
Trade payables	1,583,801	1,045,817
Other payables	835,572	398,057
Current tax payable	501,367	169,710
	<b>2,920,740</b>	<b>1,613,584</b>

## 15. Borrowings

	30 June 2017 £	30 June 2016 £
General Borrowings	404,845	548,293
Convertible Notes	–	73,484
	<b>404,845</b>	<b>621,777</b>

### *Convertibles*

During the period to 30 June 2015, the Group issued convertible notes worth a total of £63,730. The bonds would mature two years from the issue date (29 May 2015) at their nominal value, or could be converted into shares at the holder's option at any point between the date of the Group's public listing and the maturity date. If exercised, the number of shares issued was to be calculated based on the Group's share price at the exercise date. During the Financial year the relevant notes were repaid in full.

## 16. Deferred tax liability

	30 June 2017 £	30 June 2016 £
<b>Deferred tax items recognised in income statement:</b>		
– Prepayments	–	4,186
	<b>–</b>	<b>4,186</b>

## 17. Contributed equity

	No. of shares	Share Capital £	Share Premium £
<b>2016/17</b>			
Opening balance as at 1 July 2016	10,318,535	1,375,404	1,405,161
Shares issued during the year	2,251,021	190,501	2,591,396
Share issue costs	–	–	(106,347)
<b>Balance as at 30 June 2017</b>	<b>12,569,556</b>	<b>1,565,905</b>	<b>3,890,210</b>

	No. of shares	Share Capital £	Share Premium £
<b>2015/16</b>			
Opening balance as at 1 July 2015	10,209,920	1,366,933	1,374,211
Shares issued	108,615	8,471	30,950
<b>Balance as at 30 June 2016</b>	<b>10,318,535</b>	<b>1,375,404</b>	<b>1,405,161</b>

The holder of the ordinary shares is entitled to one vote per share at any meeting of the Company whether in person or by proxy. The holder is entitled to receive dividends declared from available profits and to the surplus of assets on a winding up.

## 18. Merger reserve

InnovaDerma PLC acquired 100% of the share capital of InnovaDerma AUS & NZ Pty Ltd, InnovaDerma International Limited, InnovaDerma NZ Limited, and ID Philippines, Inc, on 28 November 2014.

These transactions are noted as being completed under common control – all companies involved in the deal were controlled by Mr Haris Chaudhry before and after the transaction was processed.

This condition falls under a scope exemption for IFRS 3. Per IAS 8.12, the Company may, in this circumstance, utilise pronouncements of other standard-setting bodies that use a similar conceptual framework to develop accounting standards.

As a UK company, the directors decided to apply UK Generally Accepted Accounting Principles, which make provision for Pooling of Interests in a common control situation, also commonly referred to as Merger Accounting.

In this circumstance, the difference between the consideration transferred and the nominal value of share capital acquired is taken to equity, creating a Merger Reserve.

### *28 November 2014 Acquisitions:*

	£
Consideration transferred (8,969,960 shares)	721,187
Nominal value of share capital acquired	(55)
<b>Value of Merger Reserve</b>	<b>721,132</b>

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

## 19. Retained Profits

	30 June 2017 £	30 June 2016 £
Balance brought forward	(415,161)	(528,600)
Profit for the period	508,139	113,439
<b>Balance carried forward</b>	<b>92,978</b>	<b>(415,161)</b>

## 20. Intercompany loan – parent company

	30 June 2017 £	30 June 2016 £
Balance brought forward	1,865,784	666,998
Leimo™ brand transfer	–	1,245,712
Movement in funds	(1,192,828)	(46,926)
<b>Balance carried forward</b>	<b>3,058,612</b>	<b>1,865,784</b>

## 21. Investment in subsidiaries

During the year, the Company held interests in the following subsidiaries:

Company Name	Date of Acquisition	Percentage Holding 30 June 2017	Percentage Holding 30 June 2016
InnovaDerma AUS & NZ Pty Ltd	28 November 2014	100%	100%
InnovaDerma International Limited	28 November 2014	100%	100%
InnovaDerma NZ Limited	28 November 2014	100%	100%
ID Philippines Inc	28 November 2014	100%	100%
Bach Health Pty Ltd	23 January 2015	100%	100%
InnovaScience Inc	31 March 2015	100%	100%
Skinny Tan Pty Ltd (a)	28 May 2015	91%	80%
SkinnyTan UK Limited (a)	28 May 2015	91%	80%
Ergon Medical Limited (b)	28 April 2017	100%	0%

a) During the year, InnovaDerma PLC paid £224,593 to acquire a further 11% of Skinny Tan™ Pty Ltd, and through direct holding, SkinnyTan UK Limited.

b) During the financial year Innovaderma PLC acquired Ergon Medical Limited, owner of Prolong™.

The following table shows the allocation of consideration paid for Ergon Medical Limited, the fair value of assets acquired, liabilities assumed, and the non-controlling interest at the acquisition date.

### Consideration for Ergon

Cash Consideration	1,022,710
<b>Total Consideration</b>	<b>1,022,710</b>

### Recognised fair value of assets acquired and liabilities assumed

Other assets	3,532
Brand	1,333,721
Trade and other payables	-314,543
<b>Total fair value of assets acquired and liabilities assumed</b>	<b>1,022,710</b>

## 22. Related party transactions

Name	Transaction	Amount received from/ (paid to) in year		Amount due from/ (to) related party	
		2017 £	2016 £	2017 £	2016 £
Farris Marketing Concepts Pty Ltd	Loan payable <sup>1</sup>	-	-	(89,502)	(87,306)
Cygenta Capital & Advisory	Provision of services <sup>2</sup>	-	(13,937)	-	-
Zaymar Investments Pty Ltd	Loan payable <sup>1</sup>	(138,508)	376,615	(320,231)	(458,739)
Mr Haris Chaudhry	Loan payable <sup>1</sup>	1,470	(88,911)	-	-

1 These loans are interest free and unsecured.

2 These expenses were settled via the issue of equity instruments in InnovaDerma PLC.

Variation in Amount due to Farris Marketing between 2016 and 2017 due to valuation of AUD loan in GBP as at 30 June 2017

### Nature of related parties

Farris Marketing Concepts Pty Ltd and Zaymar Investments are related parties of Mr Haris Chaudhry, the Executive Chairman. Cygenta Capital & Advisory Pty Ltd is a related party of Mr Joseph Bayer, the Executive Director.

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

## 23. Key Management Personnel

All transactions with key management personnel (the directors) during the year ended 30 June 2017 are disclosed below:

	Salary	Superannuation	Consultancy Fees	Total	<i>Total 2016</i>
Haris Chaudhry	168,773	16,033	–	<b>184,806</b>	<i>84,047</i>
Geert Lemair <sup>1</sup>	–	–	15,686	<b>15,686</b>	<i>17,910</i>
Joseph Bayer	94,573	8,984	–	<b>103,557</b>	<i>54,281</i>
Rodney Turner	17,850	1,696	–	<b>19,546</b>	<i>15,351</i>
Clifford Giles	–	–	16,669	<b>16,669</b>	–
Kieran Callan <sup>2</sup>	–	–	8,236	<b>8,236</b>	–
	<b>281,195</b>	<b>26,714</b>	<b>40,591</b>	<b>348,500</b>	<b><i>171,588</i></b>

1 Geert Lemair resigned from the Board on the 10th of January 2017

2 Kieran Callan was appointed to the board on the 30th of January 2017

During the period, there were no advances, credits or guarantees subsisting on behalf of the directors.

## 24. Commitments and contingencies

At 30 June 2017, the Group did not have any contingencies.

At 30 June 2017, the Group had an obligation to pay £67,283 in rent for the forthcoming 12 months, under a non-cancellable operating lease.

## 25. Reconciliation of operating profit to net cash outflow from operations

	30 June 2017 £	30 June 2016 £
Profit after income tax	688,953	177,754
Depreciation	13,137	1,237
Expenses settled in shares	–	7,733
(Increase) in trade and other receivables	(981,290)	(1,072,364)
(Increase) in inventory	(1,620,659)	(441,354)
Increase in trade and other payables	1,307,276	989,444
Increase in forex exchange gains/loss	4,275	(41,650)
Increase in taxes payable	(18,212)	72,017
<b>Net cash outflow from operations</b>	<b>(606,521)</b>	<b>(243,093)</b>

## 26. Financial risk management

The Group's financial instruments consist mainly of deposits with banks, accounts receivable and payable & loans from related parties.

The Group's financial instruments at 30 June 2017 were classified as follows:

	Note	30 June 2017 £	30 June 2016 £
<b>Financial assets</b>			
Cash and cash equivalents	8	207,301	119,687
Trade and other receivables	9	1,781,773	1,135,668
<b>Total financial assets</b>		<b>1,989,074</b>	<b>1,255,355</b>
<b>Financial liabilities</b>			
Trade and other payables	14	2,920,740	1,613,464
Borrowings	15	404,845	621,777
		<b>3,325,585</b>	<b>2,235,241</b>

### Fair value versus carrying amounts

All items shown in the preceding table as either financial assets or financial liabilities are short term instruments whose carrying value is equivalent to the fair value. There is not considered to be a material difference between the fair value and the carrying value.

### Specific Financial Risk Exposures and Management

The Group's activities expose it to a number of financial risks that include market risk, credit risk and liquidity risk.

#### (a) Market Risk

##### i) Foreign exchange risk

The Group does not hold any material financial assets denominated in a foreign currency at the period end, hence it is not exposed to foreign exchange risk.

##### ii) Interest rate risk

The Group had interest-bearing liabilities during the period, but is not exposed to interest rate risk because the interest rates on their liabilities are set by private agreement, not by reference to market rates. The Group does not have any liabilities to financial institutions as at 30 June 2017. As such, sensitivity analysis with regard to movements in interest rates would not be meaningful.

#### (b) Credit risk

Exposure to credit risk relating to financial assets arises from the potential non-performance of counter- parties of contract obligations that could lead to financial losses to the Group.

#### *Credit risk exposures*

The Group had no significant concentrations of credit risk.

#### (c) Liquidity risk

Liquidity risk arises from the possibility that the Group might encounter difficulty in settling its debts or otherwise meeting its obligations related to financial liabilities. The Group manages this risk through

# Notes to the Financial Statements (continued)

For the Year Ended 30 June 2017

careful cash management policies. In order to meet its short term obligations, the Group has the support of several key shareholders who are willing to provide funds to the Group on an as-needed basis.

For loans receivable and payable, please refer to Note 9 – Trade and Other Receivables, Note 14 – Trade and Other Payables & Note 15 - Borrowings. Loans are unsecured and have no fixed repayment date.

## 27. Share Based Payments

No share options have been granted to employees or directors during the current or preceding financial year.

## 28. Earnings per share

Basic earnings per share are calculated by dividing the profit attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the period.

The following reflects earnings and share data used in the earnings per share calculation.

	Year ended 30 June 2017 £	Year ended 30 June 2016 £
Profit/(loss) for the year	688,953	177,754
Weighted average number of shares	11,395,485	10,301,983

## 29. Subsequent Events

On 26 July 2017, 45,249 ordinary shares of EUR 0.10 were allotted.

On 13 September 2017, 37,166 ordinary shares of EUR 0.10 were allotted.

On 27 September 2017, 13,600 ordinary shares of EUR 0.10 were allotted.

On 6 October 2017, 1,600,000 ordinary shares of EUR 0.10 were allotted.

Aside from the above items, the directors are not aware of any significant events since the end of the reporting period.

## 30. Company Details

The registered office of InnovaDerma PLC is:

27 Old Gloucester Street  
London, WC1N 3AX  
United Kingdom

The principal place of business is:

Level 10, Suite 1031, 1 Queens Road  
Melbourne VIC 3004  
Australia





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