1. Company details

Name of entity:	SILK Laser Australia Limited
ABN:	66 645 400 399
Reporting period:	For the year ended 30 June 2021
Previous period:	For the year ended 30 June 2020

2. Explanation of basis of results

Initial Public Offering

The Company was incorporated on 26 October 2020 to acquire the shares of SILK Laser and Skin Holdings Pty Ltd (SLSH), which was the existing owner of the SILK business, and to undertake an Initial Public Offer (IPO) and listing on the Australian Securities Exchange (ASX), (the Listing). The restructure was completed on 10 December 2020 and the Company listed on the ASX on 15 December 2020.

SILK Laser Australia Limited (ASX: SLA) is pleased to provide its inaugural full-year preliminary announcement of results since undertaking its IPO and listing on ASX.

Results for announcement to the market

Reporting measurement				$'000
Revenue from ordinary activities	up	82.1%	to	58,878
Profit from ordinary activities after tax attributable to the owners of SILK Laser Australia Limited	up	127.9%	to	5,018
Profit for the year attributable to the owners of SILK Laser Australia Limited	up	127.9%	to	5,018
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	71.2%	to	14,155

Summary the Profit and Loss for FY21 compared with FY20: Profit and Loss Summary	Reported FY 21 $'000	Reported FY 20 $'000
Trading Sales	53,303	29,049
Cost of Sales	(14,440)	(7,810)
Gross Profit from trading	**38,863**	**21,239**
Gross Margin	72.9%	73.1%
Franchise Revenue	5,575	3,280
Total Reported revenue	**58,878**	**32,329**
Other Income*	2,482	2,515
Share of Profits from Associates	718	125
Cost of Doing Business**	(28,400)	(18,889)
IPO Related Expenses	(3,633)	-
Business combination expenses	(1,449)	-
EBITDA	**14,155**	**8,270**

Depreciation and Amortisation Expenses	(3,490)	(2,681)
Depreciation - Right-of-Use Assets (IFRS 16)	(2,586)	(1,957)
EBIT	**8,079**	**3,632**
Net-Finance Income - Loans and Cash	229	217
Net Finance Costs - IFRS 16 Leases	(671)	(681)
Profit Before Tax	**7,637**	**3,168**
Income Tax Expenses	(2,485)	(859)
Net Profit After Tax	**5,152**	**2,309**

* Excludes Interest Income of $268 (2020: $306) which has been netted off against finance costs.
** Comprises Employee Benefits, Occupancy, Marketing and Other Expenses

Brief explanation of basis of results

Profit from ordinary activities after tax and net profit for the financial year are prepared in accordance with the Corporations Act 2001 and Accounting Standards. SILK's FY2021 statutory profit after income tax totalled $5.2 million (FY2020 $2.3 million) after deducting a tax expense of $2.5 million (FY2020 $0.9 million).

The above increase in reported net profit after income tax in FY2021 was primarily due to:

- Growth in Trading Sales by 83% to $53.3 million (FY2020 $29.0million)
- Growth in Franchise Revenues of 70% to $5.6 million (FY2020 $3.3 million)
  The above two metrics when added together are referred to as Reported Revenue in the above Profit and Loss summary table.
- The Reported Revenue increase was driven by growth in Network Cash Sales of 68% to $85.1 million (FY2020: $50.7 million). Like for like Network Cash Sales grew by 52% for all clinics that were open in the prior year to 30 June 2020.
- Sales growth was also supported by the growth in clinics to 61 at the end of FY2021. There were 11 new clinic openings across the network in FY21, including three corporate clinics, four majority owned franchise clinics, three 50% owned joint venture franchised clinics and one new traditional clinic. The Group also acquired the remaining 50% of a joint venture franchise clinic from a franchise partner, which has accordingly become a corporate clinic.
- SILK launched the new service category of body contouring in FY21 following initial trials in July 2020.
- Operating leverage across the Group has meant that the cost of doing business, comprising employment, occupancy, marketing and other expenses, has grown at a slower rate than sales and gross profit. The cost of doing business increased by 77% compared with the increase in the total reported revenue of 82%.
- In FY2021 SLA incurred expenses relating to the IPO of $3.2 million plus $0.4 million relating to a one off share grant to executives in relation to a bonus share award related to the IPO.
- Business combination expenses of $1.4 million were incurred in relation to the agreed acquisition of the ASC Group.
- SILK received JobKeeper and other government grants in relation to the stimulus measures to counteract the impact of COVID-19 of $2.0 million (FY2020 $2.2 million).

Acquisition agreement

On 18 June 2021 SILK announced that it had signed a binding agreement to acquire Beauty Service Holdings and a number of its subsidiaries which trade as Australian Skin Clinics in Australia and The Cosmetic Clinic in New Zealand, hereinafter referred to as the ASC Group for a consideration of $52 million.

ASC comprises a network of 55 clinics, including 48 traditional franchises, four joint venture franchises and three corporate clinics, and operates a very similar business model to SILK. Adding the 56 clinics to SILK's existing network of 61 clinics, will bring SILK closer to achieving the Company's network plan of 150 clinics in the medium term.

ASC brings a complementary clinic network with limited crossover of locations, primarily based in the Eastern Australian States and New Zealand, to complement SILK's very strong market presence in Western Australia, South Australia, Northern Territory and Tasmania.

The acquisition consideration of $52 million comprises cash payable at completion of $47 million and an earn out consideration of $5.0 million, which is payable in SILK ordinary shares. The acquisition is expected to complete on 31 August 2021. As part of the funding of this acquisition, on 21 June 2021, SILK successfully completed a private placement to sophisticated and institutional investors raising $20 million from the issue of 4.7 million new shares.

Non-IFRS measures

SILK's IPO Prospectus contained references to Proforma EBITDA, Proforma net profit after income tax and Underlying EBITDA after the normalisation adjustments explained below.

The IPO Prospectus included forecasts for FY2021 of these non-IFRS measures.

The four normalisation adjustments were:

- To remove the effect on financial performance of the JobKeeper payments and other government stimulus measures;
- To remove the one-off costs relating to the IPO and ASX listing of the Company, which occurred on 15 December 2020;
- To remove the effect of the one-off cost of the share awards made to the Chairman and two senior executives upon the listing of the Company. The listing bonus award was detailed in Section 6 of the IPO Prospectus; and
- To remove the business combination transaction expenses relating to the acquisition of the ASC Group.

Additionally SILK's IPO Prospectus contained a forecast of Underlying EBITDA which is based on Proforma EBITDA after adjusting for:

- The movement in unearned revenue to reflect sales on a cash basis, rather than earned basis in compliance with AASB 15; and
- Cash rent payments which are reflected in the depreciation and interest lines in statutory reporting under AASB 16.

When SILK announced its half year results on 25th February 2021, SILK updated its guidance on the expected outcome for the two EBITDA measures. The reported and forecasted measures are summarised in the table below.

FY2021, $ millions	Reported	Prospectus forecast	Updated market guidance
Proforma EBITDA	17.3	14.0	15.0 to 16.0
Underlying EBITDA	14.8	13.5	14.0 to 15.0
Proforma NPAT	7.5	5.4	None given

The detailed reconciliations of these non-IFRS measures are shown in the table below:

Year ended 30 June 2021	EBITDA $'000	NPAT $'000
Statutory accounts	**14,155**	**5,152**
Less: JobKeeper and other government stimulus measures	(1,951)	(1,365)
Add: IPO related expenses including listing bonus share award	3,633	2,671
Add: Business combination transaction expenses	1,449	1,014
Pro forma	**17,286**	**7,472**
Pro forma EBITDA	**17,286**	**-**
Less: cash rent (IFRS 16 adjustment)	(3,223)	-
Increase/(decrease) in unearned Income less breakage	(207)	-
Less: Share of net profit/(loss) of associates	(718)	-
Add: 50% share of Underlying EBITDA from Joint Ventures	1,928	-
Less: Underlying EBITDA attributable to Non-Controlling Interests	(298)	-
Underlying EBIDA	**14,768**	**-**

COVID 19 impacts and risk mitigation measures

As a provider of non-surgical aesthetic services, SILK is very mindful of protecting its staff and customers through the course of the COVID-19 pandemic. Several new protocols were introduced into the clinic environment over FY21 to ensure the highest standards of hygiene and safety. These protocols were accompanied by related staff training.

The Group managed the financial impact of several rolling lockdowns during the year, albeit SILK was not directly affected by the extended shutdown of business in Victoria as SILK did not have operations there during the year.

3. Net tangible assets

	Reporting period Cents	Previous period Cents
Net tangible assets per ordinary security	105.77	41.24

4. Entities over which control has been gained or lost during the period

SLC Burnside Pty Ltd

On 8 November 2020, the Group acquired the remaining 50% of SLC Burnside Pty Ltd for total consideration of $0.3 million. SLC Burnside Pty Ltd operates a SILK clinic in the Burnside Village Shopping Centre. Goodwill of $0.3 million has been recognised in respect of the acquisition. The goodwill is attributable to synergies, revenue growth and future market development. The benefits are not recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

The following entities have been incorporated during 2021:

Entity	Ownership Interest %
SLC Bundaberg	100%
SLC Wagga Wagga	50%
SLC Bunbury	50%
SLC Burleigh Pty Ltd	75%
SLC Charlestown	60%
SLC Ipswich	50%
SLC Strathpine	100%
SLC Belconnen Pty Ltd	75%
SLC Woden	75%
SLC Morley Pty Ltd	100%
SLC Toowoomba Pty Ltd	100%

5. Dividends

Current period

In accordance with the Prospectus lodged with the Australian Securities and Investment Commission (ASIC) on 14 December 2020, a pre-IPO dividend of $1.5 million was paid to shareholders on 10 December 2020, immediately prior to its IPO and listing on ASX. There have been no dividends paid or declared post IPO. No further dividends are expected to be paid in respect of the year ended 30 June 2021.

	Amount per security Cents	Franked amount per security Cents
Pre-IPO dividend paid (fully franked)	4.0	4.0

Previous period

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

6. Details of associates and joint venture entities

	Reporting entity's percentage holding Reporting period %	Reporting entity's percentage holding Previous period %	Contribution to profit/(loss) (where material) Reporting period $'000	Contribution to profit/(loss) (where material) Previous period $'000
SLC Burnside Pty Ltd	100.00%	50.00%	35	(42)
SLC Marion Pty Ltd	50.00%	50.00%	150	115
SLC Casuarina Pty Ltd	50.00%	50.00%	266	239
SLC Maroochydore Pty Ltd	50.00%	50.00%	-	-
SILK Tea Tree Plaza	50.00%	50.00%	115	(33)
SLC Fairfield Pty Ltd	50.00%	50.00%	135	84
SLC Palmerston Pty Ltd	50.00%	50.00%	14	56
SLC Townsville Pty Ltd	50.00%	50.00%	-	-
SLC West Lakes Pty Ltd	50.00%	50.00%	78	27
SLC Bunbury Pty Ltd	50.00%	-	-	-
SLC Wagga Pty Ltd	50.00%	-	85	-
SLC Ipswich Pty Ltd	50.00%	-	-	-

7. Independent Audit

Details of audit:

The financial statements are preliminary and are subject to an ongoing independent audit being conducted by Grant Thornton Audit Pty Ltd.

This report should be read in conjunction with any public announcements made by SILK Laser Australia Limited and its controlled entities during the year ended 30 June 2021 in accordance with the continuous disclosure obligations arising under the Corporations Act 2001 and ASX listing rules.

8. Further Information

This Appendix 4E should be read in conjunction with the accompanying preliminary financial report of the Group for the year ended 30 June 2021 and the ASX market release of the same date.

9. Signed

Signed ______________________________ Date: 25 August 2021

Boris Bosnich
Chairman and Non-Executive Director
Adelaide

SILK Laser Australia Limited

ABN 66 645 400 399

Preliminary Financial Report - 30 June 2021

General information

The financial statements cover SILK Laser Australia Limited as a Group consisting of SILK Laser Australia Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is SILK Laser Australia Limited's functional and presentation currency.

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

5/148 Greenhill Road, Parkside SA 5063

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

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 25 August 2021. The Directors have the power to amend and reissue the financial statements.

	Note	30 June 2021 $'000	30 June 2020 $'000
Revenue			
Trading sales	5	53,303	29,049
Cost of sales	8	(14,440)	(7,810)
Gross profit		38,863	21,239
Franchise revenue	5	5,575	3,280
Other Income	6	2,750	2,821
Share of Profits of Associates	7	718	125
Employee benefits expense	8	(20,463)	(13,891)
Occupancy costs		(931)	(841)
Marketing expenses		(2,701)	(1,072)
Other expenses	8	(4,306)	(3,086)
IPO related expenses		(3,633)	-
Business combination expenses		(1,449)	-
Depreciation and amortisation expenses	8	(6,076)	(4,638)
Finance costs	8	(710)	(769)
Profit before income tax expense		7,637	3,168
Income tax expense	9	(2,485)	(859)
Profit after income tax expense for the year		5,152	2,309
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		5,152	2,309
Profit for the year is attributable to:			
Non-controlling interest		134	108
Owners of SILK Laser Australia Limited		5,018	2,201
		5,152	2,309
Total comprehensive income for the year is attributable to:			
Non-controlling interest		134	108
Owners of SILK Laser Australia Limited		5,018	2,201
		5,152	2,309
		Cents	Cents
Basic earnings per share	37	11.81	5.19
Diluted earnings per share	37	11.49	5.05

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

SILK Laser Australia Limited
Consolidated statement of financial position
As at 30 June 2021

	Note	30 June 2021 $'000	30 June 2020 $'000
Assets			
Current assets			
Cash and Cash Equivalents	10	44,673	4,605
Trade and Other Receivables	11	4,813	4,444
Inventories	12	2,979	2,057
Other Assets	15	289	113
Total current assets		52,754	11,219
Non-current assets			
Trade and Other Receivables	11	1,869	4,906
Investments in Associates	13	881	163
Property, Plant and Equipment	16	18,794	13,285
Right of Use Assets	14	11,382	9,030
Intangible Assets	17	27,918	27,604
Deferred Tax	18	8,507	4,362
Other Assets	15	1,463	1,033
Total non-current assets		70,814	60,383
Total assets		123,568	71,602
Liabilities			
Current liabilities			
Trade and Other Payables	19	9,667	5,908
Contract Liabilities	20	9,311	8,325
Lease Liabilities	21	4,816	4,107
Income Tax Payable	22	3,329	808
Provisions	23	1,129	677
Total current liabilities		28,252	19,825
Non-current liabilities			
Contract Liabilities	20	150	219
Lease Liabilities	21	11,583	10,676
Deferred tax liabilities	18	5,274	3,607
Provisions	23	654	343
Total non-current liabilities		17,661	14,845
Total liabilities		45,913	34,670
Net assets		77,655	36,932
Equity			
Share Capital	24	73,746	36,567
Share Based Payments Reserve	25	425	533
Retained profits		3,550	32
Equity attributable to the owners of SILK Laser Australia Limited		77,721	37,132
Non-Controlling Interest	26	(66)	(200)
Total equity		77,655	36,932

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

	Share Capital Ordinary shares $'000	Share Based Payment Reserve $'000	(Accumulate losses) / Retained Earnings $'000	Non-controlling Interests $'000	Total equity $'000
Balance at 1 July 2019	36,567	145	(2,169)	(308)	34,235
Profit after income tax expense for the year	-	-	2,201	108	2,309
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	2,201	108	2,309
Share-based payments	-	388	-	-	388
Balance at 30 June 2020	36,567	533	32	(200)	36,932

	Share Capital Ordinary shares $'000	Share Based Payment Reserve $'000	Retained Earnings $'000	Non-controlling Interests $'000	Total equity $'000
Balance at 1 July 2020	36,567	533	32	(200)	36,932
Profit after income tax expense for the year	-	-	5,018	134	5,152
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	5,018	134	5,152
New share capital raised - Pre-IPO	206	-	-	-	206
Pre-IPO Capital return (note 27)	(5,400)	-	-	-	(5,400)
Granting of A class shares	-	593	-	-	593
Transfer for options vested	1,337	(1,337)	-	-	-
Share-based payments (note 38)	-	211	-	-	211
Share based payments expense listing award (note 38)	-	425	-	-	425
Proceeds from call on shares	3,960	-	-	-	3,960
New share capital raised - IPO	20,000	-	-	-	20,000
Share transaction costs - IPO	(3,125)	-	-	-	(3,125)
Tax effect - IPO Costs	750	-	-	-	750
Share Placement	20,000	-	-	-	20,000
Share placement costs	(722)	-	-	-	(722)
Tax effect - Share placement costs	173	-	-	-	173
Dividends paid (note 27)	-	-	(1,500)	-	(1,500)
Balance at 30 June 2021	73,746	425	3,550	(66)	77,655

	Note	30 June 2021 $'000	30 June 2020 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		60,484	33,501
Receipts from Government Grants		1,952	1,320
Payments to suppliers and employees (inclusive of GST)		(36,817)	(23,827)
Interest received	6	268	306
Income tax refunded / (paid)		(1,342)	54
Interest paid (AASB 16)	8	(672)	(681)
Interest paid	8	(38)	(88)
Net cash from operating activities	36	23,835	10,585
Cash flows from investing activities			
Payments for property, plant and equipment	16	(10,461)	(5,030)
Payments for intangibles		(56)	(39)
Payments for cash held in guarantee deposits		(430)	(167)
Acquisition of subsidiaries, net of cash acquired	34	(338)	-
Proceeds from disposal of property, plant and equipment		1,646	-
Proceeds from sale of subsidiaries		-	75
Net cash used in investing activities		(9,639)	(5,161)
Cash flows from financing activities			
Proceeds from call on shares	24	3,960	-
Proceeds from issue of shares - IPO related	24	20,205	-
Share issue transaction costs - IPO		(6,758)	-
Pre-IPO capital return	27	(5,400)	-
Pre-IPO dividend	27	(1,500)	-
Proceeds from issue of shares - Share placement	24	20,000	-
Share issue transaction costs - Share placement		(2,029)	-
Proceeds/(Payments) from/(to) loans with related parties		1,451	(808)
Repayment of principal portion of lease liabilities	21	(4,057)	(2,065)
Net cash from/(used in) financing activities		25,872	(2,873)
Net increase in cash and cash equivalents		40,068	2,551
Cash and cash equivalents at the beginning of the financial year		4,605	2,054
Cash and cash equivalents at the end of the financial year	10	44,673	4,605

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

Note 1. Restructure prior to IPO and listing on the ASX

SILK Laser Australia Limited ('the Company') was incorporated on 26 October 2020 to acquire the shares of SILK Laser and Skin Holdings Pty Ltd (SLSH), which was the existing owner of the SILK business, and to undertake an Initial Public Offer (IPO) and listing on the ASX (the IPO).

Prior to the IPO, on the 10 December 2020, a corporate restructure was undertaken, whereby:

- the Company acquired all the issued capital of SLSH from the existing shareholders; and
- the Existing Shareholders were issued with shares in the Company in exchange for shares in SLSH.

The value of these shares have been determined by reference to the existing carrying value of share capital of the former parent, SLSH at the date of the restructure.

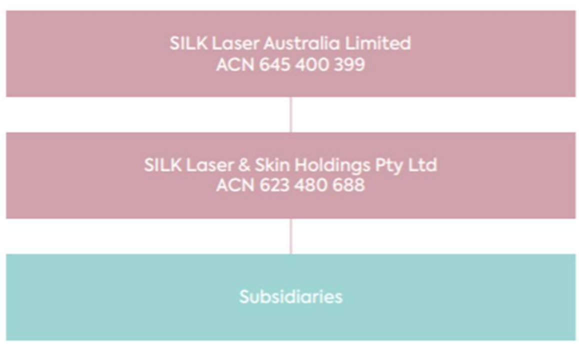
Immediately prior to the acquisition of SLSH by the Company, SLSH paid to its shareholders a pre-IPO, fully franked dividend of $0.04 per share and a capital return of $0.13 per share.

The pre-IPO dividend of approximately $1.5 million and the capital return of approximately $5.4 million were funded from SLSH's existing cash reserves.

The Company listed on the Australian Securities Exchange on 15th December 2020 and raised $20 million from the issue of new shares and existing shareholders obtained $63.5 million from the sale of part of their existing shareholding. Existing shareholders retained a significant portion of their existing shares and at completion of the listing held 48.6% of the Company's shares, with New Shareholders owning 51.4%.

Further details of the IPO can be found in the Prospectus, which was lodged with ASIC/ASX on the 23 November 2020.

SILK corporate structure on Completion of the Offer:



SILK Laser Australia Limited and SLSH are controlled by Advent Fund before and after business restructure. Through this transaction, the effective control of SLSH passed to the shareholders of SILK Laser Australia Limited. The transaction is one referred to in AASB 3 Business Combinations as a common control transaction, as the nature and substance of this transaction is a group restructure where following the restructure SILK Laser Australia Limited took control of SLSH with no change in underlying control.

Business combinations involving entities under common control is scoped out under AASB 3 Business Combinations. AASB 3 provides no guidance on the accounting for these types of transactions but rather requires an entity to develop an accounting policy. The two most common methods utilised are the purchase method and the pooling of interests method (predecessor values).

Management has determined that the pooling of interest method is the most appropriate whereby the financial statements are prepared using the predecessor book values without any step up in the fair value. Using the pooling of interest method, the financial information for the periods prior to the restructure has been prepared to reflect as if the restructure had occurred from the beginning of the comparative period.

All transaction costs incurred in relation to the business reconstruction were expensed to the profit and loss.

Note 2. Summary of Accounting Policies

The consolidated financial report covers SILK Laser Australia Limited and its controlled entities ('the Group'). SILK Laser Australia Limited is a for-profit Company limited by shares, incorporated and domiciled in Australia.

Basis of preparation

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

Historical cost convention

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

New or amended Accounting Standards and Interpretations adopted

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

Note 3. Critical Accounting Estimates and Policies

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

Note 4. Operating Segments

Identification of reportable operating segments

The Group operates within one operating segment, being provision of non-surgical aesthetic services and sale of owned brand skincare products through their corporate, majority owned and franchised clinics, and fee income from franchise clinics, in Australia. The chief operating decision maker for the Group is the Chief Executive Officer. The clinics' and franchise fee income form part of one reportable segment, as they have similar growth rates, the underlying business models are the same and franchise clinic revenue increases at a similar rate to corporate and majority owned clinics. Total revenue disclosed in the consolidated statement of comprehensive profit and loss all relates to this one reportable segment in line with prior years, with no justification for a change identified. Results for announcement to the market and stakeholders are made on a SILK Laser Australia Limited consolidated level as one operating segment. The Group is not reliant on any single customer. As at 30 June 2021, the Group operated 33 corporate clinics and majority owned clinics in Australia (2020: 28), 11 Joint Venture clinics in which the Group has a 50% shareholding (2020:11) and 17 franchised clinics (2020:16).

Note 5. Revenue

	30 June 2021 $'000	30 June 2020 $'000
Timing of revenue recognition		
Sale of goods and services - recognised at a point in time	53,303	29,049
Franchise revenue - recognised at a point in time	5,438	3,174
Initial franchise revenue - recognised over time	137	106
Reported revenue	58,878	32,329

Recognition and Measurement

Revenue arises primarily from the sales of Laser hair removal, non-invasive cosmetic injections, skin treatments, body contouring and retail sale of skin care products. This will be referred to as skin care and cosmetic treatments.

Laser hair removal, non-invasive cosmetic injections, skin treatments, body contouring and retail sale of skin care products

Revenue from the sale of cosmetic treatments and skin care products is recognised at the point in time when the Group transfers control of the products to the customer.

Revenue from the sale of laser hair removal, cosmetic injections, skin treatments and body contouring is recognised once the treatment has been performed. Such treatments can be performed with a single clinic visit or may be sold as a package of treatments that require multiple visits. For single visit treatments, revenue is recognised at the point in time that the service has been provided. For treatment packages requiring multiple visits, each visit is determined to be a distinct performance obligation under the contract and revenue is recognised at the point in time that these performance obligations are satisfied.

For transactions that comprise multiple performance obligations, such as bundled sale of goods and treatments, the transaction price is allocated to each performance obligation based on the apportionment of the selling price.

Contract Liabilities

Where consideration has been received in advance of the treatment, the Group recognises a contract liability to the extent of unsatisfied performance obligations. Revenue is recognised when the Group satisfies these performance obligations, which is usually once the treatment has been administered to the respective client.

Gift cards and packages are considered a prepayment for goods and services to be delivered in the future, which creates a performance obligation for the Group. The Group recognises a contract liability for the amount received in advance for the gift card/package and recognises revenue when the customer redeems the gift card or the service from the package is provided and the Group fulfils the performance obligation of the transaction.

The Group recognises the unredeemed value of gift cards and treatment packages as breakage/non-redemption income. The Group recognises the expected non-redemption amount as revenue in the proportion to the historical pattern in which the gift cards and packages are utilised by the customers.

Franchise revenue

Initial franchise fees are recognised as revenue on a straight-line basis over the term of the respective franchise agreement, usually five years. This is on the basis that the Group has determined that the services provided in exchange for initial fees are highly interrelated with the franchise right and are not individually distinct from the ongoing services provided to the franchisees.

Revenue associated with the continuing sales-based service fees and marketing fund contributions are recognised when the related franchisee sale occurs, on a monthly basis. The Group considers there to be one performance obligation, being the franchise right.

Note 6. Other Income

	30 June 2021 $'000	30 June 2020 $'000
Government wage subsidy (JobKeeper) and COVID-19 related grants	1,952	2,018
Other income	530	497
Interest income	268	306
	2,750	2,821

Government Wage Subsidy & Other Government Grants

In March 2020, in response to the COVID-19 pandemic, the Australian Government announced the JobKeeper scheme providing a wage subsidy, whereby employers received $1,500 per fortnight for each employed employee over a six-month period ending in September 2020. To qualify, an employer was required to satisfy eligibility criteria and had to pay the eligible employees at least $1,500 per fortnight, even if their regular wage per fortnight was less than $1,500. The Group did not quality for JobKeeper beyond the end of September.

JobKeeper payments are considered government grants and accounted for under AASB 120 Accounting for Government Grants and Disclosure of Government Assistance. Government grants are recognised when there is reasonable assurance the Group will comply with the conditions attaching to them and the grant will be received. Grants that compensate the Group for expenses are recognised in profit or loss on a systematic basis in the periods in which the related expenses are recognised.

The Group has recognised $1.65 million (2020: $2.0 million) JobKeeper income, which is disclosed as Other income as in the consolidated statement of profit or loss and other comprehensive income. Additionally the Group received Cash flow boost and other government grants $0.3 million (2020: $0.2 million) as disclosed in the table above.

Other Income

Other income includes profit on sales of fixed assets, dividends received and proceeds from insurance claim.

Interest income

Interest is recognised using the effective interest method, which, for floating rate financial assets is the rate inherent in the financial instrument.

Note 7. Share of Profits of Associates

	30 June 2021 $'000	30 June 2020 $'000
Share of net profits after tax of associates	718	125

Share of Profits of Associates

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture.

When there has been a change recognised directly in equity of the associate of joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity.

The aggregate of the Group’s share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Note 7. Share of Profits of Associates (continued)

Additional detail on investments in Associates is included in note 13.

Note 8. Expenses

	30 June 2021 $'000	30 June 2020 $'000
Profit before income tax includes the following specific expenses:		
Cost of sales		
Cost of sales	14,440	7,810
Depreciation, amortisation and impairment		
Amortisation of Intangibles	27	110
Impairment write down of Property, Plant and Equipment	-	277
Depreciation on Property, plant and equipment	3,463	2,237
Depreciation on Right-of-use assets	2,586	1,957
Surrender of lease	-	57
Total depreciation	6,076	4,638
Employee benefits Expense:		
Defined contribution plan	1,393	910
JobKeeper	1,658	2,010
Payroll tax	874	525
Share based payment expense	211	388
Wages and salaries	16,327	10,058
	20,463	13,891
Overhead expenses:		
Listed company compliance and consulting costs	365	-
Merchant fees	697	278
Office expenses	343	433
Other expenses	1,807	992
Professional fees	1,002	798
Rebranding costs	-	433
Travel expenses	92	152
	4,306	3,086
Finance costs		
Interest expenses - Leases	672	681
Interest expenses - Other	38	88
Finance costs expensed	710	769

Cost of Sales

Cost of sales mainly comprises the cost of cosmetic injectable supplies and SILK Owned branded products manufactured and supplied by third parties.

Note 9. Income tax expense

	30 June 2021 $'000	30 June 2020 $'000
Income tax expense		
Current tax	3,806	541
Total deferred tax	(1,321)	318
Aggregate income tax expense	2,485	859
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	7,637	3,168
Tax at the statutory tax rate of 30%	2,291	950
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	191	-
Adjustment for non-deductible expenses/other non-taxable differences	392	(91)
Movement in temporary differences	(389)	-
Income tax expense	2,485	859

Income tax

Current income tax are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in Australia where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Note 10. Cash and Cash Equivalents

	30 June 2021 $'000	30 June 2020 $'000
Current assets		
Cash at bank and on hand	44,673	4,605

Accounting policy for cash and cash equivalents

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

Note 11. Trade and Other Receivables

	30 June 2021 $'000	30 June 2020 $'000
Current assets		
Trade receivables	2,788	2,855
Less: Allowance for expected credit losses	(20)	(20)
Sub-Lease Receivables	881	685
Associate Shareholder Loans Receivable	1,164	615
Sundry receivables	-	309
	4,813	4,444
Non-current assets		
Sub-Lease Receivables	1,361	2,398
Associate Shareholder Loans Receivable	508	2,508
	1,869	4,906

2021 Trade Receivable Maturity Table	Current	>1 month	> 2 months	> 3 months	Older	Total
	2,140	194	324	115	15	2,788

Allowance for expected credit losses

Collectability of trade receivables, including sub lease receivables, are reviewed on an ongoing basis at an operating unit level. An impairment allowance is recognised in compliance with the simplified approach permitted by AASB 9, by recognising lifetime expected credit losses using a provision matrix. The matrix was developed to reflect historic default rates, with higher default rates applied to older balances. The approach is followed for all receivables unless there are specific circumstances which would render the receivable irrecoverable and therefore require a specific provision. A provision is made against trade receivables until such time as the Group believes the amount to be irrecoverable, after which the trade receivable balance is written off. The amount of the impairment loss is recognised in the consolidated statement of comprehensive profit or loss. When a trade receivable for which an allowance for credit loss had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in the consolidated statement of profit or loss.

Recognition and measurement

Trade and Other Receivables are initially recognised at transaction price (invoice value) and subsequently measured at amortised cost, less an allowance for impairment losses (expected credit loss).

Trade receivables are non-interest bearing. Trade receivables generally have 30-60 day terms.

Associate shareholder loans receivable from joint ventures and franchisees have extended terms as these receivables relate to repayment of fit-out contributions for new clinics. Associate shareholder loans are repayable overtime as clinics move into cash positive trading positions.

Sub-leases receivable relate to receivable amounts from franchisees where the Group has entered into the premise lease arrangement as lessee and then sub-leased to the franchisee which is not part of the Group. The value recognised is the fair value of the expected lease repayments from the franchisee.

Trade and other receivables are presented as current assets unless collection is not expected for more than 12 months after the reporting date, in which case they are recognised at their present value, discounted using the appropriate interest rate.

Note 12. Inventories

	30 June 2021 $'000	30 June 2020 $'000
Current assets		
Stock on hand - at cost	2,979	2,057

Recognition and measurement

Inventories are valued at the lower of cost and net realisable value. Costs incurred in bringing each product to its present location and condition are accounted for on a weighted average cost basis. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs necessary to make the sale.

Note 13. Investments in Associates

SILK Laser Australia Limited accounts for the following entities as Associates via the equity accounting method in accordance with AASB 128 *Investments in Associates*.

Entity	June 2021 Group % Interest	Carrying Amount	June 2020 Group % Interest	Carrying Amount
SLC Burnside Pty Ltd *	100%	$0	50%	$50
SLC Marion Pty Ltd	50%	$150,511	50%	$50
SLC Casuarina Pty Ltd	50%	$266,377	50%	$91,324
SLC Maroochydore Pty Ltd	50%	$1	50%	$1
SILK Tea Tree Plaza	50%	$114,896	50%	$1
SLC Fairfield Pty Ltd	50%	$135,404	50%	$33,435
SLC Palmerston Pty Ltd	50%	$51,111	50%	$37,500
SLC Townsville Pty Ltd	50%	$50	50%	$50
SLC West Lakes Pty Ltd	50%	$77,713	50%	$50
SLC Bunbury Pty Ltd	50%	$50	50%	$50
SLC Wagga Pty Ltd	50%	$85,069	50%	$50
SLC Ipswich Pty Ltd	50%	$50	-	$0
Total		**$881,232**		**$162,561**

* On 8 November 2020, the Group acquired the remaining 50% of SLC Burnside Pty Ltd, refer to note 34 for further details.

	30 June 2021 $'000	30 June 2020 $'000
Summarised financial performance for all equity accounted investments:		
Profit after income tax	1,879	198
Summarised financial position for the year for all equity accounted investments:		
Gross net assets/ (liabilities)	1,072	(1,068)

In accordance with *AASB 12 Disclosure of interest in other entities*, the summarised financial information presented above is the amounts included in the Australian-Accounting-Standards financial statements of the joint venture or associate and not SILK's share of those amounts.

Note 13. Investments in Associates (continued)

Recognition and measurement

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence or joint control are similar to those necessary to determine control over subsidiaries. The Group's investment in its associate and joint venture are accounted for using the equity method.

Under the equity method, the investment in an associate or a joint venture is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Group's share of net assets of the associate or joint venture since the acquisition date. Goodwill relating to the associate or joint venture is included in the carrying amount of the investment and is not tested for impairment separately.

The statement of profit or loss reflects the Group's share of the results of operations of the associate or joint venture.

When there has been a change recognised directly in equity of the associate of joint venture, the Group recognises its share of any changes, when applicable, in the statement of changes in equity. Unrealised gains or losses resulting from transactions between the group and the associate or joint venture are eliminated to the extent of the interest in the associate or joint venture.

The aggregate of the Group's share of profit or loss of an associate and a joint venture is shown on the face of the statement of profit or loss outside operating profit and represents profit or loss after tax and noncontrolling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

After application of the equity method, the Group determines whether it is necessary to recognise an impairment loss on its investment in its associate or joint venture. At each reporting date, the Group determines whether there is objective evidence that the investment in the associate or joint venture is impaired. If there is such evidence, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate or joint venture and its carrying value, and then recognises the loss within 'Share of profit of an associate and a joint venture' in the statement of profit or loss.

Upon loss of significant influence over the associate or joint control over the joint venture, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate or joint venture upon loss of significant influence or joint control and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

Note 14. Right of Use Assets

a) Right-of-use assets

	30 June 2021 $'000	30 June 2020 $'000
Non-current assets		
Right of use asset	16,064	10,986
Less: Accumulated amortisation	(4,682)	(1,956)
	11,382	9,030

Note 14. Right of Use Assets (continued)

Movements in right of use asset

Net carrying amount at beginning of year	9,030	10,145
Transfer of lease	-	(127)
Lease Surrender	(232)	(57)
Re-measurement of Lease Liability	(20)	-
Lease modification	62	-
Additions to right-of-use assets	5,128	1,025
Depreciation	(2,586)	(1,956)
Net carrying amount at end of year	11,382	9,030

The Group has lease contracts for the rental of clinic outlets and head office premises and sub leases of some franchisee clinic outlets.

Within the lease agreements there are incentive clawback provisions which if certain circumstances arise these incentives are repayable to the landlord. The right of use asset above incorporates these incentives being utilised over the lease term, but if the clawback provisions are triggered this will result in lease modification and adjustment to the value of the right of use asset and lease liabilities currently recognised.

With the exception of short-term leases and leases of low value underlying assets, each lease is reflected on the Statement of Financial Position as a right-of-use asset and a lease liability. Variable lease payments which do not depend on an index or a rate (such as lease payments based on a percentage of store sales) are excluded from the initial measurement of the lease liability and asset. These leases have an average life of between one and eight years at inception. There are no restrictions placed upon the lessee by entering into these leases. The leases contain varying terms, escalation clauses and renewal rights. On renewal, the lease terms are renegotiated.

Additions to the right-of-use assets during the year were $5.1m.

Recognition and measurement

The Group as a lessee

For any new contracts entered into on or after 1 July 2019, the Group considers whether a contract is, or contains a lease. A contract is, or contains a lease, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To apply this definition the Group assesses whether:

- the contract contains an identified asset, which is explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Group. If the supplier has a substantive substitution right, then the asset is not identified;
- the Group has the right to obtain substantially all economic benefits from use of the asset throughout the period of use;
- the Group has the right to direct the use of the asset throughout the period of use; and
- the Group assesses whether it has the right to direct 'how and for what purpose' the asset is used for.

At lease commencement, the Group recognises a right-of-use asset and a lease liability on the consolidated Statement of Financial Position. The right-of-use asset is measured at cost, less any accumulated amortisation and impairment losses, and adjusted for remeasurement of lease liabilities.

The cost of the right-of-use asset comprises the initial measurement of the lease liability, initial direct costs incurred when entering into the lease, an estimate of the costs to be incurred in dismantling and removing the underlying asset and restoring the site to the condition required by the terms and conditions of the lease, lease payments made in advance of the lease commencement date less any lease incentives received.

Right-of-use assets are amortised on a straight-line basis over the shorter of its estimated useful life and the lease term as per the table below. The Group also assesses the right-of-use asset for impairment when such indicators exist.

Note 14. Right of Use Assets (continued)

At the commencement date, the Group measures the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate.

Lease payments comprise fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments.

When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or in the consolidated statement of profit or loss if the right-of-use asset is already reduced to zero. The Group has elected to account for short-term leases (leases with an expected term of 12 months or less) and leases of low-value assets using the practical expedients. Instead of recognising a right-of-use asset and lease liability, the payments in relation to these are recognised as an expense in the consolidated statement of profit or loss on a straight-line basis over the lease term. Incentives for entering into short-term or leases of low-value assets are recognised evenly over the term of the lease.

The Group as a lessor

As a lessor the Group classifies its leases as either operating or finance leases.

A lease is classified as a finance lease if it transfers substantially all the risks and benefits incidental to ownership of the underlying asset, and classified as operating lease if it does not.

Where the Group acts as lessor and then sub-leases a premises to a franchisee, where substantially all the risks and benefits of incidental ownership are transferred, the head lease liability is recognised; the right of use asset is derecognised; and a lease receivable is recognised for the net investment in the sub-lease. Any differences between the right of use asset and the net investment in the sub-lease in recognised in Profit or Loss. During the term of the sub-lease, SILK recognises both interest income and the sub-lease and interest expense on the lead lease.

Practical expedient applied

AASB 2020-4 Amendments to Australian Accounting Standards - COVID-19 Related Rent Concessions came into effect from 1 June 2020. This Standard amends AASB 16 to provide a practical expedient permitting lessees not to assess whether rent concessions that occur as a direct consequence of the COVID-19 pandemic and meet specified conditions are lease modifications. Instead, a lessee accounts for those rent concessions as if they were not lease modifications.

The reduction only affects payments which falls before June 2021 and there has been no substantive change in terms and conditions. Where the practical expedient has been applied, rent concessions are accounted for in the consolidated income statement.

Note 15. Other Assets

	30 June 2021 $'000	30 June 2020 $'000
Current assets		
Prepayments	289	113
Non-current assets		
Bank guarantees on tenancies	1,463	1,033

Bank guarantees

Bank guarantees on tenancies relate to funds held on deposit to secure bank guarantees in favour of landlords upon inception of the lease and usually represent three months' rent, which is released to SILK upon vacating the tenancy.

Note 16. Property, Plant and Equipment

	30 June 2021 $'000	30 June 2020 $'000
Non-current assets		
Leasehold improvements - at cost	10,048	6,815
Less: Accumulated depreciation	(3,049)	(1,682)
	6,999	5,133
Furniture and plant - at cost	16,592	11,109
Less: Accumulated depreciation	(4,797)	(2,957)
	11,795	8,152
	18,794	13,285

Reconciliations

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

	Leasehold Improvement $'000	Furniture and Plant $'000	Total $'000
Balance at 1 July 2019	5,280	5,642	10,922
Additions	1,111	3,869	4,980
Disposals	(343)	(37)	(380)
Depreciation expense	(915)	(1,322)	(2,237)
Balance at 30 June 2020	5,133	8,152	13,285
Additions	3,191	6,524	9,715
Additions through business combinations	275	471	746
Disposals	(146)	(1,392)	(1,538)
Depreciation expense	(1,454)	(1,960)	(3,414)
Balance at 30 June 2021	6,999	11,795	18,794

Recognition and measurement

Leasehold improvements, plant and equipment is stated at historical cost less accumulated depreciation and any accumulated impairment losses. Historical cost includes expenditure that is directly attributable to the acquisition of the item. All other repairs and maintenance are charged to the consolidated statement of profit or loss during the reporting period in which they are incurred.

Depreciation is calculated on a straight-line basis to write off the net cost of each item of property, plant and equipment (excluding land) over their expected useful lives as follows:

Class of fixed asset:	Depreciation Rate
Leasehold improvements	Lease Term
Plant and equipment	10% to 33%

Impairment

The carrying values of plant and equipment are reviewed for impairment at each reporting date, and when events or changes in circumstances indicate that the carrying value may not be recoverable. Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Resulting adjustments are applied via an impairment adjustment in the appropriate period and result in an increase to the depreciation charge in that same period.

Note 16. Property, Plant and Equipment (continued)

The recoverable amount of plant and equipment is the higher of fair value less costs to sell and value in use. It is determined for an individual asset, unless the asset's value in use cannot be estimated to be close to its fair value less costs to sell and it does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case, the recoverable amount is determined for the cash-generating unit (CGU) to which the asset belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the CGU to which the asset belongs. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or CGU's are then written down to their recoverable amount. Any impairment loss is recognised in the consolidated statement of profit or loss.

Derecognition

An item of plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset.

Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in the consolidated statement of profit of loss and other comprehensive income.

Note 17. Intangible Assets

	30 June 2021 $'000	30 June 2020 $'000
Non-current assets		
Goodwill	27,684	27,350
Franchise system development - at cost	76	76
Less: Accumulated amortisation	(19)	-
	57	76
Patents and trademarks - at cost	73	60
Less: Accumulated amortisation	(8)	-
	65	60
Website and software - at cost	325	282
Less: Accumulated amortisation	(213)	(164)
	112	118
	27,918	27,604

Movements in Intangibles

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

Note 17. Intangible Assets (continued)

	Franchise and System Development $'000	Patents and Trademarks $'000	Website and Software $'000	Goodwill $'000	Total $'000
Balance at 1 July 2019	76	22	134	27,350	27,582
Additions	-	38	94	-	132
Amortisation expense	-	-	(110)	-	(110)
Balance at 30 June 2020	76	60	118	27,350	27,604
Additions	-	13	43	-	56
Additions through business combinations	-	-	-	334	334
Amortisation expense	(19)	(8)	(49)	-	(76)
Balance at 30 June 2021	57	65	112	27,684	27,918

SILK CGU
Key assumptions used in value in use calculation and sensitivity to changes in assumptions

The Group performed its annual impairment testing as at 30 June 2021. The recoverable amount of the SILK CGU is determined based on the value in use calculation using cash flow projections based on financial budgets approved by senior executives and the board of directors, extrapolated over a five-year forecast period. The projected cash flows have been updated to reflect the increase in demand for non-surgical aesthetic services and high quality skincare products.

The post-tax discount rate applied to the cash flow projection is 12.1% (2020: 11.9%).

The terminal growth rate used to extrapolate the cash flows of the CGU beyond the five-year period is 2.5% (2020: 1%) which is in line with the industry average.

As at 30 June 2021 the value in use calculation of the SILK CGU has significant headroom, thus no impairment indicators identified.

The calculation of value in use is most sensitive to the following assumptions:

Gross margins Gross margins are based on average values achieved in the four years preceding the beginning of the budget period.

Discount rates The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account the cost of both debt and equity. The cost of equity is determined by the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service rate as well as a margin that takes into consideration both industry and company specific risk factors. Specific risk is incorporated by applying individual Beta factors which are evaluated against publicly available market data.

Market share during the forecast period When using industry data for growth rates, these assumptions are important because management assess how the Group's position, relative to its competitors, might change over the forecast period.

Growth rates Rates are based on published industry, company research, management's best estimates of anticipated growth in the short to medium term and considering the historical average sales growth achieved in the past. The growth rate in the terminal year is 2.5% (2020: 2.5%) and the sales growth rate used for the five-year forecast period is 8.5% (2020: 5%).

Sensitivity analysis

Note 17. Intangible Assets (continued)

Management recognises that the recoverable amount is sensitive to the assumptions used in the model. If all of the following scenarios occur simultaneously, the recoverable amount of the CGU would still equal its carrying amount:

- reduction in gross margin of 10%
- the growth rate in the terminal year decreased from 2.5% to 2.2% and
- the discount rate increased from 12.1% to 17%

The Group believes the assumptions adopted in the value in use calculations reflect an appropriate balance between the Group's experience to date and the uncertainties associated with the COVID-19 pandemic. Whilst temporary store closures resulting from Government restrictions may impact short-term financial performance, the timing and nature of these closures is not expected to impact the Group financial results in the long-term.

Recognition and measurement

Class of Intangible	Amortisation rate
Franchise and System Development	5%
Goodwill	Indefinite Life
Patents and Trademarks	5% - 10%
Website and Software	20% - 33.3%

Goodwill

Goodwill represents the future economic benefits arising from a business combination that are not individually identified and separately recognised. Goodwill acquired on a business combination is initially measured at cost being the excess of the fair value of consideration transferred over the Group's interest in the acquisition-date net fair value of the acquirees' identifiable assets and liabilities.

Following initial recognition, goodwill is not amortised but measured at cost less any accumulated impairment losses.

As at the acquisition date, any goodwill acquired is allocated to each of the cash-generating units (CGU's) or groups of CGU's that are expected to benefit from the combination's synergies.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired.

Impairment is determined by assessing the recoverable amount of the CGU or groups of CGU's to which the goodwill relates.

Where goodwill forms part of a CGU or groups of CGU's and part of the operation within that unit or group of units are amount of the operation disposed of, the goodwill associated with the operation disposed of is included in the carrying when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured on the basis of the relative EBITDA contribution of the CGU disposed of to the total group of CGU's.

Where the recoverable amount of CGU's are less than the carrying amount, an impairment loss is recognised separately as an expense in the statement of profit or loss and other comprehensive income.

Patents and trademarks

Patents and Trademarks have finite useful life's and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method and is based on the expected useful life of the asset.

Patent have been granted for a period of 10 - 20 years by the relevant government agency with an option of renewal at the end of this period.

Note 17. Intangible Assets (continued)

Website and software

Software assets have finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method and is based on the expected useful life of the software asset.

Note 18. Deferred Tax

	30 June 2021 $'000	30 June 2020 $'000
Non-current assets		
(a) CURRENT		
Provision for income tax	3,329	808
(b) NON-CURRENT		
Deferred tax assets	8,507	4,362
Deferred tax liabilities	5,274	3,607

	30 June 2021 $'000	30 June 2020 $'000
Movement in deferred tax assets		
Trade and other receivables	43	6
Property, plant and equipment	743	295
Trade and other payables	455	56
Leases	4,229	3,519
Provisions	391	527
Unused tax losses	926	(41)
Intangibles	7	-
Blackhole expenditure	1,713	-
Deferred tax asset	8,507	4,362

	30 June 2021 $'000	30 June 2020 $'000
Movement in deferred tax liabilities		
Property, plant and equipment	1,799	782
Right of use assets	3,475	-
Lease Liabilities	-	2,825
Deferred tax liability	5,274	3,607

Recognition and measurement

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities based on the current period's taxable income. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Deferred income tax is provided on all temporary differences, using the liability method, at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.
Deferred income tax liabilities are recognised for all taxable temporary differences except:

Note 18. Deferred Tax (continued)

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

Deferred income tax assets are recognised for all deductible temporary differences, carry-forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry-forward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; or
- when the deductible temporary difference is associated with investments in subsidiaries, associates or interests in joint ventures, in which case a deferred tax asset is only recognised to the extent that it is probable that the temporary difference will reverse in the foreseeable future and taxable profit will be available against which the temporary difference can be utilised.

The carrying amount of deferred income tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilised.

Unrecognised deferred income tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to the same taxable entity and the same taxation authority.

Current and deferred tax balances attributable to amounts recognised directly in equity are also recognised directly in equity.

Tax Consolidation

SILK Laser & Skin Holdings Pty Ltd and its 100% owned Australian resident subsidiaries formed a tax consolidated group effective from 31 January 2018. From 10 December 2020 SILK Laser Australia Limited was interposed as the head entity of the tax consolidated group. Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

In addition, the agreement provides for the allocation of income tax liabilities between the entities should the head entity default on its tax payment obligations. No amounts have been recognised in the financial statements in respect of this agreement on the basis that the possibility of default is remote.

The entities have also entered into a tax funding agreement under which the wholly owned entities fully compensate SILK Laser Australia Limited for any current tax payable assumed and are compensated for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to SILK Laser Australia Limited under the tax consolidation legislation. The tax funding agreement provides for the allocation of current taxes to members of the tax consolidated group in accordance with their accounting profit for the period, while deferred taxes are allocated to members of the tax consolidated group in accordance with the principles of AASB 112 Income Taxes. Assets or liabilities arising under tax funding agreements with the tax-consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group. The amounts receivable/payable under the tax funding agreement are due upon receipt of the funding advice from the head entity, which is issued as soon as practicable after the end of each financial year. The head entity may also require payment of interim funding amounts to assist with its obligations to pay tax instalments.

Note 19. Trade and Other Payables

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Trade creditors	6,822	2,698
Other payables	176	797
Accruals	2,669	2,413
	9,667	5,908

Recognition and measurement

Trade and other payables are carried at original invoice amount and represent liabilities for goods and services provided to the Group to the end of the financial year that are unpaid and arise when the Group becomes obliged to make future payments in respect of the purchase of these goods and services. These amounts are unsecured, non-interest bearing and are paid within terms ranging from 14 to 90 days from recognition.

Fair Value

Due to the short-term nature of these payables, their carrying value is assumed to approximate their fair value.

Wages, salaries, annual leave and bonuses

Liabilities for wages and salaries including non-monetary benefits, expected to be settled within 12 months of the reporting period are recognised in other payables and accruals in respect of employees' services up to the reporting date. Liabilities in relation to bonuses are recognised in other payables and accruals where contractually obliged or where there is a past practice that has created a constructive obligation.

Liabilities for annual leave are recognised in annual leave accrued in respect of employees' services up to the reporting date. They are measured at the amounts expected to be paid when the liabilities are settled. Liabilities for non-accumulated sick leave are recognised when the leave is taken and are measured at the rates paid or payable.

Note 20. Contract Liabilities

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Unearned revenue	8,996	8,175
Initial franchise fees	295	115
Franchise deposits	20	35
	9,311	8,325
Non-current liabilities		
Initial franchise fees	150	219

Recognition and measurement

As explained in Note 5, the Group recognises a contract liability to the extent of unsatisfied performance obligations. Revenue is recognised when the Group satisfies these performance obligations, which is usually once the treatment has been administered to the respective client. Unearned revenue liabilities represent the Group's obligation to transfer goods or services to a customer that have been paid for in advance.

Note 21. Lease Liabilities

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Lease liability on Right of Use Assets	4,247	3,681
Lease liability - Asset Finance	569	426
	4,816	4,107
Non-current liabilities		
Lease liability on Right of Use Assets	11,583	10,107
Lease liability - Asset Finance	-	569
	11,583	10,676

Movements in lease liabilities

	30 June 2021 $'000	30 June 2020 $'000
Balance at beginning of year	14,783	13,942
Reclassifying of finance leases	-	1,468
Commencement of lease	4,882	1,247
Increase in lease term	1,057	-
Re-measurement	(816)	-
Transfer of lease	(777)	(282)
Principle re-payments Lease Liabilities	(3,631)	(1,937)
Interest on Right of Use	671	646
Surrender of lease	(114)	-
Lease Incentives recognised	732	-
Principle re-payments Asset Finance	(426)	(336)
Interest on Asset finance	38	35
Balance at end of year	16,399	14,783

Note 21. Lease Liabilities (continued)

Accounting policy for lease liabilities

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

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

Note 22. Income Tax Payable

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Provision for income tax	3,329	808

Current Income Tax

Current income tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and laws used to compute the amount are those that are enacted or substantively enacted at the reporting date in Australia where the Group operates and generates taxable income.

Current income tax relating to items recognised directly in equity is recognised in equity and not in the statement of profit or loss.

Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Note 23. Provisions

	30 June 2021 $'000	30 June 2020 $'000
Current liabilities		
Provision for employee entitlements	1,129	677
Non-current liabilities		
Provision for employee entitlements	90	95
Deferred lease incentives	190	-
Provision for make good leased properties	374	248
	654	343

Note 23. Provisions (continued)

Movements in lease related provisions

Movements in lease related provisions are set out below:

	30 June 2021 $'000	30 June 2020 S'000
Lease related provisions:		
Opening balance beginning of year	248	1,054
Reversal of lease incentives from implementation of AASB 16	-	(931)
Provision for make good lease properties	126	125
Balance at end of year	374	248

Accounting policy for provisions

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

Where the Group expects some or all of a provision to be reimbursed, for example under an insurance contract, the reimbursement is recognised as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is presented in the income statement net of any reimbursement.

Accounting policy for employee benefits

The current employee benefits provision represents the unconditional entitlements to long service leave where the employee has completed their required service period. The non-current provision for employee benefits represents conditional long service leave entitlements and employee entitlements expected to be settled outside 12 months. Liabilities for long service leave are measured at the present value of expected future payments to be made in respect of services provided by the employees up to the reporting date using the projected unit credit method. Consideration is given to the expected future wage and salary levels, experience of employee departures, and periods of service. Expected future payments are discounted using market yields at the reporting date on high quality corporate bonds with terms to maturity and currencies that match, as closely as possible, the estimated future cash outflows.

Make good provision

The Group is required to restore the leased premises of its retail clinics and head office to their original condition at the end of the respective lease terms. The Group estimates its liability to provide for the restoration by reference to historical data and by present value of the estimated expenditure required to remove any leasehold improvements. These costs have been capitalised as part of the cost of the right-of-use asset and are amortised over the shorter of its estimated useful life and the lease term. Assumptions used to calculate the provision were based on current assessments of the timing of the restoration liability crystallising and on current restoration costs.

Note 24. Share Capital

	Year Ended 30 June 2021 Share Capital Number	Year Ended 30 June 2020 Share Capital Number	Year Ended 30 June 2021 $'000	Year Ended 30 June 2020 $'000
Opening balance	36,567,139	36,566,988	36,568	36,567
Issue of Shares	-	151	-	1
Partially paid shares	3,549,366	-	-	-
Shares issued prior to IPO	78,431	-	206	-
Pre IPO capital return	-	-	(5,400)	-
A class shares converted to ordinary	1,123,407	-	1,336	-
Proceeds from call on shares	-	-	3,960	-
Issue of shares - IPO	5,797,101	-	20,000	-
Net costs (After Tax Effect) associated to IPO	-	-	(2,375)	-
Issue of Shares - Share Placement	4,651,163	-	20,000	-
Net costs (After Tax Effect) associated to Share Placement	-	-	(549)	-
Closing balance	51,766,607	36,567,139	73,746	36,568

	30 June 2021 Shares	30 June 2020 Shares	30 June 2021 $'000	30 June 2020 $'000
Ordinary shares - fully paid	51,766,609	36,567,139	73,746	36,567

A Class Shares

A Class shares refers to the Employee Share Scheme in which senior executives and management participated in prior to the IPO. These A class shares were converted to Ordinary Shares immediately before the IPO.

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the Company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the Company does not have a limited amount of authorised capital.

On a show of hands every member present at a meeting in person or by proxy shall have one vote and upon a poll each share shall have one vote.

Capital risk management

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

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

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

The Group would look to raise capital when an opportunity to invest in a business or company was seen as value adding relative to the current Company's share price at the time of the investment. The Group is not actively pursuing additional investments in the short term as it continues to integrate and grow its existing businesses in order to maximise synergies.

The Group is subject to certain financing arrangements covenants and meeting these is given priority in all capital risk management decisions. There have been no events of default on the financing arrangements during the financial year.

Note 24. Share Capital (continued)

Accounting policy for issued capital

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of and amounts paid on the shares held. The fully paid ordinary shares have no par value and the company does not have a limited amount of authorised capital.

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

Note 25. Share Based Payments Reserve

	30 June 2021 $'000	30 June 2020 $'000
Share-based payments reserve	425	533

Share-based payments reserve

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

Refer to note 38 for detailed disclosures for share based payments including the inputs into the valuation models

Note 26. Non-Controlling Interest

	30 June 2021 $'000	30 June 2020 $'000
Paid up capital/Retained losses	(66)	(200)

Note 27. Dividends and Pre IPO Capital Return

Pre-IPO dividend of $1.5m (2019: $nil) was paid in the half-year ended 31 December 2020.

	30 June 2021 $'000	30 June 2020 $'000
Pre-IPO fully franked dividend for the half-year ended 31 Dec 2020: of $0.04 (nil 2019) per ordinary share	1,500	-
Pre-IPO capital return for the half-year ended 31 Dec 2020: of $0.13 (nil 2019) per ordinary share	5,400	-

Accounting policy for dividends

Dividends are recognised when declared during the financial year.

No dividends have been declared or paid since the IPO.

Note 28. Fair Value Measurement

Accounting policy for fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

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

Note 29. Remuneration of Auditors

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

	30 June 2021 $	30 June 2020 $
Audit services - Grant Thornton		
Audit or review of the financial statements	101,500	89,850
Other services - Grant Thornton		
Tax Compliance	16,000	-
Transaction services - IPO and acquisition	630,000	-
	646,000	-
	747,500	89,850

The Directors are satisfied that the provision of non-audit services during the financial period, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the Company, acting as advocate for the Company or jointly sharing economic risks and rewards.

Note 30. Contingent Liabilities and Capital Commitments

Bank rent guarantees

The Group maintains deposits with financial institutions to obtain guarantees in favour of landlords. If the Group defaults on rental lease payments the financial institutions are authorised to use the deposits to pay the lessors.

There are no further contingent liabilities that the Directors are aware of at reporting date.

The Group has capital commitments of at reporting date of $0.69m (2020 $2.1m) in relation to the purchase of plant and equipment for clinics.

Note 31. Related Party Disclosures

Interest in subsidiaries are disclosed in note 33 which also include details of the Holding company. Investment in Associates are disclosed in note 13.

Unless otherwise stated, none of the transactions incorporate special terms and conditions and no guarantees were given or received.

(a) KMP Remuneration details

Compensation to KMP's are disclosed below which is the total amount recognised as an expense during the reporting period.

	2021	2020
Non-Executive Directors		
Director’s fees	200,846	63,292
Offer & Prospectus Fees	2,750	-
Superannuation defined contribution	3,270	5,367
Share-based payments	100,000	19,893
	306,866	88,552
Senior Executives		
Cash salary	803,974	571,098
STI/bonus	321,532	162,795
Annual/ long service leave	185,695	63,192
Superannuation defined contribution	73,952	61,856
Share-based payments	324,536	134,909
Allowances	2,840	10,336
	1,712,529	1,004,186
Payment to Advent Partners for consulting fees	73,051	-
	2,092,446	1,092,738

Detailed remuneration disclosures are provided in the Remuneration Report.

Note 31. Related Party Disclosures (continued)

(b) Transactions with related parties
The following transactions occurred with related parties:

	30 June 2021 $	30 June 2020 $
Franchise fees to Joint Ventures	3,003,309	1,715,590
Sale of products to Joint Ventures	4,224,980	2,674,218
Other income:		
Interest received from associates	39,135	58,408
Accounting fees paid to Head Office	66,000	-
Administration fees paid to Head Office	133,628	14,393

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

	30 June 2021 $	30 June 2020 $
Receivables:		
Associate Joint Venture Shareholder Loans Receivable	1,672,363	3,122,714
Associate Joint Venture Sub-Lease Receivables	2,242,000	3,082,678

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

Note 32. Parent Entity Information

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

Statement of profit or loss and other comprehensive income

	Parent	
	30 June 2021 $'000	30 June 2020 $'000
Loss after income tax	(2,538)	-
Total comprehensive income	(2,538)	-

Note 32. Parent Entity Information (continued)

Statement of financial position

	Parent	
	30 June 2021 $'000	30 June 2020 $'000
Total current assets	39,382	-
Total assets	78,537	-
Total current liabilities	3,720	-
Total liabilities	3,027	-
Equity		
Share Capital	77,623	-
Share-based payments reserve	425	-
Accumulated losses	(2,538)	-
Total equity	75,510	-

Guarantees entered into by the parent entity in relation to the debts of its subsidiaries

The parent entity had no guarantees in relation to the debts of its subsidiaries as at 30 June 2021.

Contingent liabilities

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

Capital commitments - Property, plant and equipment

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

Significant accounting policies

The accounting policies of the parent entity are consistent with those of the Group, as disclosed in note 2, except for the following:
- Investments in subsidiaries are accounted for at cost, less any impairment, in the parent entity.
- Investments in associates are accounted for at cost, less any impairment, in the parent entity.
- Dividends received from subsidiaries are recognised as other income by the parent entity and its receipt may be an indicator of an impairment of the investment.

Note 33. Group Information

Information about subsidiaries

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

Note 33. Group Information (continued)

Name	Principal place of business / Country of incorporation	Ownership interest 30 June 2021 %	Ownership interest 30 June 2020 %
M3K Holdings Pty Ltd	Australia	100%	100%
M3K Services Pty Ltd	Australia	100%	100%
SILK Laser & Skin Group Pty Ltd	Australia	100%	100%
SILK Laser Clinic Henley Beach Pty Ltd	Australia	100%	100%
SILK Laser Clinic Adelaide Pty Ltd	Australia	100%	100%
SILK Laser Corporate Pty Ltd	Australia	100%	100%
SILK Laser Clinic Eastlands Pty Ltd	Australia	100%	100%
SILK Laser Clinic Elizabeth Pty Ltd	Australia	100%	100%
SILK Laser Clinic Hyde Park Pty Ltd	Australia	100%	100%
SILK Laser Clinic Norwood Pty Ltd	Australia	100%	100%
SILK Laser Clinic Rundle Mall Pty Ltd	Australia	100%	100%
SILK Laser Clinic Australia Pty Ltd	Australia	100%	100%
SILK Laser Clinic Noarlunga Pty Ltd	Australia	100%	100%
SILK Laser Franchise Holdings Pty Ltd	Australia	100%	100%
SILK Laser Franchising Pty Ltd	Australia	100%	100%
SLC Cairns Pty Ltd	Australia (Dormant)	100%	100%
SLC Booragoon Pty Ltd	Australia	100%	100%
SLC Carousel Pty Ltd	Australia	100%	100%
SLC Innaloo Pty Ltd	Australia	100%	100%
SLC Leasing Pty Ltd	Australia	100%	100%
SLC Midland Gate Pty Ltd	Australia	100%	100%
SLC Ocean Keys Pty Ltd	Australia	100%	100%
SLC Perth Pty Ltd	Australia	100%	100%
SLC Baldivis Pty Ltd	Australia	100%	100%
SLC Ellenbrook Pty Ltd	Australia	100%	100%
SLC Rockingham Pty Ltd	Australia	100%	100%
SLC Whitford City Pty Ltd	Australia	100%	100%
Aesthetics Skincare Pty Ltd	Australia	100%	100%
TLL Silk Pty Ltd	Australia	100%	100%
SLC Joondalup Pty Ltd	Australia	100%	100%
SLC Karrinyup Pty Ltd	Australia	100%	100%
SLC Bundaberg Pty Ltd*	Australia	100%	-
SLC Toowoomba Pty Ltd*	Australia	100%	-
SLC Burnside Pty Ltd	Australia	100%	50%
SLC Strathpine Pty Ltd*	Australia	100%	-
SLC Morley Pty Ltd*	Australia	100%	-
SLC Noarlunga North*	Australia	100%	-
SILK Laser Clinic Glenelg Pty Ltd	Australia	75%	75%
SLC Rockhampton Pty Ltd	Australia	75%	75%
SLC Mackay Pty Ltd	Australia	75%	75%
SILK Laser Clinic Hobart Pty Ltd	Australia	75%	75%
SLC Belconnen Pty Ltd*	Australia	75%	-
SLC Burleigh Pty Ltd*	Australia	75%	-
SLC Woden Pty Ltd*	Australia	75%	-
SLC Charlestown*	Australia	60%	-
SLC Cockburn Pty Ltd	Australia	50%	100%

* Entities registered during 2021

Note 33. Group Information (continued)

SLC Cockburn Pty Ltd

On 1 April 2021 SILK Laser Australia Limited allocated new shares in SLC Cockburn Pty Ltd which reduced its shareholding from 100% to 50% of the total share capital.

The newly issued ordinary shares will be non-voting shares until fully subscribed by 30 June 2023. As SILK Laser Australia Limited still controls SLC Cockburn Pty Ltd, it is included in the consolidated financial statements of the Group.

The holding company

The immediate and ultimate holding company is SILK Australia Limited which is based and registered in Australia.

Its registered office and principal place of business is:
Unit 5,148 Greenhill Road
Parkside SA 5063

Note 34. Business Combinations

a) Acquisition of Controlled Entities

On 8 November 2020, the Group acquired the remaining 50% of SLC Burnside Pty Ltd for total consideration of $0.3m. SLC Burnside Pty Ltd operates a SILK clinic in the Burnside Village Shopping Centre. Goodwill of $0.3m has been recognised in respect of the acquisition. The goodwill is attributable to synergies, revenue growth and future market recognised separately from goodwill because they do not meet the recognition criteria for identifiable intangible assets.

	$'000
Assets acquired at the date of acquisition	
Cash	156
Accounts receivable	52
Inventory	50
Property, plant and equipment	747
Lease assets	617
Other assets	478
	2,100
Liabilities assumed at the date of acquisition	
Trade payables	757
Provisions	16
Contract liabilities	674
Deferred tax	209
Shareholder loans	441
	2,097
Net Assets	3
Portion attributable to SILK Laser Franchise Holding acquisition of shares	1
Goodwill (Purchase price less: 100% Net assets attributable to SLFH)	324
Total Consideration	325

Note 34. Business Combinations (continued)

Satisfied by:	
Cash	132
Offset to loan	193
	325

Increase of interest in SLC Burleigh Pty Ltd to 75%

On 25 March 2021 SILK Laser Australia limited acquired 3 shares in SLC Burleigh Pty Ltd which increased its shareholding from 72% to 75% of the total share capital. The purchase price for the 3 shares was $12,760.

Total amount paid for acquisition of subsidiaries $337,760 as detailed above.

b) Disposal of subsidiary/Sale of interest

Prior year - Sale of 50% interest SLC West Lakes Pty Ltd

On 1 July 2019 SILK Laser & Skin Holdings Pty Ltd sold a 50% interest in SLC West Lakes Pty Ltd reducing its holding to 50%. The sale price for the 50% interest was $75,000 and given SILK Laser & Skin Holdings Pty Ltd now holds 50% and no longer controls SLC West Lakes Pty Ltd, this entity is now equity accounted. The investment in SLC West Lakes is now recognised as an investment in associate and equity accounted.

	2020 $'000
Cash inflow from disposal	75
Fair value of identifiable net liabilities	(365)
Percentage attributable to incoming shareholder	(182)
Gain on disposal	257

Note 35. Events after the reporting period

Acquisition agreement

On 18 June 2021 SILK announced that it had signed a binding agreement to acquire Beauty Service Holdings and a number of its subsidiaries which trade as Australian Skin Clinics in Australia and The Cosmetic Clinic in New Zealand, hereinafter referred to as the ASC Group for a consideration of $52 million.

ASC comprises a network of 55 clinics, including 48 traditional franchises, four joint venture franchises and three corporate clinics, and operates a very similar business model to SILK. Adding the 56 clinics to SILK's existing network of 61 clinics, will bring SILK closer to achieving the Company's network plan of 150 clinics in the medium term.

ASC brings a complementary clinic network with limited crossover of locations, primarily based in the Australian Eastern and New Zealand, complementing SILK's very strong market presence in Western Australia, South Australia, Northern Territory and Tasmania.

Consideration of $52 million comprises cash consideration payable at completion of $47 million and an earn out consideration amount of up to $5.0 million, which is payable in ordinary shares. The acquisition is expected to complete on 31 August 2021.

Note 35. Events after the reporting period (continued)

Debt Facility

The Group entered into a four-year term debt facility agreement of $30 million with Westpac Bank, with repayments of $2.5 million per year, commencing on a quarterly basis from January 2022. The facility has covenants relating to net leverage based on the ratio of EBITDA to net debt and the ration EBITDA to interest and rent expenses. The covenants are in line with usual debt market standards.

Additionally, the agreement includes additional facilities relating working capital finance and the provision of bank guarantees to landlords, which will provide further liquidity to the Group.

Note 36. Reconciliation of profit after income tax to net cash from operating activities

	30 June 2021 $'000	30 June 2020 $'000
Profit after income tax expense for the year	5,152	2,309
Adjustments for:		
Depreciation and amortisation	6,076	4,361
Net loss/(gain) on disposal of property, plant and equipment	(107)	277
Share of profit - associates	(718)	(125)
Share-based payments	1,228	388
Gain on disposal of subsidiary and disposal of associates	-	(257)
IPO Costs	3,633	-
Share transaction costs	1,308	-
Lease modifications	127	-
Change in operating assets and liabilities:		
Increase in trade and other receivables	(647)	(1,882)
Increase in inventories	(922)	(926)
Increase in deferred tax assets	(4,146)	-
Decrease/(increase) in prepayments	856	(37)
Decrease in provision	-	(350)
Increase in trade and other payables	4,154	3,596
Increase in employee benefits	534	202
Increase in income taxes payable (including deferred tax)	5,112	912
Increase in unearned income	898	2,117
Increase in lease liabilities	1,297	-
Net cash from operating activities	23,835	10,585

Note 37. Earnings Per Share

	30 June 2021 $'000	30 June 2020 $'000
Profit after income tax	5,152	2,309
Non-controlling interest	(134)	(108)
Profit after income tax attributable to the owners of SILK Laser Australia Limited	5,018	2,201

Note 37. Earnings Per Share (continued)

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	42,481,289	42,404,832
Adjustments for calculation of diluted earnings per share:		
Employee share scheme	11,742	11,742
Listing award	1,160,931	1,160,931
Weighted average number of ordinary shares used in calculating diluted earnings per share	43,653,962	43,577,505

	Cents	Cents
Basic earnings per share	11.81	5.19
Diluted earnings per share	11.49	5.05

In accordance with AASB 133 EPS; SILK Australia Limited has retrospectively applied the number of shares on hand at 31 December 2020 for the comparative figures to ensure consistency of presentation year on year. This is allowable in accordance with paragraph 64 of AASB 133 and this has been incorporated into the calculations above.

Accounting policy for earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of SILK Laser Australia Limited, by the weighted average number of ordinary shares outstanding during the financial half-year.

Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the owners of SILK Laser Australia Limited adjusts the figures used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Note 38. Share-Based Payments

Movements in share-based payments reserve for the year ended 30 June 2021:

Share based payment reserve	30 June 2021 $'000
Opening balance - 1 July 2020	533
Granting of A class shares	593
Share-based payments	211
Transfer of A class to ordinary shares	(1,337)
Listing award	425
Closing balance - 30 June 2021	425

During the period the employee share scheme (ESS) options have vested per the relevant criteria of an exit transaction taking place (IPO event). A transfer from the share-based payment reserve to share capital took place on the transfer from A class shares to ordinary shares.

Note 38. Share-Based Payments (continued)

Listing Award

The rights to shares of the Chairman and other KMPs relate to a once off Listing Bonus Award. Vesting is subject to the Board determining that the participant's performance from the grant date up until the relevant vesting date is consistent with the terms of their employment agreement. Rights are automatically exercised on vesting and subject to meeting vesting criteria, the rights to the shares would vest as follows:

Rights Granted	Number	Grant Date	Vesting Date	Fair Value at grant date	Fair Value at grant date
10 Dec 2020	57,971	15/12/2020	31/08/2021	3.45	200,000
10 Dec 2020	57,971	15/12/2020	31/08/2022	3.45	200,000
10 Dec 2020	28,985	15/12/2020	31/08/2021	3.45	100,000
10 Dec 2020	28,986	15/12/2020	31/08/2022	3.45	100,000
10 Dec 2020	14,492	15/12/2020	31/08/2021	3.45	50,000
10 Dec 2020	14,493	15/12/2020	31/08/2022	3.45	50,000
	202,898				700,000

The share-based payment charge arising in relation to the above rights to 30 June 2021 was $0.4 million. The remaining fair value will be expensed over the vesting period.

Fair Value of share Rights granted during the period (Rights)
Fair value of the Rights was determined based on the IPO listing price of $3.45, with an exercise price of zero. The fair value of the rights granted during the financial year ended 30 June 2021 was $0.7million (2019: $nil).

Accounting policy for share-based payments

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

Equity-settled transactions are awards of shares, or options over shares, that are provided to employees in exchange for the rendering of services. Cash-settled transactions are awards of cash for the exchange of services, where the amount of cash is determined by reference to the share price.

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

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

Note 39. Operational Response and Impact of COVID-19

SILK has responded (and continues to respond) rapidly to the changes in the economic and operational environment caused by the COVID-19 pandemic. SILK has a detailed plan which is implemented in the event a federal, state or territory government order a temporary lockdown, which causes the closure of clinics. The plan reduces a significant portion of operating costs at the impacted clinics and includes the stand-down of staff (including head office staff if applicable), negotiations with landlords to defer or reduce rental payments and temporarily turning off utilities to pause utility costs. The extent to which costs can be reduced would depend on the duration of the closure. Client communication, client education and online sales during the mandated closure period are intended to keep clients engaged.

Note 40. Summary of other accounting policies

Basis of consolidation

The consolidated financial statements comprise the financial statements of SILK Laser Australia Limited and its subsidiaries (the Group).

Subsidiaries are those entities (including structured groups) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities over the entity. Subsidiaries are fully consolidated from the date on which the Group obtains control and cease to be consolidated from the date on which control is transferred out of the Group. The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting policies. Adjustments are made to bring into line any dissimilar accounting policies that may exist.

In preparing the consolidated financial statements, all intercompany balances and transactions, income and expenses and profit and losses resulting from intragroup transactions have been eliminated in full.

The acquisition method of accounting is used to account for all business combinations, including business combinations involving entities or businesses under common control, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred, and the equity interests issued by the Group. The consideration transferred also includes the fair value of any contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary.

Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date.

On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the Group's share of the net identifiable assets acquired is recorded as goodwill. If those amounts are less than the fair value of the net identifiable assets of the subsidiary acquired and the measurement of all amounts has been reviewed, the difference is recognised directly in the profit or loss as a bargain purchase.

Where settlement of any part of cash consideration is deferred, the amounts payable in the future are discounted to their present value as at the date of exchange. The discount rate used is the entity's incremental borrowing rate, being the rate at which a similar borrowing could be obtained from an independent financier under comparable terms and conditions.

Contingent consideration is classified either as equity or a financial liability. Amounts classified as a financial liability are subsequently remeasured to fair value with changes in fair value recognised in profit or loss.

Note 40. Summary of other accounting policies (continued)

Transactions eliminated on consolidation

Intragroup balances and transactions, and any unrealised income and expenses arising from intragroup transactions, are eliminated in the preparation of the consolidated financial statements. Unrealised gains arising from transactions with equity accounted investees are eliminated against the investment to the extent of the Group's interest in the investee. Unrealised losses are eliminated in the same way as unrealised gains, but only to the extent that there is no evidence of impairment.

Critical accounting estimates and judgements

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimate and assumptions that have a significant risk of causing a material adjustment to the carrying amounts assets and liabilities within the next financial year are addressed in the following notes:

Note		Note	
11	Expected credit loss	18	Income taxes and deferred taxes
16	Property, plant and equipment	23	Provisions & Employee Provisions
14	Right of Use Assets & Lease Liabilities	20	Contract Liabilities
17	Intangible Assets and Goodwill	38	Share based payments

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, which is measured at acquisition date fair value, and the amount of any non-controlling interests in the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree at fair value or at the proportionate share of the acquiree's identifiable net assets. Acquisition-related costs are expensed as incurred and included in administrative expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

Any contingent consideration to be transferred by the acquirer will be recognised at fair value at the acquisition date. 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 that is a financial instrument and within the scope of AASB 9 Financial Instruments, is measured at fair value with the changes in fair value recognised in the statement of profit or loss in accordance with AASB 9. Other contingent consideration that is not within the scope of AASB 9 is measured at fair value at each reporting date with changes in fair value recognised in profit or loss.

Goodwill is initially measured at cost (being the excess of the aggregate of the consideration transferred and the amount recognised for non-controlling interests and any previous interest held over the net identifiable assets acquired and liabilities assumed). If the fair value of the net assets acquired is in excess of the aggregate consideration transferred, the Group re-assesses whether it has correctly identified all of the assets acquired and all of the liabilities assumed and reviews the procedures used to measure the amounts to be recognised at the acquisition date. If the reassessment still results in an excess of the fair value of net assets acquired over the aggregate consideration transferred, then the gain is recognised in profit or loss.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Note 40. Summary of other accounting policies (continued)

Where goodwill has been allocated to a cash-generating unit (CGU) and part of the operation within that unit is disposed of, the goodwill associated with the disposed operation is included in the carrying amount of the operation when determining the gain or loss on disposal. Goodwill disposed in these circumstances is measured based on the relative values of the disposed operation and the portion of the cash-generating unit retained.

Comparative information

The Group has consistently applied its accounting policies to all periods presented in these consolidated financial statements. However, changes to presentation of items in the statement of profit or loss have occurred.

Other accounting policies

Significant and other accounting policies that summarise the measurement basis used and are relevant to an understanding of the financial statements are provided throughout the notes to the financial statements.