SILK
LASER CLINICS

Building a solid foundation for growth

ANNUAL REPORT

2021

CONTENTS

"Our clinic had a really strong year led by increasing demand for injectables and the introduction of more body-focused treatments like EmSculpt and Coolsculpting."

Alyssa de Cristofaro
Franchise Partner, SA

SILK Laser's mission is to provide skin and body treatments and services to help our clients feel good about themselves. We achieve the highest quality results for our clients by using the most advanced medical devices at affordable prices. We foster self confidence in every client, so they can be the best version of themselves; we do this with our gold standard service, ongoing staff training and commitment to client satisfaction.

2021 HIGHLIGHTS

FY21 RESULTS EXCEEDED PROSPECTUS AND UPGRADED FORECASTS

$85.1m
NETWORK CASH SALES
+68% vs PCP

$58.9m
REVENUE
+82% vs PCP

$17.3m
PRO FORMA EBITDA
+180% vs PCP

$14.8m
UNDERLYING EBITDA
+128% vs PCP

$7.5m
PRO FORMA NPAT
+839% vs PCP

$23.8m
OPERATING CASHFLOW
+125% vs PCP

"Franchising has been the best career decision I've made. I get support on all the back office functions that aren't my forte and can focus on what I'm good at – running a clinic, managing my team and helping clients."

Lauren Blowers
Franchise Partner, SA

STRONG OPERATIONAL PERFORMANCE

+52% VS PCP
Like-for-like growth of network clinic sales

63 CLINICS
11 clinics opened, vs 6-10 target

358k
Customers in database +80K vs PCP

112k
Total social media followers +24% vs PCP

78 NPS
Yearly average across 29,800 respondents

Winner
'2020 Australian Emerging Franchisor of the Year' award

"We continuously up-skill ourselves with the latest and most advanced treatments and technology so we can keep our staff engaged but also make our clients comfortable and confident in their own skin."

Sarah Debono
Franchise Partner QLD

CHAIR'S LETTER

Dear Shareholders,

I'm delighted to welcome you to SILK Laser Australia Limited and our inaugural Annual Report.

The 12 months ended 30 June 2021 (FY21) was a milestone period for SILK, and I'd like to thank my fellow Directors, all of our staff, joint venture partners, franchisee partners, customers and investors for bringing the Company to this point.

SILK is one of Australia and New Zealand's largest specialist clinic networks, offering a range of non-surgical aesthetic products and services across laser hair removal, cosmetic injectables, skin treatments, body contouring and skincare products.

The Company delivered on its growth strategy, increasing clinic numbers organically and through its agreed acquisition of Australian Skin Clinics (ASC)/The Cosmetic Clinic (TCC) in New Zealand, and exceeded its FY21 Prospectus forecasts and upgraded guidance delivering a record financial result for SILK FY21. This is a major accomplishment that has significantly strengthened SILK's capability to deliver long-term value for shareholders.

On 18 June 2021, SILK announced the $52 million strategic acquisition of ASC/TCC, raising $20 million in a strongly supported equity placement to partially fund the acquisition. The acquisition was completed on 1 September 2021. The addition of ASC and TCC has given the Group a strong foothold on the Australian East Coast and scaled entry into the Victorian and New Zealand markets, with 118 clinics now in Australia and New Zealand.

SILK has a strong balance sheet with $44.1 million net cash at 30 June 2021. $25M has since been deployed on the completion of the ASC/TCC acquisition, together with $22.5M of debt drawn down on an acquisition finance facility with a major bank. The balance of cash provides a prudent protection against the financial impact of possible future COVID-19 lockdowns and to support future growth.

The Board is confident of SILK's growth under the leadership of Co-founder & Managing Director Martin Perelman. In particular, SILK is well placed for a post-lockdown recovery, underpinned by the integration of ASC and TCC into the SILK Group, new clinics, continued like-for-like sales growth, and pent-up demand in New South Wales and Victoria due to extended lockdown restrictions in those states.

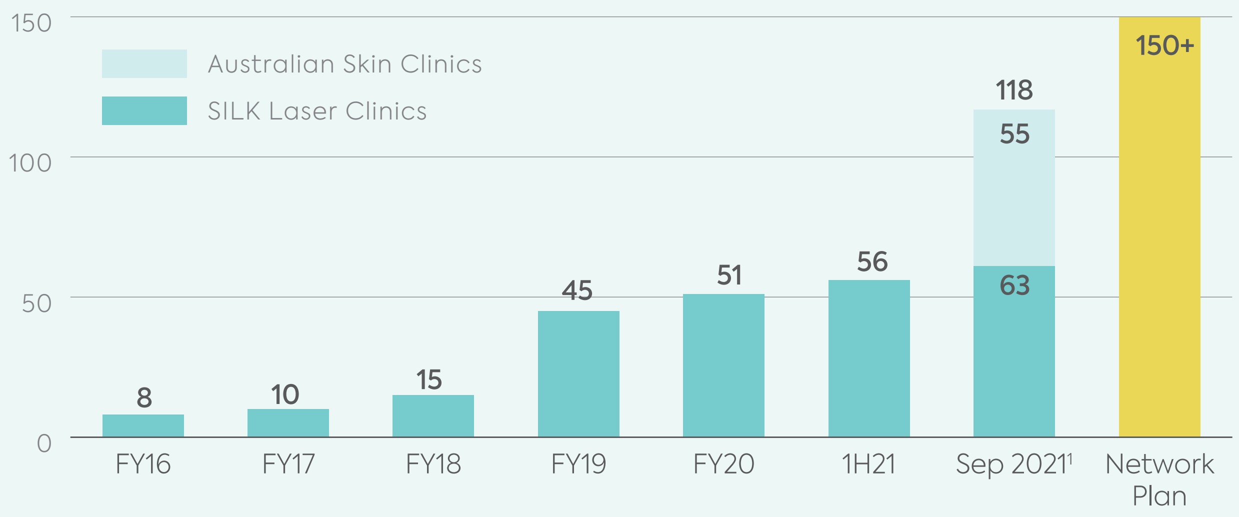
The addition of ASC and TCC has given the Group a strong foothold on the Australian East Coast and scaled entry into the Victorian and New Zealand markets, with 118 clinics now in Australia and New Zealand.

On behalf of the Board, I thank you for your on-going support and investment in SILK. We take very seriously our obligations to you, our shareholders, as well as all stakeholders in SILK and look forward to this next exciting phase in the development of the Company.

Yours sincerely,

Boris Bosnich
Chair and Independent
Non-Executive Director

EXPANDING TOWARDS NETWORK PLAN OF 150+ CLINICS



1. SILK, ASC and TCC clinics open as at the date of this announcement.

- Acquisition continues to expand platform that benefits from SILK's scale, operating strategies and brand
- ASC Group meets key selection criteria:
  1. Strong market position in its catchment area;
  2. Service offering alignment; and
  3. Strength in higher margin services
- Solidifies SILK as a leader in the Australian market and provides scaled entry into Victorian and New Zealand markets

"I love the model of nurses as franchisees and owners. The nurse owners drive the clinic and SILK head office supports us. This is especially important as we implement and uphold protocols to keep our customers and team safe."

Nurse Shivawn Jeanes
Franchise Partner, NSW

CO-FOUNDER & MANAGING DIRECTOR'S LETTER

Our franchise partners are the heart and soul of SILK. These results wouldn't have been possible without our strong relationships with our franchise partners and we are focused on ensuring they are provided with an environment that helps them grow and thrive.

Dear Shareholders,

It is with a genuine sense of pride that I present to you SILK's first Annual Report following our successful Initial Public Offering (IPO) and listing on the Australian Securities Exchange.

I would like to thank all our stakeholders, most importantly our passionate team of staff and franchise partners, for their commitment to SILK. Without these people, this company wouldn't be the amazing place to work that it is and we wouldn't be able to achieve such strong results for our shareholders. They are the heart and soul of our business, and we are focused on ensuring they are provided with the environment to grow and thrive, as exemplified by SILK being awarded "2020 Australian Emerging Franchisor of the Year". Culture is key in our business and we will continue to drive a great culture as we set a new standard in franchising in the aesthetic industry.

This year has helped set the company up for long term, sustainable growth both in Australia, and internationally. The acquisition of ASC combined with the continued shift in our service mix towards an increase in both the cosmetic injectables and body contouring sales categories, is driving sustainable growth with a repeatable revenue model.

Key 2021 financial year forecasts set out in the IPO Prospectus were exceeded and the business also outperformed the upgraded profit guidance released post-IPO. These results wouldn't have been possible without our strong relationships with our franchise partners. Speaking with them regularly, there's nothing more satisfying than helping them achieve their individual clinic successes.

Across the group, reported revenue was up 82% to $58.9 million, while network cash sales (reflecting the underlying performance of the whole business) was up 68% to $85.1 million. All of SILK's service categories performed in line or above expectations, with the Company well-positioned to drive long term growth.

From an earnings perspective, pro forma EBITDA was up 180% to $17.3 million, 8% above upgraded guidance of $15-16 million, and statutory NPAT was up 123% to $5.2 million. If we exclude IPO costs and other one-off expenses, pro forma NPAT was up 839% to $7.5 million.

The SILK network had approximately 631,000 appointments in FY21, with most clients booking multiple treatments per appointment. Average customer spend increased 28% to $605 – a reflection of strong growth in the injectables and body categories.

COVID-19 challenges are being carefully managed across SILK, with our priority keeping our customers and team members safe. We have learnt to be agile and to respond quickly to changing circumstances, keeping our staff and franchise partners supported and engaged when their clinics are closed.

Supported by a strong balance sheet and net cash position, we look forward to further progressing our growth initiatives in the coming year and continuing to grow the business. We plan to open 4-8 new clinics in FY22 focused on Australia's East Coast and New Zealand. We are excited about extending the reach of the SILK group into new territories both domestically and internationally.

We have been delighted to welcome the ASC/TCC team and look forward to successfully integrating their business into the SILK Group and meeting their franchise partners. I am excited by the potential of learning from the ASC/TCC team and adopting the best practices from both the SILK and ASC/TCC across the networks, as we strive to become the leading non surgical aesthetics treatments provider across Australia and New Zealand.

Lastly, our clinics continue to build waiting lists for clients in states and regions where clinics are closed, to capture pent-up demand in readiness for easing of lockdown restrictions. We have been fortunate that SA, WA and Queensland have not experienced extended lockdowns in recent months, therefore most of the SILK business has traded with only minor disruptions. Trading in our clinics has proved to be robust when they are open, with positive like-for-like growth in the first seven weeks of FY22, after adjusting for lockdown days.

On behalf of SILK, I would like to thank our shareholders for their ongoing support, and look forward to continuing to grow our business for them, our team, our franchise partners, our customers, and the communities within which we operate. As we work to deliver in FY22, we aim to be at the forefront of our non-surgical aesthetic services and offer best-in-class technologies to our clients at affordable pricing.

Yours sincerely,

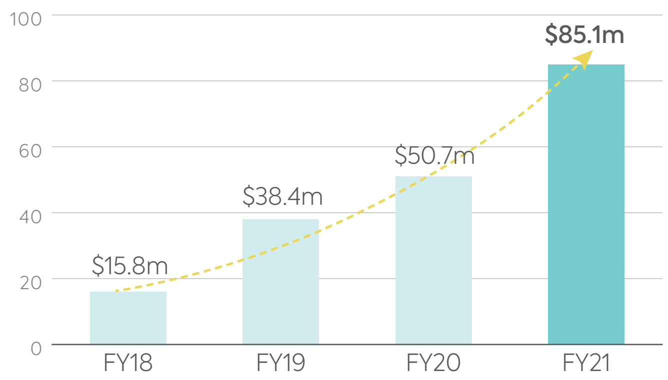
Martin Perelman
Co-founder & Managing Director

2021 PERFORMANCE HIGHLIGHTS

BUSINESS OVERVIEW

Network sales growth exceeded forecast, driving profit

NETWORK CASH SALES ($m)

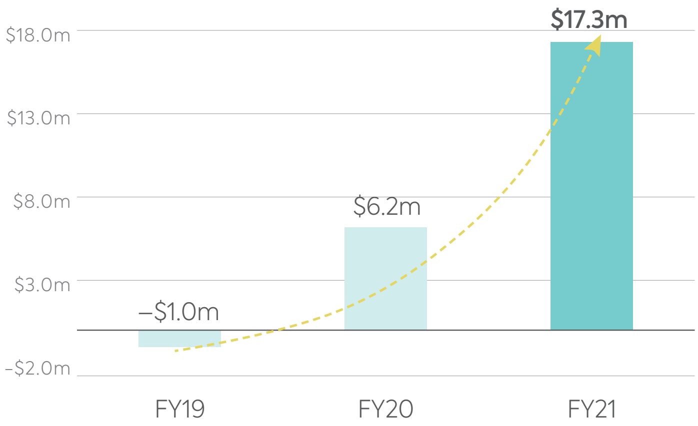


$85.1m

NETWORK CASH SALES
+68% VS PCP

Pro Forma EBITDA increased 180% compared with last year

EBITDA GROWTH ($m)

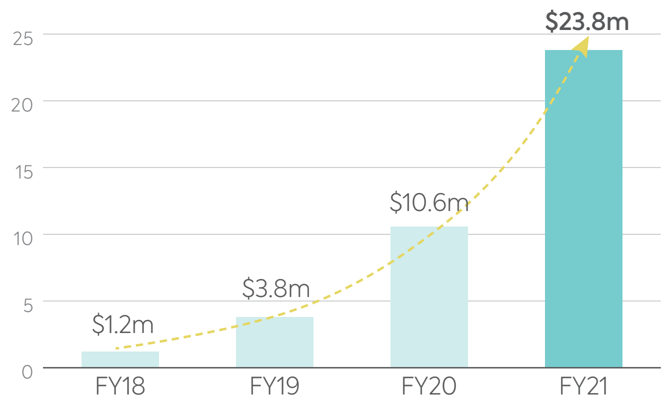


$17.3m

PRO FORMA EBITDA
+180% VS PCP

Operating cash flow more than doubled to $23.8m

OPERATING CASH FLOW ($m)



$23.8m

OPERATING CASH FLOW UP
125% TO $23.8M

Our service mix continues to shift towards the Cosmetic Injectables and Body Contouring categories. With the launch of Coolsculpt and EmSculpt across the SILK network, the Body category has performed very well. Nearly 70% of the SILK network now offers Coolsculpt, doubling over the last 6 months, with 53% of the network offering Emsculpt and 40% offering both modalities.

There were more than 91k Cosmetic Injectable treatments performed across the network in FY21. We also launched PDO Threads and added four new services to the injectables offering.

Customers are also happy! Our Net Promoter Score, a measure of customer satisfaction and engagement, was 78, a phenomenally high result achieved from 29,800 respondents across the year.

Exceptional like-for-like sales growth across all categories

All categories grew significantly on a like-for-like basis, reflecting an increase in volume and size of transactions.

The SILK network had 631k appointments in FY21, with most clients booking multiple treatments per appointment. Average customer spend increased 28% to $605 – a reflection of strong growth in the injectables and body categories.

All categories performed well:

- **Cosmetic Injectables:** More than 91k injectables treatments were performed across the network in FY21, up 68% year-on-year, and showed the strongest LFL growth of all categories. SILK also franchised seven more nurse injector-led clinics in FY21, securing key talent and future revenue.
- **Laser Hair Removal:** Remains the company's strongest category from a client volume perspective, providing a strong ability to cross-sell into other service categories and product sales. Whilst the share of overall revenue decreased, it grew significantly in absolute terms.
- **Skin Treatments:** Growing in importance for SILK, we enhanced a number of our treatments and invested in a considerable amount of training for our clinic staff.
- **Skincare:** High margin, own-brand skincare products have performed well with wholesale skincare sales up 48%, including through the SILK network, online sales, via Adore Beauty, and third-party retailers. The Company is looking to expand its range, underpinned by investment in innovation.
- **Body:** With the launch of Coolsculpt and EmSculpt across the SILK network, this new category has started very well and justified further investment in devices at the start of FY22. Nearly 70% of the SILK network now offers Coolsculpt, doubling over the last 6 months, with 53% of the network offering Emsculpt and 40% offering both modalities.

2021 PERFORMANCE HIGHLIGHTS continued

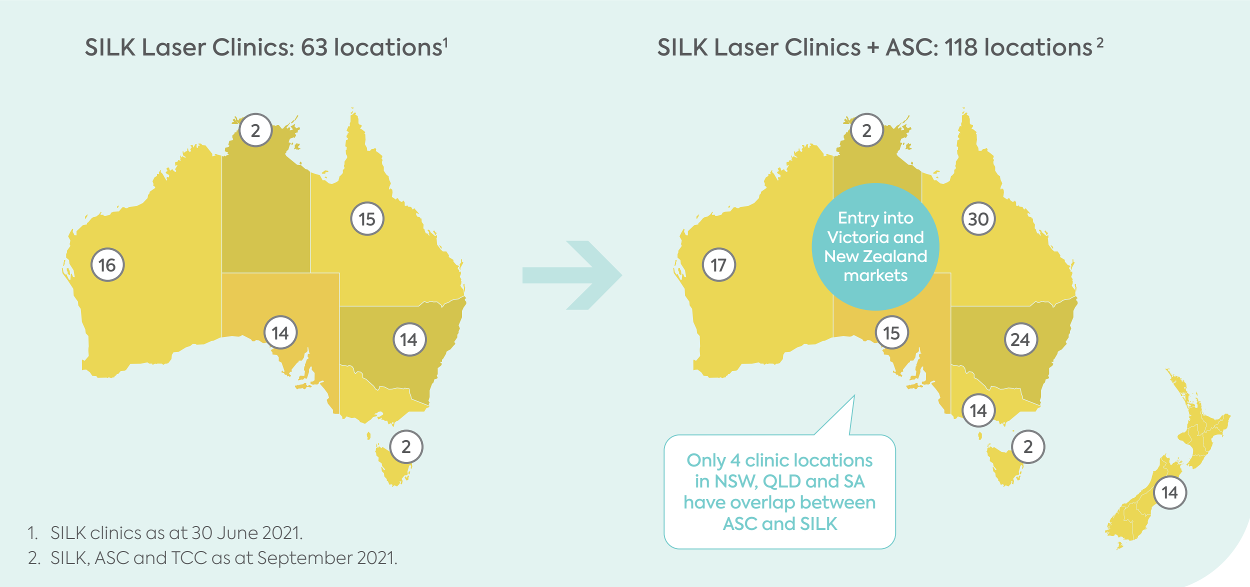
Successful acquisition of Australian Skin Clinics/The Cosmetic Clinic supports expansion and growth objectives

On 18 June 2021, SILK announced the $52 million strategic acquisition of ASC and TCC in New Zealand, raising $20 million in a strongly supported equity placement to partially fund the acquisition.

Additionally, a $30 million term debt facility was put in place with a major bank to ensure SILK retains a strong cash position to support further growth.

The addition of ASC and TCC gives the Group a strong foothold on the Australian East Coast and scaled entry into the Victorian and New Zealand markets. The acquisition was completed on 31 August 2021.

Market leader and on track for 150 clinic network

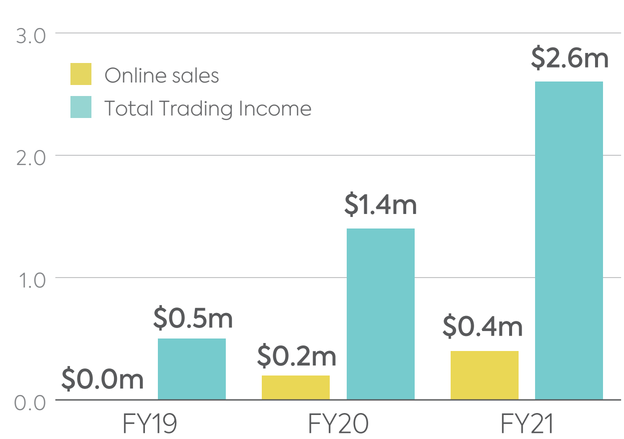


1. SILK clinics as at 30 June 2021.
2. SILK, ASC and TCC as at September 2021.

Digital experience

SILK also invested in its digital offering and creating a secure, omnichannel experience, as customers have shown a strong appetite for transacting and booking online. Online sales were up 129%, now representing a third of total laser, skin and body sales. Investments in marketing automation, user experience, implementing online bookings and a more flexible e-commerce architecture, have opened further opportunities for future digital expansion and should drive ongoing sales growth.

ONLINE AESTHETICS SKINCARE SALES GROWTH



Online sales up 121% vs PCP, with $297 average basket size

Website visits up 141% vs PCP

Sales via Adore Beauty up 26% H2 vs H1 for FY21

Sustainability

We are a community of business owners working to have a social impact. Half of our leadership team is female, and all our franchisees are female, empowering women in business.

SILK's Aesthetics Rx skincare range has invested in developing advanced, scientific formulas and our mantra has always been vegan and cruelty free. We have included ingredients from biotechnology in our formulations since our inception, and we are continuing to expand down that same path for the future. It's just one small contribution that we can make to sustainability when we make more conscious choices about where our raw ingredients come from.

We have also installed LED lighting in all our clinics to make them more energy efficient, and support local organisations and national charities . We know we can do more, and are currently developing a formal ESG strategy.

People and culture overview

Enriching a high performing culture by building the capability of our people has been a core focus this year. We can only achieve our strategic objectives if our people are highly engaged, willing to embrace diversity, high performing and are empowered to be innovative thinkers.

The implementation of a sophisticated and robust recruitment process to attract high calibre candidates, along with thorough training programs, has enhanced our existing talent pool and increased performance and retention.

The physical and mental wellbeing of our employees has remained a high priority this year, given the COVID-19 pandemic. Remaining well-educated and keeping our employees our priority has not only assisted in keeping our people safe and healthy, but also retained our high performing staff through this difficult time.

We are a community of business owners working to have a social impact. We are committed to ensuring we provide a diverse and inclusive workplace, where we empower our people to live by our values in order to be the best they can be. Half of our leadership team is female, and all our franchisees are female, empowering women in business. Continuing to support local communities also remains important for us, ensuring that we give back where we can.

Keeping our team and customers safe

SILK created and implemented a COVID-19 policy and protocols, available to all staff and updated regularly to ensure best-practice at all times.

The policy goes over and above Government directive measures such as temperature checks for all staff and customers during peak COVID-19 periods, mandatory mask wearing and sanitizer.

The formation of a Medical Board and Nurses Board as well as the appointment of two Medical Directors has provided extra clinical governance, overseeing all company service offerings and implementing best practice parameters.

Additionally, we have state-of-the-art training centres built in SA, WA, NSW and QLD, with dedicated educators working in all major states to continue best practice education.

"The community of women that work together to grow our businesses is inspiring. Keeping everyone motivated isn't hard to do when you have such a great group of women to work with."

Nurse Jo Ryan
Franchise Partner, QLD

DIRECTORS

Boris Bosnich

Chairman and Independent Non-Executive Director

Boris joined SILK in 2015 as a director and chairman. Following a 15-year career with a global logistics organisation, Boris jointly established Challenge Recruitment in 2001. It became one of Australia's largest privately held recruitment companies and Boris sold his interest in the business in 2008 as part of an initial public offering and listing on ASX. Boris is also chairman of Orthopaedics SA and Kid Sense Child Development. Boris holds various directorships and provides advisory services to a number of growth orientated small and medium enterprises and start-up companies in the United States and Australia and is currently managing a range of venture development projects and capital raisings to accelerate growth strategy execution. These businesses span a diverse range of industries such as enviro-tech, manufacturing, retail and the health and wellbeing sector. Boris is a member of the Australian Institute of Company Directors and an Adjunct Industry Fellow at the University of South Australia.

Brad Lynch

Non-Executive Director

Brad joined SILK in 2017 as a director. Brad is a partner at Advent Partners and has over 15 years of experience as a private equity investor. He is currently a director of Mandoe Media, Junior Adventures Group and Flintfox International. Prior to joining Advent Partners, Brad worked for two years at global private equity firm The Riverside Company, seven years at ANZ Capital (a division of the Australian New Zealand Banking Group) and six years at Ernst & Young. Brad qualified as a Chartered Accountant and graduated from the University of Melbourne with a Bachelor of Commerce.

Sinead Ryan

Independent Non-Executive Director

Sinead joined SILK in 2020 as a director. Sinead has over 25 years' experience with roles including company director and CEO. Sinead has held several strategic executive roles leading and driving sustainable business growth and has in-depth experience in the childcare, retail and energy sectors. Sinead has extensive experience in leading large transformational programs, specialising in M&A from due diligence through to integration. Sinead previously led large global transformation programs with EY and Deloitte.

Andrew Cosh

Independent Non-Executive Director

Andrew joined SILK in 2015 as a director. Andrew is the Principal and CEO of Kilara Capital, an investment and funds management business focused on delivering impact investment opportunities within the food and agriculture sector in Australia and New Zealand. He is also Co-principal of 'Clearwater', a private family office operated with his wife Claire. From 2010 to 2017, Andrew was Managing Director of Colindale Group. Prior to his current investment and asset management activities, Andrew held senior executive roles at Ernst & Young, Minter Ellison and international agribusiness trading group, Michell Australia. Andrew is a member of the Australian Institute of Company Directors. In addition, he currently serves as a director on two private company boards in Australia and is also a director of Heart Foundation SA.

Martin Perelman

Managing Director, CEO

Martin has been a director of SILK since 2009. Martin is a co-founder and the Chief Executive Officer (CEO) of SILK. Having worked in various national sales roles in the retail industry, Martin has acquired the relevant skills required to successfully lead a growing business, including sound financial management, brand development, innovative sales and marketing strategies and team leadership. Martin is passionate about identifying new growth opportunities for the business, while protecting and maintaining brand credibility.

Richard Willson

Company Secretary

Richard is an experienced, Non-Executive Director, Company Secretary and CFO with more than 20 years' experience predominantly within the mining, technology and agricultural sectors for both publicly listed and private companies. Richard has a Bachelor of Accounting from the University of South Australia, is a Fellow of CPA Australia, and a Fellow of the Australian Institute of Company Directors. He is a Non-Executive Director of Titomic Limited (ASX:TTT), AusTin Mining Limited (ASX:ANW), Thomson Resources Limited (ASX:TMZ), PNX Metals Limited (ASX:PNX), 8IP Emerging Companies Limited (ASX:8EC), Unity Housing Company Ltd and Variety SA; and Company Secretary of a number of ASX Listed Companies. Richard is the Chairman of the Audit Committee of Titomic Limited, AusTin Mining Limited, and Unity Housing Company, and is the Chairman of the Remuneration & Nomination Committee of Titomic Limited.

CORPORATE GOVERNANCE STATEMENT

The Board is committed to maintaining the highest standards of Corporate Governance. Corporate Governance is about having a set of core values and behaviours that underpin the Company's activities and ensure transparency, fair dealing and protection of the interests of stakeholders. The Company has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (4th edition) published by the ASX Corporate Governance Council.

The 2021 Corporate Governance Statement was approved by the Board on 27 September 2021 and reflects the corporate governance practices throughout the 2021 financial reporting period. A description of the Company's current corporate governance practices is set out in the Company's Corporate Governance Statement, which can be viewed at https://silklaser.com.au/investors/corporate-governance/.

SILK
LASER CLINICS

Financial Report

For the year ended 30 June

2021

DIRECTORS' REPORT

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'Group' or 'SILK') consisting of SILK Laser Australia Limited (referred to hereafter as the 'Company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2021. This is the inaugural Directors' report following the Initial Public Offer (IPO) and listing on the Australian Securities Exchange (ASX), (the Listing) on 15 December 2020.

DIRECTORS

The Directors have been in office for the period from 1 July 2020 unless otherwise indicated.

Name	Role	Status	Appointed
Martin Perelman	Managing Director & CEO	Not Independent	
Boris Bosnich	Chair & Non-Executive Director	Independent	
Sinead Ryan	Non-Executive Director	Independent	10 December 2020
Bradley Lynch	Non-Executive Director	Not Independent	
Andrew Cosh	Non-Executive Director	Independent	

COMPANY SECRETARY

Richard Willson was appointed as Company Secretary on 26 October 2020.

PRINCIPAL ACTIVITIES

During the financial year the principal continuing activities of the Group consisted of:

- Franchisor of clinics providing premium non-surgical aesthetics services, including laser hair removal, cosmetic injections, skin treatments, body contouring treatments and the retail sale of skincare products;
- Operator of corporate and majority owned clinics providing premium non-surgical aesthetics services, including laser hair removal, non-invasive cosmetic injections, skin treatments, body contouring and the retail sale of skincare products; and
- Distribution and sale of proprietary skincare products.

SIGNIFICANT CHANGES IN THE STATE OF AFFAIRS

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 ASX on 15 December 2020.

The restructure is explained more fully in Note 1 to the Financial Report and in full detail in the in the Prospectus, which was lodged with ASX on 23 November 2020.

Acquisition

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. The acquisition of the ASC Group was completed on 31 August 2021.

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 55 clinics to SILK's existing network of 63 clinics (as at the date of this report), brings 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 comprised cash paid at completion of $47 million and an earn out consideration of up to $5.0 million, payable in SILK ordinary shares issued at an agreed value of $4.3770625 per share. At completion the cash consideration was paid and $4.67 million of SILK shares, with the expectation that a further $0.33 million of shares will be issued to the vendors prior to 31 December 2021, once the final condition of the earn out condition has been met.

The cash element of the transaction has been funded from three sources:

- A placement was successfully completed on 21 June to sophisticated and institutional investors raising $20 million from the issue of 4.7 million new shares.
- Debt of $22.5 million was drawn from a newly established $30.0 million debt facility.
- The balance was drawn from SILK's existing cash resources on the balance sheet.

The earn-out amount is based on whether or not certain identified new clinics in Australia and New Zealand have opened:

- The 'Australian Earn-Out Amount' of up to $4.0 million based on the opening of three new joint venture franchised Australian Clinics by 31 July 2021, and this condition was met in full.
- The 'NZ Earn-Out Amount' of up to $1.0 million, based on the opening of three new New Zealand Clinics by 31 December 2021, subject to a pro-rata reduction to the extent that there are less than three opened as at 31 December 2021. Two of these clinics have already opened and it is expected that the third New Zealand clinic will be opened prior to 31 December 2021.

Accordingly, $4.67million of shares have been issued to the vendors.

At the date of this report, the company has yet to complete a detailed purchase price allocation to allow further disclosure at this time.

ROUNDING OF AMOUNTS

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

REVIEW OF OPERATIONS AND FINANCIAL RESULTS SUMMARY

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, comprising Clinic Sales and Distribution and Other Sales, by 83% to $53.3 million (FY2020 $29.0 million).
- 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 Summary of Profit and Loss table that follows.
- The above revenue metrics were driven by growth in Network Cash Sales of 68%, increasing to $85.1 million (FY2020:$50.7 million). Like for like Network Cash Sales grew by 52% for all clinics that were open for the duration of 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 FY2021, 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 FY2021, following initial trials, in July 2020. This new category is performing in line with management's expectations and further investment in the body category is expected during new financial year.
- 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 the Company 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 which were required to be expensed.
- 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).

Non-IFRS measures

The Directors' report contained references to Pro forma EBITDA, Pro forma 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 listing of the Company on ASX, which occurred on 15 December 2020;
- To remove the effect of the one-off cost of the share issue made to the Chair and two senior executives upon the listing of the Company. The listing bonus award was detailed in Section 6 of the Prospectus; and
- To remove the business combination expenses relating to the acquisition of the ASC Group.

Additionally SILK reports to the market Underlying EBITDA, which is based on Pro forma EBITDA after adjusting for:

- The movement in unearned revenue to adjust 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
Pro forma EBITDA	17.3	14.0	15.0 to 16.0
Underlying EBITDA	14.8	13.5	14.0 to 15.0
Pro forma 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 EBITDA	**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 FY2021 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.

Summary of Profit and Loss for FY2021 compared with FY2020:	Reported FY2021 $'000	Reported FY2020 $'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.

CASH FLOW AND NET CASH

In FY2021, the Group generated cash from operating activities of $23.8 million (FY2020: $10.6 million). SILK's business is seasonal, with the first half usually significantly stronger, from an operating cash flow perspective reflecting the typical sales cycle experienced. Operating cash flow was 168% of EBITDA (FY2020: 128%) and 40% of Total Reported Revenue (FY2020: 33%), reflecting the strong, cash generating nature of the business, with customers paying for certain treatment packages in advance, notably laser hair removal and skin treatments.

Free cash flow comprising cash flow from operating activities minus cash flows from investing activities totalled $14.2 million (FY2020: $5.4 million).

The total of the Group's cash and cash equivalent at 30 June 2021 was $44.7 million and included the proceeds of the $20 million share placement in relation to the agreed acquisition of ASC. The overall net cash position after asset finance liabilities of $0.6 million was $44.1 million. After deducting lease liabilities reported under AASB 16 of $15.8 million the net cash balance was $28.3 million. The strong cash position reflects the completion of the IPO on 10 December 2020 and the share placement of $20 million completed on 21 June 2021.

EVENTS AFTER THE REPORTING DATE

Acquisition agreement

The acquisition of ASC Group completed on 31 August 2021.

Details regarding the acquisition have been explained above in the section Significant changes in the state of affairs.

Debt Facility

The Group entered into a four-year term debt facility agreement of $30 million with Westpac Bank in relation to the acquisition, with repayments of up to $2.5 million per year, commencing on a quarterly basis from January 2022, subject to the level of net debt. The facility has two covenants, firstly relating to net leverage based on the ratio of EBITDA to net debt; and secondly, relating to fixed charge cover, measured as the ratio 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.

AUDITOR'S INDEPENDENCE DECLARATION

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

ENVIRONMENTAL REGULATION

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

REMUNERATION REPORT (AUDITED)

The Board of Directors of SILK Laser Australia Limited (SILK) present the Remuneration Report for the reporting period of 1 July 2020 to 30 June 2021. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001.*

The Company became a listed public company on 15 December 2020 with this being the first remuneration report of SILK. No comparative Remuneration report information is disclosed for periods prior to SILK's listing.

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

(A) SUMMARY

Group financial and operational performance

- Total reported Revenue grew 82% to $58.9m (2020: $32.3m);
- The reported net profit grew 123% to $5.2m (2020 $2.3m);
- The reported Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) increased by 71% to $14.2m (2020: $8.3m).
- Strong working capital management leading to strong operating cash flow $23.8m (2020: $10.6m);
- Operating cash flow as a percentage of total reported Revenue of 40% (2020: 33%); and
- Continuing strong customer service metrics.

(B) KEY MANAGEMENT PERSONNEL COVERED IN THIS REPORT

This report sets out the remuneration arrangements for SILK's Key Management Personnel (KMP) who have been KMP during the reporting period. Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors. For the remainder of this Remuneration Report, the KMP are referred to as either Non-Executive Directors or Senior Executives.

All Non-Executive Directors and Senior Executives have held their positions for the duration of the reporting period unless indicated otherwise.

SILK Laser Australia's KMP are:

Name	Role	Status	Appointed
Non-Executive Directors			
Boris Bosnich	Chair, Non-Executive Director	Independent	
Sinead Ryan	Non-Executive Director	Independent	10 December 2020
Bradley Lynch	Non-Executive Director	Not Independent	
Andrew Cosh	Non-Executive Director	Independent	
Senior Executives			
Martin Perelman	Chief Executive Officer (CEO) and Managing Director		
Rob Garsden	Chief Operating Officer (COO)		
Ivan Jacques	Chief Financial Officer (CFO)		

(C) REMUNERATION OVERVIEW

The Board recognises that the performance of the Group depends to a large extent on the quality and motivation of the SILK team, including the Senior Executives. SILK's remuneration strategy therefore seeks to appropriately attract, reward and retain team members at all levels in the organisation. Using various remuneration mechanisms, the Board seeks to have a structure that incentivises shareholder returns, sustainable growth, risk management as well as driving a positive culture across the business. SILK utilises both Short and Long-Term incentives in addition to cash salaries to incentivise staff and reward performance.

In FY2021 the primary performance measure for determining whether Senior Executives Short Term Incentives (STI) were paid, was the Group's EBITDA versus the normalised EBITDA for FY2020. In FY2021, the Group's comparable EBITDA (i.e. using consistent accounting standards) increased 71% leading to the maximum available STI being paid to each Senior Executive in the form of cash bonuses. The Board believes the STI outcomes were fair and appropriate and reflect the alignment between shareholders' interests and the Company's remuneration practices and policies. No LTIs were awarded in FY2021.

The Remuneration and Nomination Committee will continue to review the remuneration arrangements for Non-Executive Directors and Senior Executives to ensure that they are relevant, competitive, and appropriate for a listed company.

(D) RELATIONSHIP BETWEEN REMUNERATION POLICY AND COMPANY PERFORMANCE

The performance criteria and targets for Senior Executives to realise benefits under both the Company's STI and LTI plans are aligned to company performance and enhancing shareholder value. The Remuneration and Nomination Committee considers both statutory and normalised results for the business in evaluating performance against key metrics.

The Remuneration and Nomination Committee is of the opinion that the continued improvement in results can be attributed in part to the adoption of performance-based compensation and is satisfied that this improvement will continue to increase shareholder value if maintained over the coming years. A summary of the normalised results for the Group is included in the Review of Operations contained in the Directors' Report.

The following table provides a summary of the Company's statutory financial performance from FY2019 to FY2021:

	Statutory FY2021 Result $'000	Statutory FY2020 Result $'000	Statutory FY2019 Result $'000
Total reported revenue	58,878	32,329	24,082
EBITDA	14,155	8,270	233
Net profit/(Loss) after tax	5,152	2,309	(1,286)
Basic earnings per share (cents)	11.81	5.19	(3.5)
Dividends declared	1,500	–	–
Dividends per share declared (cents)	3.53	–	–
Year-end share price ($)	4.37	Not Listed	Not Listed

(E) ROLE OF REMUNERATION AND NOMINATION COMMITTEE

The primary objective of the Remuneration and Nomination Committee is to assist the Board to fulfil its corporate governance and oversight responsibilities in relation to the Company's people strategy including remuneration components, performance measurements and accountability frameworks, recruitment, engagement, retention, talent management and succession planning.

Under its charter, the Remuneration and Nomination Committee must consist of a minimum of three Directors, only Non-Executive Directors, a majority of Independent Directors and an Independent Director as Chair. The Remuneration and Nomination Committee comprises:

- Andrew Cosh (Chair – Independent);
- Brad Lynch; and
- Boris Bosnich (Independent).

The responsibilities of the Remuneration and Nomination Committee include:

- reviewing and recommending to the Board remuneration arrangements for Non-Executive Directors;
- reviewing and recommending to the Board employment and remuneration arrangements for the CEO and the senior executives;
- approving major changes and developments in the Group's policies and procedures related to remuneration, recruitment, retention, termination, and performance assessment for senior management;
- approving major changes and developments in superannuation arrangements, personnel practices, and industrial relations strategies for the Group;
- reviewing the Group's remuneration framework to confirm it encourages a culture aligned with the Group's values, supports the strategic objectives, and is aligned with the Group's risk management framework;
- overseeing the operation of the Group's employee equity incentive plans and recommending to the Board whether offers are to be made under any of the Group's employee equity incentive plans in respect of a financial year;

- reviewing and recommending to the Board the terms of any incentive offers made to the CEO and other members of the senior executive team;
- reviewing and recommending to the Board the size and composition of the Board, including reviewing Board succession plans and the succession of the Chair;
- reviewing the succession plans for the CEO and other senior executives; and
- in accordance with the Diversity Policy, recommending to the Board measurable objectives for achieving gender diversity in the composition of the Board, senior executives, and workforce generally, and assessing the Group's progress in achieving those objectives.

(F) EQUITY INCENTIVE PLAN

Under the rules of the Equity Incentive Plan (Plan Rules), SILK has flexibility to grant Rights, Options, Units, Restricted Shares and Shares as incentives, subject to the terms of individual offers and the satisfaction of applicable conditions as determined by the Board from time to time.

The key features of the Plan Rules are as follows:

Topic	Summary
Eligibility	Offers may be made at the Board's discretion to employees of SILK or any other person that the Board determines to be eligible to receive a grant.
Types of securities	SILK may grant Rights, Options, Units, Shares and/or restricted Shares as incentives, subject to the terms of individual offers. **Rights** are an entitlement to receive Shares subject to the satisfaction of applicable conditions. **Options** are an entitlement to receive Shares upon satisfaction of applicable conditions and exercise (which may include payment of an applicable exercise price). **Units** are an entitlement to a cash payment subject to the satisfaction of applicable conditions. **Restricted Shares** are Shares that are subject to dealing restrictions, vesting conditions or other restrictions or conditions. Unless otherwise specified in an offer document, the Board has discretion to settle Options or Rights with a cash equivalent payment.
Offers under Plan Rules	Under the Plan Rules, SILK may make offers at its discretion, subject to any requirements for Shareholder approval. The Board has discretion to set the terms and conditions on which it will offer incentives in individual offer documents. An offer must be accepted by the participant (this may occur via an 'opt out' basis).
Issue price	Unless the Board determines otherwise, no payment is required for a grant of Rights, Options, Units or restricted Shares allocated under the Plan Rules.
Vesting	Vesting of incentives is subject to any vesting or performance conditions determined by the Board and specified in the offer document. Subject to the Plan Rules and the terms of the specific offer document, incentives will lapse or be forfeited (as applicable) if the performance and/or vesting conditions are not satisfied. The Board has discretion to delay or suspend vesting in certain circumstances. To receive Shares (or a cash equivalent payment), vested Options must be exercised, and the exercise price (if any) must be paid, which may occur through a cashless exercise mechanism. Rights may be exercisable (if specified in the individual offer) or automatically exercised on vesting. No exercise price is payable in respect of Rights. No exercise mechanism or exercise price applies to Units or restricted Shares.

Topic	Summary
Cessation of employment	Under the Plan Rules, the Board has a broad discretion in relation to the treatment of incentive awards on cessation of employment. It is intended that individual offer documents will provide more specific information on how the incentive awards will be treated if the participant ceases employment with the Group. Termination benefits approval will be obtained for the giving of these benefits under the Plan Rules.
Clawback and preventing inappropriate benefits	The Plan Rules provide the Board with broad malus and clawback powers if, for example, the participant has acted fraudulently or dishonestly or there is a material financial misstatement.
Change of control	The Plan Rules provide the Board with discretion in various change of control scenarios. For example, the Board may determine that all or a specified number of a participant's incentives will vest or cease to be subject to restrictions where there is a change of control event in accordance with the Plan Rules.
Rights issues, bonus issues, corporate actions and other capital reconstructions	The Plan Rules include specific provisions dealing with rights issues, bonus issues, corporate actions and other capital reconstructions. These provisions are intended to ensure that there is no material advantage or disadvantage to the participant in respect of their incentives as a result of such corporate actions. Participants holding Rights or Options are not entitled to participate in new issues of securities by SILK prior to the vesting (and exercise, if applicable) of their incentives. In the event of a bonus issue, the Rights or Options will be adjusted in the manner allowed or required by the ASX Listing Rules.
Restrictions on dealing	Prior to vesting, the Plan Rules provide that participants must not sell, transfer, encumber, hedge or otherwise deal with their incentives. After vesting, employees will be free to deal with their incentives, subject to the Securities Dealing Policy.
Other terms	The Plan Rules contain customary and usual terms for dealing with administration, variation, suspension and termination of any incentive plan. This includes discretion to amend the provisions of the Equity Incentive Plan or the terms or conditions of incentives granted under the Plan Rules (subject to the ASX Listing Rules).

The Board has determined that the Equity Incentive Plan would be used to deliver a Listing award (**Listing Bonus Award**).

The Board intends to grant LTI awards under the Equity Incentive Plan to attract, retain and motivate Senior Executives and promote the long-term growth of SILK. The Board intends to commence granting LTI awards from FY2022.

Listing Bonus Award

The Listing Bonus Award was a one-off award that was granted to certain directors and Senior Executives to reward them for their efforts during SILK's successful IPO in December 2020 and to provide ongoing motivation and alignment with Shareholder interests.

The key features of the Listing Bonus Award are as follows:

Topic	Summary
Award	The Listing Bonus Award was delivered in Rights. Each Right entitles the participant to one Share (or an equivalent cash payment as determined by the Board) subject to the satisfaction of applicable vesting conditions. The Board decided to grant Rights because they create share price alignment between participants and Shareholders but do not provide the full benefits of share ownership (such as dividend and voting rights) unless and until the Rights vest.
Maximum number of Rights proposed to be issued	Under the Listing Bonus Award, the: • Chair was granted 28,985 Rights (Fair value of $100,000); • COO was granted 115,942 Rights (Fair value of $400,000); and • CFO was granted 57,971 Rights (Fair value of $200,000). The number of Rights awarded to each participant was calculated by dividing the participant's award opportunity by the IPO offer price of $3.45 on 15 December 2021, the grant date. No securities have previously been issued under the Equity Incentive Plan. If the holder of the Rights is employed at vesting date, they are deemed to have met the performance condition.
Vesting	Half of the Rights vested in August 2021 and the remaining half will vest in August 2022, subject to the satisfaction of vesting conditions. Vesting is subject to the Board determining that the participant's performance from the grant date up until the relevant vesting date has "met expectations" (or better). A service condition also applies, subject to the cessation of employment provisions described below.
Acquisition Price	Rights were issued at nil cost as they form part of the participant's remuneration.
Exercise	Rights will be automatically exercised upon vesting.
Restrictions on dealing	Any dealing in respect of a Right is prohibited, unless the Board determines otherwise, or the Dealing is required by law. Participants will be free to deal in any Shares allocated on vesting of Rights, subject to the Securities Dealing Policy.
Cessation of employment	Unless the Board determines otherwise: • if the participant's employment is summarily terminated or they resign (or give notice of resignation) prior to the vesting date, all unvested Rights will lapse; and • if the participant ceases employment for any other reason prior to the vesting date, a pro-rata portion of unvested Rights (based on the proportion of the service period that has elapsed up to the date of cessation) will remain on foot and be eligible to vest on the relevant vesting date in the ordinary course.

Topic	Summary
Change of control and other circumstances which may trigger early vesting	If a change of control event occurs (including a takeover bid or any other transaction, event or state of affairs that, in the Board's opinion, is likely to result in a change in the control of the Company), the Board may decide that some or all Rights will vest or lapse. If an actual change of control occurs before the Board exercises its discretion, all unvested Rights will immediately vest on a pro rata basis having regard to the portion of the vesting period that has elapsed.
Malus and clawback	As described above, the Board has malus and clawback powers under the Plan Rules. The scope of these powers includes lapsing Rights and/or forfeiting any shares allocated on vesting as well as clawing back certain cash amounts.

(G) PRINCIPLES USED TO DETERMINE THE NATURE AND AMOUNT OF REMUNERATION

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

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

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

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

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

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

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

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

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

(H) KMP REMUNERATION

Non-Executive Directors Remuneration

Fees and payments to Non-Executive Directors reflect the demands and responsibilities of their role. Non-Executive Directors' fees and payments are reviewed annually by the Remuneration and Nomination Committee. The Remuneration and Nomination Committee may, from time to time, receive advice from independent remuneration consultants to ensure Non-Executive Directors' fees and payments are appropriate and in line with the market. No independent remuneration consultants were used during the FY2021 year. The Chair's fees are determined independently to the fees of other Non-Executive Directors based on comparative roles in the external market. The Chair is not present at any discussions relating to the determination of his own remuneration. Except for the Chair's participation in the Listing Bonus Award and issuance of performance rights, Non-Executive Directors do not receive share options or other incentives.

ASX listing rules require the aggregate maximum non-executive directors' remuneration be determined periodically by a general meeting. The most recent determination was at the General Meeting held prior to the Company's ASX listing, where the shareholders approved the Company's Constitution which provides for an aggregate maximum remuneration of $430,000 per annum.

Directors may be reimbursed for travel and other expenses incurred in attending to the Group's affairs, including attending and returning from Board or Board committee meetings and general meetings of the Company. Any Non-Executive Director who performs extra services, makes any special exertions for the benefit of the Company or who otherwise performs services that, in the opinion of the Board, are outside the scope of the ordinary duties of a Non-Executive Director, may be remunerated for the services (as determined by the Board) out of the funds of the Company.

There are no retirement benefit schemes for Directors, other than statutory superannuation contributions.

Statutory remuneration details and Disclosures	Director's fees $	Offer & Prospectus Fees $	Superannuation defined contribution $	Share-based payments/ Performance rights* $	Total $
FY2021 table of benefits and payments					
Boris Bosnich	112,346	–	3,270	113,262	228,878
Sinead Ryan	38,500	2,750	–	–	41,250
Andrew Cosh	50,000	–	–	–	50,000
TOTAL	200,846	2,750	3,270	113,262	320,128
FY2020 table of benefits and payments					
Boris Bosnich	63,292	–	5,367	26,523	95,182
Andrew Cosh	25,000	–	–	–	25,000
TOTAL	88,292	–	5,367	26,523	120,182

* Boris Bosnich's performance rights in FY2021 amounted to $100,000 (FY2020: $0).

Bradley Lynch does not receive a Director's fee, but Advent Partners, Mr Lynch's employer, receives a consultancy fee of $60,000 (plus GST) per annum. Advent Partners provides a range of services including the provision of advice in relation to operational and strategic issues relevant to SILK.

Senior Executive Remuneration

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

Total fixed remuneration (TFR)	Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits. TFR is based on experience and expertise of the Senior Executive, individual performance, the overall performance of the Group and comparable market remunerations. Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the Group and provides additional value to the executive.
Short-term incentive (STI)	The Short-Term Incentives ('STI') program is designed to align the targets of the business with the performance targets of executives. STI payments are granted to executives based on specific annual targets and key performance indicators ('KPI's') being achieved. KPI's can include profit contribution, customer satisfaction, leadership contribution and product management. Key performance indicators for STI achievement are determined by the Board annually in consultation with the executive.
Long-term incentive (LTI)	No LTI's were awarded during the FY2021 year. The Board intends to commence granting LTI awards from FY2022.

Statutory remuneration details and Disclosures

	Cash salary $	STI/bonus $	Annual leave/long service leave $	Superannuation defined contribution $	Share-based payments/ Performance rights* $	Total $
FY2021						
Martin Perelman	314,777	110,250	99,325	25,000	13,262	562,614
Rob Garsden	247,384	94,248	50,045	24,643	242,881	659,201
Ivan Jacques	244,653	45,360	36,325	24,309	158,333	508,980
TOTAL	806,814	249,858	185,695	73,952	414,476	1,730,795
FY2020						
Martin Perelman	225,144	80,948	41,906	22,957	26,523	397,478
Rob Garsden	174,282	47,992	14,997	19,743	53,047	310,061
Ivan Jacques	181,939	33,855	6,289	19,156	100,308	341,547
TOTAL	581,365	162,795	63,192	61,856	179,878	1,049,086

* Performance rights amounted to:
– Martin Perelman FY2021 $0 (FY2020: $0)
– Rob Garsden FY2021 $216,357 (FY2020: $0)
– Ivan Jacques FY2021 $108,179 (FY2020: $0)

Senior Executive FY2021 STI	Target STI $	Actual STI Awarded $	Awarded STI as % of Maximum STI %
Martin Perelman	105,000	110,250	105%
Rob Garsden	84,000	94,248	112%
Ivan Jacques	42,000	45,360	108%
	231,000	249,858	

Short-term incentives (STI)

Under the STI, all executives have the opportunity to earn an annual incentive which is delivered in cash, subject to the achievement of a range of financial and non-financial key performance indicators (KPI's) each financial year. The STI recognises and rewards superior annual performance and includes a stretch target to encourage enhanced performance above the targets established in the business plan for the year.

The STI performance measures were chosen as they reflect the core drivers of short-term performance and provide a framework for delivering sustainable value to the Group, its shareholders and clients. The annual KPI's for participants and related targets are also reviewed annually.

Whether or not Senior Executives receive a STI in a particular year will be at the absolute discretion of the Board.

The KPI's of Senior Executives includes a range of financial and non-financial performance indicators which are assessed by the board on an annual basis:

KPI Criteria	CEO	COO	CFO
Financial criteria include:			
Total Network Cash Sales vs Plan	Achieved	Achieved	Achieved
Profit achievement vs Plan	Achieved	Achieved	Achieved
Capital management	N/A	N/A	Achieved
Network growth	Achieved	N/A	N/A
Non-Financial criteria include:			
Leadership and management	Achieved	Achieved	Achieved
Business continuity and risk management	N/A	N/A	Achieved
Customer satisfaction	N/A	Achieved	N/A
People development and organisational culture	Achieved	N/A	N/A

The STI scheme includes a stretch target which was met and therefore the Senior Executives were paid an additional amount for this overachievement.

Executive employment arrangements

Each executive has an employment contract specifying, among other things, remuneration arrangements, benefits, notice periods and other terms and conditions. The contracts provide that participation in the STI and LTI arrangements are at the Board's discretion.

The employment contracts do not have a fixed term. Employment may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances including serious or wilful misconduct.

Chief Executive Officer Martin Perelman	
Term	**Summary**
Total fixed remuneration (TFR)	The CEO is entitled to receive annual TFR of $350,000 (inclusive of superannuation).
Short-term incentive (STI)	The CEO is eligible to participate in SILK's existing STI arrangements up to 30% of his annual TFR less compulsory superannuation contributions. Key performance indicators for STI achievement are determined by the Board in consultation with the executive.
Long-term incentive (LTI)	It is intended that the CEO will participate in the Equity Incentive Plan with an LTI award to be considered by the Board for the financial year commencing 1 July 2021.
Termination	The CEO's employment may be terminated by either party upon giving 12 months' notice. The employment may also be terminated by SILK without notice in certain circumstances including serious misconduct. On termination of employment, the CEO will be subject to a restraint of trade for a maximum period of 12 months, in a maximum area of the Commonwealth of Australia. The enforceability of the restraint clause is subject to the usual legal requirements. Any payments made to the CEO upon termination of his employment are subject to the termination benefits cap under the Corporations Act.

Chief Financial Officer Ivan Jacques	
Term	**Summary**
Total fixed remuneration (TFR)	The CFO is entitled to receive annual TFR of $280,000 (inclusive of superannuation).
Short-term incentive (STI)	The CFO is eligible to participate in SILK's existing STI arrangements up to 15% of his annual TFR less compulsory superannuation contributions. Key performance indicators for STI achievement are determined by the Board in consultation with the executive.
Long-term incentive (LTI)	It is intended that the CFO will participate in the Equity Incentive Plan with an LTI award to be considered by the Board for the financial year commencing 1 July 2021.
Termination	The CFO's employment may be terminated by either party upon giving 6 months' notice. The CFO's employment may also be terminated by SILK without notice in certain circumstances including serious misconduct. On termination of employment, the CFO will be subject to a restraint of trade for a maximum period of 12 months, in a maximum area of the Commonwealth of Australia. The enforceability of the restraint clause is subject to the usual legal requirements. Any payments made to the CFO upon termination of his employment are subject to the termination benefits cap under the Corporations Act.

Chief Operating Officer Rob Garsden	
Terms	**Summary**
Total fixed remuneration (TFR)	The COO is entitled to receive annual TFR of $280,000 (exclusive of superannuation).
Short-term incentive (STI)	The COO is eligible to participate in SILK's existing STI arrangements up to 30% of his annual TFR. Key performance indicators for STI achievement are determined by the Board in consultation with the executive.
Long-term incentive (LTI)	It is intended that the COO will participate in the Equity Incentive Plan with an LTI award to be considered by the Board for the financial year commencing 1 July 2021.
Termination	The COO's employment may be terminated by either party upon giving 6 months' notice. The COO's employment may also be terminated by SILK without notice in certain circumstances including serious misconduct. On termination of employment, the COO will be subject to a restraint of trade for a maximum period of 12 months, in a maximum area of the Commonwealth of Australia. The enforceability of the restraint clause is subject to the usual legal requirements. Any payments made to the COO upon termination of his employment are subject to the termination benefits cap under the Corporations Act.

(I) KMP SHAREHOLDING

The number of ordinary shares held by each KMP of the Group is as follows:

30 June 2021	Balance at Beginning of Year	Purchase/ (Sale) of Shares	IPO Sale	Balance at End of Year
Non-Executive Directors				
Boris Bosnich	200,000	–	(70,000)	130,000
Sinead Ryan	–	78,431	–	78,431
Andrew Cosh	4,809,227	–	(1,683,229)	3,125,998
	5,009,227	78,431	(1,753,229)	3,334,429
Senior Executives				
Martin Perelman	4,428,304	–	(1,549,906)	2,878,398
Rob Garsden	300,000	–	(105,000)	195,000
Ivan Jacques	200,000	22,000	(70,000)	152,000
	4,928,304	22,000	(1,724,906)	3,225,398
	9,937,531	100,431	(3,478,135)	6,559,827

The number of Listing Bonus Award Rights in SILK held by each KMP on the grant date of 15 December 2020 at a fair value of $3.45 via a Black Scholes calculation of the Group is as follows:

30 June 2021	Balance at Beginning of Year Rights	Granted as compensation Rights	Balance at Beginning of Year Rights	Grant Date	Fair Value at grant date $	Share-based payment expense $
Non-Executive Directors						
Boris Bosnich	–	28,985	28,985	15/12/2020	3.45	100,000
Senior Executives						
Rob Garsden	–	115,942	115,942	15/12/2020	3.45	216,357
Ivan Jacques	–	57,971	57,971	15/12/2020	3.45	108,179
	–	173,913	173,913			324,536
	–	202,898	202,898			424,536

The condition associated with these rights is continuous employment with the Group and satisfaction of key performance criteria as set by the Board. No performance conditions are associated with these rights as these have been issued as remuneration to key management personnel associated with the successful IPO. 50% of the rights vested in August 2021 and the remainder will vest in August 2022, if the relevant employee satisfies the service condition.

(J) LOANS MADE TO KMP

Under the terms of the Employee Share Scheme prior to the IPO, SILK entered into limited recourse loan agreements with a number of its employees and Directors, including Boris Bosnich (Chair), Martin Perelman (Chief Executive Officer and Managing Director), Ivan Jacques (Chief Financial Officer) and Rob Garsden (Chief Operating Officer) (collectively, Employee Loans). These loans were accounted for as options in accordance with AASB 2 *Share-Based Payments.*

Under each Employee Loan, the relevant employee or Director was loaned an amount to fund their acquisition of a parcel of A class shares in SILK Laser & Skin Holdings Pty Ltd (prior to restructure) (Loan Shares). The Employee Loans are summarised in the table below:

	30 June 2021	30 June 2021			2020	2021
Employee/Director	Loan Shares	Loan amount $	Grant date	Fair value of shares at grant date	Share-based payment expense	Share-based payment expense
Boris Bosnich	65,000	65,000	23/08/2018	$0.56	26,523	13,262
Martin Perelman	65,000	65,000	23/08/2018	$0.56	26,523	13,262
Rob Garsden	130,000	130,000	23/08/2018	$0.56	53,047	26,524
Ivan Jacques	130,000	260,000	01/06/2019	$0.78	100,308	50,154
TOTAL	390,000	520,000			206,401	103,202

No interest is charged or payable in respect of the Employee Loans. Repayment of the Employee Loans will be required where a relevant employee sells all or part of their Loan Shares. Recourse for any failure to repay an Employee Loan is limited to the Loan Shares held by the relevant employee or Director.

These shares were fully vested immediately prior to the IPO listing and converted to ordinary shares as this represented an "exit event" under the terms of the employee share scheme. The relevant share-based payment expense for KMP is included in the KMP remuneration listed above.

A transfer from the share-based payment reserve to share capital took place on the transfer from A class shares to ordinary shares.

The service condition associated with these limited recourse loans were related to continued employment of the employees until an 'exit event'.

The number of shares, under the terms of the limited recourse loans prior to the IPO in SILK held by each KMP is as follows, these ordinary shares are included in the shareholdings listed above.

	A Class Shares			Ordinary share capital		
Employee/Director	Opening balance	Converted to ordinary share capital	Closing balance	Conversion from A Class	Pre IPO Sales	Closing balance
Boris Bosnich	100,000	(100,000)	–	100,000	(35,000)	65,000
Martin Perelman	100,000	(100,000)	–	100,000	(35,000)	65,000
Rob Garsden	200,000	(200,000)	–	200,000	(70,000)	130,000
Ivan Jacques	200,000	(200,000)	–	200,000	(70,000)	130,000
TOTAL	600,000	(600,000)	–	600,000	(210,000)	390,000

(K) TRANSACTION WITH KMP

There were no other material transactions or contracts with KMP except as disclosed elsewhere in the remuneration report.

This concludes the remuneration report, which has been audited.

INDEMNITY AND INSURANCE OF OFFICERS

The Company has indemnified the Directors and executives of the Company for costs incurred, in their capacity as a Director or executive, for which they may be held personally liable, except where there is a lack of good faith.

During the financial year, the Company paid a premium in respect of a contract to insure the Directors and executives of the Company against a liability to the extent permitted by the *Corporations Act 2001*. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium.

INDEMNITY AND INSURANCE OF AUDITOR

The Company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the Company or any related entity against a liability incurred by the auditor.

During the financial year, the Company has not paid a premium in respect of a contract to insure the auditor of the Company or any related entity.

PROCEEDINGS ON BEHALF OF THE COMPANY

No person has applied to the Court under section 237 of the *Corporations Act 2001* for leave to bring proceedings on behalf of the Company, or to intervene in any proceedings to which the Company is a party for the purpose of taking responsibility on behalf of the Company for all or part of those proceedings.

NON-AUDIT SERVICES

Details of the amounts paid or payable to the auditor for non-audit services provided during the financial year by the auditor are outlined in the table below:

Audit vs Non-Audit Services	2021	2020	2021 % of Total Services %
Audit Fee	101,500	89,850	13.58%
Tax Compliance	16,000	–	2.14%
Transaction Services – IPO and acquisition due diligence	630,000	–	84.28%
TOTAL	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.

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

The Directors are of the opinion that the services as disclosed in note 29 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.

OFFICERS OF THE COMPANY WHO ARE FORMER PARTNERS OF GRANT THORNTON

There are no officers of the Company who are former partners of Grant Thornton.

AUDITOR

Grant Thornton continues in office in accordance with section 327 of the *Corporations Act 2001*.

SIGNED

Signed in accordance with a resolution of the Directors.

Boris Bosnich
Chair and Non-Executive Director

28 September 2021
Adelaide

Level 3, 170 Frome Street
Adelaide SA 5000

Correspondence to:
GPO Box 1270
Adelaide SA 5001

T +61 8 8372 6666

Auditor's Independence Declaration

To the Directors of SILK Laser Australia Limited

In accordance with the requirements of section 307C of the *Corporations Act 2001*, as lead auditor for the audit of SILK Laser Australia Limited for the year ended 30 June 2021, I declare that, to the best of my knowledge and belief, there have been:

a no contraventions of the auditor independence requirements of the Corporations Act 2001 in relation to the audit; and

b no contraventions of any applicable code of professional conduct in relation to the audit.

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2021

CONSOLIDATED FINANCIAL STATEMENTS

30 JUNE 2021

CONTENTS

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 28 September 2021. The Directors have the power to amend and reissue the financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 30 JUNE 2021

	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.

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.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 30 JUNE 2021

	Share Capital Ordinary shares $'000	Share-Based Payment Reserve $'000	(Accum-ulated 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

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

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 30 JUNE 2021

	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.

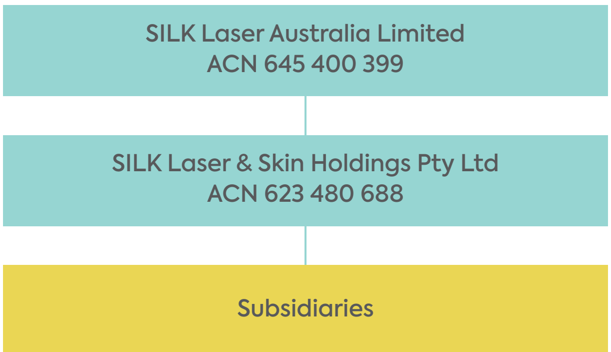
Immediately prior to the acquisition of SLSH by the Company, SLSH paid to its shareholders a pre-IPO, fully franked dividend of $0.04 per share and a capital return of $0.13 per share.

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 were 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 interest's 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		
Clinic Sales – recognised at a point in time	43,223	22,533
Distribution & other sales – recognised at a point in time	10,080	6,516
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 treatments and the retail sale of skin care products. These will be summarily referred to as cosmetic treatments and skin care.

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 are 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 to the clinic to obtain each individual treatment. 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 treatment 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 an 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 proportion to the historical pattern in which the gift cards and packages are utilised by the customers.

NOTE 5. REVENUE continued

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.

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

NOTE 8. EXPENSES

Profit before income tax includes the following specific expenses:

	30 June 2021 $'000	30 June 2020 $'000
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, amortisation and impairment	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

NOTE 8. EXPENSES continued

	30 June 2021 $'000	30 June 2020 $'000
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

NOTE 9. INCOME TAX EXPENSE continued

Income tax

Current income tax is 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

NOTE 11. TRADE AND OTHER RECEIVABLES

2021 Trade Receivable Maturity Table	Current $'000	>1 month $'000	> 2 months $'000	> 3 months $'000	Older $'000	Total $'000
	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 relates 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.

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.

NOTE 13. INVESTMENTS IN ASSOCIATES continued

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

	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
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.

NOTE 14. RIGHT-OF-USE ASSETS continued

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.

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.

NOTE 14. RIGHT-OF-USE ASSETS continued

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 are 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%

NOTE 16. PROPERTY, PLANT AND EQUIPMENT continued

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.

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

NOTE 17. INTANGIBLE ASSETS continued

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:

	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's CGU's

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 SILK's CGU's is determined based on the value in use calculation using cash flow projections derived from 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.

SILK concluded that the individual clinics are the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets as supported by stores exiting and entering the group over the past 3 years.

However, goodwill cannot be allocated to individual CGU's on a reasonable basis and therefore impairment testing of the goodwill was performed by aggregating the various CGU's and testing at the aggregated level.

Using the assumptions detailed below there are no indicators of impairment present and the recoverable amount exceeds the carrying value of goodwill at 30 June 2021.

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's beyond the five-year period is 2.5% (2020: 1%) which is in line with the industry average.

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.

NOTE 17. INTANGIBLE ASSETS continued

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

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 aggregated CGU's would still equal it's carrying amount:

- reduction in gross margin of 5%;
- the growth rate in the terminal year decreased from 2.5% to 1.5%; and
- the discount rate increased from 12.1% to 14%.

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.

NOTE 17. INTANGIBLE ASSETS continued

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.

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 deferred tax balances		
Deferred tax Asset	8,507	4,362
Deferred tax Liability	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
Lease Liabilities	3,475	2,825
Deferred tax liability	5,274	3,607

NOTE 18. DEFERRED TAX continued

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:

- 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.

NOTE 18. DEFERRED TAX continued

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		
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 amount 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 of 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 $'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. All 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.

NOTE 24. SHARE CAPITAL continued

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.

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 half-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 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 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		
Directors' fees	200,846	88,292
Offer & Prospectus Fees	2,750	–
Superannuation defined contribution	3,270	5,367
Share-based payments	113,262	26,523
	320,125	120,182
Senior Executives		
Cash salary	806,814	581,365
STI/bonus	249,858	162,795
Annual/long service leave	185,695	63,192
Superannuation defined contribution	73,952	61,856
Share-based payments	414,476	179,878
	1,730,798	1,049,086
Payment to Advent Partners for consulting fees	73,051	–
	2,123,974	1,169,268

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:

Ownership interest

Name	Principal place of business/ Country of incorporation	30 June 2021 %	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 Clinics Pty Ltd	Australia (Dormant)	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%	–

NOTE 33. GROUP INFORMATION continued

Name	Principal place of business/ Country of incorporation	30 June 2021 %	30 June 2020 %
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	70%	–
SLC Cockburn Pty Ltd	Australia	50%	100%

* Entities registered during 2021.

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, which should occur 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/Unearned income	757
Provisions	16
Lease Liabilities	674
Deferred tax	209
Shareholder loans	441
	2,097
Net Assets	3
Goodwill (Purchase price less: 100% Net assets attributable to SLFH)	322
Total Consideration	325
Total consideration satisfied by:	
Cash	132
Repayment of loan	193
	325

SLC Burnside Pty Ltd was accounted for as an equity accounted investment prior to this transaction and had a carrying value of $50. As such no impairment was required to be recognised to the carrying value of the equity accounted investment as part of this transaction.

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.

NOTE 34. BUSINESS COMBINATIONS continued

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. The acquisition of the ASC Group was completed on 31 August 2021.

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 55 clinics to SILK's existing network of 63 clinics (as at the date of this report), brings 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.

The acquisition consideration of $52 million comprised cash paid at completion of $47 million and an earn out consideration of up to $5.0 million, payable in SILK ordinary shares issued at an agreed value of $4.3770625 per share. At completion the cash consideration was paid and $4.67 million of SILK shares, with the expectation that a further $0.33 million of shares will be issued to the vendors prior to 31 December 2021, once the final condition of the earn out condition has been met.

At the date of this report, the company has yet to complete a detailed purchase price allocation to allow further disclosure at this time.

Debt Facility

The Group entered into a four-year term debt facility agreement of $30 million with Westpac Bank, with repayments of up to $2.5 million per year (depending on the level of net debt), 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 ratio 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	1,060,384	1,060,384
Listing award	112,289	112,289
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 members of the ordinary equity holders of the parent by the weighted average number of ordinary shares outstanding during the year, plus the weighted average number of ordinary shares that would be issued on conversion of all the dilutive potential ordinary shares into 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

The opening balance of share-based payments related to options issued to employees under a limited recourse loan arrangement. This arrangement gave rise to options and were accounted for as a share-based payment in accordance with AASB 2 *Share-Based Payments.*

During the period the employee share scheme (ESS) via the limited recourse loan arrangement 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 Chair 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 of Rights	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.

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.

NOTE 40. SUMMARY OF OTHER ACCOUNTING POLICIES continued

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.

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.

NOTE 40. SUMMARY OF OTHER ACCOUNTING POLICIES continued

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.

a) Adoption of the new and revised accounting standards

In the current year, there are no new and/or revised Standards and Interpretations adopted in these Financial Statements affecting presentation or disclosure and the reported result or financial position other than:

- **Amendments to AASB 3 *Definition of a Business*.** The amendment to AASB 3 *Business Combinations* clarifies that to be considered a business, an integrated set of activities and assets must include, at a minimum, an input and a substantive process that, together, significantly contribute to the ability to create output. Furthermore, it clarifies that a business can exist without including all of the inputs and processes needed to create outputs. These amendments had no impact on the consolidated financial statements of the Group, but may impact future periods should the Group enter into any business combinations.
- **Amendments to AASB 1 and AASB 8 *Definition of Material*.** The amendments provide a new definition of material that states, "information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements, which provide financial information about a specific reporting entity." The amendments clarify that materiality will depend on the nature or magnitude of information, either individually or in combination with other information, in the context of the financial statements. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. These amendments had no impact on the consolidated financial statements of, nor is there expected to be any future impact to the Group.
- **IFRIC Interpretation to AASB 138 *Intangible Assets Configuration or Customisation Costs in a Cloud Computing arrangement*.** This interpretation in March 2021 provided further guidance on the accounting treatment of Cloud Computing Costs. As the Group does not have significant or complex systems the interpretation did not have an impact on the Group.

b) Recently issued accounting standards to be applied in future accounting periods

There are no accounting standards that have not been early adopted for the year ended 30 June 2021 but will be applicable to the Group in future reporting periods.

DIRECTORS' DECLARATION

30 JUNE 2021

In the Directors' opinion:

- the attached financial statements and notes comply with the *Corporations Act 2001*, the Accounting Standards, the *Corporations Regulations 2001* and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the *Corporations Act 2001*.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the *Corporations Act 2001*.

On behalf of the Directors

Boris Bosnich
Chair and Non-Executive Director

28 September 2021
Adelaide

Grant Thornton

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Independent Auditor's Report

To the Members of SILK Laser Australia Limited

Report on the audit of the financial report

Opinion

We have audited the financial report of SILK Laser Australia Limited (the Company) and its subsidiaries (the Group), which comprises the consolidated statement of financial position as at 30 June 2021, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies, and the Directors' declaration.

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

a giving a true and fair view of the Group's financial position as at 30 June 2021 and of its performance for the year ended on that date; and

b complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

Basis for opinion

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

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

Grant Thornton

Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report of the current period. These matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Accounting considerations associated with the Initial Public Offering (IPO) – Note 1	
On 15 December 2020, the Group listed on the Australian Securities Exchange ("ASX") via a common control transaction of raising of new share capital. As part of the IPO: • The Group raised $20 million of equity through the issuance of 5.7 million new shares. • Transaction costs totalling $3.1 million (before tax) were capitalised in the Group's balance sheet as an offset to equity. We determined the accounting for the IPO and the capital raising costs to be a key audit matter because the IPO was a significant transaction impacting the Group's statement of financial position, consolidated statement of comprehensive income and the consolidated statement of changes in equity.	Our procedures included, amongst others: • Assessing the appropriateness of the accounting treatment of the common control transaction in accordance with AASB 3 *Business Combinations*; • Agreeing the recorded proceeds from the issuance of shares to supporting documentation such as the prospectus document, ASX announcements, share registry records and bank statements; • Agreeing a sample of transaction costs that were directly attributable to the equity raising to supporting documentation and assessing the nature of the costs incurred to determine whether they were capitalised in accordance with the Group's accounting policies and Australian Accounting Standards; and • Assessing the adequacy of the disclosures made in Note 1 in light of the requirements of Australian Accounting Standards.
Carrying Value of Goodwill- Note 17	
At 30 June 2021, the Group recognised $27.582 million of goodwill in the financial report. Goodwill has an indefinite useful economic life and therefore is not amortised, but rather subject to annual testing for impairment in accordance with AASB 136 *Impairment*. Goodwill is tested following identification of the Cash Generating Units (CGU's) and based on the value in use calculation using cash flow projections based on financial budgets approved by Senior Executives and the Board of Directors, over a five year forecast period. The carrying value of goodwill is a key audit matter due to the financial significance of the goodwill balance and because the Group's assessment of the value in use of the CGUs involves judgements about the future results of the business and the discount rates applied to future cash flow forecasts.	Our procedures included, amongst others: • Reviewing the financial performance of the CGU for FY21 and understanding if any impairment triggering events occurred; • Reviewing the assumptions and judgments within Management's value in use model to ensure consistency with current trends in the Australian retail services industry; • Testing the mathematical accuracy of the model; • Considering the reasonableness of the revenue and cost forecasts against current year actuals; • Performing sensitivity analysis on the key assumptions; • Involving our valuation specialists to assess the model and evaluate the reasonableness of key assumptions including the discount rate and long-term growth rate; • Reviewing management's ability to forecast by reviewing the FY21 budget against actual FY21 results to understand movements against expectation with consideration to the effects of COVID-19; and • Reviewing the adequacy of the financial statement disclosure.

Key audit matter	How our audit addressed the key audit matter
Revenue Recognition – Note 5	
As disclosed in Note 5 to the financial report, revenue is recognised at an amount that reflects the consideration to which the Group expected to be entitled to in exchange for transferring goods and services to a customer. The nature and timing of revenue derived from services, whilst not complex, is linked with the use of packaged services giving rise to future performance obligations (contract liabilities). Revenue recognition is a key audit matter due to: • The volume of retail transactions processed on a daily basis; • The timing of when revenue is recognised; • Package services giving rise to future performance obligations; and • Management judgements and estimates applied in determining revenue recognition.	Our procedures included, amongst others: • Documenting the relevant policies and procedures in relation to revenue recognition for the Group; • Reviewing revenue recognition policies to ensure continued adherence with AASB 15 *Revenue from Contracts with Customers*; • Performing detailed revenue testing via a sampling approach against daily sale summaries to amounts banked and recorded in the general ledger; • Performing detailed analytical procedures by clinic to understand the movements and trends against audit expectations; • Performing cut-off testing to ensure that revenue transactions around 30 June have been recorded in the correct period; • Reviewing the contract liabilities, including understanding trends and ageing between the various clinics; • Testing the process for recognition and unwind of contract liabilities through a sample of transactions to ensure the process for revenue recognition is in accordance with accrual accounting concepts; and • Reviewing the appropriateness of the related disclosures within the financial statements.

Information other than the financial report and auditor's report thereon

The Directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2021, but does not include the financial report and our auditor's report thereon.

Our opinion on the financial report does not cover the other information and we do not express any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

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

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

Responsibilities of the Directors for the financial report

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

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

Grant Thornton

Auditor's responsibilities for the audit of the financial report

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.pdf. This description forms part of our auditor's report.

Report on the remuneration report

Opinion on the remuneration report

We have audited the Remuneration Report included in the Directors' report for the year ended 30 June 2021.

In our opinion, the Remuneration Report of SILK Laser Australia Limited, for the year ended 30 June 2021 complies with section 300A of the *Corporations Act 2001*.

Responsibilities

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

Grant Thornton

GRANT THORNTON AUDIT PTY LTD
Chartered Accountants

J L Humphrey
Partner – Audit & Assurance

Adelaide, 28 September 2021

SHAREHOLDER INFORMATION

30 JUNE 2021

Additional information as at 6 September 2021 required by the Australian Stock Exchange Listing Rules and not disclosed elsewhere in this report.

HOME EXCHANGE

The Company is listed on the Australian Stock Exchange. The Home Exchange is Sydney.

CLASS OF SHARES AND VOTING RIGHTS

Voting rights

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

Ordinary shares

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

There are no other classes of equity securities.

DISTRIBUTION OF SHAREHOLDERS

As at 6 September 2021, the total distribution of fully paid shareholders, being the only class of equity, was as follows:

Range	Total holders	Units	% Units
1 – 1,000	740	320,099	0.60
1,001 – 5,000	926	2,376,708	4.49
5,001 – 10,000	332	2,419,861	4.57
10,001 – 100,000	192	4,513,733	8.53
100,001 Over	30	43,303,820	81.81
Total	**2,220**	**52,934,221**	**100.00**

As at 6 September 2021, 73 shareholders held less than marketable parcels of 130 shares.

ON MARKET BUY BACK

There is currently no on market buy-back.

SUBSTANTIAL HOLDERS

Holdings of substantial shareholders are set out below.

Substantial holder	Quantity
Firetrail Investments Pty Ltd	2,712,985
Ice Investors Pty Ltd	4,091,289
Advent Partners	6,640,305
SILK Laser Australia Pty Ltd*	11,380,296
Wilson Asset Management Group	4,949,931
FIL Limited	2,660,233
Martin Perelman Nominee Pty Ltd	2,878,398

* Restriction on disposal of shares under voluntary escrow arrangements disclosed in SILK Laser Australia Limited's prospectus dated 23 November 2020 gives SILK Laser Australia Limited a technical "relevant interest" in its own shares under section 608(1)(c) of the *Corporations Act 2001* (Cth). However, SILK Laser Australia Limited has no right to acquire these shares or to control the voting rights attaching to these shares.

SHAREHOLDER INFORMATION continued

30 JUNE 2021

TWENTY LARGEST SHAREHOLDERS

As at 6 September 2021 the twenty largest quoted shareholders held 79.6% of the fully paid ordinary shares as follows:

Rank	Name	Units	%
1	CitiCorp Nominees Pty Limited	7,582,748	14.32
2	HSBC Custody Nominees (Australia) Limited	6,782,043	12.81
3	Advent Partners 2 Fund LP	6,640,305	12.54
4	J P Morgan Nominees Australia Pty Limited	6,382,539	12.06
5	National Nominees Limited	3,765,571	7.11
6	Martin Perelman Nominees Pty Ltd <M Perelman Investment A/C>	2,813,398	5.31
7	WC Capital Pty Ltd	1,562,999	2.95
8	Matthew Phillips Nominees Pty Ltd <M Phillips Investment A/C>	937,799	1.77
9	CS Third Nominees Pty Limited <HSBC Cust Nom Au Ltd 13 A/C>	923,549	1.74
10	UBS Nominees Pty Ltd	891,983	1.69
11	M Yates Nominees Pty Ltd <M Yates Investment A/C>	781,499	1.48
12	BNP Paribas Nominees Pty Ltd Hub24 Custodial Serv Ltd <DRP A/C>	495,667	0.94
13	Telunapa Pty Ltd <Telunapa Capital A/C>	400,000	0.76
14	HSBC Custody Nominees (Australia) Limited – A/C 2	366,937	0.69
15	A Lattouf SP Pty Ltd <A Lattouf SP Fixed A/C>	346,503	0.65
15	J Lattouf SP Pty Ltd <J Lattouf SP Fixed A/C>	346,503	0.65
17	Brispot Nominees Pty Ltd <House Head Nominee A/C>	344,682	0.65
18	Investment Holdings Pty Ltd <Investment Holdings Unit A/C>	330,000	0.62
19	BNP Paribas Nominees Pty Ltd <IOOF Insmt Mgmt Ltd DRP>	275,000	0.52
20	Wima No.2 Pty Ltd <Wima No. 2 A/C>	158,858	0.30
	Totals: Top 20 holders of ORDINARY FULLY PAID SHARES (Total)	42,128,583	79.59
	Total Remaining Holders Balance	10,805,638	20.41

CORPORATE DIRECTORY

REGISTERED OFFICE

5/148 Greenhill Road
Parkside SA Australia 5063

Phone
+61 8 7225 6489

WEB ADDRESS

silklaser.com.au

STOCK EXCHANGE

SILK Laser's ordinary shares are listed on the ASX.

SHARE REGISTRY

Computershare Investor Services Pty Limited

ADDRESS

Yarra Falls, 452 Johnston Street
Abbotsford VIC Australia 3067

Telephone
+61 3 9415 4000

AUDITOR

Grant Thornton

COMPANY SECRETARY

Richard Willson

DIRECTORS

Boris Bosnich
Brad Lynch
Andrew Cosh
Sinead Ryan
Martin Perelman


SILK
LASER CLINICS