SILK Laser Australia Limited

APPENDIX 4E

PRELIMINARY FINAL REPORT

1. EXPLANATION OF BASIS OF RESULTS

Results for announcement to the market

Reporting measurement				$'000
Revenue from ordinary activities	up	38.1%	to	81,322
Profit from ordinary activities after tax attributable to the owners of SILK Laser Australia Limited	up	27.3%	to	6,388
Profit for the year attributable to the owners of SILK Laser Australia Limited	up	27.3%	to	6,388
Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA)	up	29.6%	to	18,343

Net tangible assets per ordinary security

	FY22 Cents	FY21 Cents
Net tangible assets per ordinary security	27.32	99.53

Summary the Profit and Loss for FY22 compared with FY21: Profit and Loss Summary	Reported FY22 $'000	Reported FY21 $'000	Increase/ (decrease) %
Trading Sales	67,767	53,303	27.1%
Cost of Sales	(20,745)	(14,440)	43.7%
Gross Profit from trading	**47,022**	**38,863**	**21%**
Gross Margin	69.4%	72.9%	
Franchise Revenue	13,555	5,575	143.1%
Total Reported revenue	**81,322**	**58,878**	**38.1%**
Other Income*	1,154	472	144.5%
JobKeeper & other COVID-19 related support	–	1,952	–
Share of Profits from Associates	628	776	(19.1%)
Cost of Doing Business**	(40,349)	(28,401)	42.1%
IPO Related Expenses	(247)	(3,633)	(93.2%)
Business combination expenses	(2,175)	(1,449)	50.1%
Systems investment – Cloud based	(1,245)	–	–
EBITDA	**18,343**	**14,155**	**29.6%**
EBITDA margin	22.6%	24.0%	–
Depreciation and Amortisation Expenses	(4,755)	(3,490)	36.2%
Depreciation – Right-of-Use Assets (IFRS 16)	(3,698)	(2,586)	43.0%
EBIT	**9,890**	**8,079**	**22.4%**
Net-Finance Income – Loans and Cash	272	230	18.3%
Net Finance Costs – IFRS 16 Leases	(1,070)	(672)	59.2%
Profit Before Tax	**9,092**	**7,637**	**19.1%**
Income Tax Expenses	(2,703)	(2,485)	8.8%
Net Profit After Tax	**6,389**	**5,152**	**24%**

* Excludes Interest Income of $707 (FY21: $268) which has been netted off against finance costs and included in Net Finance Income below. FY21 excludes income received in JobKeeper and other COVID-19 related government support, which is included in the line below.

** Comprises Employee Benefits, Occupancy, Marketing and Other Expenses.

APPENDIX 4E
PRELIMINARY FINAL REPORT continued

Brief explanation of basis of results

Profit from ordinary activities after tax and net profit for the financial year are prepared in accordance with the *Corporations Act 2001* and Accounting Standards. SILK's FY22 statutory profit after income tax totalled $6.4 million (FY21 $5.2 million) after deducting a tax expense of $2.7 million (FY21 $2.5 million).

The above increase in reported net profit after income tax compared with FY21 was primarily due to:

- Total Reported Revenue growth of 38.1%, which was a combination of organic growth and the impact of the acquisition of Australian Skin Clinics ("ASC") on 31 August 2021.
- Total Reported Revenue comprises Trading sales and Franchise revenue. The increase of 38.1% versus the prior year was driven by growth in Network Cash Sales of 91% to $162.7 million (FY21: $85.1 million). Network Cash Sales is defined below in the section, non-IFRS measures. Network Cash Sales for FY22 includes $79.2 million relating to the ASC clinic network from 1 September 2021.
- Trading sales comprise Clinic sales and Distribution sales. Distribution sales relates to the sales of products and services, mainly skincare and injectable products, to the franchise network. Following the acquisition of ASC, primarily a franchised clinic network, Distribution sales have grown by 75%, compared with the growth of Clinic sales of 16%, which has led to a reduction in the gross margin percentage of 3.5% points as Distribution sales are at wholesale prices, whereas Clinic sales of services and goods are at retail.
- Cost of doing business, comprising all operating expenses except for leasing costs, which are accounted under AASB 16, has increased by 42%, reflecting the overall growth of the business, including the acquisition. As a percentage of Reported revenue it was 49.6% compared with 48.2% in FY21, with the increased proportion mainly relating to Marketing expenses and Other Expenses, relating to logistics, insurance, travel and other costs.
- Business combination expenses of $2.2 million were incurred mainly in relation to the acquisition of the ASC Group, compared with $1.4 million incurred in FY21.
- The Group has embarked on a major investment program to replace and enhance its business systems and related IT infrastructure and incurred $1.2 million of costs on this project in FY22 and the project will continue into FY23. The new systems being deployed are mainly cloud based, software as a service systems, and the one-time implementation costs cannot be capitalised, hence we have separated these costs from the operational cost of doing business.

Non-IFRS measures

Network Cash Sales comprises sales from all clinics accounted on a cash basis and is the basis for charging franchise service fees for clinics in which the Group does not have a controlling interest.

The Group reports adjusted EBITDA and adjusted NPAT measures to help explain its underlying performance. The detailed reconciliations of these non-IFRS measures are shown in the table below:

	FY22 $'000	FY21 $'000
Profit before income tax expense	9,092	7,637
Less: Net Finance Income – Loans and Cash	(272)	(230)
Add: Net Finance costs – AASB 16 *Leases*	1,070	672
Add: Depreciation and amortisation expenses	8,453	6,076
EBITDA per statutory accounts	**18,343**	**14,155**
Less: JobKeeper and other government stimulus measures	–	(1,952)
Add: IPO related expenses including listing bonus share award	247	3,633
Add: Business combination expenses	2,175	1,449
Add: Systems implementation project – Cloud based	1,245	–
Adjusted EBITDA	**22,010**	**17,285**
NPAT per statutory accounts	**6,389**	**5,152**
Less: JobKeeper and other government stimulus measure – net of tax	–	(1,365)
Add: IPO related expenses including listing bonus share award – net of tax	173	2,671
Add: Business combination expenses – net of tax	1,523	1,014
Add: System implementation project – net of tax	872	–
Add: Amortisation of acquired intangible assets – net of tax	603	–
Adjusted NPAT	**9,560**	**7,472**

2. ENTITIES OVER WHICH CONTROL WAS GAINED OR LOST DURING THE PERIOD

Australian Skin Clinics and The Cosmetic Clinic

On 31 August 2021 SILK acquired 100% of Beauty Service Holdings and its subsidiaries and LMD2 Pty Ltd, together the Australian Skin Clinics Group ("ASC"), through its wholly owned subsidiary, M3K Holdings Pty Ltd.

ASC comprised a network of 55 non-surgical aesthetics' clinics at completion of the acquisition, including 48 traditional franchises (14 in New Zealand), 4 joint venture franchises and 3 corporate clinics, and operates a very similar business model to SILK.

Subsequent to the completion, 3 further traditional franchise have been opened in New Zealand and 1 joint venture franchise clinic in Victoria. The clinics in New Zealand trade under the brand name of The Cosmetic Clinic ("TCC") and are all traditional franchises.

The agreed purchase consideration was $52 million, comprised of $47 million of cash (before working capital and net debt adjustments) and up to $5 million of SILK shares.

ASC has brought to the SILK Group a non-surgical aesthetics 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.

Summary of the final purchase consideration:

	$'000
Cash consideration (adjusted for working capital and net debt)	45,886
Shares issued as consideration:	
– On completion 1,066,163 shares @ $3.94 per share	4,201
– On 2 December 76,154 shares @ $4.71 per share	359
Total purchase consideration provided by SILK	**50,446**

List of the entities acquired as part of the transaction

Information about the Companies	Information about the Subsidiaries
Beauty Services Holdings Pty Ltd	The Cosmetic Clinic Limited
LMD2 Pty Ltd	ASC Hold Co Pty Ltd
	Beauty Services Pty Ltd
	Forward Scout Enterprises Pty Ltd
	Australian Skin Clinics Marketing Fund Pty Ltd
	Venture In Altona Gate Pty Ltd
	Venture In Ferry Road Pty Ltd
	Venture In Epping Pty Ltd (Now Venture in Woodgrove Pty Ltd)
	Venture In Broadmeadows Pty Ltd
	Clinic Leasing Pty Ltd
	Beauty Services (New South Wales) Pty Ltd
	The Advanced Skills Academy Pty Ltd
	ASC IP Holdings Pty Ltd
	ASC Leasing Pty Ltd
	ASC Master Franchise Pty Ltd
	Australian Skin Clinics' Marketing Fund Pty Ltd

The following entities were incorporated during 2022

Entity name	Date of incorporation	Current Shareholding %
SLC Warringah Mall Pty Ltd	03/12/2021	75.0%
SLC Castletown Pty Ltd	22/12/2021	50.0%
SLC Morayfield Pty Ltd	31/01/2022	100.0%

Entities over which control was gained during the financial year

Entity Name	Date control gained	Previous Shareholding %	Current shareholding %
SLC Fairfield Pty Ltd	01/04/2022	50.0%	62.5%
SLC Townsville Pty Ltd	01/04/2022	50.0%	75.0%
SLC Karrinyup Pty Ltd	30/06/2022	50.0%	100.0%

Entities where control was lost during the financial year

Entity name	Date control was lost	Previous shareholding %	Current shareholding %
SLC Toowoomba Pty Ltd	01/07/2021	100.0%	50.0%
SLC Charlestown Pty Ltd	01/09/2021	70.0%	40.0%
SLC Cockburn Pty Ltd	01/12/2021	100.0%	50.0%
SLC Karrinyup Pty Ltd	01/12/2021	100.0%	100.0%

SLC Karrinyup Pty Ltd was brought back into the Group on the 30 June 2022.

Changes in shareholding for the financial year

Entity	Date of change in shareholding	Previous shareholding %	Current shareholding %
SLC Midland Gate Pty Ltd	01/07/2021	100.0%	75.0%
SLC Strathpine Pty Ltd	01/07/2021	100.0%	75.0%
SLC Mackay Pty Ltd	01/11/2021	75.0%	90.0%
SLC Ellenbrook Pty Ltd	01/12/2021	100.0%	75.0%
SLC Marion Pty Ltd	01/03/2022	50.0%	47.5%
SLC Burleigh Pty Ltd	01/03/2022	75.0%	100.0%
SLC Woden Pty Ltd	01/05/2022	75.0%	100.0%

3. DETAILS OF ASSOCIATES AND JOINT VENTURE ENTITIES

	Reporting entity's percentage holding Reporting period %	Reporting entity's percentage holding Previous period %	Contribution to profit/(loss) (where material) Reporting period $'000	Contribution to profit/(loss) (where material) Previous period $'000
ASC Altona Gate Pty Ltd	50.0%	–	35	–
ASC Brickworks Pty Ltd	50.0%	–	(66)	–
ASC Broadmeadows Pty Ltd	50.0%	–	(66)	–
SLC Bunbury Pty Ltd	50.0%	50.0%	(125)	–
SLC Castletown Pty Ltd	50.0%	–	(62)	–
SLC Casuarina Pty Ltd	50.0%	50.0%	300	266
SLC Charlestown Pty Ltd	40.0%	70.0%	(63)	–
SLC Cockburn Pty Ltd	50.0%	100.0%	(49)	–
ASC Epping Franchise Pty Ltd	50.0%	–	(85)	–
SLC Ipswich Pty Ltd	50.0%	50.0%	(112)	–
SLC Marion Pty Ltd	47.5%	50.0%	108	150
SLC Maroochydore Pty Ltd	50.0%	50.0%	(153)	–
SLC Palmerston Pty Ltd	50.0%	50.0%	94	14
SLC Tea Tree Plaza	50.0%	50.0%	200	115
SLC Toowoomba Pty Ltd	50.0%	100.0%	(159)	–
SLC Wagga Pty Ltd	50.0%	50.0%	263	85
SLC West Lakes Pty Ltd	50.0%	50.0%	136	78
ASC Woodgrove Pty Ltd	50.0%	–	(47)	–
SLC Townsville Pty Ltd (As an Associate)	75.0%	50.0%	(28)	–
SLC Fairfield Pty Ltd (As an Associate)	62.5%	50.0%	188	–
			309	**708**

Additionally, the Group received dividends of $319 thousand (FY21 $59 thousand) from Associates and Joint Ventures.

4. INDEPENDENT AUDIT

Details of audit

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

This report should be read in conjunction with any public announcements made by SILK Laser Australia Limited and its controlled entities during the year ended 30 June 2022 in accordance with the continuous disclosure obligations arising under the *Corporations Act 2001* and ASX listing rules.

5. FURTHER INFORMATION

This Appendix 4E should be read in conjunction with the accompanying preliminary financial report of the Group for the year ended 30 June 2022 and the ASX market release of the same date.

6. SIGNED

Boris Bosnich
Chair and Non-Executive Director

Date: 30 August 2022
Adelaide

SILK Laser Australia Limited

ABN 66 645 400 399

Preliminary Financial Report - 30 June 2022

General information

The preliminary 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:

1/137 The Parade, Norwood, SA 5067

The financial statements were authorised for issue, in accordance with a resolution of Directors, on 30 August 2022.

SILK Laser Australia Limited
Consolidated statement of profit or loss and other comprehensive income
For the year ended 30 June 2022

	Note	30 June 2022 $'000	30 June 2021 $'000
Revenue			
Trading sales	5	67,767	53,303
Cost of sales	8	(20,745)	(14,440)
Gross profit		47,022	38,863
Franchise revenue	5	13,555	5,575
Other Income	6	1,861	2,692
Share of Profits of Associates	7	628	776
Employee benefits expense	8	(27,301)	(20,463)
Occupancy costs		(1,465)	(931)
Marketing expenses		(5,016)	(2,701)
Other expenses	8	(6,567)	(4,306)
IPO related expenses		(247)	(3,633)
Business combination expenses		(2,175)	(1,449)
Systems investment - cloud based		(1,245)	-
Depreciation and amortisation expenses	8	(8,453)	(6,076)
Finance costs	8	(1,505)	(710)
Profit before income tax expense		9,092	7,637
Income tax expense	9	(2,703)	(2,485)
Profit after income tax expense for the year		6,389	5,152
Other comprehensive income for the year, net of tax		-	-
Total comprehensive income for the year		6,389	5,152
Profit for the year is attributable to:			
Non-controlling interest		1	134
Owners of SILK Laser Australia Limited		6,388	5,018
		6,389	5,152
Total comprehensive income for the year is attributable to:			
Non-controlling interest		1	134
Owners of SILK Laser Australia Limited		6,388	5,018
		6,389	5,152
		Cents	**Cents**
Basic earnings per share	26	12.10	11.81
Diluted earnings per share	26	12.03	11.49

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

	Note	30 June 2022 $'000	30 June 2021 $'000
Assets			
Current assets			
Cash and Cash Equivalents	10	18,601	44,673
Trade and Other Receivables	11	10,252	4,813
Inventories	12	5,340	2,979
Other Assets		547	289
Total current assets		34,740	52,754
Non-current assets			
Trade and Other Receivables	11	8,135	1,869
Investments in Associates	13	1,285	881
Property, Plant and Equipment	15	18,655	18,794
Right of Use Assets	14	10,834	11,382
Intangible Assets	16	83,881	27,918
Deferred Tax	17	13,385	8,507
Other Assets		449	1,463
Total non-current assets		136,624	70,814
Total assets		171,364	123,568
Liabilities			
Current liabilities			
Trade and Other Payables	18	11,344	9,667
Contract Liabilities	19	9,531	9,311
Lease Liabilities	21	8,238	4,816
Income Tax Payable		891	3,329
Provisions	22	3,119	1,129
Total current liabilities		33,123	28,252
Non-current liabilities			
Contract Liabilities	19	284	150
Borrowings	20	22,386	-
Lease Liabilities	21	14,020	11,583
Deferred tax liabilities	17	11,045	5,274
Provisions	22	1,226	654
Total non-current liabilities		48,961	17,661
Total liabilities		82,084	45,913
Net assets		89,280	77,655
Equity			
Share Capital	23	78,884	73,746
Share-Based Payments Reserve		485	425
Retained profits		9,938	3,550
Equity attributable to the owners of SILK Laser Australia Limited		89,307	77,721
Non-Controlling Interest		(27)	(66)
Total equity		89,280	77,655

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

	Share Capital Ordinary shares $'000	Share-Based Payment Reserve $'000	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	(5,400)	-	-	-	(5,400)
Granting of A class shares	-	593	-	-	593
Transfer of options vested and exercised	1,337	(1,337)	-	-	-
Share-based payments	-	211	-	-	211
Share based payments expense listing award	-	425	-	-	425
Proceeds from call on shares	3,960	-	-	-	3,960
New share capital raised - IPO	20,000	-	-	-	20,000
Transaction costs - IPO	(3,125)	-	-	-	(3,125)
Tax effect of IPO costs	750	-	-	-	750
Share placement	20,000	-	-	-	20,000
Transaction costs -Share placement	(722)	-	-	-	(722)
Tax effect - Share placement costs	173	-	-	-	173
Dividends paid	-	-	(1,500)	-	(1,500)
Balance at 30 June 2021	73,746	425	3,550	(66)	77,655

	Share Capital Ordinary shares $'000	Share-Based Payment Reserve $'000	Retained Earnings $'000	Non-controlling Interests $'000	Total equity $'000
Balance at 1 July 2021	73,746	425	3,550	(66)	77,655
Profit after income tax expense for the year	-	-	6,388	1	6,389
Other comprehensive income for the year, net of tax	-	-	-	-	-
Total comprehensive income for the year	-	-	6,388	1	6,389
Listing rights vested and exercised	350	(350)	-	-	-
Shares issued during the year	4,788	-	-	-	4,788
Changes in proportion held by non-controlling interest	-	-	-	116	116
Share-based payments - Listing award vesting	-	245	-	-	245
Share-based payments - Performance rights vesting	-	165	-	-	165
Dividends paid	-	-	-	(78)	(78)
Balance at 30 June 2022	78,884	485	9,938	(27)	89,280

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

	Note	30 June 2022 $'000	30 June 2021 $'000
Cash flows from operating activities			
Receipts from customers (inclusive of GST)		92,410	60,425
Receipts from Government Grants		-	1,952
Payments to suppliers and employees (inclusive of GST)		(71,933)	(36,817)
Interest received	6	707	268
Income tax paid		(7,812)	(1,342)
Interest paid (AASB 16)	8	(1,070)	(672)
Interest paid	8	(435)	(38)
Net cash from operating activities		11,867	23,776
Cash flows from investing activities			
Payments for property, plant and equipment		(3,533)	(10,461)
Payments for intangibles		(245)	(56)
Acquisition of ASC, net of cash acquired	4	(45,341)	-
Payments for cash held in guarantee deposits		1,463	(430)
Business combination expenses	4	(2,175)	-
Loan advances to associates		(2,195)	-
Acquisition of subsidiaries, net of cash acquired		(2,148)	(338)
Proceeds from disposal of Goodwill		463	-
Proceeds from disposal of property, plant and equipment		735	1,646
Dividends received	7	319	59
Proceeds from sale of subsidiaries		396	-
Net cash used in investing activities		(52,261)	(9,580)
Cash flows from financing activities			
Proceeds from call on shares	23	-	3,960
Proceeds from issue of shares - IPO related	23	-	20,205
Share issue transaction costs - IPO		-	(6,758)
Payments for Pre-IPO capital return		-	(5,400)
Payments of Pre-IPO dividend		-	(1,500)
Proceeds from issue of shares - Share placement	23	-	20,000
Payment of Transaction costs - Share placement		-	(2,029)
Proceeds from loans with related parties		-	1,451
Dividends paid		(78)	-
Repayment of principal portion of lease liabilities	21	(7,645)	(4,057)
Repayment of borrowings	20	(569)	-
Proceeds from borrowings		22,386	-
Repayments of Employee Share Scheme loans		228	-
Net cash from financing activities		14,322	25,872
Net increase/(decrease) in cash and cash equivalents		(26,072)	40,068
Cash and cash equivalents at the beginning of the financial year		44,673	4,605
Cash and cash equivalents at the end of the financial year	10	18,601	44,673

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

Note 1. Summary of Accounting Policies

The consolidated preliminary 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.

Finance costs

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

Note 2. 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 3. Operating Segments

Identification of reportable operating segments

Following the acquisition of Australian Skin Clinics ("ASC"), the Group operated two operating segments (previously one) during the year, SILK Laser Clinics and ASC. Both businesses are involved in the 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 franchised clinics, in Australia and New Zealand.

Prior to 30 June 2022, as part of the acquisition integration, the Group combined the head office support functions of the SILK and ASC brands and therefore such costs are not separable, and have been combined in the table below. The two businesses will be fully integrated during FY23 and we expect to report one business segment in this financial year.

The chief operating decision maker for the Group is the Managing Director.

The Group is not reliant on any single customer. As at 30 June 2022, the Group operated 37 corporate clinics and majority owned clinics in Australia (2021: 33), 19 Joint Venture clinics in which the Group has a non-controlling shareholding (2021:11) and 66 franchised clinics (2021:17)

A summary of the key financial measures for the period ending 30 June 2022 is set out below.

Note 3. Operating Segments (continued)

	SILK	ASC	Total
Trading Sales			
Franchise revenue	63,328	4,439	67,767
	6,217	7,338	13,555
Total Reported revenue	69,545	11,777	81,322
Less: Directly attributable costs	(41,678)	(4,153)	(45,831)
Less: Support activities including head office costs	-	-	(13,481)
Segment EBITDA	**27,867**	**7,624**	**22,010**
Less: Depreciation and amortisation expenses	(6,774)	(1,679)	(8,453)
Segment EBIT	21,093	5,945	**13,557**
Add: Net Finance Income	-	-	707
Less: Net Finance costs - AASB 16 Leases	(690)	(380)	(1,070)
Less: Net Finance costs - other	-	-	(435)
Less: Income tax	-	-	(2,703)
Less: Business combination & IPO costs	-	-	(2,422)
Less: System investment	-	-	(1,245)
Net profit after tax	**20,403**	**5,565**	**6,389**
Assets excluding intangible assets	73,825	13,660	87,485
Goodwill	28,298	34,670	62,968
Intangible assets	389	20,522	20,911
Total Assets	**102,512**	**68,852**	**171,364**
Total liabilities	38,910	20,788	59,698
Centralised debt (Unallocated)	-	-	22,386
Total liabilities	**38,910**	**20,788**	**82,084**

SILK's total assets and liabilities are measured in a manner consistent with that of the financial statements.

Note 4. Business Combinations

Acquisition of Controlled Entities

Australian Skin Clinics and The Cosmetic Clinic

On 31 August 2021 SILK Laser Australia Limited acquired 100% of Beauty Service Holdings and its subsidiaries and LMD2 Pty Ltd, together the Australian Skin Clinics Group ("ASC"), through its wholly owned subsidiary, M3K Holdings Pty Ltd.

The agreed purchase consideration was $52 million, comprised of $47 million of cash (subject to adjustments for working capital and net debt) and up to $5 million of new SILK shares.

The share-based consideration was conditional on the opening of new clinics, three in Australia by 31 July 2022 ($1.33M per clinic) and three in New Zealand by 31 December ($0.33M per clinic). If a lesser number of clinics was opened by these agreed dates, there would be a pro rata reduction in the earn out consideration.

By the date of completion all the required clinics were open apart from one clinic in NZ, which was opened by 26th October 2021 and therefore the final tranche of shares was issued in early December 2021.

Note 4. Business Combinations (continued)

The value of the shares set out in the table below is based on the published price at the date of issue.

Details of the purchase consideration and the final determination of net assets and goodwill acquired are as follows:

	$'000
Cash consideration (adjusted for working capital and net debt)	45,886
Shares issued as consideration:	-
- On completion 1,066,163 shares @ $3.94 per share	4,201
- On 2 December 76,154 shares @ $4.71 per share	359
Total purchase consideration provided by SILK	50,446

The assets and liabilities recognised by SILK are as follows (provisional and subject to adjustment in the final accounts):

ASSETS	Fair Value $'000
Current Assets	
Cash	545
Bank guarantee deposits	613
Trade and other receivables	916
Inventories	1,058
AASB 16 Sub-Lease receivables	2,803
Current assets sub total	**5,935**
Non-Current Assets	
Tangible fixed assets:	
Plant, equipment and Leasehold improvements	1,148
Investments in Joint Venture partnerships	331
AASB 16 Right of Use Assets	782
AASB 16 Sub-Lease receivables	8,570
Deferred tax on intangible assets	4,500
Intangibles:	-
Brand name and trademarks	580
Franchisee network - Australia	15,180
Franchisee network - New Zealand	5,550
Non-current assets sub total	**36,641**
TOTAL ASSETS	**42,576**

LIABILITIES	Fair Value $'000
Trade and other payables	961
Income tax GST & other taxes	1,813
Employee entitlements	413
Provisions	4,540
Accrued expenses	176
Deferred tax liability	6,223
Contract Liabilities	982
AASB 16 Lease Liabilities	782
AASB 16 Lease Liabilities - Sub-Leasing	11,373
TOTAL LIABILITIES	**27,263**

Note 4. Business Combinations (continued)

Net identifiable Assets acquired	15,313
Goodwill on acquisition	35,133
Net Assets acquired	50,446

Goodwill is attributable to the workforce, the acquired franchise system and the profitability of the acquired business.

The acquired business of ASC contributed Reported Revenues of $11.8m for the period 1 September to 30 June 2022. Details of the ASC operating segment is disclosed in Note 3.

(b) Purchase consideration – cash flow

Outflow of cash to acquire subsidiary, net of cash acquired

Cash consideration	41,455
Escrow payment	1,800
Debt repaid to vendor	2,631
	45,886
Less: Balances acquired	
Cash	(545)
Net outflow of cash - investing activities	45,341

(c) Acquisition related costs

Acquisition related costs including due diligence and other associated costs of $2,175 thousand plus $1,449 thousand in FY21, that were not directly related to the issue of shares, are included in business combination expenses in the statement of profit and loss and in investing cash flows in the statement of cash flows.

Other entities over which control was gained

During the year the group gained control over several existing franchise clinics from the SILK network. Details of these transactions are summarised below:

Entity Name	Date control gained	Previous shareholding %	Current shareholding %
ASC Mandurah Pty Ltd	01/12/2021	-	100.0%
SLC Fairfield Pty Ltd	01/04/2022	50.0%	62.5%
SLC Townsville Pty Ltd	01/04/2022	50.0%	75.0%
SLC Karrinyup Pty Ltd	30/06/2022	50.0%	100.0%

	2022 $'000
Assets acquired at the date of acquisition	
Cash and cash equivalents	266
Trade and other receivables	218
Inventories	373
Property, plant and equipment	1,873
Right of Use Assets	663
Deferred tax	469
Total identifiable assets	**3,862**

Note 4. Business Combinations (continued)

Liabilities assumed at the date of acquisition	
Trade payables	694
Contract liabilities	974
Employee provisions	43
Provisions	94
Lease liabilities	931
Deferred tax	396
Shareholder loans	912
Total Liabilities assumed	**4,044**
Fair value of net identifiable liabilities	182
Cash consideration	2,319
Reduction in provisions	(2,013)
Goodwill	488

Entities over which there was a Loss of control
During the year the group lost control over several existing clinics from the SILK network. Details of these transactions are summarised below:

Entity Name	Date control was lost	Previous shareholding %	Current shareholding %
SLC Toowoomba Pty Ltd	01/08/2021	100.0%	50.0%
SLC Charlestown Pty Ltd	01/09/2021	70.0%	40.0%
SLC Cockburn Pty Ltd	01/12/2021	100.0%	50.0%
SLC Karrinyup Pty Ltd	01/12/2021	100.0%	100.0%

SLC Karrinyup Pty Ltd was brought back in to the group on the 30th June 2022.

	$'000
Assets	
Cash and cash equivalents	401
Trade and other receivables	201
Inventory	191
Property, Plant and Equipment	2,075
Right of Use assets	1,253
Deferred tax asset	729
Shareholder loans	113
	4,963
Liabilities	
Trade and other payables	(450)
Contract liabilities	(449)
Provisions	(95)
Lease liabilities	(1,553)
Shareholder loans	(2,156)
Deferred tax liabilities	(655)
	(5,358)
Net liabilities	**(395)**
Cash inflow from disposal	200
Realised gain on disposal	595

Note 5. Revenue

	30 June 2022 $'000	30 June 2021 $'000
Timing of revenue recognition		
Clinic Sales - recognised at a point in time	50,144	43,223
Distribution sales - recognised at a point in time	17,623	10,080
Franchise revenue - recognised at a point in time	13,410	5,438
Initial franchise revenue - recognised over time	145	137
Reported revenue	81,322	58,878

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.

Franchise revenue

Note 5. Revenue (continued)

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 2022 $'000	30 June 2021 $'000
Government wage subsidy (JobKeeper) and COVID-19 related grants	-	1,952
Other income	1,154	472
Interest income	707	268
	1,861	2,692

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.

In FY21 The Group has recognised $1.65 million JobKeeper income, which is disclosed as Other income 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 as disclosed in the table above.

In FY22 so such Government Grants were received.

Other Income

Other income includes profit on sales of shares, property, plant and equipment, advertising subsidies from supplier 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 2022 $'000	30 June 2021 $'000
Share of net profits after tax of associates	628	776

Note 7. Share of Profits of Associates (continued)

	30 June 2022 $'000	30 June 2021 $'000
Share of Profits from Associates	309	717
Dividends received	319	59
Total share of profits from Associates	**628**	**776**

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

	30 June 2022 $'000	30 June 2021 $'000
Profit before income tax includes the following specific expenses:		
Cost of sales		
Cost of sales	20,745	14,440
Depreciation, amortisation and impairment		
Amortisation of Acquired Franchise network (AUS & NZ)	808	-
Amortisation of Other Intangibles	118	27
Amortisation of bank establishment fee	28	-
Depreciation on Property, plant and equipment	3,801	3,463
Depreciation on Right-of-use assets	3,698	2,586
Total depreciation, amortisation and impairment	8,453	6,076
Employee benefits expense:		
Defined contribution plan	2,096	1,393
Payroll tax	1,286	874
Share-based payment expense	165	211
Wages and salaries	23,754	17,985
	27,301	20,463
Overhead expenses:		
Listed company and other compliance costs	382	365
Merchant fees	869	697
Office expenses	916	343
Professional and consulting fees	1,159	1,002
IT expenses and software subscriptions	761	235
Logistical expenses	586	158
Travel expenses	279	92
Insurance	737	467
Other expenses	878	947
	6,567	4,306
Finance costs		
Interest expenses - Leases	1,070	672
Interest expenses - Other	435	38
Finance costs expensed	1,505	710

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 2022 $'000	30 June 2021 $'000
Income tax expense		
Current tax	3,637	3,806
Total deferred tax	(934)	(1,321)
Aggregate income tax expense	2,703	2,485
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	9,092	7,637
Tax at the statutory tax rate of 30%	2,728	2,291
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Share-based payments	123	191
Adjustment for deductible expenses/other taxable differences	15	-
Adjustment for non-deductible expenses/other non-taxable differences	(114)	392
Movement in temporary differences	(11)	(389)
Impact of tax rates applicable outside of Australia	(18)	-
Prior year under/over provision	(20)	-
Income tax expense	2,703	2,485

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.

From 1 September 2021, following the acquisition of the ASC Group, all of its wholly owned Australian resident subsidiary companies joined the tax consolidated group.

Note 10. Cash and Cash Equivalents

	30 June 2022 $'000	30 June 2021 $'000
Current assets		
Cash at bank and on hand	18,601	44,673

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 2022 $'000	30 June 2021 $'000
Current assets		
Trade receivables	5,408	2,788
Less: Allowance for expected credit losses	(354)	(20)
Sub-Lease Receivables	3,922	881
Associate Shareholder Loans Receivable	1,276	1,164
	10,252	4,813
Non-current assets		
Sub-Lease Receivables	5,446	1,361
Associate Shareholder Loans Receivable	2,689	508
	8,135	1,869

2022 Trade Receivable Maturity Table	Current $'000	>1 month $'000	> 2 months $'000	> 3 months $'000	Older $'000	Total $'000
Aged trade receivables	3,919	1,060	84	73	272	5,408

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

Note 11. Trade and Other Receivables (continued)

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 2022 $'000	30 June 2021 $'000
Current assets		
Stock on hand - at cost	5,340	2,979

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 2022 Group % Interest	Carrying Amount	June 2021 Group % Interest	Carrying Amount
SLC Marion Pty Ltd	47.5%	$108,290	50.0%	$150,511
SLC Casuarina Pty Ltd	50.0%	$301,674	50.0%	$266,377
SLC Maroochydore Pty Ltd	50.0%	$1	50.0%	$1
SLC Tea Tree Plaza	50.0%	$199,588	50.0%	$114,896
SLC Fairfield Pty Ltd	62.5%	$0	50.0%	$135,404
SLC Palmerston Pty Ltd	50.0%	$131,173	50.0%	$51,111
SLC Townsville Pty Ltd	75.0%	$0	50.0%	$50
SLC West Lakes Pty Ltd	50.0%	$136,508	50.0%	$77,713
SLC Bunbury Pty Ltd	50.0%	$50	50.0%	$50
SLC Wagga Pty Ltd	50.0%	$264,102	50.0%	$85,069
SLC Ipswich Pty Ltd	50.0%	$50	-	$50
SLC Toowoomba Pty Ltd	50.0%	$50	-	$0
SLC Cockburn Pty Ltd	50.0%	$100	100.0%	$0
SLC Charlestown Pty Ltd	40.0%	$40	70.0%	$0
ASC Epping Franchise	50.0%	$50	-	$0
Total	-	**$1,141,676**	-	**$881,232**

The following entities are partnerships in which SILK has a 50% ownership and shares equal amounts of the profits or losses incurred by the relevant entity. These Partnerships were acquired as part of the ASC acquisition effective 1 September 2021.

Note 13. Investments in Associates (continued)

Partnerships between:	June 2022 Group interest %	Carrying amount
SJM & PPM Pty Ltd and Venture in Altona Gate Pty Ltd	50%	(37,660)
Andreeva Enterprises PL & Venture in Broadmeadows Pty Ltd	50%	80,419
SJM & PPM Pty Ltd and Venture in Ferry Road Pty Ltd	50%	58,871
GCB Global Pty Ltd & Venture in Epping Pty Ltd	50%	41,939
Total		**143,569**
Total of Investments in Associates and Partnerships		**1,285,245**

	30 June 2022 $'000	30 June 2021 $'000
Summarised financial performance for all equity accounted investments:		
Profit after income tax	1,672	1,879
Summarised financial position for the year for all equity accounted investments:		
Gross net assets/ (liabilities)	2,054	1,072

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.

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 non-controlling interests in the subsidiaries of the associate or joint venture. The financial statements of the associate or joint venture are prepared for the same reporting period as the Group. When necessary, adjustments are made to bring the accounting policies in line with those of the Group.

Note 13. Investments in Associates (continued)

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

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

Note 14. Right of Use Assets

a) Right-of-use assets

	30 June 2022 $'000	30 June 2021 $'000
Non-current assets		
Right of use asset	18,156	16,064
Less: Accumulated amortisation	(7,322)	(4,682)
	10,834	11,382
Movements in right of use asset		
Net carrying amount at beginning of year	11,382	9,030
Transfer of lease outside consolidation group	(1,919)	-
Lease Surrender	(927)	(232)
Re-measurement of Lease Liability	(414)	(20)
Lease modification	-	62
Lease commencement - Additions to right-of-use assets	5,628	5,128
Lease acquired as part of business combination	782	-
Depreciation	(3,698)	(2,586)
Net carrying amount at end of year	10,834	11,382

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

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

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

Additions to the right-of-use assets during the year were $5.6m.

Lease acquired as part of business combination of ASC were $0.8m.

Note 14. Right of Use Assets (continued)

Recognition and measurement

The Group as a lessee

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.

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

Note 14. Right of Use Assets (continued)

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. Property, Plant and Equipment

	30 June 2022 $'000	30 June 2021 $'000
Non-current assets		
Leasehold improvements - at cost	11,292	10,048
Less: Accumulated depreciation	(4,790)	(3,049)
	6,502	6,999
Furniture and plant - at cost	18,404	16,592
Less: Accumulated depreciation	(6,251)	(4,797)
	12,153	11,795
	18,655	18,794

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 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
Additions	1,616	1,761	3,377
Additions through business combinations	797	2,184	2,981
Disposals	(235)	(721)	(956)
Clinics ownership sold to outside the group	(733)	(1,210)	(1,943)
Reclassified from Inventory	-	203	203
Depreciation expense	(1,942)	(1,859)	(3,801)
Balance at 30 June 2022	6,502	12,153	18,655

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.

Note 15. Property, Plant and Equipment (continued)

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

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

Impairment

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

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 16. Intangible Assets

	30 June 2022 $'000	30 June 2021 $'000
Non-current assets		
Goodwill	62,968	27,684
Franchise system development - at cost	76	76
Less: Accumulated amortisation	(22)	(19)
	54	57
Brand name - at cost	580	-
Patents and trademarks - at cost	91	73
Less: Accumulated amortisation	(12)	(8)
	79	65
Franchise network (Australia & New Zealand)	20,730	-
Less: Accumulated amortisation	(808)	-
	19,922	-
Website and software - at cost	574	325
Less: Accumulated amortisation	(296)	(213)
	278	112
	83,881	27,918

Movements in Intangibles

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

Note 16. Intangible Assets (continued)

	SILK Franchise and System Developed $'000	SILK Goodwill $'000	ASC Franchise network $'000	ASC Brand name $'000	ASC Goodwill $'000	Combined Intellectual property $'000	Combined Website and Software $'000	Total $'000
Balance at 1 July 2020	76	27,350	-	-	-	60	118	27,604
Additions	-	-	-	-	-	13	43	56
Additions through business combinations	-	334	-	-	-	-	-	334
Amortisation expense	(19)	-	-	-	-	(8)	(49)	(76)
Balance at 30 June 2021	57	27,684	-	-	-	65	112	27,918
ASC Acquisition (Note 4)	-	-	20,730	580	35,133	-	50	56,493
Disposal of Goodwill	-	-	-	-	(463)	-	-	(463)
Additions through business combinations	-	488	-	-	-	-	-	488
Additions	-	126	-	-	-	18	227	371
Amortisation expense	(3)	-	(808)	-	-	(4)	(111)	(926)
Balance at 30 June 2022	54	28,298	19,922	580	34,670	79	278	83,881

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 2022. 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 2022.

The post-tax discount rate applied to the cash flow projection is 12.26% (2021: 12.1%).

The terminal growth rate used to extrapolate the cash flows of the CGU's beyond the five-year period is 2.5% (2021: 2.5%) which is in line with the industry average.

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

Note 16. Intangible Assets (continued)

Gross margins	Gross margins are based on average values achieved in the four years preceding the beginning of the budget period.
Discount rates	The discount rate calculation is based on the specific circumstances of the Group and is derived from its weighted average cost of capital (WACC). The WACC takes into account the cost of both debt and equity. The cost of equity is determined by the expected return on investment by the Group's investors. The cost of debt is based on the interest-bearing borrowings the Group is obliged to service rate as well as a margin that takes into consideration both industry and company specific risk factors. Specific risk is incorporated by applying individual Beta factors which are evaluated against publicly available market data.
Market share during the forecast period	When using industry data for growth rates, these assumptions are important because management assess how the Group's position, relative to its competitors, might change over the forecast period.
Growth rates	Rates are based on published industry, company research, management's best estimates of anticipated growth in the short to medium term and considering the historical average sales growth achieved in the past. The growth rate in the terminal year is 2.5% (2021: 2.5%) and the sales growth rate used for the five-year forecast period is 8% (2021: 8.5%).

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 its carrying amount:

- reduction in gross margin of 10%
- the growth rate in the terminal year decreased from 2.5% to 1.5% and
- the discount rate increased from 12.26% to 17%

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

Recognition and measurement

Class of Intangible	Amortisation rate
Brand name	Indefinite Life
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.

Note 16. Intangible Assets (continued)

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

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

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

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

Patents and trademarks

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

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

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.

Borrowing costs
Costs in relation to borrowings are capitalised as an asset and amortised on a straight-line basis over the period of the finance arrangement.

Note 17. Deferred Tax

	30 June 2022 $'000	30 June 2021 $'000
Non-current deferred tax balances		
Deferred tax Asset	13,385	8,507
Deferred tax Liability	11,045	5,274

	30 June 2022 $'000	30 June 2021 $'000
Movement in deferred tax assets		
Trade and other receivables	106	43
Property, plant and equipment	1,387	743
Trade and other payables	641	455
Leases	3,973	4,229
Provisions	591	391
Unused tax losses	898	926
Intangibles	4,351	7
Blackhole expenditure	1,424	1,713
Inventory	14	-
Deferred tax asset	13,385	8,507

Note 17. Deferred Tax (continued)

	30 June 2022 $'000	30 June 2021 $'000
Movement in deferred tax liabilities		
Property, plant and equipment	1,950	1,799
Intangible assets	5,991	-
Lease Liabilities	3,104	3,475
Deferred tax liability	11,045	5,274

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

Note 17. Deferred Tax (continued)

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.

From 1 September 2021, following the acquisition of the ASC Group, all of its wholly owned Australian resident subsidiary companies joined the tax consolidated group.

Members of the group have entered into a tax sharing agreement in order to allocate income tax expense to the wholly owned subsidiaries. These tax amounts are measured as if each entity in the tax consolidated group continues to be a standalone taxpayer in its own right.

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

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

Note 18. Trade and Other Payables

	30 June 2022 $'000	30 June 2021 $'000
Current liabilities		
Trade creditors	7,395	6,822
Other payables	772	176
Accrued expenses	3,177	2,669
	11,344	9,667

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.

Note 18. Trade and Other Payables (continued)

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 19. Contract Liabilities

	30 June 2022 $'000	30 June 2021 $'000
Current liabilities		
Unearned revenue	9,385	8,996
Initial franchise fees	129	295
Franchise deposits	17	20
	9,531	9,311
Non-current liabilities		
Initial franchise fees	284	150

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 20. Borrowings

	30 June 2022 $'000	30 June 2021 $'000
Non-current liabilities		
Bank loans	22,500	-
Less: Transaction costs net of amortisation	(114)	-
	22,386	-

The Group holds a four-year term acquisition related 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), which commenced on 30 August 2021 and matures on the fourth anniversary, 30th August 2025.

The agreement includes additional facilities relating working capital finance ($3 million) and the provision of bank guarantees to landlords ($3 million), which will provide further liquidity to the Group. The total facilities including the debt facility above are $36 million.

The facility has covenants relating to net leverage based on the ratio of EBITDA to net debt ("Net Leverage Ratio") and the ratio EBITDA to interest and rent expenses ("Fixed Charge Cover Ratio"). .

The Net Leverage Ratio covenant requires that the measure of EBITDA (on a pre AASB 16 basis and including the Group's share of joint ventures companies' EBITDA), compared with net debt (including unearned revenue) must remain below 3.0 times on a rolling twelve months' basis. This covenant is measured at the end of each quarter. From 30 September 2023 this measure must remain within 2.75 times and from 30 September 2024 must remain within 2.5 times.

Note 20. Borrowings (continued)

The Fixed Charge Over Ratio covenant requires that the ratio of EBITDA (as measured above) plus rent expenses (measured on a pre IFRS 16 basis), versus net interest cost plus rent expenses (measured on a pre AASB 16 basis), must not fall below 1.5 times on a rolling twelve months' basis. This covenant is also measured at the end of each quarter.

The covenants were complied with during the year.

Repayments of $2.5 million per year are required once the Net Leverage Ratio covenant measure is above 1.5 times. This is currently not the case.

The rate of interest charged is based on the bank's bill swap rate (known as BBSY and usually is close to the RBA's cash minimum lending rate) plus a margin. The margin under the facility agreement ranges between 1.85% and 2.45% depending on the Net Leverage Ratio and the margin is currently charged at 1.85%. Interest is currently payable on the debt facility at the total rate of 3.7%. The facilities also carry a line fee for undrawn and available facilities equal to 40% of the prevailing margin.

As at 30 June 2022, there was $22.5m withdrawn under the facility, which was used to fund the acquisition of ASC, leaving $7.5m in potential available capacity for permitted acquisition purposes under the loan. The working capital facility remains undrawn and the amount of the guarantee facility drawn equals $1,902 thousand.

Transaction costs associated with entering into the bank facility were $144 thousand and will be amortised over the initial term of the facility.

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

Note 21. Lease Liabilities

	30 June 2022 $'000	30 June 2021 $'000
Current liabilities		
Lease liability on Right of Use Assets	8,238	4,247
Lease liability - Asset Finance	-	569
	8,238	4,816
Non-current liabilities		
Lease liability on Right of Use Assets	14,020	11,583
Movements in lease liabilities		
Balance at beginning of year	16,399	14,783
Leases acquired as part of business combinations	12,155	-
Commencement of lease	3,438	4,882
Increase in lease term	-	1,057
Re-measurement	(158)	(816)
Clinic ownership sold to outside the group	(1,923)	(777)
Principle re-payments Lease Liabilities	(7,645)	(3,631)
Interest on Right of Use	1,069	671
Surrender of lease	(628)	(114)
Lease Incentives recognised	120	732
Principle re-payments Asset Finance	(570)	(426)
Interest on Asset finance	1	38
Balance at end of year	22,258	16,399

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. Provisions

	30 June 2022 $'000	30 June 2021 $'000
Current liabilities		
Provision for employee entitlements	1,718	1,129
Onerous contracts provision - ASC acquisition	1,401	-
	3,119	1,129
Non-current liabilities		
Provision for employee entitlements	260	90
Deferred lease incentives	59	190
Onerous contracts provision - ASC acquisition	105	-
Provision for make good - leased properties	802	374
	1,226	654

Movements in lease related provisions

Movements in lease related provisions are set out below:

	30 June 2021 $'000	30 June 2020 S'000
Lease related provisions:		
Opening balance beginning of year	374	248
Provision for make good - lease properties	428	126
Balance at end of year	802	374

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.

Note 22. Provisions (continued)

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.

Onerous contracts

If the Group has a contract that is onerous, the present obligation under the contract is recognised and measured as a provision. However, before a separate provision for an onerous contract is established, the Group recognises any impairment loss that has occurred on assets dedicated to that contract.

An onerous contract is a contract under which the unavoidable costs (i.e., the costs that the Group cannot avoid because it has the contract) of meeting the obligations under the contract exceed the economic benefits expected to be received under it. The unavoidable costs under a contract reflect the least net cost of exiting from the contract, which is the lower of the cost of fulfilling it and any compensation or penalties arising from failure to fulfil it. The cost of fulfilling a contract comprises the costs that relate directly to the contract (i.e., both incremental costs and an allocation of costs directly related to contract activities).

Note 23. Share Capital

	Year Ended 30 June 2022 Share Capital Number	Year Ended 30 June 2021 Share Capital Number	Year Ended 30 June 2022 $'000	Year Ended 30 June 2021 $'000
Opening balance	51,766,609	36,567,139	73,746	36,568
Share issue as part of the ASC acquisition	1,142,318	-	4,560	-
Listing rights vested and exercised	101,449	-	350	-
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	-	1,123,409	-	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)
Repayments of Employee Share Scheme loans	-	-	228	-
Closing balance	53,010,376	51,766,609	78,884	73,746

	30 June 2022 Shares	30 June 2021 Shares	30 June 2022 $'000	30 June 2021 $'000
Ordinary shares - fully paid	53,010,376	51,766,609	78,884	73,746

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.

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 23. 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.

Note 24. 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 1:

Name	Principal place of business / Country of incorporation	Ownership interest 30 June 2022 %	30 June 2021 %
M3K Holdings Pty Ltd	Australia	100.0%	100.0%
M3K Services Pty Ltd	Australia	100.0%	100.0%
SILK Laser & Skin Group Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinics Pty Ltd	Australia (Dormant)	100.0%	100.0%
SILK Laser Clinic Henley Beach Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Adelaide Pty Ltd	Australia	100.0%	100.0%
SILK Laser Corporate Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Eastlands Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Elizabeth Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Hyde Park Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Norwood Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Rundle Mall Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Australia Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Noarlunga Pty Ltd	Australia	100.0%	100.0%
SILK Laser Franchise Holdings Pty Ltd	Australia	100.0%	100.0%
SILK Laser Franchising Pty Ltd	Australia	100.0%	100.0%
SLC Cairns Pty Ltd	Australia (Dormant)	100.0%	100.0%
SLC Booragoon Pty Ltd	Australia	100.0%	100.0%
SLC Carousel Pty Ltd	Australia	100.0%	100.0%
SLC Innaloo Pty Ltd	Australia	100.0%	100.0%
SLC Leasing Pty Ltd	Australia	100.0%	100.0%
SLC Midland Gate Pty Ltd	Australia	75.0%	100.0%
SLC Ocean Keys Pty Ltd	Australia	100.0%	100.0%
SLC Perth Pty Ltd	Australia	100.0%	100.0%
SLC Baldivis Pty Ltd	Australia	100.0%	100.0%
SLC Ellenbrook Pty Ltd	Australia	75.0%	100.0%
SLC Rockingham Pty Ltd	Australia	100.0%	100.0%
SLC Whitford City Pty Ltd	Australia	100.0%	100.0%
Aesthetics Skincare Pty Ltd	Australia	100.0%	100.0%
TLL Silk Pty Ltd	Australia	100.0%	100.0%
SLC Joondalup Pty Ltd	Australia	100.0%	100.0%
SLC Karrinyup Pty Ltd	Australia	100.0%	100.0%
SLC Bundaberg Pty Ltd	Australia	100.0%	-
SLC Burnside Pty Ltd	Australia	100.0%	100.0%
SLC Strathpine Pty Ltd	Australia	75.0%	100.0%
SLC Morley Pty Ltd	Australia	100.0%	100.0%
SLC Noarlunga North Pty Ltd	Australia	100.0%	100.0%
SILK Laser Clinic Glenelg Pty Ltd	Australia	75.0%	75.0%
SLC Rockhampton Pty Ltd	Australia	75.0%	75.0%
SLC Mackay Pty Ltd	Australia	90.0%	75.0%

Note 24. Group Information (continued)

Name	Principal place of business / Country of incorporation	Ownership interest 30 June 2022 %	Ownership interest 30 June 2021 %
SILK Laser Clinic Hobart Pty Ltd	Australia	75.0%	75.0%
SLC Belconnen Pty Ltd	Australia	75.0%	75.0%
SLC Burleigh Pty Ltd	Australia	100.0%	75.0%
SLC Woden Pty Ltd	Australia	100.0%	75.0%
SLC Warwick Pty Ltd	Australia	100.0%	100.0%
SLC Cockburn Pty Ltd	Australia	50.0%	100.0%
Beauty Services Pty Ltd	Australia	100.0%	-
Clinic Leasing Pty Ltd	Australia	100.0%	-
Silk Laser & Skin Holdings Pty Ltd	Australia	100.0%	100.0%
ASC Master Franchise Pty Ltd	Australia	100.0%	-
ASC Hold Co Pty Ltd	Australia	100.0%	-
ASC IP Holdings Pty Ltd	Australia	100.0%	-
ASC Leasing Pty Ltd	Australia	100.0%	-
ASC MacArthur Square Pty Ltd	Australia	100.0%	-
ASC Warringah Mall Pty Ltd*	Australia	75.0%	-
Australian Skin Clinics Marketing Fund Pty Ltd	Australia	100.0%	-
Forward Scout Enterprises Pty Ltd	Australia	100.0%	-
Beauty Services (New South Wales) Pty Ltd	Australia	100.0%	-
Beauty Services Holdings Pty Ltd	Australia	100.0%	-
Cosmetic Clinic Ltd	New Zealand	100.0%	-
LMD2 Pty Ltd	Australia	100.0%	-
The Advanced Skills Academy Pty Ltd	Australia	100.0%	100.0%
Venture in Altona Gate Pty Ltd	Australia	50.0%	-
Venture in Broadmeadows Pty Ltd	Australia	50.0%	-
Venture in Ferry Road Pty Ltd	Australia	50.0%	-
Venture in Woodgrove Pty Ltd	Australia	50.0%	-
SLC Mandurah Pty Ltd	Australia	100.0%	-
SLC Morayfield Pty Ltd*	Australia	75.0%	-
SLC Fairfield Pty Ltd	Australia	62.5%	50.0%
SLC Townsville Pty Ltd	Australia	75.0%	50.0%

* Entities registered during 2022

The holding company

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

Its registered office and principal place of business is:
Level 1, 137 The Parade,
Norwood SA
5067

Note 25. Events after the reporting period

On 15 July 2022 the Group completed an agreement to purchase the assets, including franchise agreements, of Unique Laser, a group of five franchised clinics located in Victoria, with four traditional franchises and one corporate clinic, expanding the Group's presence on the East Coast in locations complementary to the existing network. The consideration for the acquisition was $600,000, paid from existing cash resources. The acquisition is expected to be earnings accretive by approximately $200,000 after tax. A full purchase price allocation has yet to be completed.

Note 26. Earnings Per Share

	30 June 2022 $'000	30 June 2021 $'000
Profit after income tax	6,389	5,152
Non-controlling interest	(1)	(134)
Profit after income tax attributable to the owners of SILK Laser Australia Limited	6,388	5,018

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	52,776,781	42,481,289
Adjustments for calculation of diluted earnings per share:		
Employee share scheme	-	1,060,384
Listing award	101,449	112,289
Performance rights	200,705	-
Weighted average number of ordinary shares used in calculating diluted earnings per share	53,078,935	43,653,962

	Cents	Cents
Basic earnings per share	12.10	11.81
Diluted earnings per share	12.03	11.49

Accounting policy for earnings per share

Basic earnings per share

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

Diluted earnings per share

Diluted earnings per share is calculated by dividing the profit attributable to the owners of SILK Laser Australia Limited 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.