

# **Shaver Shop Group Limited**

ABN: 78 150 747 649

**Consolidated financial report**

**For the Year Ended 30 June 2018**

# Shaver Shop Group Limited

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For the Year Ended 30 June 2018

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# Shaver Shop Group Limited

## Directors' Report

30 June 2018

Your directors present their report on the consolidated entity consisting of Shaver Shop Group Limited and the entities it controlled at the end of, or during, the year ended 30 June 2018. Throughout the report, the consolidated entity is referred to as the "Group", the "Company" or "Shaver Shop".

### Principal activities

The principal activities of the Group during the financial year was the retailing of specialist personal grooming products both through Shaver Shop's corporate owned stores and franchise store networks as well as online through its websites. No significant change in the nature of these activities occurred during the year.

### Directors

The following persons were directors of Shaver Shop Group Limited during the whole of the financial year and up to the date of this report:

Broderick Arnhold  
Cameron Fox  
Craig Mathieson  
Trent Peterson  
Brian Singer  
Melanie Wilson

### Company secretary

Lawrence Hamson held the position of Company Secretary during the whole of the financial year and up to the date of this report.

### Directors and directors interests

The following information is current as at the date of this report:

<b>Brodie Arnhold</b>	<i>Independent Chair Non-Executive</i>	
<b>Expertise and Experience</b>	Brodie has over 15 years domestic and international experience in private equity, investment banking and corporate finance. Prior to his current role as acting-CEO of iSelect Limited, he was CEO of Melbourne Racing Club for four years. He has worked for Investec Bank from 2010-2013 where he was responsible for building a high-net-worth private client business. Prior to this, Brodie worked for Westpac Banking Corporation where he grew the institutional bank's presence in Victoria, South Australia and Western Australia, and from 2006-2010 held the role of Investment Director at Westpac's private equity fund.	
<b>Other Current Directorships</b>	Non-Executive Director, Endota Group Holdings Pty Ltd Non-Executive Director, iSelect Limited Director, Racing.com Director, RSN	
<b>Former Listed Directorships in last 3 years</b>	None	
<b>Special responsibilities</b>	Chair of the Board Member of the Audit and Risk Committee	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	2,907,000

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<b>Cameron Fox</b>	<i>Chief Executive Officer and Managing Director</i>	
<b>Expertise and Experience</b>	Cameron has over 20 years' experience working across the personal care & grooming industry. Cameron joined Shaver Shop as General Manager in 2006 before being promoted to the position of Chief Executive Officer in July 2008. Cameron previously worked for Gillette Australia for a period of 10 years. During his time at Gillette Australia Cameron held various roles, including Associate Product Manager, Business Analyst, National Account Manager and National Sales Manager	
<b>Other Current Directorships</b>	None	
<b>Former Listed Directorships in last 3 years</b>	None	
<b>Special responsibilities</b>	Managing Director Chief Executive Officer	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	2,180,024
	Unvested LTI Shares	1,118,223

<b>Craig Mathieson</b>	<i>Non-Executive Director</i>	
<b>Expertise and Experience</b>	Craig became a director of Shaver Shop Pty Ltd in June 2011. For the last 10 years, Craig has been the Chief Executive Officer of the Mathieson Group which has very diverse business interests from company investment to property development. From 2001 to 2007 Craig was the Managing Director of DMS Glass Pty Ltd which was the largest privately owned glass manufacturer in Australia.	
<b>Other Current Directorships</b>	Carlton Football Club Ltd Endota Group Holdings Pty Ltd	
<b>Former Listed Directorships in last 3 years</b>	Abilene Oil & Gas Ltd	
<b>Special responsibilities</b>	Chair of the Audit and Risk Committee	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	4,660,004

<b>Brian Singer</b>	<i>Non-Executive Director</i>	
<b>Expertise and Experience</b>	Brian became a director of Shaver Shop in June 2011. Brian founded the Rip Curl business with a business partner in 1969 after a career as a high school teacher. He became Chief Executive Officer for Rip Curl Group Pty Ltd in Australia and grew the business into a major manufacturer and distributor of clothing and surfing related products in Australia and internationally.	
<b>Other Current Directorships</b>	Rip Curl Group Pty Ltd – Chairman Endota Group Holdings Pty Ltd	
<b>Former Listed Directorships in last 3 years</b>	None	
<b>Special responsibilities</b>	Member of the Remuneration and Nomination Committee	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	6,258,004

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<b>Trent Peterson</b>	<i>Non-Executive Director</i>	
<b>Expertise and Experience</b>	Trent is a managing director and partner at Catalyst Investment Managers, and has over 15 years' experience as a company director and private equity investor. He is currently a Director of Adairs Limited, Cirrus Media Pty Ltd, Max Fashions (New Zealand), Power Farming Group (New Zealand), SkyBus, Dusk Retail Group. He was a former director of Just Group Limited, Global Television Limited, EziBuy, Metro GlassTech, Moraitis, Taverner Hotel Group, and Australian Discount Retail.	
<b>Other Current Directorships</b>	Adairs Limited APH Holdco Pty Ltd (trading as Mr Vitamins) dusk Retail Holdings (trading as dusk) AATS Holdings Pty Ltd (trading as Skybus) Catalyst Investment Managers Pty Ltd (and associated fund entities) Catalyst Direct Capital Management Pty Ltd	
<b>Former Listed Directorships in last 3 years</b>	None	
<b>Special responsibilities</b>	Chair of the Remuneration and Nomination Committee Member of the Audit and Risk Committee	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	347,619

<b>Melanie Wilson</b>	<i>Non-Executive Director</i>	
<b>Expertise and Experience</b>	Melanie has more than 15 years' experience in Senior Management roles across a number of global retail brands including Limited Brands (Victoria's Secret, Bath & Bodyworks – New York), Starwood Hotels (New York), Woolworths Ltd and Diva/Lovisa. Her experience extends across all facets of retail operations, including store operations, merchandise systems, online/e-commerce, marketing, brand development and logistics/fulfilment.	
<b>Other Current Directorships</b>	iSelect Limited Baby Bunting Limited EML Payments Limited	
<b>Former Directorships in last 3 years</b>	Nil	
<b>Special responsibilities</b>	Member of the Remuneration and Nomination Committee	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited	47,619

<b>Lawrence Hamson</b>	<i>Chief Financial Officer and Company Secretary</i>	
<b>Expertise and Experience</b>	Lawrence joined Shaver Shop in April 2016 immediately prior to the Company's listing on the ASX. He is a Chartered Accountant (Canada) and Chartered Financial Analyst with more than 20 years experience in both public practice and within industry. For the 9 years prior to joining Shaver Shop, Lawrence acted as Chief Financial Officer for both private and public companies, most recently with Dun & Bradstreet as its CFO for the Asia Pacific region. He has experience across venture capital with Rothschild as well as corporate communications having been Mayne Group Limited's General Manager Corporate Relations through its demerger into two ASX listed entities – Symbion Healthcare Limited and Mayne Pharma Limited.	
<b>Interests in shares and options</b>	Ordinary Shares – Shaver Shop Group Limited Unvested LTI Shares	581,171 337,767

## Shaver Shop Group Limited

### Directors' Report

30 June 2018

#### Meetings of Directors

During the financial year, 18 meetings of directors were held, 5 meetings of the Audit & Risk Committee were held and 2 meetings of the Nomination and Remuneration Committee were held. Attendances by each director who was a member of the Board and relevant subcommittee during the year were as follows:

	Board of Directors Meetings		Audit & Risk Committee Meetings		Nom & Rem Committee Meetings	
	Number eligible to attend	Number attended	Number eligible to attend	Number attended	Number eligible to attend	Number attended
Broderick Arnhold	18	17	5	5	n/a	n/a
Cameron Fox	18	18	n/a	n/a	n/a	n/a
Craig Mathieson	18	16	5	5	n/a	n/a
Trent Peterson	18	18	5	5	2	2
Brian Singer	18	17	n/a	n/a	2	2
Melanie Wilson	18	18	n/a	n/a	2	2

#### Dividends paid or recommended

The Directors declared an interim dividend of 1.8 cents per share fully franked (\$2.2 million) in February 2018 (2017: 1.6 cents per share fully franked or \$2.0m). The Directors have declared a fully franked final dividend of 2.4 cents per share (\$3.0 million) to be paid on 31 October 2018 (2017: 2.4 cents per share fully franked or \$3.0m). The combined dividend payments represent the payout of approximately 80% of the Company's FY2018 reported net profit after tax.

#### 2018 Operating and Financial Review

The statutory profit after income tax amounted to \$6.6 million (FY2017: \$9.0 million) after subtracting income tax expense of \$3.1 million (FY2017: \$4.1 million). The decrease in net profit after income tax is primarily due to the reduced contribution from multi-unit reseller channel sales in FY2018 versus the prior financial year. As noted in the FY2017 Director's Report, in the third quarter of FY2017, a new sales channel to Australian-based customers who purchase in higher quantities for resale emerged which facilitated sales of certain female beauty product lines in high volume and lower average gross margins through its corporate and franchise store network. In early FY2018 Shaver Shop could no longer secure supply of the key product lines sold into this channel and accordingly the earnings contribution from this channel reduced significantly in FY2018. In addition, Shaver Shop was subject to a number of one-off and unusual expenses which reduced its FY2018 profitability. These are discussed in more detail in the report that follows. If these one-off costs are excluded, normalised net profit after tax was \$7.2 million.

#### Non-IFRS measures

The Directors' Report includes references to normalised results. The normalisations relate to the year ended 30 June 2018 and arise as a result of significant and unusual expenses incurred in the year. In 1H FY2018, two of Shaver Shop's suppliers (the suppliers were affiliated with each other) appointed liquidators. Provisions totalling \$491,000 were raised against rebates and other receivables owing from these suppliers to Shaver Shop as well as the remaining stock on hand. The nature and magnitude of this loss is extremely unusual and unlike anything Shaver Shop has experienced. In 2H FY2018, Shaver Shop settled a disputed stamp duty assessment relating to the franchises acquired in South Australia prior to 30 June 2015. Whilst Shaver Shop and its tax advisors remain of the view the assessment of the Stamp Duty was inappropriately applied to the related transactions, Shaver Shop took a commercial decision to settle the dispute rather than incur significant legal costs and be subject to protracted litigation. There is no further risk of stamp duty re-assessments in relation to SA franchise buy-backs as the stamp duty rules applying to these transactions changed on 30 June 2015. Finally, Shaver Shop was the subject of internal fraud in 2H FY2018, in which one of Shaver Shop's store managers made significant unauthorised transactions to multi-unit reseller customers at prices that were significantly below Shaver Shop's cost of goods. Whilst Shaver Shop's financial controls were in place and operating effectively, the Manager falsified transactional records to conceal the fraudulent activity. Shaver Shop engaged an external investigator to review circumstances that led to these transactions and in conjunction with this review has implemented additional controls to further reduce the risk of this happening in the future.

## Shaver Shop Group Limited

### Directors' Report

30 June 2018

The normalised results have been derived from Shaver Shop's statutory accounts and adjusted to a normalised basis to more appropriately reflect the ongoing operations of Shaver Shop. The Directors believe the presentation of non-IFRS financial measures are useful for the users of this financial report as they provide additional and relevant information that reflect the underlying financial performance of the business. Non-IFRS measures contained within this report are not subject to audit or review.

The Statutory Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") of the Group for FY2018 was \$12.2 million (FY2017: \$14.9 million).

	Statutory Consolidated	
	2018 \$000	2017 \$000
Profit after income tax from continuing operations (NPAT)	6,566	8,994
Add back:		
Net finance costs	451	407
Income tax expense / (benefit)	3,112	4,061
Depreciation and amortisation expense	2,051	1,408
<b>EBITDA<sup>1</sup></b>	<b>12,180</b>	<b>14,870</b>

<sup>1</sup> Earnings before Interest, Tax, Depreciation and Amortisation (EBITDA) is used as a measure of financial performance by excluding certain variables that affect operating profits but which may not be directly related to the underlying performance of the Group. EBITDA is not a measure of operating income, operating performance or liquidity under A-IFRS. Other companies may calculate EBITDA in a different manner to Shaver Shop. The above EBITDA reconciliation has not been audited.

The table below reconciles the EBITDA result to the normalised result for FY2018. This shows the full FY2018 year results from operations on a normalised basis and excludes significant and unusual one-off items incurred in the current financial year. There were no normalisation adjustments to the statutory EBITDA for FY2017.

	Consolidated	
	2018 \$000	2017 \$000
EBITDA	12,180	14,870
Add back:		
Supplier liquidations	491	-
FY15 SA Stamp Duty franchise buyback assessment	156	-
Internal fraud	327	-
<b>Normalised EBITDA</b>	<b>13,154</b>	<b>14,870</b>

The table below reconciles the statutory NPAT result to the normalised result for FY2018 and FY2017. This shows the full year results on a normalised basis.

	Consolidated	
	2018 \$000	2017 \$000
Reported NPAT	6,566	8,994
Add back:		
Supplier liquidations	491	-
FY15 SA Stamp Duty franchise buyback assessment	156	-
Internal fraud	327	-
Income tax effect	(292)	-
Tax on management IPO incentives	-	87
<b>Normalised NPAT</b>	<b>7,248</b>	<b>9,081</b>

The pro forma adjustment to FY2017 tax expense was not in the Prospectus forecast for FY2017.

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Shaver Shop receives a tax deduction over five years for the cost of franchise right terminations that occur through its franchise buyback program. This is recorded as an adjustment to goodwill and therefore leads to income tax payable being lower than income tax expense for the five year tax period following each buyback. Based on the franchise buybacks completed to date, the reduction in cash tax payable for FY2018 and each subsequent financial year is set out in the table below.

	FY2018 \$000	FY2019 \$000	FY2020 \$000	FY2021 \$000	FY2022 \$000
Reduction in income tax payable	1,788	1,566	1,038	702	241

The table below compares the normalised operating performance of Shaver Shop for FY2018 against the results for FY2017.

	Consolidated		% Change
	Normalised FY18 Actual \$000	Normalised FY17 Actual \$000	
Revenue	154,937	142,568	8.7%
Gross Profit	64,170	59,472	7.9%
Gross Margin	41.4%	41.7%	-0.7%
EBITDA	13,154	14,870	-11.5%
EBITDA Margin	8.5%	10.4%	-18.3%
NPAT	7,248	9,081	-20.2%
Tax benefit associated with franchise buybacks	1,788	1,564	+14.3%
NPAT – adjusted for franchise buyback tax benefit (“Cash NPAT “)	9,036	10,645	-15.1%
Basic weighted average shares (000s)	124,189	125,087	
Basic earnings per share – cents	5.83	7.26	-19.7%
Cash earnings per share – cents (Cash NPAT / weighted avg. shares)	7.27	8.51	-14.6%

#### Normalised Results Summary

In FY2018, the Company grew consolidated revenue by 8.7% to \$154.9 million (FY2017 - \$142.6 million). The top-line growth was primarily due to the increase in the number of corporate stores in the network (growing from 95 at 30 June 2018 to 106 at 30 June 2018). Shaver Shop opened 8 new locations and bought back 4 franchise outlets during FY2018. In addition, one store has been temporarily closed as the centre goes through a major refurbishment. Total like for like sales for the Corporate Store network declined -3.4% in FY2018 (FY2017 +6.2%) due to the significant decline in sales through the multi-unit reseller channel. If the estimated sales impact of these high volume, lower margin sales are excluded from both years, the estimated underlying like for like sales growth of the Company was +1.6% in FY2018 (FY2017 down -1.5%).

Contributing to the growth in underlying like for like sales was continued growth in Shaver Shop's e-commerce sales – up 47.4% in FY2018 over the prior year. Total websales represented 10.0% of total network sales in FY2018. This follows significant investments in Shaver Shop's e-commerce systems as well as increased focus on digital marketing activities during the year in comparison to FY2017.

Normalised gross profit increased 7.9% to \$64.2 million (FY2017 - \$59.5 million). Gross profit margin declined approximately 30 basis points to 41.4% (FY2017 – 41.7%). Changes in product mix, discounts to products in the Hair Styling category to make room for new brand additions (Dyson and ghd hair) as well as the deliberate decision to increase promotional activity following a weaker than expected lead into the seasonally higher Christmas and Boxing Day trading period were the key drivers of the decline in gross margin.



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Shaver Shop's normalised cost of doing business (CODB%) (normalised operating expenses divided by total revenue) increased 40 basis points to 34.2% (FY2017 – 33.8%). The increase in CODB% was primarily driven by the impact of the reduced multi-unit reseller channel sales in FY2018 in comparison to the prior year which increased the relative CODB% accordingly. If the impact of these multi-unit reseller sales were removed, CODB% would have declined year over year.

The dollar increase in employee benefits expense, occupancy costs, and other expenses was primarily associated with the increase in the average number of corporate stores operated by Shaver Shop across FY2018 in comparison to the prior financial year.

Consolidated normalised EBITDA declined ~11.5% to \$13.2m (FY2017 - \$14.9m) primarily due to the reduced contribution from the multi-unit reseller channel during the year, together with the decline in gross profit margin within the business. The performance of recent franchise buybacks (mostly in NSW) has also not met expectation.

Normalised NPAT declined 20.2% to \$7.2m leading to basic earnings per share of 5.83 cents (FY2017 – 7.26 cents). After adjusting for the tax benefit associated with franchise buybacks, Shaver Shop's Cash NPAT was 7.27 cents per share (FY2017 – 8.51 cents), a decline of 14.6% over the prior corresponding year.

#### **Liquidity and Capital Management**

In July 2018, Shaver Shop refinanced its existing bank facilities and established a new \$20.0 million multi-option debt facility with a \$1.0 million facility to support bank guarantees. The new facility has a term of two years, expiring on 31 July 2020.

At 30 June 2018, Shaver Shop had gross debt of \$11.3 million (FY2017 - \$11.8 million). Net debt (gross debt less cash on hand) was \$8.4 million at 30 June 2018 (FY2017 – \$9.4 million) providing a leverage ratio (Net Debt/Normalised EBITDA) of 0.64X (FY2017 - 0.63X).

The Company's debt facility has three key covenants: the leverage ratio; the fixed coverage ratio ((Occupancy Costs + EBITDA)/(Occupancy Costs + Interest expense)); and the net worth ratio ((Total assets - Total liabilities) / Total assets). All banking covenants were well within the bank's thresholds for FY2018.

Shaver Shop announced an on-market buy-back of its shares on 26 October 2017. In the subsequent period to 30 June 2018, Shaver Shop acquired 3,234,348 ordinary shares for consideration of \$1,488,062.

#### **Strategy**

Shaver Shop offers customers a wide range of quality brands, at competitive prices, supported by excellent staff product knowledge and customer service. Shaver Shop seeks to identify consumer trends and works closely with major manufacturers and suppliers to source products to cater for these changing personal grooming and beauty trends.

#### **DIFFERENTIATION IN THE MARKET**

With more than 30 years of dedicated experience in its core hair removal product categories, Shaver Shop believes it is the only significant pure-play retailer in these categories in Australia and New Zealand. Shaver Shop invests heavily in staff training to ensure that its store managers and customer facing staff are equipped to recommend the best product that meets customer needs. This strong expertise, segment focus and customer experience has enabled Shaver Shop to negotiate exclusive supply arrangements for the majority of its top 50 products by sales. Shaver Shop believes it is this unique customer experience and access to exclusive products at competitive prices that differentiates its business from other retailers that sell personal grooming products in the market.

#### **Key drivers of Shaver Shop's growth are expected to be:**

##### *Continued product innovation*

Shaver Shop benefits as consumer trends evolve and require new and changing products to facilitate this. Shaver Shop seeks to work with manufacturers and suppliers to source products that cater to the emerging demands of consumers within the hair removal and personal care categories. In some cases, Shaver Shop seeks and obtains exclusive rights to sell personal grooming and beauty products in the Australian and New Zealand markets which assists with product and range differentiation.

# Shaver Shop Group Limited

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### *Organic growth*

Shaver Shop will continue to implement a strategic marketing plan and other initiatives to attract new customers to the business and encourage repeat business. Important components of this aspect of the Company's strategy include continued investment in the e-commerce websites and online marketplaces which continue to grow strongly as well as establishing a loyalty program to attract and support returning customers.

### *Store rollout*

Shaver Shop aims to grow total store network numbers across Australia and New Zealand to approximately 145 within the next three years. This will be achieved through Greenfield store rollouts. Subject to the forecast financial returns meeting appropriate hurdle rates, the Company expects to open these additional stores. In FY2018, Shaver Shop opened 8 new stores and has identified 5 additional stores it intends to open in the first six months of FY2019.

### *Franchise store buy backs*

Shaver Shop also plans to continue its disciplined approach to buying back franchise stores, with transactions to be assessed as they become available. As at 30 June 2018, there were 9 (FY2017 -13) franchise stores within the Shaver Shop network.

### **Key Business Risks**

There are a number of factors that could have an effect on the financial performance of Shaver Shop Group Limited. They include:

#### *Competition may increase*

Shaver Shop faces competition from specialty retailers, department stores, discount department stores, grocery chains as well as online only retailers and professional salons. Shaver Shop's competitive position may deteriorate as a result of actions by existing competitors, the entry of new competitors (including manufacturers and suppliers of products who decide to sell direct to end consumers) or a failure by Shaver Shop to successfully respond to changes in the market.

#### *Retail environment and general economic conditions may deteriorate*

Shaver Shop's performance is sensitive to the current state of and future changes in the retail environment and general economic conditions in Australia. Australian economic conditions may worsen including as a result of Australia's economy entering into a recession or another cause of a reduction in consumer spending. This could cause the retail environment to deteriorate as consumers reduce their level of consumption of discretionary items.

#### *Changes in international pricing or supply may change local demand for Shaver Shop products*

Many of the products which Shaver Shop sells are available in many overseas markets. With the increasing propensity for consumers in Australia and overseas to purchase products over the internet, should the comparative price of Shaver Shop's products be significantly lower than Shaver Shop in overseas markets, this could have an influence on local demand for Shaver Shop's products. Conversely, if the price for Shaver Shop's products is significantly lower than the comparable price for the same product overseas, this could increase demand and sales of Shaver Shop products. Should suppliers increase (decrease) prices to create global wholesale price parity, this could materially decrease (increase) local demand for Shaver Shop's products. This is particularly true in relation to bulk sales of products to customers in Australia.

#### *Seasonality of trading patterns*

Shaver Shop's sales are subject to seasonal patterns. In FY2018, the contribution of sales for the first half to total sales for the full year was approximately 60% driven in part by higher multi-unit reseller channel sales in the first half of the financial year. The seasonality of Shaver Shop's sales towards the first half of the FY is largely due to the pre-Christmas trading period and Father's Day (being, the first Sunday in September).

An unexpected decrease in sales over traditionally high-volume trading periods for Shaver Shop could have a material adverse effect on the overall profitability and financial performance of Shaver Shop. In addition, an unexpected decrease in sales over traditionally high volume trading periods could also result in abnormally large amounts of surplus inventory, which Shaver Shop may seek to sell through abnormally high and broad-based price discounting to minimise the risk of product becoming aged or obsolete. If Shaver Shop were to sell a significant volume of its products at deep discounts, this would reduce the business' revenue and would have an adverse impact on the Company's financial performance.

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#### *Customer buying habits / trends may change*

Any adverse change in personal grooming trends and a failure of Shaver Shop to correctly judge the change in consumer preferences or poor quantification of purchase orders for related product may have an adverse impact in the demand for Shaver Shop's products or the gross margins achieved on these products.

#### *Product innovation and exclusivity arrangements*

Product innovation by suppliers has been a key driver in Shaver Shop's sales growth. Shaver Shop relies on its suppliers to continue to drive R&D and product innovation in the product category. A material reduction in the frequency or appeal of new product innovations by suppliers may have an adverse impact on sales, performance rebates received and gross margin levels achieved. In addition, a key driver in Shaver Shop's sales growth has been the ability to secure new innovative products on an exclusive basis. If Shaver Shop is unable to secure new product innovations on an exclusive basis, or if the appeal of an existing product sold by Shaver Shop on an exclusive basis is weakened by a new innovative product made widely available to retailers or on an exclusive basis to one of Shaver Shop's competitors, Shaver Shop's sales and gross margin levels may be adversely affected.

#### *Product sourcing may be disrupted*

Shaver Shop's products are sourced from third party suppliers of major hair removal, hair care, personal care and other shaving brands. In FY2018, approximately 89% (FY2017 – 89%) of Shaver Shop's total network sales came from products sourced from its top 10 suppliers. Shaver Shop's largest supplier constitutes approximately 29% (FY2017 - 24%) of all supply purchases, with the next two largest suppliers contributing approximately 19% (FY2017 - 17%) and 15% (FY2017 - 15%) of total supply purchases. While Shaver Shop has a diversified supplier base, Shaver Shop is exposed to potential increases in the cost of materials and the cost of manufacturing and foreign exchange rates applicable to its products. There may also be delays in delivery or failure by a supplier to deliver goods. Such increases, delays and failure could significantly increase Shaver Shop's cost of operations, or lead to a reduction in the available range of products, which may affect Shaver Shop's operating and financial performance.

#### *Supplier relationships and ability to source products exclusively*

The Company's relationships with suppliers are often governed by individual purchase orders and invoices. Under those arrangements, suppliers may seek to alter the terms on which products are supplied as well as the range of products available for supply. This may result in changes of pricing levels and a reduction in the range of products made available to Shaver Shop, both of which could adversely impact the Company's ability to successfully provide customers with a wide range of products at competitive prices. This could reduce Shaver Shop's overall profitability and adversely impact its financial performance. In addition, Shaver Shop receives income from suppliers in the form of volume rebates and supplier contributions to specific marketing and advertising campaigns. Supplier rebates and contributions are negotiated on a periodic basis. Shaver Shop has a limited number of fixed contracts in place with suppliers relating to rebates and contribution income. Most suppliers who provide Shaver Shop with rebates or marketing contributions may elect to cease such payments at any point in time. Any such action could adversely impact Shaver Shop's income which would reduce Shaver Shop's overall profitability and impact its financial performance. Finally, through good relationships with some suppliers, Shaver Shop has been able to secure arrangements with third party distributors and brands for the supply of products to Shaver Shop on an exclusive basis. These arrangements are for specific products and for varying time periods. There is a risk that Shaver Shop may not be able to renew exclusive distribution agreements with the suppliers or that suppliers may enter into exclusive distribution arrangements with Shaver Shop's competitors. If this occurs, it will have a material adverse impact on the Company's business and reputation, operational performance as well as its financial results.

#### **Significant changes in state of affairs**

Except as otherwise described in this report, there have been no significant changes in the state of affairs of entities in the Group during the year.

## Shaver Shop Group Limited

### Directors' Report

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#### Matters or circumstances arising after the end of the year

Subsequent to year end, the Directors declared a fully-franked final dividend of 2.4 cents per share to shareholders of record on 17 October 2018. The dividend payment date is 31 October 2018.

In July 2018, Shaver Shop refinanced its existing bank facilities and established a new \$20.0 million multi-option debt facility with a \$1.0 million facility to support bank guarantees. The new facility has a term of two years, expiring on 31 July 2020.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations or the state of affairs of the Group in future financial years.

#### Future developments and outlook

The key indicators for Shaver Shop's business remain robust with strong in-store customer service and sales conversion metrics, strong online growth, improved stock turns and significantly improved operating cash flow.

To prepare for the next phase of growth in our core business, Shaver Shop is making significant investments in people, systems and processes in FY2019. The investments may not deliver significant earnings upside in FY2019 over the FY2018 Normalised EBITDA result, but are expected deliver incremental sales growth and operational efficiency in the years beyond. So while the Board expects Shaver Shop to deliver underlying like for like sales growth and a restoration to more normal gross profit margins in FY2019, this improvement will be moderated by the incremental, but necessary investments required for sustainable long term growth.

#### Environmental issues

The Group's operations are not regulated by any significant environmental regulations under a law of the Commonwealth or of a state or territory of Australia.

#### Non-audit services

The Board of Directors, in accordance with advice from the audit committee, is satisfied that the provision of non-audit services during the year is compatible with the general standard of independence for auditors imposed by the *Corporations Act 2001*. The directors are satisfied that the services disclosed below did not compromise the external auditor's independence for the following reasons:

- all non-audit services are reviewed and approved by the audit committee prior to commencement to ensure they do not adversely affect the integrity and objectivity of the auditor; and
- the nature of the services provided do not compromise the general principles relating to auditor independence in accordance with APES 110: Code of Ethics for Professional Accountants set by the Accounting Professional and Ethical Standards Board.

Details of the amounts paid to PricewaterhouseCoopers for audit and non-audit services during the year are set out in note 26 to the audited financial statements.

#### Auditors independence declaration

The lead auditor's independence declaration for the year ended 30 June 2018 has been received and can be found on page 26 of the consolidated financial report.

#### Shares under option

There have been no unissued shares or interests under option in the Company or a controlled entity during or since reporting date.

#### Indemnification and insurance of officers and auditors

During the financial year, the Company paid an insurance premium to insure the directors and senior management of the Company and its subsidiaries.

The liabilities insured are legal costs that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of entities in the group, and any other payments arising from liabilities incurred by the officers in connection with such proceedings. This does not include

## Shaver Shop Group Limited

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such liabilities that arise from conduct involving a wilful breach of duty by the officers or the improper use by the officers of their position or of information to gain advantage for themselves or someone else to cause detriment to the Company.

The terms of the insurance policies prohibit disclosure of the details of the premium paid.

#### **Proceedings on behalf of company**

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

## Directors' Report

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### Remuneration report (audited)

The Board of Directors of Shaver Shop Group Limited present the Remuneration Report for the Company for the reporting period of 1 July 2017 to 30 June 2018. This Remuneration Report forms part of the Directors' Report and has been audited in accordance with the *Corporations Act 2001*.

#### (a) Key Management Personnel covered in this report

This report sets out the remuneration arrangements for Shaver Shop's key management personnel (KMP) (listed in the table below) who have been KMP during the reporting period. For the remainder of this Remuneration Report, the KMP are referred to as either Non-Executive Directors or Senior Executives.

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

<b>Non-Executive Directors</b>	<b>Position</b>
Broderick Arnhold	Independent, Non-Executive Chairman
Craig Mathieson	Independent, Non-Executive Director
Trent Peterson	Independent, Non-Executive Director
Brian Singer	Independent, Non-Executive Director
Melanie Wilson	Independent, Non-Executive Director
<b>Senior Executives</b>	
Cameron Fox	Chief Executive Officer (CEO) and Managing Director
Lawrence Hamson	Chief Financial Officer (CFO) and Company Secretary
Philip Tine	Retail Director

#### (b) Remuneration overview

The Board recognises that the performance of the Group depends to a large extent on the quality and motivation of the Shaver Shop team, including the Senior Executives and our 733 team members (2017: 555) employed by the Group across Australia and New Zealand. Shaver Shop's remuneration strategy therefore seeks to appropriately attract, reward and retain team members at all levels in the organisation but in particular aligning and motivating key senior executives to create shareholder wealth. By aligning various remuneration mechanisms, the Board seeks to have a structure that incentivises sustainable growth, risk management as well as driving a positive culture across the business.

In FY2018, no short term incentive (STI) cash bonuses were paid to Senior Executives, however the Board did approve two small discretionary bonuses. The primary performance mechanism for determining whether Senior Executive STIs are paid, is a pre-determined EBITDA growth rate of the business versus the prior year. In FY2018, the Company's financial performance was disappointing and as a result the minimum STI target was not met and no STI was awarded. The Board believes the STI outcomes were fair and appropriate and reflect the alignment between shareholders' interests and the Company's remuneration practices and policies.

In terms of its Long Term Incentive Plan (LTIP), consistent with the terms outlined in the Company's prospectus, on 22 June 2017 Shaver Shop issued 1,300,000 shares to certain executives within the business. In FY2018, Shaver Shop extended the LTIP to more members of the Company's leadership and operations teams and issued 1,910,000 shares. Both the FY2017 and FY2018 LTIP share allocations are subject to Service, Total Shareholder Return (TSR) and Earnings Per Share (EPS) vesting conditions which are outlined in further detail below. The Company also offered an offsetting limited recourse loan to assist with the purchase of the LTIP shares.

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

#### (c) Relationship between remuneration policy and company performance

The performance criteria and targets for Executives to realise benefits under both the Company's STIP and LTIP are aligned to company performance and enhancing shareholder value.

## Shaver Shop Group Limited

### Directors' Report

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The following table provides a summary of the Company's reported financial performance for FY2018 and FY2017.

	Statutory FY2018 Result \$000	Statutory FY2017 Result \$000
Revenue	154,937	142,568
EBITDA	12,180	14,870
Net Profit After Tax	6,566	8,994
Dividends Paid	5,252	2,001
Basic earnings per share (cents)	5.3	7.2
Year End Share Price (\$)	\$0.45	\$0.64

For the financial year ended 30 June 2018, the Company's EBITDA declined. As a result, under the terms of the FY2018 STI Plan, Senior Executives did not receive an STI award under the STI plan.

#### (d) Remuneration objectives

One of Shaver Shop's core beliefs is that the success of the business is driven in large part by the skills, motivation and the performance of all of its team members – from Senior Executives to Store Managers to retail assistants on the shop floor. Creating an environment that fosters a high performance culture and aligns the team behind a common set of values and behaviours is core to the Company's continuing success.

Shaver Shop's commitment to driving high performance is evidenced by its investment in a national training facility at its new head office location as well as the appointment of a National Training Manager with significant experience in the product categories and desired solution sales process. Shaver Shop believes that the knowledge and expertise of its sales staff is a critical differentiating factor for the business and an important factor in its success. As a result, the Company takes pride in promoting high performing staff through the business from the retail shop floor through to national office positions.

In addition to building the appropriate culture, Shaver Shop's philosophy is to provide competitive remuneration arrangements that reward team members for the underlying performance of the company as well as building shareholder value over the short and long term.

As such, remuneration for team members can include fixed pay, superannuation, short term incentives, long term incentives as well as support for training and education, relocation assistance, and dues and membership fees that are aligned with Shaver Shop's needs and objectives. The components of total remuneration for a team member will vary depending on the role, his or her seniority, the team member's experience as well as their performance. The Remuneration Committee also considers the importance of equity ownership for Senior Executives when setting remuneration packages.

Shaver Shop's key principles underpinning its remuneration plans are set out below:

1. *Simplicity:* We seek to ensure remuneration arrangements are simple, and can be easily understood by both the Senior Executives and other key stakeholders.
2. *Alignment:* We seek to ensure material components of the Senior Executive's remuneration arrangements (including their shareholding as appropriate) contribute to alignment of the interests of the Senior Executives with those of the shareholders.
3. *Best practice:* We seek to ensure the material aspects of an employee's remuneration arrangements are sustainable and could withstand tests of precedent and transparency within the organisation and market place.
4. *Competitive:* We seek to ensure our Senior Executives are remunerated such that (when taken as a whole, and having regard to their particular circumstances, including any risks and opportunities) their individual remuneration arrangements are competitive with relevant comparable positions.
5. *Risk Conscious:* In considering remuneration arrangements, the Company seeks to manage certain key risk exposures, including the risk of loss of an individual, retention of intellectual property and skills, issues associated with replacement of the individuals, risk of poaching, and the presence and quality of our succession planning.

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6. *Company First:* The Company develops systems, policies, processes and team depth to manage its reliance on any given individual within its leadership team. This extends to remuneration, where we seek to ensure the remuneration architecture and individual arrangements are orderly and deliberate in line with our Core Competencies.
7. *Rewards tied to outcome and performance:* We back ourselves to identify the outcomes that drive sustainable value creation (or value protection), and seek to reward executives who influence those outcomes most significantly and directly pursuant to business strategy.

### (e) Role of the Nomination and Remuneration Committee

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

The Committee also works with the CEO in considering the specific situations pertaining to employment terms for individuals or groups of individuals as needed.

The Committee undertakes an annual review of the Company's remuneration strategy and remuneration policy to facilitate understanding of the overall approach to remuneration and to confirm alignment with the Company's business strategy, high standards of governance and compliance with regulatory standards.

The Committee reviews and recommends to the Board for approval, remuneration arrangements for the CEO and other Senior Executives having regard to external remuneration practices, market expectations and regulatory standards. The Committee also establishes the policy for the remuneration arrangements for Non-Executive Directors.

Where appropriate the Nomination and Remuneration Committee will seek the advice of independent external remuneration consultants.

### (f) Senior Executive Remuneration Structure

The remuneration framework for Senior Executives is based on a structure that includes:

1. Fixed remuneration – salary and superannuation and non-monetary benefits
2. Short Term Incentives – tied to in-year performance against metrics
3. Long Term Incentives – tied to multi-year performance against value creation metrics

The proportion of remuneration between fixed and variable (i.e. at risk) for a Senior Executive is determined after consideration of the seniority of the role, the responsibilities of the role for driving business performance and responsibilities for developing and implementing business strategy.

Element	Purpose	Metrics	Potential Value
Fixed Remuneration	Provide competitive market salary including super	NIL	Based on market competitive rates
STI (Cash bonus)	Reward superior performance in year	EBITDA growth % over FY2017	\$400,000
LTI (Loan Share Plan)	Reward superior long term value creation	TSR – 70% EPS growth – 30%	Dependent on NPAT and share performance

The mix of fixed and at risk components of each of the Senior Executives as a percentage of total target remuneration for FY2018 was as follows:

	Fixed Remuneration	At Risk STI Maximum Opportunity	At Risk LTI Maximum Opportunity
Cameron Fox	70%	24%	6%
Larry Hamson	78%	20%	2%
Philip Tine	75%	25%	0%



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### Fixed Remuneration

Senior Executive base salaries include a fixed component of base salary together with employer superannuation contributions that are in line with statutory obligations. The fixed remuneration component also includes car allowances and other benefits.

The fixed remuneration component for Senior Executives is based on market data for comparative companies of the same size and complexity as well as having regard to the experience and expertise of the Senior Executive.

Fixed remuneration for executives is reviewed annually to provide competitiveness with the market, whilst also taking into account capability, experience value to the organisation and performance of the individual. There is no guaranteed salary increase in any Senior Executive service contract.

### Short Term Incentives (STI)

FY2018 STIs for Senior Executives are dependent on the percentage growth in EBITDA over FY2017. Senior Executives receive 100% of their targeted STI if the growth rate in EBITDA in FY2018 is greater than or equal to 15%. If the EBITDA growth rate is below 5% Senior Executives are not eligible to receive their STI. STIs are contracted with the Senior Executive and capped to a maximum amount relative to their Fixed Remuneration. The Board of Directors may decide to pay Senior Executives discretionary bonuses depending on individual and Company performance. The Remuneration Committee and Board of Directors chose EBITDA growth as the performance measure because the Company believes this is one of the key business drivers that is understood by stakeholders and is a balanced indicator of the relative performance of the business.

	Target STI (\$)	Actual STI Awarded (\$)	Awarded STI as % of Maximum STI	% of Maximum STI Award Forfeited
<b>Senior Executive</b>				
Cameron Fox	\$200,000	Nil	0%	100%
Larry Hamson	\$100,000	Nil	0%	100%
Philip Tine	\$100,000	Nil	0%	100%

The Board approved two discretionary bonuses with an aggregated value of \$28,312 during the year.

### Long Term Incentives (LTI)

Shaver Shop established an LTIP to assist in the motivation, retention and reward of Shaver Shop executives. The LTIP is designed to align the interests of executives more closely with the interests of Shareholders by providing an opportunity for eligible executives to acquire Shares subject to the conditions of the LTIP (Plan Shares).

The Plan Shares are issued or transferred to participants in the LTIP at market value based on the volume weighted average price of the shares in the five days up to and including the date of grant. Under the terms of the LTIP, the Company, or one of its subsidiaries, may provide a limited recourse loan to executives who are invited to participate in the LTIP to assist them to purchase Plan Shares (Loan). Each Loan will be limited recourse such that a participant's obligation to repay the Loan will be the lesser of the Loan balance or the relevant Plan Share's market value. Under the LTIP rules, the Company will retain discretion to waive repayment of all, or part of, any Loan. The after-tax value of any dividends paid on the Plan Shares acquired under a Loan will be applied to repay the relevant Loan.

Each Plan Share will be issued as a fully paid ordinary share in the Company subject to certain vesting conditions. The holder of a Plan Share must not dispose of the Plan Share until the Plan Share vests and any Loan relating to that Plan Share has been repaid.

### 2018 LTI Plan Details

The Company has offered certain members the leadership and operations team the right to acquire up to 1,910,000 Plan Shares (representing approximately 1.5% of the Company's issued share capital). The Plan Shares are divided into three equal tranches and will have vesting conditions based on a performance condition and a service condition. The three tranches apply to the following performance periods:

- >> *Tranche 1* – 1 July 2017 to 30 June 2018
- >> *Tranche 2* – 1 July 2017 to 30 June 2019
- >> *Tranche 3* – 1 July 2017 to 30 June 2020.

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The performance and service conditions specified for each tranche must be met in order for the relevant Plan Shares to vest.

The table on the next page under "FY2018 LTIP Allocation" sets out the number of Plan Shares to be offered to the relevant Senior Executive, including details of the number of Plan Shares per tranche for each Senior Executive.

### **Performance conditions**

The performance conditions are to be measured 70% by an absolute total shareholder return (TSR) performance hurdle and 30% by an earnings per share (EPS) performance hurdle. The hurdles will be mutually exclusive such that performance is measured independently of the other hurdle. Where both targets are met, 100% of the Plan Shares which a participant holds for the relevant performance period will vest, subject to the service condition being met. Where only a portion of the EPS and TSR targets are met, the total number of Shares which will vest under the LTIP will be apportioned.

Both of the performance hurdles will be expressed as a Compound Annual Growth Rate (CAGR) percentage.

### **TSR Performance Conditions**

The TSR performance hurdle will be structured as an absolute TSR growth target and will be determined by the Board. TSR is a measure of the performance of the Company's shares over a period of time. It combines share appreciation and dividends paid to show the total return to Shareholders expressed as an annualised percentage. It is the rate of return of all cash flows to an investor during the holding period of an investment.

The starting point for the TSR performance hurdle is the 5 day volume weighted average price (VWAP) per share following the release of the Company's FY2017 financial results - \$0.6829). Each TSR performance period concludes based on the 5 day VWAP of the Company's shares following the relevant period's full year results announcement.

The following table outlines the TSR performance hurdles which must be met in order for Plan Shares to vest:

<b>TSR CAGR across the relevant performance period</b>	<b>Proportion of the relevant Plan Shares that satisfy the TSR Vesting Condition</b>
TSR CAGR is less than 10%	Nil
TSR CAGR is greater than 10% and less than or equal to 25%	Progressive pro-rata vesting from 20% to 100% (i.e. on a straight line basis)
TSR CAGR is equal to or greater than 25%	100%

### **EPS Performance Conditions**

The EPS performance hurdle is a measure of the compound annual growth rate in the Company's EPS measure over the relevant performance period. The EPS CAGR will be determined by the Board and is the compound annual growth rate (expressed as a percentage) of the Company's EPS, which is measured by reference to the Group's underlying net profit for the performance period divided by the weighted average number of shares on issue across the relevant performance period. The Board may from time to time adjust the EPS CAGR to exclude the effects of material business acquisitions or divestments and for certain one-off costs.

The following table outlines the EPS performance hurdles which must be met in order for Plan Shares to vest:

<b>EPS CAGR across the relevant performance period</b>	<b>Proportion of the relevant Plan Shares that satisfy the EPS Vesting Condition</b>
EPS CAGR is less than 5%	Nil
EPS CAGR is greater than 5% and less than or equal to 20%	Progressive pro-rata vesting from 25% to 100% (i.e. on a straight line basis)
EPS CAGR is greater than 20%	100%

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### **Service condition**

In addition to the performance condition, each tranche of Plan Shares is subject to specific service conditions, meaning that if a participant in the LTIP ends their employment with Shaver Shop before the specified service periods the Plan Shares issued to the participant will not vest regardless of whether the performance conditions have been met.

The Service conditions attaching to the three tranches of Plan Shares are as follows:

- >> *Tranche 1* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2020 before performance qualified number of Plan Shares will vest.
- >> *Tranche 2* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2020 before performance qualified number of Plan Shares will vest.
- >> *Tranche 3* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2021 before performance qualified number of Plan Shares will vest.

### **FY2018 LTIP Allocation**

Shaver Shop offered management the right to acquire up to 1,910,000 Shares under the LTIP (Plan Shares) (representing approximately 1.5% of the Company's issued share capital excluding unvested LTIP shares). Specifically, Senior Executives set out in the table below were granted Plan Shares under the LTIP on 26 October 2017.

	<b>Number of Tranche 1 Shares to be issued under LTI Plan</b>	<b>Number of Tranche 2 Shares to be issued under LTI Plan</b>	<b>Number of Tranche 3 Shares to be issued under LTI Plan</b>	<b>Total Number of Shares to be issued under FY2018 LTI Plan</b>
<b>Management</b>				
Cameron Fox <i>Managing Director and CEO</i>	250,000	250,000	250,000	750,000
Lawrence Hamson <i>CFO &amp; Company Secretary</i>	100,000	100,000	100,000	300,000
Philip Tine, <i>Retail Director</i>	33,333	33,333	33,334	100,000

The following table sets out the terms and conditions of the share based payment arrangements to Senior Executives.

<b>Terms and conditions of share based payments arrangements</b>	The terms and conditions of the LTIP are discussed in detail under section (f) (i) of the Remuneration Report: "FY18 Remuneration and Incentive Structure"
<b>Grant date</b>	The Grant Date for the FY18 LTIP Shares is 26 October 2017.
<b>Vesting date</b>	The LTIP Shares vest on the satisfaction of the applicable performance, service or other vesting conditions specified at the time of grant.
<b>Expiry date</b>	There is no expiry date of the LTIP Shares.
<b>Exercise price</b>	Not applicable.
<b>Performance achieved</b>	Subject to the service conditions being met for the relevant LTIP tranche, the Total Shareholder Return CAGR and the EPS CAGR over the relevant period will determine the number of LTIP Shares that vest for the relevant LTIP tranche.
<b>Vested</b>	At the date of this report, none of the LTIP Shares have vested.

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### 2017 LTI Plan Details

1,300,000 Plan Shares were issued under the FY2017 LTIP Allocation. The Plan Shares are divided into three equal tranches and will have vesting conditions based on a performance condition and a service condition. The three tranches apply to the following performance periods:

- >> *Tranche 1* – 1 July 2016 to 30 June 2017
- >> *Tranche 2* – 1 July 2016 to 30 June 2018
- >> *Tranche 3* – 1 July 2016 to 30 June 2019.

The performance and service conditions specified for each tranche must be met in order for the relevant Plan Shares to vest.

The table on the next page under "FY2017 LTIP Allocation" sets out the number of Plan Shares to be offered to the relevant Senior Executive, including details of the number of Plan Shares per tranche for each Senior Executive.

#### **Performance condition**

The performance conditions will be measured 70% by an absolute total shareholder return (TSR) performance hurdle and 30% by an earnings per share (EPS) performance hurdle. The hurdles will be mutually exclusive such that performance is measured independently of the other hurdle. Where both targets are met, 100% of the Plan Shares which a participant holds for the relevant performance period will vest, subject to the service condition being met. Where only a portion of the EPS and TSR targets are met, the total number of Shares which will vest under the LTIP will be apportioned.

Both of the performance hurdles will be expressed as a Compound Annual Growth Rate (CAGR) percentage.

The TSR performance hurdle will be structured as an absolute TSR growth target and will be determined by the Board. TSR is a measure of the performance of the Company's shares over a period of time. It combines share appreciation and dividends paid to show the total return to Shareholders expressed as an annualised percentage. It is the rate of return of all cash flows to an investor during the holding period of an investment.

The following table outlines the TSR performance hurdles which must be met in order for Plan Shares to vest:

<b>TSR CAGR across the relevant performance period</b>	<b>Proportion of the relevant Plan Shares that satisfy the TSR Vesting Condition</b>
TSR CAGR is less than 15%	Nil
TSR CAGR is equal to 15%	20%
TSR CAGR is greater than 15% and less than or equal to 20%	Progressive pro-rata vesting from 20% to 40% (i.e. on a straight line basis)
TSR CAGR is greater than 20% and less than or equal to 25%	Progressive pro-rata vesting from 40% to 70% (i.e. on a straight line basis)
TSR CAGR is greater than 25% and less than 30%	Progressive pro-rata vesting from 70% to 100% (i.e. on a straight line basis)
TSR CAGR is equal to or greater than 30%	100%

The EPS performance hurdle is a measure of the compound annual growth rate in the Company's EPS measure over the relevant performance period. The EPS CAGR will be determined by the Board and is the compound annual growth rate (expressed as a percentage) of the Company's EPS, which is measured by reference to the Group's underlying net profit for the performance divided by the weighted average number of shares on issue across the relevant performance period. The Board may from time to time adjust the EPS CAGR to exclude the effects of material business acquisitions or divestments and for certain one-off costs.

For the purposes of calculating the FY16 base year EPS from which the EPS growth rates will be calculated, the Board has agreed that EPS will be calculated using the total number of shares outstanding at 30 June 2016.

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The following table outlines the EPS performance hurdles which must be met in order for Plan Shares to vest:

EPS CAGR across the relevant performance period	Proportion of the relevant Plan Shares that satisfy the EPS Vesting Condition
EPS CAGR is less than 15%	Nil
EPS CAGR is equal to 15%	20%
EPS CAGR is greater than 15% and less than or equal to 20%	Progressive pro-rata vesting from 20% to 40% (i.e. on a straight line basis)
EPS CAGR is greater than 20% and less than or equal to 25%	Progressive pro-rata vesting from 40% to 70% (i.e. on a straight line basis)
EPS CAGR is greater than 25% and less than or equal to 30%	Progressive pro-rata vesting from 70% to 100% (i.e. on a straight line basis)
EPS CAGR is equal to or greater than 30%	100%

### Service condition

In addition to the performance condition, each tranche of Plan Shares is subject to specific service conditions, meaning that if a participant in the LTIP ends their employment with Shaver Shop before the specified service periods the Plan Shares issued to the participant will not vest regardless of whether the performance conditions have been met.

The Service conditions attaching to the three tranches of Plan Shares are as follows:

- >> *Tranche 1* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2019 before performance qualified number of Plan Shares will vest.
- >> *Tranche 2* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2019 before performance qualified number of Plan Shares will vest.
- >> *Tranche 3* – a participant must remain a Shaver Shop employee at all times up to (and including) 30 June 2020 before performance qualified number of Plan Shares will vest.

### FY2017 LTIP Allocation

Consistent with the Company's Prospectus, Shaver Shop offered management the right to acquire up to 1,300,000 Shares under the LTIP (Plan Shares) (representing approximately 1.0% of the Company's issued share capital at Listing) within 12 months after Listing. Specifically, Senior Executives set out in the table below were granted Plan Shares under the LTIP on 22 June 2017.

	Number of Tranche 1 Shares to be issued under LTI Plan	Number of Tranche 2 Shares to be issued under LTI Plan	Number of Tranche 3 Shares to be issued under LTI Plan
<b>Management</b>			
Cameron Fox <i>Managing Director and CEO</i>	325,000	325,000	325,000
Larwrence Hamson <i>CFO</i>	33,333	33,333	33,334

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The following table sets out the terms and conditions of the share based payment arrangements:

<b>Terms and conditions of share based payments arrangements</b>	The terms and conditions of the LTIP are discussed in detail under section (f) (i) of the Remuneration Report: "FY17 Remuneration and Incentive Structure"
<b>Grant date</b>	The Grant Date for the FY17 LTIP Shares is 22 June 2017. As noted in the Company's prospectus, the LTIP Shares were issued to the eligible participants within the first 12 months after the Company's listing on the Australian Stock Exchange (1 July 2016).
<b>Vesting date</b>	The LTIP Shares vest on the satisfaction of the applicable performance, service or other vesting conditions specified at the time of grant. See additional detail under section (f)(i) of the Remuneration Report for the specific metrics that govern vesting for the 2017 LTIP Shares.
<b>Expiry date</b>	There is no expiry date of the LTIP Shares.
<b>Exercise price</b>	Not applicable.
<b>Performance achieved</b>	Subject to the service conditions being met for the relevant LTIP tranche, the Total Shareholder Return CAGR and the EPS CAGR over the relevant period will determine the number of LTIP Shares that vest for the relevant LTIP tranche.
<b>Vested</b>	At the date of this report, none of the FY2017 LTIP Shares have vested.

### (g) Non-Executive Director Remuneration

Under the Constitution, the Board may decide the remuneration from the Company to which each non-executive Director is entitled for their services as a Director. However, the total amount of fees paid to all Non-Executive Directors for their services as Directors must not exceed in aggregate in any financial year the amount fixed by the Company in the annual general meeting. As disclosed in the Company's prospectus, the pre-IPO Shareholders approved \$440,000 per annum for this purpose.

For FY2018, the annual base non-executive Director fees currently agreed to be paid by the Company are \$140,000 (FY2017 - \$140,000) to the Chairman of the Board (Brodie Arnhold), \$80,000 (FY2017 - \$80,000) to each of Craig Mathieson (Chair of the Audit and Risk Committee) and Trent Peterson (Chair of the Nomination and Remuneration Committee), and \$70,000 (FY2017 - \$70,000) to each of Melanie Wilson and Brian Singer. These amounts comprise fees paid in cash. In subsequent years, these figures may vary. The director's fees for Trent Peterson are paid to Catalyst Direct Capital Management Pty Ltd. The director's fees for Melanie Wilson are paid to Peandel Pty Limited.

Directors may also be reimbursed for travel and other expenses incurred in attending to the Company's affairs. Directors may be paid additional or special remuneration where a Director performs services outside the ordinary duties of a Non-executive Director.

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The following tables illustrate LTI performance based remuneration granted and forfeited related to FY2018 and FY2017.

### *LTI Paid or Granted in Relation to FY2018 LTIP Allocation*

Senior Executives	Grant Date	LTI granted (shares)	Value at Grant Date \$	Loan Value at 30 June 2018	% Paid / vested in the period	% Forfeited in period	# LTIP Shares Forfeited in Period	Value Expensed in FY18 \$
Cameron Fox	26 October 17	750,000	512,175	501,954	0%	0%	-	11,153
Lawrence Hamson	26 October 17	300,000	204,870	200,781	0%	0%	-	4,461
Philip Tine	26 October 17	100,000	68,290	66,927	0%	0%	-	1,487

The EPS performance condition for Tranche 1 of the FY2018 LTIP allocation was not met. The determination of the TSR performance condition for Tranche 1 is based on the 5 day VWAP of the Company's shares following the release of the FY2018 results.

### *LTI Paid or Granted in Relation to FY2017 LTIP Allocation*

Senior Executives	Grant Date	LTI granted (shares)	Value at Grant Date \$	Loan Value at 30 June 2018	% Paid / vested in the period	% Forfeited in period	# LTIP Shares Forfeited in Period	Value Expensed in FY18 \$
Cameron Fox	22 June 2017	975,000	575,152	544,147	0.0%	62.2%	606,777	16,746
Lawrence Hamson	22 June 2017	100,000	58,990	55,810	0.0%	62.2%	62,233	1,717

The TSR performance hurdle for Tranche 1 was not met. The EPS hurdle for Tranche 1 was met with EPS growth of 21% recorded over FY2016.

The performance conditions for Tranche 2 of the FY2017 LTIPs have not been met and accordingly all Tranche 2 LTIP shares have been forfeited.

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### (h) Statutory remuneration details and other statutory disclosures

The following tables in respect to the FY2017 and FY2018 financial years detail the components of remuneration for each Non-Executive Director and Senior Executive of the Group.

#### FY2018 table of benefits and payments

	Cash salary / Director's fees	STI / Bonus	Annual leave and long service leave	Post-employment benefits	Share based payments	Total
	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>						
Brodie Arnhold	140,000	-	-	-	-	140,000
Trent Peterson <sup>(1)</sup>	80,000	-	-	-	-	80,000
Craig Mathieson	80,000	-	-	-	-	80,000
Brian Singer	70,000	-	-	-	-	70,000
Melanie Wilson <sup>(2)</sup>	70,000	-	-	-	-	70,000
<b>Senior Executives</b>						
Cameron Fox	550,000	-	(15,598)	30,000	27,899	592,301
Lawrence Hamson <sup>(3)</sup>	375,000	14,062	(11,318)	25,000	6,179	408,923
Philip Tine <sup>(3)</sup>	300,000	14,250	1,091	19,616	1,487	336,444
<b>TOTAL</b>	<b>1,665,000</b>	<b>28,312</b>	<b>(25,825)</b>	<b>74,616</b>	<b>35,565</b>	<b>1,777,668</b>

<sup>(1)</sup> The directors fees paid to Trent Peterson are paid to Catalyst Direct Capital Management Pty Ltd

<sup>(2)</sup> The directors fees paid to Melanie Wilson are paid to Peandel Pty Ltd

<sup>(3)</sup> During the year, the Board approved discretionary bonuses to Lawrence Hamson and Philip Tine.

#### FY2017 table of benefits and payments

	Cash salary / Director's fees	STI / Bonus	Annual leave and long service leave	Post-employment benefits	Share based payments	Total
	\$	\$	\$	\$	\$	\$
<b>Non-Executive Directors</b>						
Brodie Arnhold	140,000	-	-	-	-	140,000
Trent Peterson <sup>(1)</sup>	80,000	-	-	-	-	80,000
Craig Mathieson	80,000	-	-	-	-	80,000
Brian Singer	70,000	-	-	-	-	70,000
Melanie Wilson <sup>(2)</sup>	70,000	-	-	-	-	70,000
<b>Senior Executives</b>						
Cameron Fox	549,613	200,000	77,705	30,000	36,236	893,554
Lawrence Hamson	365,296	100,000	12,589	34,703	3,716	516,304
Philip Tine <sup>(3)</sup>	26,538	-	1,960	2,521	-	31,019
<b>TOTAL</b>	<b>1,381,447</b>	<b>300,000</b>	<b>92,254</b>	<b>67,224</b>	<b>39,952</b>	<b>1,880,877</b>

<sup>(1)</sup> The directors fees paid to Trent Peterson are paid to Catalyst Direct Capital Management Pty Ltd

<sup>(2)</sup> The directors fees paid to Melanie Wilson are paid to Peandel Pty Ltd

<sup>(3)</sup> Appointed 29 May 2017

### (i) Additional Statutory information

The Board may decide to pay Senior Executives discretionary bonus amounts in addition to their maximum STI



## Shaver Shop Group Limited

### Directors' Report

30 June 2018

amount under the STIP outlined above. The Board rarely exercises this discretion and only does so in exceptional circumstances.

#### (j) KMP shareholdings

The number of ordinary shares (excluding unvested LTIP shares) in Shaver Shop Group Limited held by each KMP of the Group during the financial year is as follows:

30 June 2017	Balance at Beginning of Year	On Market Sale of Shares	On Market Purchase of Shares	Shares Vested as Remuneration	Balance at End of Year
<b>Directors</b>					
Broderick Arnhold	2,407,000	-	500,000	-	2,907,000
Cameron Fox	1,980,024	-	200,000	-	2,180,024
Craig Mathieson	4,660,004	-	-	-	4,660,004
Brian Singer	6,258,004	-	-	-	6,258,004
Trent Peterson	247,619	-	100,000	-	347,619
Melanie Wilson	237,619	(190,000)	-	-	47,619
<b>Senior Executives</b>					
Lawrence Hamson	581,171	-	-	-	581,171
Philip Tine	-	-	-	-	-
<b>TOTAL</b>	<b>16,371,441</b>	<b>(190,000)</b>	<b>800,000</b>	<b>-</b>	<b>16,981,441</b>

#### LTIP holdings of KMP

The following table details the LTIP holding and the movements in the LTIP shares for KMP during FY2018.

Senior Executives	Balance at 30 June 2017	LTI Shares Granted as Remuneration	Vested / Exercisable	Forfeited	Unvested Balance at 30 June 2018	Exercisable/ Vested at 30 June 2018
Cameron Fox	975,000	750,000	-	(606,777)	1,118,223	-
Lawrence Hamson	100,000	300,000	-	(62,233)	337,767	-
Philip Tine	-	100,000	-	-	100,000	-

During FY2018, 750,000 LTIP shares with a fair value of \$0.6829 per share were granted to Cameron Fox with a grant date of 26 October 2017. The options vest upon the satisfaction of the performance and service conditions noted earlier in this remuneration report.

During FY2018, 300,000 LTIP shares with a fair value of \$0.6829 per share were granted to Lawrence Hamson with a grant date of 26 October 2017. The options vest upon the satisfaction of the performance and service conditions noted earlier in this remuneration report.

During FY2018, 100,000 LTIP shares with a fair value of \$0.6829 per share were granted to Philip Tine with a grant date of 26 October 2017. The options vest upon the satisfaction of the performance and service conditions noted earlier in this remuneration report.

#### (k) Contractual arrangements with Senior Executives

The remuneration and other terms of employment for the CEO and senior executives are set out in formal service agreements as summarised below.

## Shaver Shop Group Limited

### Directors' Report

30 June 2018

In FY2018 the CEO was entitled to fixed remuneration of \$580,000 (FY2017: \$580,000) whilst the fixed remuneration for other Senior Executives was in the range of \$300,000 to \$400,000.

All service agreements are for an unlimited duration. The Chief Executive Officer's contract may be terminated by giving six months' notice (except in the case of serious or wilful misconduct). The Chief Financial Officer's contract may be terminated by giving four weeks' notice where continuous employment has been less than 18 months or eight weeks' notice thereafter.

No contracted retirement benefits are in place with any of the Company's Senior Executives.

#### (l) Loans made to KMP

The following information relates to KMP loans made, guaranteed or secured during the reporting period on an aggregate basis.

	<b>Balance at beginning of the year</b>	<b>Balance at the end of the year</b>	<b>Provision for bad debts expense</b>	<b>KMP No.</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	
Employee Share Plan Loans	56,189	56,189	-	1

Loans to KMP arise as a result of the early Shaver Shop long-term incentive plans. KMP loans are repayable after a maximum period of six years or upon disposal of the shares.

#### (m) Transactions with KMP (excluding loans)

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

**Shaver Shop Group Limited**

**Directors' Report**

**30 June 2018**

Signed in accordance with a resolution of the Board of Directors:

A handwritten signature in black ink that reads "Broderick Arnhold". The signature is written in a cursive, slightly slanted style.

Broderick Arnhold  
Director

Melbourne  
23 August 2018



## *Auditor's Independence Declaration*

As lead auditor for the audit of Shaver Shop Group Limited for the year ended 30 June 2018, I declare that to the best of my knowledge and belief, there have been:

- (a) no contraventions of the auditor independence requirements of the *Corporations Act 2001* in relation to the audit; and
- (b) no contraventions of any applicable code of professional conduct in relation to the audit.

This declaration is in respect of Shaver Shop Group Limited and the entities it controlled during the period.

A handwritten signature in black ink that reads 'Daniel Rosenberg'.

Daniel Rosenberg  
Partner  
PricewaterhouseCoopers

Melbourne  
23 August 2018

## Shaver Shop Group Limited

### Consolidated Statement of Comprehensive Income

For the Year Ended 30 June 2018

		Consolidated	
		2018	2017
Note		\$	\$
	Revenue from continuing operations	154,936,604	142,567,549
	Cost of goods sold	<b>(90,920,438)</b>	(83,095,092)
	<b>Gross profit from corporate owned retail stores</b>	<b>64,016,166</b>	59,472,457
	Franchise and other revenue	2,024,093	3,569,733
	Employee benefits expense	<b>(22,694,562)</b>	(20,905,725)
	Depreciation and amortisation expense	<b>(2,051,702)</b>	(1,407,599)
	Marketing and advertising expenses	<b>(7,808,791)</b>	(7,672,767)
	Occupancy expenses	<b>(14,210,565)</b>	(12,508,996)
	Other expenses	<b>(9,145,885)</b>	(7,085,316)
	Finance costs (net)	<b>(450,798)</b>	(406,719)
	<b>Profit before income tax</b>	<b>9,677,956</b>	13,055,068
	Income tax expense	<b>(3,112,061)</b>	(4,061,112)
	<b>Profit for the year</b>	<b>6,565,895</b>	8,993,956
	<b>Items that may be reclassified to profit or loss</b>		
	Exchange differences on translating foreign operations	35,382	(3,469)
	<b>Other comprehensive income for the year</b>	<b>35,382</b>	(3,469)
	<b>Total comprehensive income for the year</b>	<b>6,601,277</b>	8,990,487
	Profit attributable to:		
	Members of the parent entity	<b>6,565,895</b>	8,993,956
	Total comprehensive income attributable to:		
	Members of the parent entity	<b>6,601,277</b>	8,990,487
		<b>Cents</b>	<b>Cents</b>
	<b>Earnings per share for profit attributable to the ordinary equity holders of the company</b>		
	Basic earnings per share (weighted average shares)	21	5.3
	Diluted earnings per share (weighted average shares)	21	5.3
			7.2
			7.2

## Shaver Shop Group Limited

### Consolidated Statement of Financial Position

As at 30 June 2018

	Note	2018 \$	2017 \$
<b>ASSETS</b>			
<b>CURRENT ASSETS</b>			
Cash and cash equivalents	9	2,926,951	2,389,271
Trade and other receivables	10	2,532,400	1,896,146
Inventories	11	23,894,168	29,122,762
Current tax receivable	25	1,627,119	-
<b>TOTAL CURRENT ASSETS</b>		<b>30,980,638</b>	<b>33,408,179</b>
<b>NON-CURRENT ASSETS</b>			
Property, plant and equipment	12	10,279,854	8,001,348
Deferred tax assets	25	5,850,250	6,726,586
Intangible assets	13	42,655,014	39,848,539
<b>TOTAL NON-CURRENT ASSETS</b>		<b>58,785,118</b>	<b>54,576,473</b>
<b>TOTAL ASSETS</b>		<b>89,765,756</b>	<b>87,984,652</b>
<b>LIABILITIES</b>			
<b>CURRENT LIABILITIES</b>			
Trade and other payables	14	14,583,929	13,014,382
Borrowings	16	11,324,267	-
Employee benefits	15	1,162,671	1,130,040
Current tax payable	25	-	131,606
Other liabilities	17	602,012	344,330
<b>TOTAL CURRENT LIABILITIES</b>		<b>27,672,879</b>	<b>14,620,358</b>
<b>NON-CURRENT LIABILITIES</b>			
Borrowings	16	-	11,824,267
Other liabilities	17	3,098,700	2,457,455
<b>TOTAL NON-CURRENT LIABILITIES</b>		<b>3,098,700</b>	<b>14,281,722</b>
<b>TOTAL LIABILITIES</b>		<b>30,771,579</b>	<b>28,902,080</b>
<b>NET ASSETS</b>		<b>58,994,177</b>	<b>59,082,572</b>
<b>EQUITY</b>			
Issued capital	18	48,897,435	50,385,497
Reserves	20	376,974	290,942
Retained earnings	22	9,719,768	8,406,133
<b>TOTAL EQUITY</b>		<b>58,994,177</b>	<b>59,082,572</b>

Shaver Shop Group Limited

**Consolidated Statement of Changes in Equity**

For the Year Ended 30 June 2018

2018

	Note	Ordinary Shares \$	Retained Earnings \$	Other reserves \$	Total \$
<b>Balance at 1 July 2017</b>		<b>50,385,497</b>	<b>8,406,133</b>	<b>290,942</b>	<b>59,082,572</b>
Profit for the period		-	6,565,895	-	6,565,895
Other comprehensive income		-	-	35,382	35,382
<b>Total comprehensive income</b>		<b>-</b>	<b>6,565,895</b>	<b>35,382</b>	<b>6,601,277</b>
<b>Transactions with owners in their capacity as owners</b>					
Share buybacks	18	(1,488,062)	-	-	(1,488,062)
Dividends provided for or paid	19	-	(5,252,260)	-	(5,252,260)
Employee share schemes – value of employee services	32	-	-	50,650	50,650
<b>Balance at 30 June 2018</b>		<b>48,897,435</b>	<b>9,719,768</b>	<b>376,974</b>	<b>58,994,177</b>

2017

	Note	Ordinary Shares \$	Retained Earnings \$	Other reserves \$	Total \$
<b>Balance at 1 July 2016</b>		<b>50,385,497</b>	<b>1,413,570</b>	<b>246,096</b>	<b>52,045,163</b>
Profit for the period		-	8,993,956	-	8,993,956
Other comprehensive income		-	-	(3,469)	(3,469)
<b>Total comprehensive income</b>		<b>-</b>	<b>8,993,956</b>	<b>(3,469)</b>	<b>8,990,487</b>
<b>Transactions with owners in their capacity as owners</b>					
Dividends paid or provided for	19	-	(2,001,393)	-	(2,001,393)
Share based payments – value of employee services		-	-	48,315	48,315
<b>Balance at 30 June 2017</b>		<b>50,385,497</b>	<b>8,406,133</b>	<b>290,942</b>	<b>59,082,572</b>

## Shaver Shop Group Limited

### Consolidated Statement of Cash Flows

For the Year Ended 30 June 2018

	2018	2017
Note	\$	\$
<b>CASH FLOWS FROM OPERATING ACTIVITIES:</b>		
Receipts from customers (inclusive of GST)	169,794,010	156,959,868
Payments to suppliers and employees (inclusive of GST)	<b>(150,871,676)</b>	<b>(149,559,487)</b>
	<b>18,922,335</b>	7,400,381
Interest received	<b>42,526</b>	36,996
Interest paid	<b>(493,324)</b>	(443,715)
Income taxes paid	<b>(2,926,657)</b>	(1,773,573)
Payments for IPO transaction costs	-	(1,804,469)
Net cash inflow from operating activities	<b>15,544,880</b>	<b>3,415,620</b>
31		
<b>CASH FLOWS FROM INVESTING ACTIVITIES:</b>		
Payments for property, plant and equipment	<b>(3,072,293)</b>	(2,039,734)
Payments for acquisition of corporate stores	<b>(4,694,585)</b>	(8,019,165)
Net cash outflows from investing activities	<b>(7,766,878)</b>	<b>(10,058,899)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Proceeds from (repayment of) borrowings	<b>(500,000)</b>	6,700,000
Payments for share buy-backs	<b>(1,488,062)</b>	-
Dividends paid	<b>(5,252,260)</b>	(2,001,393)
Net cash inflows from financing activities	<b>(7,240,322)</b>	<b>4,698,607</b>
Net increase/(decrease) in cash and cash equivalents held	<b>537,680</b>	(1,944,672)
Cash and cash equivalents at beginning of financial year	<b>2,389,271</b>	4,333,943
Cash and cash equivalents at end of financial year	<b>2,926,951</b>	<b>2,389,271</b>
9		



## Shaver Shop Group Limited

# Notes to the Financial Statements

For the Year Ended 30 June 2018

### 1 Basis of Preparation

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

The general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board and the *Corporations Act 2001*.

#### *Compliance with IFRS*

These financial statements and associated notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Each of the entities within the Group prepare their financial statements based on the currency of the primary economic environment in which the entity operates (functional currency). The consolidated financial statements are presented in Australian dollars which is the parent entity's functional and presentation currency.

The financial report was authorised for issue by the Directors on 23 August 2018.

Comparatives are consistent with prior years, unless otherwise stated.

### 2 Summary of Significant Accounting Policies

#### (a) Basis for consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Shaver Shop Group Limited ('Company' or 'parent entity') as at 30 June 2018 and the results of all subsidiaries for the period then ended. Shaver Shop Group Limited and its subsidiaries together are referred to in these financial statements as the Group or the consolidated entity.

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases. Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of an impairment of the transferred asset. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

A list of controlled entities is contained in Note 27 to the financial statements.

#### (b) New Accounting Standards and Interpretations not yet mandatory or early adopted

The AASB has issued new and amended Accounting Standards and Interpretations that have mandatory application dates for future reporting periods. The Group has decided not to early adopt these standards. The following table summarises those future requirements, and their impact on the Group where the standard is relevant:

##### *AASB 9 Financial Instruments*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. AASB 9 addresses the classification, measurement and derecognition of financial assets and financial liabilities, introduces new rules for hedge accounting and a new impairment model for financial assets.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 2 Summary of Significant Accounting Policies continued

The Group will adopt this standard from 1 July 2018. The Group has commenced the assessment of the impact of its adoption and have not identified any changes from the either the classification and measurement for financial assets or hedge accounting requirements changes that will have a material impact on the transactions and balances recognised in the financial statements. However, the Group are still assessing any potential impact for the impairment changes under an expected credit losses method which may impact the calculation of the provision for doubtful debts.

#### *AASB 15 Revenue from Contracts with Customers*

This standard is applicable to annual reporting periods beginning on or after 1 January 2018. This new standard will replace AASB 118 *Revenue* which covers revenue arising from the sale of goods and the rendering of services and AASB 111 *Construction Contracts* which covers construction contracts.

The new standard is based on the principle that revenue is recognised when control of a good or service transfers to a customer and permits either a full retrospective or a modified retrospective approach for the adoption.

The Group will adopt this standard using the modified retrospective approach from 1 July 2018 and has performed an initial assessment of the impact of this change. Given that majority of the Group revenue is derived from over the counter sale of goods it is not expected that this adoption will have a material impact.

#### *AASB 16 Leases*

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the group's operating leases.

The Group will adopt this standard from 1 July 2019 and has engaged with an external provider to consolidate the required leasing information in order to perform quantification of this change which is still underway. As at the reporting date, the group has non-cancellable operating lease commitments \$32,467,363 and it is expected that this change will have a material impact. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's balance sheet, profit and classification of cash flows. The Group will continue to work with the external provider to assess the quantification of this change and the impact of its adoption.

### (c) Business combinations

The acquisition method of accounting is used to account for all business combinations, regardless of whether equity instruments or other assets are acquired. The consideration transferred for the acquisition of a subsidiary comprises the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the Group. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement and the fair value of any pre-existing equity interest in the subsidiary. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are, with limited exceptions, measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognises any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's net identifiable assets.

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

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 2 Summary of Significant Accounting Policies continued

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

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

#### (d) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The Group operates within one reportable segment, being retail store sales of a variety of specialist personal grooming products through their corporate stores, and royalty income from franchise stores.

#### (e) Foreign currency transactions and balances

##### *Functional and presentation currency*

Items included in the financial statements of each of the Company's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The financial statements are presented in Australian dollars, which is Shaver Shop Group Limited's functional and presentation currency.

##### *Transaction and balances*

Foreign currency transactions are recorded at the spot rate on the date of the transaction. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit and loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

**(f) Revenue and other income**

Revenue is measured at the fair value of the consideration received or receivable. Amounts disclosed as revenue are presented net of returns, trade allowances, discounts, rebates and amounts collected on behalf of third parties.

The Group recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the entity and specific criteria have been met for each of the Group's activities as described below. The Group bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue is recognised for the major business activities using the methods outlined below:

*Sale of goods*

Revenue from the sale of goods is recognised at the point of delivery as this corresponds to the transfer of significant risks and rewards of ownership of the goods and cessation of all involvement in those goods.

*Interest income*

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

*Franchise royalty fee income*

Franchise royalty fee income includes advertising contributions, which is generally earned based upon a percentage of sales, is recognised on an accrual basis.

**(g) Income Tax**

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

The current tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries and associates operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

## Notes to the Financial Statements

### For the Year Ended 30 June 2018

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. Deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. However, deferred tax liabilities are recognised in respect of any adjustments to goodwill subsequent to initial recognition. On that basis, deferred tax liabilities have been recognised in the year in respect of additions to goodwill in respect of franchise buyback activities, to the extent that they are deductible in calculating current tax expense in the year. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit nor loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled. Deferred tax assets are recognised for deductible temporary differences and unused tax losses only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Deferred tax liabilities and assets are not recognised for temporary differences between the carrying amount of tax bases of investments in foreign operations where the Company is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit and loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive or directly in equity, respectively.

#### **(h) Goods and services tax (GST)**

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

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

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

## Notes to the Financial Statements

For the Year Ended 30 June 2018

(i) **Leases**

Leases of property, plant and equipment where the company, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease's inception at the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in other short-term and long-term payables. Each lease payment is allocated between the liability and finance cost. The finance cost is charged to the profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period. The property, plant and equipment acquired under finance leases is depreciated over the asset's useful life or over the shorter of the asset's useful life and the lease term if there is no reasonable certainty that the company will obtain ownership at the end of the lease term.

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Company as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

(j) **Property, plant and equipment**

Property, plant and equipment is stated at historical cost less depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of the items. Cost may also include transfers from equity of any gains or losses on qualifying cash flow hedges of foreign currency purchases of property, plant and equipment.

Subsequent costs are included in the asset's carrying amount or recognised as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Group and the cost of the item can be measured reliably. The carrying amount of any component accounted for as a separate asset is derecognised when replaced. All other repairs and maintenance are charged to profit or loss during the reporting period in which they are incurred.

Depreciation on assets is calculated using the straight-line method to allocate their cost or revalued amounts, net of their residual values, over their estimated useful lives or, in the case of leasehold improvements and certain leased plant and equipment, the shorter of the lease term and the assets' useful life as follows:

**Fixed asset class**

Plant and Equipment	2-12 years
Computer Equipment	1-7 years
Leasehold Improvements	10 years

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at the end of each reporting period. An asset's carrying value is written down immediately to its recoverable amount if the asset's carrying value is greater than its estimated recoverable amount.

Gains and losses on disposals are determined by comparing proceeds with carrying value. These are included in profit or loss.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

**(k) Impairment of assets**

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period. At the end of each reporting period the Group determines whether there is an evidence of an impairment indicator for non-financial assets.

**(l) Intangible assets**

*Goodwill*

Goodwill is measured as described in note 2(b). Goodwill on acquisitions of subsidiaries is included in intangible assets. Goodwill is not amortised but it is tested for impairment annually, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Gains and losses on the disposal of an entity include the carrying amount of goodwill relating to the entity sold.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. The allocation is made to those cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose, are identified according to operating segments.

*Brand names*

Brand names have a finite useful life and are carried at cost less accumulated amortisation. Amortisation is calculated using the straight line method to allocate the cost of the brand names over their useful life of 20 years.

**(m) Cash and cash equivalents**

For the purpose of presentation in the statement of cash flows, 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. Bank overdrafts are shown within borrowings in current liabilities in the balance sheet.

**(n) Trade receivables**

Trade receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. Trade receivables are generally due for settlement within 30 days. They are presented as current assets unless collection is not expected for more than 12 months after the reporting date.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

Collectability of trade receivables is reviewed on an ongoing basis. Debts which are known to be uncollectible are written off by reducing the carrying amount directly. An allowance account (provision of impairment of trade receivables) is used when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of the receivables. Significant financial difficulties of the debtor, probability that the debtor will enter bankruptcy or financial reorganisation, and default or delinquency in payment (more than 30 days overdue) are considered indicators that the trade receivable is impaired. The amount of the impairment allowance is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate. Cash flows relating to short-term receivables are not discounted if the effect of discounting is immaterial.

The amount of impairment loss is recognised in profit or loss within other expenses. When a trade receivable for which an impairment allowance has 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 profit or loss.

**(o) Inventories**

Inventories are stated at the lower of cost and net realisable value. Cost comprises cost of purchases and direct shipping costs to bring the inventories into their current location. Costs are assigned to individual items of inventory on the basis of weighted average costs. Costs of purchased inventory are determined after deducting rebates and discounts. Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

**(p) Trade and other payables**

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid. The amounts are unsecured and are usually paid within 60 days of recognition. Trade and other payables are presented as current liabilities unless payment is not due within 12 months from the reporting date. They are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

**(q) Employee benefits**

*Short term obligations*

Liabilities for wages and salaries, including non-monetary benefits, annual leave expected to be settled within 12 months after the end of the reporting period in which the employees render the related service are recognised in respect of employee's services up to the end of the reporting period and are measured at the amounts expected to be paid when the liabilities are settled. The liability for annual leave is recognised in the provision for employee benefits. All other short-term employee benefit obligations are presented as payables. Provision is made for the Group's liability for employee benefits arising from services rendered by employees to the end of the reporting period. Employee benefits that are expected to be wholly settled within one year have been measured at the amounts expected to be paid when the liability is settled.

*Other long term employee benefit obligations*

The liability for long service leave and annual leave which is not expected to be settled within 12 months after the end of the reporting period in which the employees render the related service is recognised in the provision for employee benefits and measured as the present value of expected future payments to be made in respect of services provided by employees up to the end of the reporting period using the projected unit credit method. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. Expected future payments are discounted using market yields at the end of the reporting period on high-quality corporate bond rates with terms to maturity and currency that match, as closely as possible, the estimated future cash outflows.



## Notes to the Financial Statements

For the Year Ended 30 June 2018

The obligations are presented as current liabilities in the consolidated statement of financial position if the entity does not have an unconditional right to defer settlement for at least twelve months after the reporting period, regardless of when the actual settlement is expected to occur.

### *Share based payments*

Share based compensation benefits are provided to employees via the LTI Plan.

### *LTI Plan*

The fair value of shares granted under the Shaver Shop Group Limited Long Term Incentive Plan (LTIP) is recognised as an employee benefit expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted:

- Including any market performance conditions (for example the entity's share price)
- Excluding the impact for any service and non-market performance vesting conditions (for example, sales growth targets, profitability and an employee remaining an employee of the entity over a specified time period), and
- Including the impact of non-vesting conditions (for example the requirement for employees to hold shares for a specified period of time).

The total expense is recognised over the vesting period, which is the period over which all of the specific vesting conditions are to be satisfied. At the end of each period, the entity revises estimates of the number of shares that are expected to vest based on the non-market vesting and service conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

## **(r) Borrowings**

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently measured at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption amount is recognised in profit or loss over the period of the borrowings using the effective interest method. Fees paid on the establishment of loan facilities are recognised as transaction costs of the loan to the extent that it is probable that some or all of the facility will be drawn down. In this case, the fee is deferred until the draw down occurs. To the extent there is no evidence that it is probable that some or all of the facility will be drawn down, the fee is capitalised as a prepayment for liquidity services and amortised over the period of the facility to which it relates.

Borrowings are classified as current liabilities unless the Group has an unconditional right to defer settlement of the liability for at least 12 months after the reporting date.

## **(s) Borrowing costs**

Borrowing costs are recognised as an expense in the period in which they are incurred.

## **(t) Provisions**

Provisions are recognised when the Group has a present legal or constructive obligation as a result of past events, it is probable that an outflow of resources will be required to settle the obligation and the amount has been reliably estimated. Provisions are not recognised for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognised even if the likelihood of an outflow with respect to any one item included in the same class of obligations may be small.

## **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

Provisions are measured at the present value of management's best estimate of the expenditure required to settle the present obligation at the end of the reporting period. The discount rate used to determine the present value is a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The increase in the provision due to the passage of time is recognised as interest expense. Provisions are recognised when the Group has a legal or constructive obligation, as a result of past events, for which it is probable that an outflow of economic benefits will result and that outflow can be reliably measured.

**(u) Earnings Per Share**

**(i) Basic earnings per share**

Basic earnings per share is determined by dividing net profit after income tax attributable to members of the Group, excluding any costs of servicing equity other than ordinary shares, by the weighted average number of ordinary shares outstanding during the financial period, adjusted for bonus elements in ordinary shares issued during the period.

**(ii) Diluted earnings per share**

Diluted earnings per share adjusts the figure used in the determination of basic earnings per share to take into account the after income tax effect of interest and other financing costs associated with dilutive potential ordinary shares (including performance rights) and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

**(v) Adoption of new and revised accounting standards**

The Group has adopted all of the new, revised or amended accounting standards and interpretations issued by the Australian Accounting Standards Board (AASB) that are mandatory for the current reporting period. The adoption of these accounting standards and interpretations did not have any significant impact on the financial performance or position of the Group. Any new, revised or amended Accounting Standards or Interpretations that are not mandatory have not been early adopted

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 3 Critical Accounting Estimates and Judgments

The preparation of financial statements requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving significant estimates or judgements are estimates of goodwill impairment, refer to Note 13, and recoverable amount of inventory, refer to Note 11.

### 4 Revenue and Other Income

#### (a) Revenue from continuing operations

	2018	2017
	\$	\$
Sales revenue		
Retail sales	154,936,604	142,567,549
<b>Total Revenue</b>	<b>154,936,604</b>	<b>142,567,549</b>

#### (b) Franchise and other revenue and other gains / (losses)

	2018	2017
	\$	\$
<b>Franchise revenue</b>		
Franchise royalties	1,976,916	3,310,061
<b>Other revenue</b>		
Advertising contributions	-	222,315
Other revenue	47,295	37,357
<b>Other gains / (losses)</b>		
(Loss) on disposal of Property, Plant & Equipment	(118)	-
	<b>47,177</b>	<b>259,672</b>
<b>Total franchise and other revenue</b>	<b>2,024,093</b>	<b>3,569,733</b>

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 5 Expenses

The result for the year includes the following specific expenses:

	2018	2017
	\$	\$
<b>Finance Costs (net)</b>		
Interest and finance charges	493,324	443,715
Interest income	(42,526)	(36,996)
<b>Finance Costs (net)</b>	<u>450,798</u>	<u>406,719</u>
<b>Amortisation</b>		
Brand names	72,488	72,628
<b>Depreciation</b>		
Property, plant & equipment	1,979,214	1,334,971
<b>Depreciation and amortisation expense</b>	<u>2,051,702</u>	<u>1,407,599</u>
<b>Rental expense relating to operating leases</b>		
Minimum lease payments	11,361,076	10,174,805

#### 6 Income Tax Expense

(a) The major components of tax expense (income) comprise:

	2018	2017
	\$	\$
Current tax expense		
Current tax on profits for the year	1,065,725	2,792,149
Deferred tax expense		
Movement in deferred tax assets	2,085,098	1,288,272
Movement in deferred tax liabilities	(38,762)	(19,309)
<b>Income tax expense relating to continuing operations</b>	<u>3,112,061</u>	<u>4,061,112</u>

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 6 Income Tax Expense (continued)

(b) Reconciliation of income tax to accounting profit:

	2018	2017
	\$	\$
Profit from continuing operations before income tax expense	9,677,956	13,055,069
Tax at the Australian tax rate of 30% (2017 - 30%)	<u>2,903,387</u>	3,916,521
Add:		
Tax effect of:		
- non-deductible depreciation and amortisation	20,038	21,059
- non-deductible IPO exit incentives expense	-	87,588
- other non-deductible items	<u>29,608</u>	34,006
	<u>2,953,033</u>	4,059,174
Less/(Add):		
Tax effect of:		
- Other	<u>159,028</u>	1,938
Income tax attributable to parent entity	<u>3,112,061</u>	4,061,112
Income tax expense	<u><u>3,112,061</u></u>	<u><u>4,061,112</u></u>

#### *Franchise Buy Backs*

Shaver Shop has received a private ruling from the Australian Tax Office in respect of deductions for the amount relating to the termination of the franchise licence forming part of the purchase consideration paid for the buy back of franchise stores. The tax ruling confirms that this amount is to be deducted in equal portions over a five year period following the date of purchase.

For each franchise store, a portion of the purchase consideration equal to the total tax benefit to be received over five years is recognised as a deferred tax asset and included in the calculation of goodwill. The deferred tax asset is then released over five years in accordance with the deduction schedule for each acquired franchise store with the effect of reducing income tax payable for each period.

## Shaver Shop Group Limited

# Notes to the Financial Statements

For the Year Ended 30 June 2018

### 7 Business Combinations

The Company acquired one franchise store on 28 September 2017, one on 1 November 2017 and two on 29 November 2017 for a total purchase consideration \$4,694,585.

The acquisitions are expected to increase the Group's retail sales and synergies are expected to arise after the Company's acquisition of these stores.

Details of the purchase consideration, the net assets acquired and the resulting goodwill are as follows:

	<b>Total</b>
	<b>\$</b>
Purchase consideration:	
- Cash	4,694,585
<b>Total purchase consideration</b>	<b>4,694,585</b>
Assets or liabilities acquired:	
Inventories	1,051,957
Payables	(409,709)
Deferred tax assets	1,170,000
<b>Total net identifiable assets acquired and liabilities assumed</b>	<b>1,812,248</b>
<b>Goodwill</b>	<b>2,882,337</b>

The goodwill is attributable to the retail stores bought back, strong profitability in trading personal grooming products and synergies expected to arise after the Company's acquisition of these stores. The goodwill is not expected to be deductible for tax purposes.

Revenue of the acquired franchise stores included in the consolidated revenue of the Group since the respective acquisition dates amounted to \$3.97 million.

Had the results of the acquired franchise stores been consolidated from 1 July 2017, additional revenue of the Group would have been \$2.27 million for the year ended 30 June 2018.

Acquisition related costs for the franchise buybacks were not material and are included in other expenses in the profit and loss statement.

### 8 Operating Segments

#### Segment information

The Group operates within one reportable segment, being retail sales of specialist personal grooming products through their corporate and online stores and royalty income from franchise stores. The chief operating decision maker for the Company is the Chief Executive Officer. The retail stores and franchise royalty income has been aggregated into one reportable segment, as they have similar growth rates. Total revenue disclosed in the consolidated statement of comprehensive profit and loss all relates to this one reportable segment. The Group is not reliant on any single customer. At 30 June 2018, the Group operated 100 Corporate stores in Australia (2017: 89) and 6 Corporate Stores in New Zealand (2017: 6). Sales and profit derived from outside Australia are not material to disclose.

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 9 Cash and Cash Equivalents

	2018	2017
	\$	\$
Cash at bank and on hand	2,926,951	2,389,271

#### 10 Trade and Other Receivables

	2018	2017
	\$	\$
CURRENT		
Trade receivables	1,689,732	1,171,011
Prepayments	481,447	482,480
Accrued income	243,592	-
Related party receivables	81,377	81,377
Other receivables	36,252	161,278
<b>Total current trade and other receivables</b>	<b>2,532,400</b>	<b>1,896,146</b>

The carrying value of trade receivables is considered a reasonable approximation of fair value due to the short-term nature of the balances.

The maximum exposure to credit risk at the reporting date is the fair value of each class of receivable in the financial statements.

#### 11 Inventories

	2018	2017
	\$	\$
Finished goods	23,894,168	29,122,762

##### *Amounts recognised in profit and loss*

Inventories recognised as an expense during the year ended 30 June 2018 amounted to \$90,920,438 (2017: \$83,095,092). These were recognised in cost of goods sold. The Company has created a provision for slow moving inventories. At 30 June 2018, this amounted to \$688,412 (2017: \$594,352). Any movement in the slow moving stock provision for the year is recognised in cost of goods sold.

##### *Critical accounting estimates and judgements – recoverable amount of inventory*

Management has assessed the value of inventory that requires a provision due to the inventory being slow moving, using past experience and judgement on the likely sell through rates of various items of inventory. To the extent that these judgements and assumptions prove incorrect, the Group may be exposed to potential additional inventory write-downs or write-backs in future periods.

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 12 Property, plant and equipment

	2018	2017
	\$	\$
<b>Capital works in progress</b>		
At cost	1,508,131	380,759
	<hr/>	<hr/>
<b>Plant and equipment</b>		
At cost	12,104,009	9,785,512
Accumulated depreciation	(4,232,959)	(2,975,641)
Total plant and equipment	7,871,050	6,809,871
	<hr/>	<hr/>
<b>Computer equipment</b>		
At cost	1,503,801	1,137,419
Accumulated depreciation	(614,416)	(339,468)
Total computer equipment	889,385	797,951
	<hr/>	<hr/>
<b>Improvements</b>		
At cost	14,798	14,798
Accumulated depreciation	(3,510)	(2,031)
Total improvements	11,288	12,767
	<hr/>	<hr/>
<b>Total property, plant and equipment</b>	10,279,854	8,001,348
	<hr/> <hr/>	<hr/> <hr/>



## Notes to the Financial Statements

For the Year Ended 30 June 2017

### 12 Property, plant and equipment (continued)

#### Movements in carrying amounts of property, plant and equipment

Movement in the carrying amounts for each class of property, plant and equipment between the beginning and the end of the current financial year:

Consolidated	Leasehold Improvements in Progress \$	Plant and Equipment \$	Computer Equipment \$	Improvements \$	Total \$
<b>Year ended 30 June 2018</b>					
Balance at the beginning of the year	380,759	6,809,871	797,951	12,767	8,001,348
Additions	4,280,483	2,308	-	1	4,282,792
Disposals	-	(118)	-	-	(118)
Transfers	(3,153,111)	2,720,134	432,977	-	-
Depreciation expense	-	(1,636,577)	(341,156)	(1,480)	(1,979,213)
Foreign exchange movements	-	(24,568)	(387)	-	(24,955)
<b>Balance at the end of the year</b>	<b>1,508,131</b>	<b>7,871,050</b>	<b>889,385</b>	<b>11,288</b>	<b>10,279,854</b>

Consolidated	Leasehold Improvements in Progress \$	Plant and Equipment \$	Computer Equipment \$	Improvements \$	Total \$
<b>Year ended 30 June 2017</b>					
Balance at the beginning of the year	949,392	5,083,418	271,082	14,186	6,318,078
Additions	2,952,631	28,787	40,366	-	3,021,784
Transfers	(3,521,294)	2,889,687	631,607	-	-
Depreciation expense	-	(1,188,665)	(144,964)	(1,419)	(1,335,048)
Foreign exchange movements	30	(3,356)	(140)	-	(3,466)
<b>Balance at the end of the year</b>	<b>380,759</b>	<b>6,809,871</b>	<b>797,951</b>	<b>12,767</b>	<b>8,001,348</b>

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 13 Intangible Assets

#### Movements in carrying amounts of intangible assets

	Brand names \$	Goodwill \$	Total \$
<b>Year ended 30 June 2018</b>			
Opening net book value	1,041,612	38,806,927	39,848,539
Additions through business combinations	-	2,882,337	2,882,337
Amortisation	(72,488)	-	(72,488)
Foreign exchange movements	(3,374)	-	(3,374)
<b>Closing value at 30 June 2018</b>	<b>965,750</b>	<b>41,689,264</b>	<b>42,655,014</b>
<b>Year ended 30 June 2017</b>			
Opening net book value	1,114,527	33,295,797	34,410,324
Additions through business combinations	-	5,511,130	5,511,130
Amortisation	(72,628)	-	(72,628)
Foreign exchange movements	(287)	-	(287)
Closing value at 30 June 2017	1,041,612	38,806,927	39,848,539

For the purpose of impairment testing, goodwill is monitored as one operating segment.

#### *Significant estimate: key assumptions used for value-in-use calculations*

The Group performed its annual impairment testing as at 30 June 2018. The Group considers the relationship between its market capitalisation and its carrying value, among other factors, when reviewing for indicators of impairment. The recoverable amount of the relevant CGUs has been determined based on the value in use calculation using cash flow projections from budgets approved by senior management and presented to the Board of Directors covering a five year period. Cash flows beyond the five year period are extrapolated using estimated growth rates of 2.5% (2017:3%). The pre-tax discount rate applied to cash flow projected is 12.9%.

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

- Gross margin
- Growth rate
- Discount rate

**Gross margin:** Gross margin is based on average values achieved in the past. Margins are not increased over the forecast timeline. The gross margin used in the forecast period is 42.3%.

**Growth rate:** Sales growth rates are based on management's best estimates of anticipated growth in the short to medium term and consider the historical average like for like sales growth achieved in the past. The growth rate in the terminal year is 2.5% (2017: 3.0%) and the same store sales growth rate used for the five year forecast period is 4.0%.

**Discount rate:** The discount rate is specific to the Group's circumstances and is derived from its average 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 shareholders. The cost of debt is based on the average cost of interest bearing debt that the Group is committed to service.

**Sensitivity analysis:** Management recognises that the recoverable amount of goodwill is sensitive to the assumptions used in the model. A one percent change in the discount rate changes the recoverable amount by approximately \$17 million. A one percent change in the terminal growth rate and five year growth rate changes the recoverable amount by approximately \$35 million.

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 14 Trade and Other Payables

	2018	2017
	\$	\$
CURRENT		
Unsecured liabilities		
Trade payables	12,971,973	10,294,280
Deferred consideration	-	50,000
GST payable	490,569	371,267
Sundry payables and accrued expenses	1,121,387	2,298,835
	<u>14,583,929</u>	<u>13,014,382</u>

All amounts are short term and the carrying values are considered to be a reasonable approximation of fair value.

#### 15 Employee Benefits

	2018	2017
	\$	\$
Current liabilities		
Provision for employee benefits	<u>1,162,671</u>	<u>1,130,040</u>

The provision for employee benefits includes accrued annual leave and long service leave. For long service leave it covers all unconditional entitlements where employees have completed the required period of service and also those where employees are entitled to pro-rata payments in certain circumstances. The entire amount of the provision is presented as current, since the Group does not have an unconditional right to defer settlement for any of these obligations. However, based on past experience, the Group does not expect all employees to take the full amount of accrued leave or require payment within the next 12 months. The following amounts reflect leave that is not expected to be taken or paid within the next 12 months.

	2018	2017
	\$	\$
Leave obligations expected to be settled after 12 months	228,809	141,345

#### 16 Borrowings

	2018	2017
	\$	\$
CURRENT		
Secured liabilities:		
Bank loans	<u>11,324,267</u>	-
<b>Total current borrowings</b>	<u>11,324,267</u>	-
NON-CURRENT		
Secured liabilities:		
Bank loans	-	<u>11,824,267</u>
<b>Total non-current borrowings</b>	-	<u>11,824,267</u>
<b>Total borrowings</b>	<u>11,324,267</u>	<u>11,824,267</u>

In July 2018, Shaver Shop refinanced its existing bank facilities and established a new \$20.0 million multi-option debt facility with a \$1.0 million facility to support bank guarantees. The new facility has a term of two years, expiring on 31 July 2020.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 16 Borrowings (contd)

#### (a) Collateral

The carrying amounts of current and non-current assets pledged as collateral for liabilities are:

	2018	2017
	\$	\$
<b>Fixed and Floating charge:</b>		
- cash and cash equivalents	2,926,951	2,389,27
- trade receivables	1,689,732	1,171,01
- inventories	23,894,168	29,122,762
- plant and equipment	10,279,854	8,001,34

Under the terms of the major borrowing facilities, as at 30 June 2018, the Group was required to comply with the following financial covenants:

- a) the ratio of debt to EBITDA must be less than or equal to 2.0;
- b) the ratio of interest expense to EBIT must be greater than 3.0; and
- c) the ratio of total assets less total liabilities to total assets must be greater than 0.5

During the current and prior year, there were no defaults on borrowings or breaches of debt covenants.

### 17 Other Liabilities

	2018	2017
	\$	\$
<b>CURRENT</b>		
Deferred lease incentive liabilities	602,012	344,330
<b>NON-CURRENT</b>		
Deferred lease incentive liability	1,979,481	1,475,813
Deferred rent liability	1,119,219	981,642
Total non-current other liabilities	<u>3,098,700</u>	<u>2,457,455</u>
<b>Total</b>	<u><u>3,700,712</u></u>	<u><u>2,801,785</u></u>

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 18 Issued Capital

	2018	2017
	\$	\$
125,062,692 (2017: 126,387,040) Ordinary shares	48,897,435	50,385,497

Shaver Shop has issued 3,210,000 (FY2017: 1,300,000) shares (LTI Plan Shares) under its Long Term Incentive Plan (LTI Plan). The LTI Plan Shares have vesting criteria and are therefore only included, if appropriate, in diluted share calculations and are not included in the calculation of basic weighted average shares outstanding.

#### (a) Movements in share capital

	2018	2017
	\$	\$
At the beginning of the reporting period	50,385,497	50,385,497
Shares bought back through on market buy-back	(1,488,062)	-
<b>At the end of the reporting period</b>	<b>48,897,435</b>	<b>50,385,497</b>

	2018	2017
	No.	No.
Number of shares outstanding		
At the beginning of the reporting period	126,387,040	125,087,040
Unvested LTIP shares issued in period	1,910,000	1,300,000
Shares bought back through on market buy-back	(3,234,348)	-
<b>At the end of the reporting period</b>	<b>125,062,692</b>	<b>126,387,040</b>

#### Share buy-back

On 26 October 2017, the Company announced an on-market share buy-back of up to 12.5 million shares, which commenced in November 2017. During the year ended 30 June 2018, the Company bought back and cancelled 3,234,348 shares at an average price per share of \$0.46.

#### Calculation of weighted average number of diluted shares

	2018	2017
	No.	No.
Weighted average number of ordinary shares used for calculating basic earnings per share	124,189,119	125,087,040
Adjustment for weighted average number of LTI Plan Shares issued (unvested shares)	-	28,493
<b>Weighted average number of ordinary shares and potential ordinary shares used in calculating diluted earnings per share</b>	<b>124,189,119</b>	<b>125,115,533</b>

The LTI Plan Shares are not included in the calculation of the weighted average number of fully diluted shares outstanding because the average market price of the Company's shares was below the exercise price of the LTI Plan Shares for the year ended 30 June 2018. The LTI Plan Shares could potentially be included in the number of fully diluted shares outstanding in the future.

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

The holders of ordinary shares are entitled to participate in dividends and the proceeds on winding up of the Company. On a show of hands at meetings of the Company, each holder of ordinary shares has one vote in person or by proxy, and upon a poll each share is entitled to one vote.

The Company does not have authorised capital or par value in respect of its shares.

#### (b) Capital Management

Capital of the Group is managed in order to safeguard the ability of the Group to continue as a going concern, to provide returns for shareholders, benefits for other stakeholders and to maintain an optimal capital structure.

The Group monitors capital through the gearing ratio, which is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and cash equivalents. Total capital is defined as equity per the consolidated statement of financial position plus net debt.

There are no externally imposed capital requirements.

#### 19 Dividends

	2018	2017
	\$	\$
The following dividends were declared and paid:		
Fully franked FY2017 final dividend of 2.4 cents per share (2017: nil)	3,009,666	-
Fully franked FY2018 interim dividend of 1.8 cents per share (2017: 1.6 cents per share)	2,242,594	2,001,393
	2018	2017
	\$	\$
Total dividends per share declared and paid	0.042	

#### Franking account

	2018	2017
	\$	\$
The franking credits available for subsequent financial years at a tax rate of 30%	595,267	1,664,459

The above available balance is based on the dividend franking account at year-end adjusted for:

- (a) Franking credits that will arise from the payment/(receipt) of the current tax liabilities/(receivable);
- (b) Franking debits that will arise from the payment of dividends recognised as a liability at the year end;
- (c) Franking credits that will arise from the receipt of dividends recognised as receivables at the end of the year.

The ability to use the franking credits is dependent upon the Company's future ability to declare dividends.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 20 Reserves

	2018	2017
	\$	\$
<b>Foreign currency translation reserve</b>		
Opening balance	(28,686)	(25,217)
Currency translation differences arising during the year	35,382	(3,469)
<b>Balance at 30 June</b>	<b>6,696</b>	<b>(28,686)</b>
<b>Share based payments reserve</b>		
Opening balance	319,628	271,313
Transfers in	50,650	48,315
<b>Balance at 30 June</b>	<b>370,278</b>	<b>319,628</b>
<b>Total</b>	<b>376,974</b>	<b>290,942</b>

#### (a) Foreign currency translation reserve

Exchange differences arising on translation of the foreign controlled entity are recognised in other comprehensive income - foreign currency translation reserve. The cumulative amount is reclassified to profit or loss when the net investment is disposed of.

#### (b) Share based payments reserve

This reserve records the cumulative value of employee service received for the issue of share options. When the option is exercised the amount in the share option reserve is transferred to share capital.

### 21 Earnings per Share

	2018	2017
	\$	\$
Profit from continuing operations	6,565,895	8,993,956
Earnings used to calculate basic EPS from continuing operations	6,565,895	8,993,956

Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS and diluted EPS:

	2018	2017
	No.	No.
Weighted average number of ordinary shares outstanding during the year used in calculating basic EPS	124,189,119	125,087,040
Weighted average number of ordinary shares outstanding during the year used in calculating fully diluted EPS	124,189,119	125,115,533

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### Information concerning classification of securities

LTI Plan shares granted to participants are considered to be potential ordinary shares. They have been included in the determination of diluted earnings per share if the required TSR and EPS hurdle would have been met based on the company's performance up to the reporting date, and to the extent to which they are dilutive. The LTI shares have not been included in the determination of basic earnings per share. The 1,300,000 LTI shares granted on 22 June 2017 and the 1,910,000 LTI shares granted on 26 October 2017 and 10 November 2017 are not included in the calculation of diluted earnings per share because they are not dilutive for the year ended 30 June 2018.

### 22 Retained Earnings

	2018	2017
	\$	\$
Retained earnings at beginning of the financial year	8,406,133	1,413,570
Net profit for the year	6,565,895	8,993,956
Dividends paid	(5,252,260)	(2,001,393)
<b>Retained earnings at end of the financial year</b>	<b>9,719,768</b>	<b>8,406,133</b>

### 23 Capital and Leasing Commitments

#### (a) Operating Leases

	2018	2017
	\$	\$
Minimum lease payments under non-cancellable operating leases:		
- not later than one year	9,934,870	8,854,729
- between one year and five years	21,001,659	19,557,383
- later than five years	1,530,834	1,751,926
	<b>32,467,363</b>	<b>30,164,038</b>

Operating leases have been taken out for retail stores and head office. Lease payments are increased on an annual basis to reflect market rentals. The Company has Bank Guarantees in place as security for rental payments on several of its locations. As at 30 June 2018, \$721,916, was drawn under the Company's bank guarantee facility.

The AASB has issued a new standard to govern accounting for leases. This will replace AASB 117 which previously governed the accounting and disclosure of leases.

AASB 16 was issued in February 2016. It will result in almost all leases being recognised on the balance sheet, as the distinction between operating and finance leases is removed. Under the new standard, an asset (the right to use the leased item) and a financial liability to pay rentals are recognised. The only exceptions are short-term and low-value leases. The accounting for lessors will not significantly change. The standard will affect primarily the accounting for the group's operating leases. As at the reporting date, the group has non-cancellable operating lease commitments of \$32,467,363. However, the group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the group's profit and classification of cash flows. Some of the commitments may be covered by the exception for short-term and low-value leases and some commitments may relate to arrangements that will not qualify as leases under AASB 16.

The standard is mandatory for first interim periods within annual reporting periods beginning on or after 1 January 2019. At this stage, the group does not intend to adopt the standard before its effective date.



## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 24 Financial Risk Management

The Group is exposed to a variety of financial risks through its use of financial instruments.

The Group's overall risk management plan seeks to minimise potential adverse effects due to the unpredictability of financial markets. The Group does not speculate in derivative financial instruments.

The most significant financial risks to which the Group is exposed to are described below:

<b>Risk</b>	<b>Exposure arising from</b>
Liquidity risk	Borrowings, bank overdrafts and other liabilities
Credit risk	Cash at bank and trade receivables
Market risk - currency risk	Recognised assets and liabilities not denominated in Australian dollars
Market risk - interest rate risk	Borrowings at variable rates

#### Objectives, policies and processes

Risk management is carried out by the Group's senior management and the Board of Directors. The Chief Financial Officer has primary responsibility for the development of relevant policies and procedures to mitigate the risk exposure of the Group, these policies and procedures are then approved by the risk management committee and tabled at the board meeting following their approval. Reports are presented to the Board regarding the implementation of these policies and any risk exposure which the Risk Management Committee believes the Board should be aware of.

Specific information regarding the mitigation of each financial risk to which the Group is exposed is provided below.

#### Liquidity risk

Liquidity risk arises from the Group's management of working capital and the finance charges and principal repayments on its debt instruments. It is the risk that the Group will encounter difficulty in meeting its financial obligations as they fall due.

The Group's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities as and when they fall due. The Group maintains cash to meet its liquidity requirements for up to 30-day periods. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities and the ability to sell long-term financial assets.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for long-term financial liabilities as well as cash-outflows due in day-to-day business.

Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling six-week projection. Long-term liquidity needs for an 180-day and a 360-day period are identified monthly.

*(i) Financing arrangements*

The Group had access to the following undrawn borrowing facilities at the end of the reporting period:

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Commercial advance facilities	<b>11,675,733</b>	11,175,733
Bank guarantee facility	<b>1,278,084</b>	1,188,637
<b>Total</b>	<b>12,953,817</b>	12,364,370

The multi-option facility has a limit of \$23.0 million and was drawn to \$11.3 million as at 30 June 2018. In addition, Shaver Shop has access to a bank guarantee facility with a limit of \$2.0 million was drawn to \$0.7 million as at 30 June 2018. The multi-option facility bears an interest rate of BBSY +1.65%. Both facilities were renegotiated in July 2018. The new multi-option facility has a borrowing limit of \$20.0 million and the bank guarantee facility has a limit of \$1.0 million. Both facilities mature on 31 July 2020. The new multi-option facility has interest rates varying from BBSY +1.10% to BBSY +1.55% depending on the sub facility being utilised.

*(ii) Maturities of financial liabilities*

The Group's liabilities have contractual maturities which are summarised below:

	Not later than 1 month		1 month to 1 year		1 to 2 years	
	2018	2017	2018	2017	2018	2017
	\$	\$	\$	\$	\$	\$
Bank loans	<b>11,324,267</b>	-	-	-	-	11,824,267
Trade payables	<b>12,971,973</b>	10,344,280	-	-	-	-
<b>Total</b>	<b>24,296,240</b>	10,344,280	-	-	-	11,824,267

## Notes to the Financial Statements

For the Year Ended 30 June 2018

The timing of cash flows presented in the table to settle financial liabilities reflects the earliest contractual settlement dates and does not reflect management's expectations that banking facilities will be rolled forward. The amounts disclosed in the table are the undiscounted contracted cash flows and therefore the balances in the table may not equal the balances in the consolidated statement of financial position due to the effect of discounting.

The timing of expected outflows is not expected to be materially different from contracted cashflows.

### Credit risk

Credit risk refers to the risk that a counter party will default on its contractual obligations resulting in a financial loss to the Group.

Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions, as well as credit exposure to certain customers, including outstanding receivables and committed transactions.

The Group has adopted a policy of only dealing with creditworthy counter parties as a means of mitigating the risk of financial loss from defaults. In addition, sales to retail customers are required to be settled in cash or through the use of major credit cards, reducing credit risk associated with sales.

Trade receivables consist mainly of supplier rebates and franchise royalty income owing to the Group. Ongoing credit evaluation is performed on the financial condition of accounts receivable. No impairment exists within trade receivables at year end. There are no balances within trade receivables that contain assets that are overdue but not impaired. It is expected that these balances will be received when due.

The credit risk for liquid funds and other short-term financial assets is considered negligible, since the counter parties are reputable banks with high quality external credit ratings.

### Credit quality

The credit quality of financial assets that are neither past due nor impaired can be assessed by reference to external credit ratings (if available) or to historical information about counterparty default rates.

	2018	2017
	\$	\$
<b>Cash at bank</b>		
AA- (Standard & Poors)	2,926,951	2,389,271
<b>Accounts receivable</b>		
<b>Counter-parties with no external credit rating</b>		
Group 1*	1,689,732	1,171,011

\* Group 1: Existing counter-parties (more than 12 months) with no defaults in the past.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### Market risk

#### (i) Foreign currency risk

Most of the Group transactions are carried out in Australian Dollars. Exposures to currency exchange rates arise from the Group's New Zealand operations which are denominated in New Zealand Dollars.

Whilst the Group's exposure to foreign currency is not considered to be material, the Group's exposure to non-Australian Dollar cash flows is monitored in accordance with the Group's risk management policies.

Shaver Shop Pty Ltd has an inter-company receivable of \$3.9 million at 30 June 2018 (30 June 2017: \$4.0 million). This balance represents the initial and ongoing investment in Shaver Shop's New Zealand operations.

Based on the year end balance, a 1% appreciation in the NZ dollar has approximately a \$35,000 impact on the company's pre-tax profit.

#### (ii) Interest rate risk

The Group is exposed to interest rate risk arising from both short-term and long-term variable rate borrowings. The Group does not hedge against interest rate movements and monitors the exposure to interest rate risk in accordance with the Group's risk management policy. All of the Group's borrowings are denominated in Australian Dollars.

As at the end of the reporting period, the Group had the following variable rate borrowings outstanding:

	<b>Weighted average interest rate</b>		<b>Weighted average interest rate</b>	
	%	<b>2018</b>	%	<b>2017</b>
		\$		\$
<b>Floating rate instruments</b>				
Bank loans	3.92	11,324,267	3.43	11,824,267
<b>Total</b>	3.92	11,324,267	3.43	11,824,267

Management considers that interests rates could reasonably increase by 1% or decrease by 0.5% (2017: increase of 1%, decrease of 0.5%). As these movements would not have a material impact on either the net result for the year or equity, no sensitivity analysis has been performed.

**Notes to the Financial Statements**  
For the Year Ended 30 June 2018

**25 Tax assets and liabilities**

**(a) Current tax assets and liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Income tax receivable	1,627,119	-
Income tax payable	-	131,606

**(b) Recognised deferred tax assets and liabilities**

	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
Deferred tax assets	5,850,250	6,726,586

	<b>Opening Balance</b>	<b>Charged to Income</b>	<b>Charged directly to Equity</b>	<b>Acquisition of Franchise Stores</b>	<b>Closing Balance</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Deferred tax assets</b>					
Provisions - employee benefits	323,207	63,614	-	-	386,821
Accruals	301,608	156,124	-	-	457,732
Lease incentive liability	382,277	166,353	-	-	548,630
Cancellation of franchise fee on acquisition	3,390,600	(1,564,500)	-	2,317,500	4,143,600
IPO costs	1,529,632	(387,164)	-	-	1,142,468
Other	99,371	(274,301)	-	-	373,672
Set off Deferred Tax Liability	(345,646)	19,309	-	-	(326,337)
<b>Balance at 30 June 2017</b>	<b>5,681,049</b>	<b>(1,268,963)</b>	<b>-</b>	<b>2,317,500</b>	<b>6,726,586</b>
Provisions - employee benefits	386,821	11,790	-	-	398,611
Accruals	457,732	(62,290)	-	-	395,442
Lease incentive liability	548,630	200,046	-	-	748,676
Cancellation of franchise fee on acquisition	4,143,600	(1,766,115)	-	1,170,000	3,547,485
IPO costs	1,142,468	(380,822)	-	-	761,646
Other	373,672	(87,707)	-	-	285,965
Set off Deferred Tax Liability	(326,337)	38,762	-	-	(287,575)
<b>Balance at 30 June 2018</b>	<b>6,726,586</b>	<b>(2,046,336)</b>	<b>-</b>	<b>1,170,000</b>	<b>5,850,250</b>

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 26 Auditors' Remuneration

During the year the following fees were paid or payable for services provided by the auditor of the parent entity, its related practices and non-related audit firms:

	2018	2017
	\$	\$
<b>(a) PricewaterhouseCoopers Australia</b>		
(i) Audit and other assurance services		
Audit of financial statements	170,000	206,000
Total remuneration for audit and other assurance services	170,000	206,000
(ii) Taxation services		
Tax compliance services	61,329	48,552
Tax consulting services	38,760	10,200
Total remuneration for taxation services	100,089	58,752
(iii) Other Services		
Initial Public Offering Advice		-
Other consulting services	54,192	49,100
Total remuneration for other services	54,192	49,100
<b>Total remuneration of PricewaterhouseCoopers Australia</b>	<b>324,281</b>	<b>313,852</b>
<b>(b) Network firms of PricewaterhouseCoopers Australia</b>		
(i) Taxation services		
Tax compliance services	-	3,155
Total remuneration for taxation services	-	3,155
<b>Total remuneration of network firms of PricewaterhouseCoopers Australia</b>	<b>-</b>	<b>3,155</b>

#### 27 Interests in Subsidiaries

The Group's subsidiaries as at 30 June 2018 are set out below.

	Principal place of business / Country of Incorporation	Percentage Owned (%) <sup>*</sup>	Percentage Owned (%) <sup>*</sup>
		2018	2017
<b>Subsidiaries:</b>			
Lavomer Riah Pty Ltd	Australia	100	100
Shaver Shop Pty Ltd	Australia	100	100
Shaver Shop (New Zealand) Limited	New Zealand	100	100
Rasoirs Pty Ltd	Australia	-	100

\* The percentage of ownership interest held is equivalent to the percentage voting rights for all subsidiaries.

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 28 Deed of Cross-Guarantee

Shaver Shop Group Limited, Lavomer Riah Pty Ltd and Shaver Shop Pty Ltd are parties to a deed of cross guarantee under which each company guarantees the debts of the others. Under ASIC class order 98/1418 there is no requirement for these subsidiaries to prepare or lodge a consolidated financial report and directors' report as a result of entering into the deed.

These companies represent a closed Group for the purposes of the class order.

The consolidated statement of profit or loss and other comprehensive income and consolidated statement of financial position, comprising the closed group, after eliminating all transactions between parties to the deed of cross guarantee are shown below:

	2018	2017
	\$	\$
<b>Consolidated Statement of Comprehensive Income</b>		
Revenue	150,060,139	138,174,651
Cost of Sales	<u>(87,719,101)</u>	<u>(80,241,920)</u>
<b>Gross Profit</b>	<b>62,341,038</b>	57,932,731
Other revenue	2,065,991	3,606,286
Operating expenses	<u>(53,876,571)</u>	<u>(47,641,876)</u>
Finance costs	<u>(493,324)</u>	<u>(443,715)</u>
<b>Profit before income tax</b>	<b>10,036,991</b>	13,453,426
Income tax (expense) / credit	<u>(3,112,061)</u>	<u>(4,061,112)</u>
<b>Profit after income tax</b>	<b>6,924,930</b>	9,392,314
<b>Profit attributable to members of the parent entity</b>	<b>6,924,930</b>	9,392,314
	<b>2018</b>	<b>2017</b>
	<b>\$</b>	<b>\$</b>
<b>Retained earnings:</b>		
Retained earnings at the beginning of the year	9,554,148	2,163,227
Profit after income tax	6,924,930	9,392,314
Dividends recognised	<u>(5,252,260)</u>	<u>(2,001,393)</u>
<b>Retained earnings at the end of the year</b>	<b>11,226,824</b>	9,554,148
<b>Attributable to:</b>		
Equity holders of the company	<u>11,226,824</u>	<u>9,554,148</u>

## Shaver Shop Group Limited

### Notes to the Financial Statements

For the Year Ended 30 June 2018

#### 28 Deed of Cross-Guarantee continued

	2018	2017
	\$	\$
<b>Consolidated Statement of Financial Position</b>		
<b>Current Assets</b>		
Cash and cash equivalents	2,379,234	1,870,811
Trade and other receivables	2,434,327	1,890,216
Inventories	22,560,555	27,471,643
Current tax receivables	1,627,119	-
<b>Total Current Assets</b>	<b>29,001,235</b>	<b>31,232,670</b>
<b>Non-Current Assets</b>		
Property, plant and equipment	9,709,811	7,234,274
Intangible Assets	42,557,765	39,742,222
Deferred Tax Assets	5,850,250	6,726,586
<b>Total Non-Current Assets</b>	<b>58,117,826</b>	<b>53,703,082</b>
<b>Total Assets</b>	<b>87,119,061</b>	<b>84,935,752</b>
<b>Current Liabilities</b>		
Trade and other payables	12,322,057	10,096,562
Current tax payables	-	131,606
Borrowings	11,324,267	-
<b>Total Current Liabilities</b>	<b>23,646,324</b>	<b>10,228,168</b>
<b>Non-Current Liabilities</b>		
Long-term borrowings	-	11,824,267
Other liabilities	2,978,200	2,624,044
<b>Total Non-Current Liabilities</b>	<b>2,978,200</b>	<b>14,448,311</b>
<b>Total Liabilities</b>	<b>26,624,524</b>	<b>24,676,479</b>
<b>Net Assets</b>	<b>60,494,537</b>	<b>60,259,273</b>
<b>Equity</b>		
Issued Capital	48,897,435	50,385,497
Reserves	370,278	319,628
Retained Earnings	11,226,824	9,554,148
<b>Total Equity</b>	<b>60,494,537</b>	<b>60,259,273</b>

#### 29 Contingencies

##### *Contingent Liabilities*

There are no contingent liabilities recognised by the Group.



## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 30 Related Parties

#### (a) Subsidiaries

Interests in subsidiaries are set out in Note 27.

#### (b) Key management personnel

Key management personnel remuneration (excluding Directors Fees) included within employee expenses for the year is shown below:

	2018	2017
	\$	\$
Short-term employee benefits	1,227,487	1,333,701
Post-employment benefits	74,616	67,224
Share-based payments	35,565	39,952
	<b>1,337,668</b>	<b>1,440,877</b>

Detailed remuneration disclosures are provided in the Remuneration Report.

#### (c) Loans to/from related parties

The following balances are outstanding at the end of the reporting period in relation to transactions with related parties:

	Opening balance	Closing balance	Interest not charged	Interest paid/payable	Impairment
	\$	\$	\$	\$	\$
<b>Loans to KMP and related parties</b>					
2018	81,377	81,377	-	-	-
2017	81,377	81,377	-	-	-

The loans to KMP resulted from a share incentive scheme implemented prior to the Shaver Shop Employee Share Plan (refer Note 32). Interest is payable on the KMP loans based on the Australian Taxation Office benchmark rate from time to time. KMP loans are repayable after a maximum period of six years or upon disposal of the shares.

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 31 Cash Flow Information

#### (a) Reconciliation of result for the year to cashflows from operating activities

Reconciliation of net income to net cash provided by operating activities:

	2018	2017
	\$	\$
Profit for the year	6,565,895	8,993,956
Cash flows excluded from profit attributable to operating activities		
Non-cash flows in profit:		
Depreciation and amortisation	2,051,702	1,407,599
Net loss on disposal of property, plant & equipment	118	-
Share based payments expense	50,650	48,315
Net exchange differences	63,711	48,676
Changes in assets and liabilities, net of the effects of purchase and disposal of subsidiaries:		
- (increase)/decrease in trade and other receivables	(636,254)	135,564
- (increase)/decrease in inventories	6,280,550	(9,954,101)
- (increase)/decrease in deferred tax assets	2,046,336	1,606,321
- increase/(decrease) in trade and other payables	880,897	116,967
- increase/(decrease) in income taxes payable	(1,758,725)	1,012,323
Cashflow from operations	<u>15,544,880</u>	<u>3,415,620</u>

### 32 Share-based Payments

In FY2017, the Company established a Long Term Incentive Plan (LTI Plan) to assist in the motivation, retention and reward of senior executives. The LTIP is designed to align the interests of senior executives more closely with the interests of Shareholders by providing an opportunity for eligible Shaver Shop managers and executives to acquire shares (Plan Shares) in the Company subject to the conditions of the LTIP. Plan Shares that are granted under the plan may be funded by a limited recourse loan to the eligible participant from the Company or one of its subsidiaries. The Plan Shares rank pari passu in all respects with the ordinary shares of the Company.

Under the terms of the LTIP and relevant offer letters, vesting of the LTIP shares is subject to the achievement of performance conditions as well as service conditions. Vesting of 70% of the LTIP shares is subject to the achievement of a minimum Total Shareholder Return (TSR) and 30% of the LTIP shares is subject to the achievement of EPS conditions. If the minimum TSR and EPS performance conditions are achieved, then the relevant service condition attaching to the shares must also be met. In the event the participant leaves the Company prior to the vesting date, the options will generally lapse.

In FY2017, the Company issued 1,300,000 Plan Shares to eligible participants. In FY2018, the Company broadened the eligible participant base with 1,910,000 shares issued to eligible participants. The Plan Shares have been treated as equity-settled share-based payment transactions in the Company's financial accounts.

## Shaver Shop Group Limited

### Notes to the Financial Statements

#### For the Year Ended 30 June 2018

Details of the number of Plan Shares granted and the fair value of the Plan Shares at on the relevant Grant Date is set out below.

	Financial Year		
	2018	2018	2017
Grant Date	10 Nov 17	26 Oct 17	22 June 17
Number of Plan Shares Granted	210,000	1,700,000	1,300,000
Issue Price of Plan Shares	\$0.6829	\$0.6829	\$0.5899
Limited recourse loan value	\$143,409	\$1,160,930	\$766,870

The number of LTIP shares outstanding and the relative exercise price of the LTIP shares is set out below.

	FY17 LTIP (Shares)	FY18 LTIP (Shares)	Total
Outstanding at the beginning of the year	1,300,000	-	1,300,000
Granted during the year	-	1,910,000	1,910,000
Vested during the year	-	-	-
Forfeited during the year	(809,035)	-	(809,035)
Outstanding at the end of the year	490,965	1,910,000	2,400,965
Average exercise price	\$0.5899	\$0.6829	\$0.6639

The fair value at grant date of the LTIP shares is independently determined using an adjusted form of Black Scholes Model. The model takes into account the vesting criteria, the current share price, the expected dividend yield, the risk free interest rate, the expected volatility of the shares and the correlations and volatilities of peer group companies. The assessed fair value at grant date of Plan Shares granted during the year ended 30 June 2018 varied from \$0.03 per Plan Share to \$0.16 per Plan Share depending on the Grant Date and the relevant vesting criteria (FY17 - \$0.06 to \$0.23).

The key assumptions used in the valuation models are:

	Financial Year		
	2018	2018	2017
Grant Date	10 Nov 17	26 Oct 17	22 June 17
Closing share price on Grant Date	\$0.50	\$0.465	\$0.59
Exercise price	\$0.6829	\$0.6829	\$0.5899
Volatility	45%	45%	45%
Dividend yield (Nil as used to pay off loan value)	Nil	Nil	Nil
Risk free rate	2.19%	2.30%	2.00%

Total expenses arising from share based payment transactions recognised during the period as part of Employment Benefits Expense were as follows:

	Financial Year	
	2018	2017
	\$	\$
Plan Shares issued under LTI Plan	\$50,650	\$48,315

## Notes to the Financial Statements

For the Year Ended 30 June 2018

### 33 Events Occurring After the Reporting Date

The consolidated financial report was authorised for issue on 23 August 2018 by the board of directors.

Subsequent to year end, the Directors declared a fully-franked final dividend of 2.4 cents per share to shareholders of record on 17 October 2018. The dividend payment date is 31 October 2018.

In July 2018, Shaver Shop refinanced its existing bank facilities and established a new \$20.0 million multi-option debt facility with a \$1.0 million facility to support bank guarantees. The new facility has a term of two years, expiring on 31 July 2020.

No other matters or circumstances have arisen since the end of the financial year which significantly affected or could significantly affect the operations of the Group, the results of those operations, or the state of affairs of the Group in future financial years.

### 34 Parent entity

The following information has been extracted from the books and records of the parent, Shaver Shop Group Limited and has been prepared in accordance with Accounting Standards.

The financial information for the parent entity, Shaver Shop Group Limited has been prepared on the same basis as the consolidated financial statements.

	2018	2017
	\$	\$
<b>Summary financial information</b>		
Assets		
Current assets	16,544,578	16,544,578
Non-current assets	29,476,444	29,857,267
Total Assets	<u>46,021,022</u>	<u>46,401,845</u>
Liabilities		
Current liabilities	-	-
Total Liabilities	<u>-</u>	<u>-</u>
Equity		
Contributed equity	48,897,434	50,385,496
Reserves	370,277	319,628
Retained losses	<u>(3,246,689)</u>	<u>(4,303,279)</u>
Total Equity	<u>46,021,022</u>	<u>46,401,845</u>
Profit for the period	<u>6,287,234</u>	1,520,055
Total comprehensive income	<u>6,287,234</u>	1,520,055
Opening retained losses	(4,303,279)	(3,821,941)
Profit for the period	6,308,850	1,520,055
Dividends paid or provided for	<u>(5,252,260)</u>	<u>(2,001,393)</u>
Closing retained losses	<u>(3,246,689)</u>	<u>(4,303,279)</u>

## **Shaver Shop Group Limited**

### **Notes to the Financial Statements**

**For the Year Ended 30 June 2018**

#### **Contingent liabilities**

The parent entity did not have any contingent liabilities as at 30 June 2018 or 30 June 2017.

#### **Contractual commitments**

The parent entity did not have any commitments as at 30 June 2018 or 30 June 2017.

#### **35 Company Details**

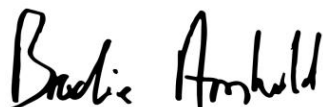
The registered office of and principal place of business of the Company is:

Shaver Shop Group Limited  
Level 1, Chadstone Tower One  
1367 Dandenong Road  
CHADSTONE VIC 3148

The directors of the Company declare that:

1. the consolidated financial statements and notes for the year ended 30 June 2018 are in accordance with the *Corporations Act 2001* and:
  - a. comply with Accounting Standards, which, as stated in basis of preparation Note 1 to the consolidated financial statements, constitutes explicit and unreserved compliance with International Financial Reporting Standards (IFRS); and
  - b. give a true and fair view of the financial position and performance of the consolidated Group;
2. In the directors' opinion, there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

This declaration is made in accordance with a resolution of the Board of Directors.



Broderick Arnhold  
Director

Melbourne  
23 August 2018



## *Independent auditor's report*

To the members of Shaver Shop Group Limited

### *Report on the audit of the financial report*

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#### *Our opinion*

In our opinion:

The accompanying financial report of Shaver Shop Group Limited (the Company) and its controlled entities (together the Group) is in accordance with the *Corporations Act 2001*, including:

1. giving a true and fair view of the Group's financial position as at 30 June 2018 and of its financial performance for the year then ended
2. complying with Australian Accounting Standards and the *Corporations Regulations 2001*.

#### *What we have audited*

The Group financial report comprises:

- the consolidated statement of financial position as at 30 June 2018
- the consolidated statement of comprehensive income for the year then ended
- the consolidated statement of changes in equity for the year then ended
- the consolidated statement of cash flows for the year then ended
- the notes to the consolidated financial statements, which include a summary of significant accounting policies
- the directors' declaration.

#### *Basis for opinion*

We conducted our audit in accordance with Australian Auditing Standards. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the financial report* section of our report.

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

#### *Independence*

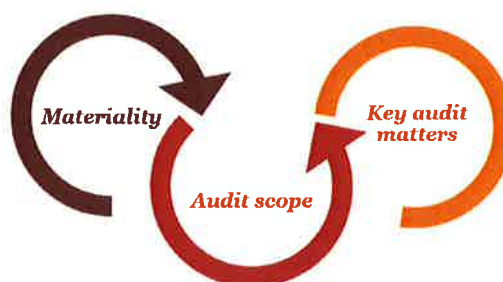
We are independent of the Group in accordance with the auditor independence requirements of the *Corporations Act 2001* and the ethical requirements of the Accounting Professional and Ethical Standards Board's APES 110 *Code of Ethics for Professional Accountants* (the Code) that are relevant to our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

#### *Our audit approach*

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An audit is designed to provide reasonable assurance about whether the financial report is free from material misstatement. Misstatements may arise due to fraud or error. They are considered material if individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of the financial report.

We tailored the scope of our audit to ensure that we performed enough work to be able to give an opinion on the financial report as a whole, taking into account the geographic and management structure of the Group, its accounting processes and controls and the industry in which it operates.



Materiality	Audit scope	Key audit matters
<ul style="list-style-type: none"> <li>For the purpose of our audit we used overall Group materiality of \$487,000 million, which represents approximately 5% of the Group's profit before tax.</li> <li>We applied this threshold, together with qualitative considerations, to determine the scope of our audit and the nature, timing and extent of our audit procedures and to evaluate the effect of misstatements on the financial report as a whole.</li> <li>We chose Group profit before tax because, in our view, it is the metric against which the performance of the Group is most commonly measured. We selected 5% based on our professional judgement, noting it is within the range of commonly accepted thresholds.</li> </ul>	<ul style="list-style-type: none"> <li>Our audit focused on where the Group made subjective judgements; for example, significant accounting estimates involving assumptions and inherently uncertain future events.</li> <li>The Group sells personal grooming and beauty appliances to customers across Australia and New Zealand, through retail stores and the Group's website. The products are predominately held in the Group's warehouse in Melbourne, and across the retail stores. The accounting processes are structured around a group finance function located at the head office in Melbourne where the majority of our audit procedures were performed.</li> </ul>	<ul style="list-style-type: none"> <li>Amongst other relevant topics, we communicated the following key audit matters to the Audit and Risk Committee:               <ul style="list-style-type: none"> <li>Carrying value of goodwill</li> <li>Carrying value of inventory</li> <li>Accounting for supplier rebates</li> </ul> </li> <li>These are further described in the <i>Key audit matters</i> section of our report.</li> </ul>

### Key audit matters

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the financial report for the current period. The key audit matters were addressed in the context of our audit of the financial report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters. Further, any commentary on the outcomes of a particular audit procedure is made in that context.





<i>Key audit matter</i>	<i>How our audit addressed the key audit matter</i>
<p data-bbox="312 472 639 528"><b><i>Carrying value of goodwill</i></b> <i>(Refer to note 13) [\$41.7m]</i></p> <p data-bbox="312 562 858 647">At 30 June 2018 the Group recognised a balance of \$41.7million of goodwill in the financial report.</p> <p data-bbox="312 680 858 797">Australian Accounting Standards require the Group to assess the carrying value of goodwill each year for impairment at the Cash Generating Unit (CGU) level.</p> <p data-bbox="312 831 858 1010">We focussed on the impairment assessment due to the size of the goodwill balance and the significant judgements and assumptions required in estimating the future performance of the Group in the Group’s discounted cashflow impairment model (the impairment model).</p>	<p data-bbox="935 472 1283 499">Our audit procedures included:</p> <ul data-bbox="887 533 1437 1888" style="list-style-type: none"> <li data-bbox="887 533 1417 647">• Making an assessment of whether the CGU identified by the Group was consistent with our knowledge of the Group’s operations and internal reporting.</li> <li data-bbox="887 680 1398 797">• Assessing whether the CGU appropriately included all directly attributable assets, liabilities, corporate overheads and cash flows.</li> <li data-bbox="887 831 1426 947">• Testing that forecast cash flows used in the impairment model were consistent with the most up-to-date budgets and business plans presented to the Board of Directors</li> <li data-bbox="887 981 1433 1133">• Evaluating the Group’s track record of forecasting future results within impairment models based on a comparison of budgets with reported actual results for the previous year.</li> <li data-bbox="887 1167 1426 1373">• Considered the Group’s sensitivity analysis on the key assumptions used in the impairment model. We assessed the assumptions with our view on other reasonably possible outcomes in light of the industry the Group operates in and past performance.</li> <li data-bbox="887 1406 1433 1581">• With the assistance of our valuation experts, evaluating the appropriateness of the discount rate by assessing the reasonableness of the relevant inputs to the calculation against industry and market factors.</li> <li data-bbox="887 1615 1426 1677">• Testing of the mathematical accuracy of the impairment model’s calculations.</li> <li data-bbox="887 1711 1437 1888">• Evaluation of the adequacy and accuracy of disclosures in note 13, including those regarding the key assumptions and sensitivities to changes in such assumptions, in light of the requirements of Australian Accounting Standards.</li> </ul>



### **Carrying value of inventory**

*(Refer to note 11) [\$23.9m]*

At 30 June 2018 the Group recognised inventory of \$23.9 million in the financial report.

The Group also recognised a provision for obsolete inventory of \$688,000. The Group estimate the required provision using past experience and judgement to determine the likely sales volumes and expected future selling prices and associated costs.

We have focused on this matter because of the significant judgement and estimation involved in determining the net realisable value of inventory and the potentially material impact on the financial report.

Our procedures included the following:

- Testing to verify that all inventory balances were included in the provision calculation.
- An evaluation of whether the methodology applied to calculate the provision was consistent with that applied in the prior year and if not we have considered whether the changes in the methodology are reasonable and in line with Australian Accounting Standards.
- Assessing the Group's historical ability to make estimates by testing a sample of products included in the prior year inventory provision, including comparing the estimated recoverable amount to the actual gain or loss earned on those products sold in the financial year.
- Testing of the mathematical accuracy of the provision calculation.
- Evaluating whether the provision for inventory was adequate by assessing:
  - the gross margins recognised by the Group; and
  - the inventory turnover ratio and ageing, including a comparison to the prior year.

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### **Accounting for supplier rebates**

*(Refer to note 2(O)) [\$1.6m]*

The Group has entered into a number of arrangements with various suppliers under which they receive rebates for purchasing goods. These rebates are known as supplier volume rebates and vary dependent on the specific terms agreed with each supplier in relation to the rebate rate(s) and the range of products included.

We have focused on this matter because of the magnitude and number of rebates received during the year, and the different terms applicable to each rebate agreement.

Our audit procedures included the following:

- Obtained confirmations from a sample of suppliers of the quantity of relevant inventory purchased and the terms of rebate and compared these to the information used in the Group's calculations.
- Tested the mathematical accuracy of the Group's rebate calculations
- For a sample of rebates not subject to confirmation procedures, we have obtained evidence of payment and a valid arrangement.



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### *Other information*

The directors are responsible for the other information. The other information comprises the information included in the Group's annual report for the year ended 30 June 2018, but does not include the financial report and our auditor's report thereon. Prior to the date of this auditor's report, the other information we obtained included the Directors report. We expect the remaining other information to be made available to us after the date of this auditor's report, including Operational Highlights, Chairman's and CEO's Report, Shareholder Information, Corporate Information.

Our opinion on the financial report does not cover the other information and we do not and will not express an opinion or any form of assurance conclusion thereon.

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

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

When we read the other information not yet received as identified above, if we conclude that there is a material misstatement therein, we are required to communicate the matter to the directors and use our professional judgement to determine the appropriate action to take.

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### *Responsibilities of the directors for the financial report*

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

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

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### *Auditor's responsibilities for the audit of the financial report*

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

A further description of our responsibilities for the audit of the financial report is located at the Auditing and Assurance Standards Board website at: [http://www.auasb.gov.au/auditors\\_responsibilities/ar1.pdf](http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf). This description forms part of our auditor's report.



## *Report on the remuneration report*

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### *Our opinion on the remuneration report*

We have audited the remuneration report included in pages 12 to 24 of the directors' report for the year ended 30 June 2018.

In our opinion, the remuneration report of Shaver Shop Group Limited for the year ended 30 June 2018 complies with section 300A of the *Corporations Act 2001*.

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### *Responsibilities*

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

A handwritten signature in black ink, appearing to read 'PricewaterhouseCoopers', written in a cursive style.

PricewaterhouseCoopers

A handwritten signature in black ink, appearing to read 'Daniel Rosenberg', written in a cursive style.

Daniel Rosenberg  
Partner

Melbourne  
23 August 2018