Shaver Shop Group Limited

ABN: 78 150 747 649

Condensed consolidated financial statements

For the Half Year Ended 31 December 2018

Shaver Shop Group Limited

Directors Report
31 December 2018

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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 half year ended 31 December 2018.

Directors

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

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

Principal activities

During the period, the principal activities of the Group consisted of 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. There were no significant changes in the nature of the Group's principal activities during the financial half year.

Review of operations and results summary

Shaver Shop's statutory profit after income tax amounted to $6.1 million (1H FY2018: $6.9 million) after subtracting income tax expense of $2.6 million (1H FY2018: $3.0 million). The decrease in profit after income tax was primarily due to:

1. The reduction in sales and earnings contributions from Daigou reseller channel sales in 1H FY2019 following the loss of a supply contract for a range of female beauty products that were sold in high volumes to this channel in 2H FY2017 and 1H FY2018. In 1H FY2018, estimated Daigou reseller channel sales amounted to approximately $4.5 million across the Corporate store network at an estimated average front end gross profit margin of 24%, excluding rebates received. Sales and earnings contributions from the Daigou reseller channel were immaterial in 1H FY2019.
2. The recognition of $0.97 million in due diligence costs in 1H FY2019 associated with the evaluation of a significant acquisition opportunity during the period. Following due diligence, the acquisition did not proceed.

Non-IFRS measures

The Directors' Report includes references to normalised results. The normalisations for 1H FY2018 arise as a result of the liquidation of two of Shaver Shop's suppliers (the suppliers were affiliated with each other) in the period. Provisions totalling $0.49 million 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 1H FY2019, Shaver Shop undertook significant due diligence in relation to a potential acquisition opportunity that was strategically aligned to Shaver Shop's business. The acquisition did not proceed, however at the time negotiations ceased, due diligence was near completion resulting in transaction related costs of $0.97 million being expensed in 1H FY2019.

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 Company's Statutory Earnings before Interest, Tax, Depreciation and Amortisation ("EBITDA") of the Group for 1H FY2019 was $10.0 million (1H FY2018: $11.1 million).

	Statutory Consolidated	
	1H FY2019 $000	**1H FY2018 $000**
Profit after income tax from continuing operations (NPAT)	6,078	6,852
Add back:		
Net finance costs	231	262
Income tax expense	2,634	3,018
Depreciation and amortisation expense	1,093	1,009
EBITDA[1]	**10,036**	**11,141**

1 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 following table sets out the impact of the normalisation adjustments on the results for 1H FY2019 and 1H FY2018:

	Reported 1HFY19 $000	**Normalisation $000**	**Normalised 1HFY19 $000**	**Reported 1H FY18 $000**	**Normalisation $000**	**Normalised 1H FY18 $000**
Sales	**95,716**		**95,716**	**93,175**		**93,175**
Cost of goods sold	(54,821)		(54,821)	(54,602)	154	(54,448)
Gross profit	**40,895**		**40,895**	**38,573**	**154**	**38,727**
Gross margin %	***42.7%***		***42.7%***	***41.4%***		***41.6%***
Franchise and other revenue	927		927	1,284		1,284
Employee benefits expense	(13,724)		(13,724)	(11,466)		(11,466)
Occupancy expenses	(7,687)		(7,687)	(7,062)		(7,062)
Marketing and advertising expenses	(4,711)		(4,711)	(5,732)		(5,732)
Other expenses	(5,664)	970	(4,694)	(4,456)	337	(4,119)
Overhead expenses	(31,786)	970	(30,816)	(28,716)	337	(28,379)
EBITDA	**10,036**	**970**	**11,006**	**11,141**	**491**	**11,632**
EBITDA margin	***10.5%***		***11.5%***	***12.0%***		***12.5%***
Depreciation and amortisation	(1,093)		(1,093)	(1,010)		(1,010)
EBIT	**8,943**	**970**	**9,913**	**10,131**	**491**	**10,622**
Net finance costs	(231)		(231)	(262)		(262)
Profit before income tax	**8,712**	**970**	**9,682**	**9,869**	**491**	**10,360**
Income tax expense	(2,634)	(291)	(2,925)	(3,018)	(147)	(3,165)
NPAT	**6,078**	**679**	**6,757**	**6,851**	**344**	**7,195**

Shaver Shop receives a tax deduction over five years for the cost of franchise right terminations that occur through its franchise buyback program. This 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 1H FY2019, FY2019 and each subsequent financial year is set out in the table below.

	1H FY2019 $000	**FY2019 $000**	**FY2020 $000**	**FY2021 $000**	**FY2022 $000**	**FY2023 $000**
Reduction in income tax payable	800	1,600	1,071	735	274	33

The table below compares the normalised operating performance of Shaver Shop for 1H FY2019 against 1H FY2018.

	Consolidated Normalised 1H FY2019 $000	Normalised 1H FY2018 $000	Change %
Revenue	95,716	93,175	2.7%
Gross Profit	40,895	38,726	5.6%
Gross Margin	42.7%	41.6%	2.6%
EBITDA	11,007	11,632	-5.4%
EBITDA Margin	11.5%	12.5%	-8.0%
NPAT	6,757	7,195	-6.1%
Tax benefit associated with franchise buybacks	800	890	-10.1%
NPAT – adjusted for franchise buyback tax benefit (“Cash NPAT”)	7,557	8,086	-6.5%
Weighted average shares - basic	121,717	124,962	-2.6%
Basic earnings per share – cents	5.55	5.76	-3.6%
Cash earnings per share – cents (Cash NPAT/weighted avg. shares)	6.21	6.47	-4.0%

Normalised Results Summary

In 1H FY2019, Shaver Shop’s normalised EBITDA was $11.0 million. The decrease in EBITDA was primarily due the reduction in sales and earnings contributions from Daigou reseller channel sales in 1H FY2019 following the loss of supply of a range of female beauty products that were sold in material volumes to this channel in 2H FY2017 and 1H FY2018. In 1H FY2018, estimated Daigou reseller channel sales amounted to approximately $4.5 million across the Corporate store network at an estimated average gross profit margin of 24%, excluding rebates received. Sales and earnings contributions from the Daigou reseller channel were immaterial in 1H FY2019. If the estimated EBITDA contribution from this channel is removed from both periods, Shaver Shop’s normalised EBITDA increased approximately $0.5 million (4.8%) to $11.0 million on the back of increased gross profit margins and operating cost leverage across corporate overheads and marketing expenditure.

The increase in corporate store numbers was the result of the acquisition of one franchise store (Eastland, VIC) in late October 2018 as well as the launch of 6 new greenfield sites. At 31 December 2018, Shaver Shop’s store network consisted of 113 corporate-owned stores (1H FY2018 – 106) and 8 franchises (1H FY2018 – 9) or 121 stores in total of which, 115 outlets are located in Australia and 6 in New Zealand.

Normalised gross profit margins increased approximately 110 basis points to 42.7% (1H FY2018 – 41.6%) due in part to a lower contribution from the lower margin Daigou reseller channel, reduced discounting on certain categories leading into Christmas, as well as increasing focus on driving margins through promotions and in-store merchandising activity.

Shaver Shop continued its strategy to buy back franchises in 1H FY2019. As a result of the full period impact of the four franchise stores acquired in FY2018 and the one franchise store acquired in 1H FY2019, together with a decline in like for like sales of franchises of -8.6% in 1H FY2019, franchise royalties and advertising contributions have declined by approximately $0.3 million compared with the prior corresponding period. As franchise buybacks occur, Shaver Shop no longer recognises the royalties only, but consolidates the full revenue and costs of operating the store leading to increased EBITDA in dollar terms but a lower EBITDA margin percentage.

Directors Report
31 December 2018

Normalised net profit after tax (NPAT) decreased 6.1% to $6.8 million (1H FY2018 - $7.2 million) leading to normalised basic earnings per share of 5.55 cents per share (1H FY2018 – 5.76 cents), down 3.6%. After accounting for the tax benefits arising from franchise buybacks undertaken over the last 5 years, normalised Cash NPAT was $7.6 million in the half (1H FY2018 - $8.1 million).

Liquidity Risk Management

In 1H FY2019, Shaver Shop generated operating cash flow of $17.4 million (1H FY2018 - $21.5 million). The reduction in operating cash flow in 1H FY2019 was due the impact of a one-off release of working capital in 1H FY2018 following a significant stock purchase in May 2017. This stock was paid for in June 2017 but was primarily sold during 1H FY2018 leading to higher than normal operating cash flow in that period.

Shaver Shop's net cash at 31 December 2018 was $4.2 million, an increase of $2.0 million in comparison to 31 December 2017 and a net debt position of $8.4 million at 30 June 2018. Gross debt drawn under the Company's $20.0 million commercial advance facility was $9.8 million at 31 December 2018 down from $11.3 million at 30 June 2018. This leaves Shaver Shop $10.2 million in available capacity in its commercial advance facility. The Company's commercial advance facility matures on 31 July 2020.

The Company's debt facility has three key covenants: the leverage ratio (Debt/EBITDA); the net worth ratio ((total assets – total liabilities) / total assets) and the fixed charge cover ratio (EBITDA + Real property lease expenses) / (Real property lease expenses + Interest expense). All banking covenants were within the bank's thresholds in 1H FY2019.

Dividends paid or recommended

On 31 October 2018, the Company paid a fully-franked final dividend in respect of the 2018 financial year totaling $2.9 million, which represents a dividend of 2.4 cents per share.

On 21 February 2019, the directors of the Company declared an interim dividend on ordinary shares in respect of the first half of the 2019 financial year. The total amount of the dividend is $2.5 million which represents a franked dividend to the extent of 80% of 2.0 cents per share (1H FY2018 – 1.8 cents fully franked). The dividend has not been provided for in the half year financial statements. The directors of the Company resolved to increase the dividend payout ratio to approximately 60-80% of annual Cash NPAT (previously approximately 50% of cash NPAT).

Events after the reporting date

Subsequent to the end of the financial half, the directors declared an 80% franked dividend of 2.0 cents per share to shareholders on 21 February 2019. The dividend payment date is 17 April 2019.

Auditor's independence declaration

A copy of the auditor's independence declaration as required under section 307C of the *Corporations Act 2001* is set out on page 5.

This report is made in accordance with a resolution of the directors.

Brodie Arnhold

Broderick Arnhold
Director

Melbourne
21 February 2019

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Auditor's Independence Declaration

As lead auditor for the review of Shaver Shop Group Limited for the half-year ended 31 December 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 review; and

(b) no contraventions of any applicable code of professional conduct in relation to the review.

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

Daniel Rosenberg
Partner
PricewaterhouseCoopers

Melbourne
21 February 2019

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Shaver Shop Group Limited

Condensed consolidated statement of profit or loss and other comprehensive income

For the Half Year Ended 31 December 2018

	Note	31 December 2018 $	31 December 2017 $
Revenue from continuing operations		**95,715,876**	**93,174,580**
Cost of goods sold		**(54,820,667)**	**(54,602,383)**
Gross profit from corporate owned retail stores		**40,895,209**	**38,572,197**
Franchise and other revenue		**927,402**	**1,284,058**
Employee benefits expense		**(13,724,408)**	**(11,465,668)**
Depreciation and amortisation expense		**(1,093,286)**	**(1,009,955)**
Marketing and advertising expenses		**(4,711,273)**	**(5,731,548)**
Occupancy expenses		**(7,686,604)**	**(7,062,230)**
Other expenses		**(5,663,699)**	**(4,455,898)**
Finance costs (net)		**(231,249)**	**(261,814)**
Profit before income tax		**8,712,092**	**9,869,142**
Income tax expense		**(2,634,253)**	**(3,017,553)**
Profit for the half year		**6,077,839**	**6,851,589**
Items that may be reclassified to profit or loss when specific conditions are met			
Exchange differences on translating foreign operations		**(43,622)**	**57,772**
Other comprehensive income for the year		**(43,622)**	**57,772**
Total comprehensive income for the half year		**6,034,217**	**6,906,361**
Profit attributable to:			
Members of the parent entity		**6,077,839**	**6,851,589**
Total comprehensive income attributable to:			
Members of the parent entity		**6,034,217**	**6,906,361**
		Cents	Cents
Earnings per share for profit attributable to the ordinary equity holders of the company			
Basic earnings per share (weighted average shares)	12	5.0	5.5
Diluted earnings per share (weighted average shares)	12	5.0	5.4

The accompanying notes form part of these financial statements

Condensed consolidated statement of financial position
As at 31 December 2018

	Note	31 December 2018 $	30 June 2018 $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents		**14,021,972**	2,926,951
Trade and other receivables		**4,361,112**	2,658,826
Inventories		**33,592,925**	23,894,168
Current tax receivable		**906,286**	1,627,119
TOTAL CURRENT ASSETS		**52,882,295**	31,107,064
NON-CURRENT ASSETS			
Property, plant and equipment	7	**11,291,511**	10,279,854
Deferred tax assets		**5,460,924**	5,850,250
Intangible assets	8	**43,005,115**	42,655,014
TOTAL NON-CURRENT ASSETS		**59,757,550**	58,785,118
TOTAL ASSETS		**112,639,845**	89,892,182
LIABILITIES			
CURRENT LIABILITIES			
Trade and other payables		**35,410,816**	14,736,319
Borrowings	9	**-**	11,324,267
Employee benefits		**1,400,121**	1,162,671
Other liabilities		**648,910**	602,012
TOTAL CURRENT LIABILITIES		**37,459,847**	27,825,269
NON-CURRENT LIABILITIES			
Borrowings	9	**9,824,267**	-
Other liabilities		**3,295,316**	3,098,700
TOTAL NON-CURRENT LIABILITIES		**13,119,583**	3,098,700
TOTAL LIABILITIES		**50,579,430**	30,923,969
NET ASSETS		**62,060,415**	58,968,213
EQUITY			
Issued capital	11	**48,872,261**	48,897,435
Reserves		**358,352**	376,974
Retained earnings		**12,829,802**	9,693,804
TOTAL EQUITY		**62,060,415**	58,968,213

The accompanying notes form part of these financial statements

Shaver Shop Group Limited

Condensed consolidated statement of changes in equity

For the Half Year Ended 31 December 2018

	Note	Ordinary Shares $	Retained Earnings $	Other Reserves $	Total $
Balance at 1 July 2018		**48,897,435**	**9,693,804**	**376,974**	**58,968,213**
Profit for the period		**-**	**6,077,839**	**-**	**6,077,839**
Other comprehensive income		**-**	**-**	**(43,622)**	**(43,622)**
Total comprehensive income for the half year		**-**	**6,077,839**	**(43,622)**	**6,034,217**
Transactions with owners in their capacity as owners:					
Share buybacks		**(25,174)**	**-**	**-**	**(25,174)**
Dividends provided for or paid		**-**	**(2,941,841)**	**-**	**(2,941,841)**
Employee share schemes – value of employee services		**-**	**-**	**25,000**	**25,000**
Balance at 31 December 2018		**48,872,261**	**12,829,802**	**358,352**	**62,060,415**

	Note	Ordinary Shares $	Retained Earnings $	Other Reserves $	Total $
Balance at 1 July 2017		**50,385,497**	**8,390,621**	**290,942**	**59,067,060**
Profit for the period		**-**	**6,555,443**	**-**	**6,555,443**
Other comprehensive income		**-**	**-**	**35,382**	**35,382**
Total comprehensive income for the half year		**-**	**6,555,443**	**35,382**	**6,590,825**
Transactions with owners in their capacity as owners:					
Share buybacks		**(1,488,062)**	**-**	**-**	**(1,488,062)**
Dividends provided for or paid		**-**	**(5,252,260)**	**-**	**(5,252,260)**
Employee share schemes – value of employee services		**-**	**-**	**50,650**	**50,650**
Balance at 30 June 2018		**48,897,435**	**9,693,804**	**376,974**	**58,968,213**

Condensed consolidated statement of cash flows
For the Half Year Ended 31 December 2018

	Note	31 December 2018 $	31 December 2017 $
CASH FLOWS FROM OPERATING ACTIVITIES:			
Receipts from customers (inclusive of GST)		103,808,363	101,071,271
Payments to suppliers and employees (inclusive of GST)		(84,800,674)	(77,917,059)
		19,007,689	23,154,212
Interest received		22,847	22,341
Interest paid		(254,096)	(261,814)
Income taxes paid		(1,359,098)	(1,408,867)
Net cash inflows from operating activities		17,417,342	21,505,871
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchase of property, plant and equipment		(1,989,828)	(2,602,369)
Landlord contributions to new premises fitouts		470,000	748,000
Purchase of corporate stores	5	(335,478)	(4,644,585)
Net cash outflows from investing activities		(1,855,306)	(6,498,954)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Proceeds from (repayment of) borrowings		(1,500,000)	(4,500,000)
Payments for share buy-backs		(25,174)	(376,820)
Dividends paid		(2,941,841)	(3,009,666)
Net cash inflows/(outflows) from financing activities		(4,467,015)	(7,886,486)
Net increase/(decrease) in cash and cash equivalents held		11,095,021	7,120,431
Cash and cash equivalents at beginning of the half year		2,926,951	2,389,271
Cash and cash equivalents at end of the half year		14,021,972	9,509,702

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

1 Basis of Preparation

This condensed consolidated interim financial report for the half-year reporting period ended 31 December 2018 has been prepared in accordance with Accounting Standard AASB 134: Interim Financial Reporting and the Corporations Act 2001.

The interim report does not include all the notes of the type normally included in an annual financial report. Accordingly, this report is to be read in conjunction with the annual report for the year ended 30 June 2018 and any public announcements made by Shaver Shop Group Limited during the interim reporting period in accordance with the continuous disclosure requirements of the Corporations Act 2001.

The accounting policies adopted are consistent with those of the previous financial year and corresponding interim reporting period, except for the adoption of new and amended standards as set out below.

(a) New and amended standards adopted by the group

A number of new or amended standards became applicable for the current reporting period and the group had to change its accounting policies and make retrospective adjustments as a result of adopting the following standards:

- AASB 9 Financial Instruments, and

- AASB 15 Revenue from Contracts with Customers.

The impact of the adoption of these standards and the new accounting policies are disclosed in note 3 below.

(b) Impact of standards issued but not yet applied by the Group

AASB 16 Leases 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 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 $38.2 million. 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. The group does not intend to adopt the standard before its effective date.

2 Critical Accounting Estimates and Judgements

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 8, and recoverable amount of inventory.

3 Changes in Accounting Policies

This note explains the impact of the adoption of AASB 9 Financial Instruments and AASB 15 Revenue from Contracts with Customers on the group's financial statements and also discloses the new accounting policies that have been applied from 1 January 2018, where they are different to those applied in prior periods.

As a result of the changes in the entity's accounting policies, prior year financial statements had to be restated. As explained in note 3 a) and b) below, AASB 9 was adopted without restating comparative information and AASB 15 was adopted by restating comparative information as a result of a customer's right to return a product.

a) AASB 9 Financial Instruments – Impact of adoption

The only significant impact to the Group in the adoption of AASB 9 is in relation to the impairment methodology used for valuing financial assets.

i) Impairment of financial assets

The group has three types of financial assets that are subject to AASB 9's new expected credit loss model:

- trade receivables for rebates from suppliers;
- trade receivables from sales of inventory to franchisees; and
- trade receivables from franchisee royalties.

Each of these classes of receivables have observed very low historical default rates given:

a) Amounts owed from franchisees are usually direct debited on a monthly basis; and

b) Rebates from suppliers are generally confirmed with suppliers before the related invoice is raised and Shaver Shop's largest suppliers are leading global brands in the personal care category.

The group was required to review its impairment methodology under AASB 9 for each of these classes of assets. The impact of the change in impairment methodology did not have a material impact on the group's provisions and accordingly no adjustment to retained earnings and equity was made.

b) AASB 15 Revenue from Contracts with Customers

The Group has adopted AASB 15 Revenue from Contracts with Customers from 1 July 2018 which resulted in changes in accounting policies and adjustments to the amounts recognised in the financial statements. In accordance with the transition provisions in AASB 15, the group has adopted the new rules retrospectively and has restated comparatives for the 2018 financial year. In summary, the following adjustments were made to the amounts recognised in the balance sheet at the date of initial application (1 July 2018):

	AASB 118 carrying amount 30 June 2018 $	Remeasurements $	AASB 15 carrying amount 1 July 2018 $
Trade & other receivables	2,532,398	126,428	2,658,826
Trade & other payables	14,583,933	152,386	14,736,319
Retained earnings	9,719,768	(25,958)	9,693,804

The impact on the Group's retained earnings as at 1 July 2017 and 1 July 2018 is as follows:

	2018 $	2017 $
Retained earnings – prior to AASB 15 restatement	9,719,762	8,406,133
Accounting for refunds	(25,958)	(15,512)
Opening retained earnings 1 July – after AASB 15 restatement	**9,693,804**	**8,390,621**

(i) Accounting for refunds

When the customer has a right to return the product within a given period, the Group is obliged to refund the purchase price. Shaver Shop offers customers the right to return products for some product categories (primarily long term hair reduction appliances).

The group previously did not recognise a provision for returns as the value of returns was immaterial for goods that were sold with a right of return. Under AASB 15, a refund liability for the expected refunds to customers is recognised as an adjustment to revenue $152,386 at 1 July 2018 in trade and other payables. At the same time, Shaver Shop has a right to recover the product from the customer where the customer exercises his right of return and recognises an asset and a corresponding adjustment to cost of sales $126,428 at 1 July 2018. The asset is measured by reference to the former carrying amount of the product. The costs to recover the products are not material because the customer usually returns the product in a saleable condition at the store. To reflect this change in policy, the group has recognised other payables of $152,386 and other current assets of $126,428 on 1 July 2018.

ii) Accounting policy

The group operates a national chain of retail stores selling personal grooming solutions and health and beauty appliances for men and women.

Revenue from the sale of goods is recognised when a group entity sells a product to the customer. Payment of the transaction price is due immediately when the customer purchases the goods. It is the group’s policy to sell its products to the end customer with a 21 day period to return the product for either a refund or exchange, subject to original proof of purchase being provided and the item being in original condition (including packaging) and not used.

Therefore, a refund liability (included in trade and other payables) and a right to the returned goods (included in other current assets) are recognised for the products expected to be returned. Accumulated experience is used to estimate such returns at the time of sale at a portfolio level (expected value method). Because the number of products returned has been relatively steady for years, it is highly probable that a significant reversal in the cumulative revenue recognised will not occur. The validity of this assumption and the estimated amount of returns are reassessed at each reporting date.

4 Profit and loss information

Income tax

Income tax expense is recognised based on management's estimate of the weighted average effective annual tax rate expected for the full financial year. The estimated average annual tax rate used for the period to 31 December 2018 is 30.2%, compared to 30.5% for the six months ended 31 December 2017.

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 the five years is recorded as a deferred tax asset. 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.

5 Business Combinations

The company acquired one franchise store on 30 October 2018 for a total consideration of $335,478.

The acquisition is expected to increase the Group's retail sales and synergies are expected to arise after the Group's acquisition of this store.

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

	Total
	$
Purchase consideration:	
- Cash	335,478
Total purchase consideration	**335,478**
Assets or liabilities acquired:	
Inventories	82,319
Trade payables	(296,841)
Deferred tax asset	165,000
Total net identifiable assets acquired and liabilities assumed	**(49,522)**
Goodwill	**385,000**

The goodwill is attributable to the retail stores bought back, strong profitability in trading personal grooming products and synergies expected to arise after the Group'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 $0.6 million.

Had the results of the acquired franchise stores been consolidated from 1 July 2018, the additional revenue of the Group would have been approximately $0.4 million for the half-year ended 31 December 2018.

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

6 Segment information

The Group operates within one reportable segment, being retail store sales of specialist personal grooming products through their corporate stores and royalty income from franchise stores. The chief operating decision maker for the Group 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 as franchise store revenue increases at a similar rate to corporate stores. 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. As at 31 December 2018, the Group operated 107 Corporate Stores in Australia (2017: 100) and 6 Corporate Stores in New Zealand (2017: 6) for a total of 113 Corporate Stores. In addition to this, at 31 December 2018 there were 8 franchised stores (2017: 9) Sales and profit derived from outside Australia are not material to disclosure.

7 Property, plant and equipment

	31 December 2018 $	30 June 2018 $
PLANT AND EQUIPMENT		
Capital works in progress		
At cost	**1,321,106**	1,508,131
Plant and equipment		
At cost	**12,956,117**	12,104,009
Accumulated depreciation	**(4,128,382)**	(4,232,959)
Total plant and equipment	**8,827,735**	7,871,050
Computer equipment		
At cost	**1,746,618**	1,503,181
Accumulated depreciation	**(614,496)**	(614,416)
Total computer equipment	**1,132,122**	889,385
Improvements		
At cost	**14,798**	14,798
Accumulated depreciation	**(4,250)**	(3,510)
Total leasehold improvements	**10,548**	11,288
Total property, plant and equipment	**11,291,511**	10,279,854

(a) Movements in Carrying Amounts

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

	Capital Works in Progress $	Plant and Equipment $	Computer Equipment $	Improvements $	Total $
Half Year ended 31 December 2018					
Opening net book amount	**1,508,131**	**7,871,050**	**889,385**	**11,288**	**10,279,854**
Additions	**2,043,348**	**-**	**11,439**	**-**	**2,054,787**
Transfers	**(2,230,372)**	**1,800,220**	**430,152**	**-**	**-**
Depreciation expense	**-**	**(853,480)**	**(201,692)**	**(740)**	**(1,055,912)**
Foreign exchange movements	**(1)**	**9,945**	**2,838**	**-**	**12,782**
Closing net book amount	**1,321,106**	**8,827,735**	**1,132,122**	**10,548**	**11,291,511**

8 Intangible Assets

The intangible assets held by the group increased primarily as a result of the acquisition of franchise stores. See Note 5.

	31 December 2018 $	30 June 2018 $
Goodwill		
Cost	**42,074,264**	41,689,264
Brand names		
Cost	**1,453,415**	1,450,370
Accumulated amortisation and impairment	**(522,564)**	(484,620)
Net carrying value	**930,851**	965,750
Total Intangibles	**43,005,115**	42,655,014

(a) Movements in carrying amounts of intangible assets

	Brand names $	Goodwill $	Total $
Half Year ended 31 December 2018			
Opening net book amount	**965,750**	**41,689,264**	**42,655,014**
Additions through business combinations	**-**	**385,000**	**385,000**
Amortisation	**(37,487)**	**-**	**(37,487)**
Foreign exchange movements	**2,588**	**-**	**2,588**
Closing net book amount	**930,851**	**42,074,264**	**43,005,115**

Impairment testing for goodwill

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 an impairment assessment at 31 December 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 forecasts 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% (2018: 2.5%). The pre-tax discount rate applied to cash flow projected is 13.2%.

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 42.7%.

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% (2018: 2.5%) and the same store sales growth rate used for the five year forecast period is 3.0% (30 June 2018: 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. The recoverable amount of the CGU would equal its carrying amount if the five year forecasted growth rate decreased from 3.0% to 0.6%, the growth rate in the terminal year decreased from 2.5% to 2.0% and the discount rate increased to a post-tax discount rate of 10.7% from 9.9%.

9 Borrowings

In August 2018, Shaver Shop refinanced its existing bank facilities and established a new $20.0 million multi-option facility with a $1.0 million facility to support its bank guarantees. The facilities have an expiry date of 31 July 2020. Interest is payable on the commercial advance facility at the rate of BBSY +1.55%.

As at 31 December 2018, total debt drawn under the commercial advance facility was $9.8 million, leaving $10.2 million in unused facilities.

The Company’s debt facility has three key covenants: the leverage ratio (Debt/EBITDA); the net worth ratio ((total assets – total liabilities) / total assets) and the Fixed Charge Cover ratio ((EBITDA + real property lease expenses)/(interest expense +real property lease expenses)). All banking covenants were within the bank’s thresholds in 1H FY2019.

10 Dividends

	31 December 2018 $	30 June 2018 $
Final 2018 fully franked ordinary dividend of 2.4 cents (2017: 2.4 cents)	**2,941,843**	3,009,671
Proposed interim 2019 80% franked ordinary dividend of 2.0 cents per share (2018 interim dividend: 1.8 cents fully franked)	**2,510,630**	2,295,153

The proposed interim dividend for 2019 was declared after the end of the reporting period and therefore has not been provided for in the condensed consolidated financial statements.

Notes to the Financial Statements

For the Half Year Ended 31 December 2018

11 Issued Capital

	31 December 2018 $	30 June 2018 $
125,531,498 (201: 127,508,519) Ordinary shares	**48,872,261**	48,897,435

Movements in share capital

	31 December 2018 $	30 June 2018 $
At the beginning of the reporting period	**48,897,435**	50,385,497
Shares bought back through on market buy-back	**(25,174)**	(1,488,062)
At the end of the reporting period	**48,872,261**	48,897,435

Number of shares outstanding	31 December 2018 No.	30 June 2018 No.
At the beginning of the reporting period	**125,062,692**	126,387,040
Unvested LTIP shares issued in period	**1,990,000**	1,910,000
Unvested LTI Plan shares forfeited and cancelled in the period	**(1,465,694)**	-
Shares bought back through on market buy-back	**(55,500)**	(3,234,348)
At the end of the reporting period	**125,531,498**	125,062,692

12 Earnings per Share

	31 December 2018 $	31 December 2017 $
Profit from continuing operations	**6,077,839**	6,851,589
Earnings used to calculate basic EPS from continuing operations	**6,077,839**	6,851,589

Number of shares outstanding

	31 December 2018 No.	31 December 2017 No
At the beginning of the reporting period	**125,062,692**	126,387,040
Unvested LTI Plan shares issued in the period	**1,990,000**	1,910,000
Unvested LTI Plan shares forfeited and cancelled in the period	**(1,465,694)**	-
Shares bought back through on market buy-back	**(55,500)**	(788,521)
At the end of the reporting period	**125,531,498**	127,508,519

As at 31 December 2018, there are 3,734,306 (2017: 3,210,000) shares issued under the Company's Long Term Incentive Plan. These have vesting criteria and therefore are only included in diluted share calculations.

Calculation of weighted average number of diluted shares

	31 December 2018 No.	31 December 2017 No.
Weighted average number of ordinary shares used for calculating basic earnings per share	**121,797,192**	124,961,739
Adjustment for weighted average number of LTI Plan shares issued (unvested shares)	**118,967**	1,684,076
Weighted average number of ordinary shares issued and potential ordinary shares used in calculating diluted earnings per share	**121,916,159**	126,645,815

The LTI Plan Shares are only included in the calculation of the weighted average number of fully diluted shares outstanding when their exercise is below the average market price of the shares in the period. Because the average market price of the Company's shares for the period ended 31 December 2018 was below the exercise price of the FY2017 and FY2018 LTI Plan Shares, only the FY2019 LTI Plan shares have been included in the calculation of diluted earnings per share. The FY2017 and FY2018 LTI Plan Shares could potentially be included in the number of fully diluted shares outstanding in the future.

13 Events After Reporting Date

On 21 February 2019, the directors declared a dividend of 2.0 cents per share franked to the extent of 80%. The dividend payment date is 17 April 2019.

Shaver Shop Group Limited

Directors' Declaration

In the directors' opinion:

a) the financial statements and notes, as set out on pages 7 to 20 are in accordance with the *Corporations Act 2001*, including:

   (i) complying with Accounting Standards, the *Corporations Regulations 2001*, and other mandatory professional reporting requirements, and

   (b) giving a true and fair view of the consolidated entity's financial position as at 31 December 2018 and of its performance for the half-year ended on that date and

b) there are reasonable grounds to believe that Shaver Shop Group Limited 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 directors.

Brodie Arnhold

Broderick Arnhold
Director

Melbourne
21 February 2019

Independent auditor's review report to the members of Shaver Shop Group Limited

Report on the Half-Year Financial Report

We have reviewed the accompanying half-year financial report of Shaver Shop Group Limited (the Company), which comprises the Condensed consolidated statement of financial position as at 31 December 2018, the Condensed consolidated statement of changes in equity, Condensed consolidated statement of cash flows and consolidated statement of profit or loss and other comprehensive income for the half-year ended on that date, selected other explanatory notes and the directors' declaration for Shaver Shop Group Limited. The consolidated entity comprises the Company and the entities it controlled during that half-year.

Directors' responsibility for the half-year financial report

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

Auditor's responsibility

Our responsibility is to express a conclusion on the half-year financial report based on our review. We conducted our review in accordance with Australian Auditing Standard on Review Engagements ASRE 2410 *Review of a Financial Report Performed by the Independent Auditor of the Entity*, in order to state whether, on the basis of the procedures described, we have become aware of any matter that makes us believe that the half-year financial report is not in accordance with the *Corporations Act 2001* including giving a true and fair view of the Group's financial position as at 31 December 2018 and its performance for the half-year ended on that date; and complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*. As the auditor of Shaver Shop Group Limited, ASRE 2410 requires that we comply with the ethical requirements relevant to the audit of the annual financial report.

A review of a half-year financial report consists of making enquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Australian Auditing Standards and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

Independence

In conducting our review, we have complied with the independence requirements of the *Corporations Act 2001*.

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Conclusion

Based on our review, which is not an audit, we have not become aware of any matter that makes us believe that the half-year financial report of Shaver Shop Group Limited is not in accordance with the *Corporations Act 2001* including:

1. giving a true and fair view of the Group's financial position as at 31 December 2018 and of its performance for the half-year ended on that date;

2. complying with Accounting Standard AASB 134 *Interim Financial Reporting* and the *Corporations Regulations 2001*.

PricewaterhouseCoopers

Daniel Rosenberg
Partner

Melbourne
21 February 2019