PACIFIC SMILES GROUP

Annual Report 2015

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A message from THE CHAIRMAN

Robert Cameron AO

This year was a very significant one for Pacific Smiles Group (Pacific Smiles) with our listing on the Australian Securities Exchange (ASX) in November 2014. On behalf of the Board, welcome to all of the new Shareholders, and thank you to all Shareholders for supporting Pacific Smiles to reach this important milestone.

It was also a successful year and I am pleased to report that our results for the financial year ended 30 June 2015 exceeded the pro forma earnings forecast provided in the Prospectus for our Initial Public Offering (IPO).

Revenue of $74.9 million was 26.8% higher than the previous year and our pro forma Net Profit After Tax of $9.7 million was 31.9% higher than the previous year. The results reflect our ongoing focus on revenue growth with improving efficiencies and cost management.

The key milestones and achievements were delivered against a backdrop of an accelerated roll-out program of new dental centres and the integration of three large dental centres acquired from Medibank Private in June 2014. At the close of the year, the dental centre network comprised 42 Pacific Smiles Dental Centres and 7 nib Dental Care Centres, located throughout New South Wales, Queensland, Victoria and the Australian Capital Territory.

Pacific Smiles Dental is now the largest branded dental network in Australia and is poised for continued expansion in established and new geographic clusters. Growth in revenue will be derived from the continued rollout of new dental centres but also from same-centre patient fees growth, which was 4.3% in FY 2015. As covered later in this report, our management is focussed on driving same-centre growth through the delivery of outstanding patient care and customer service in all our dental centres and innovative marketing initiatives.

Ordinary dividends declared in relation to the 2015 financial year totalled 5.0 cents per share fully franked, representing 78% of pro forma Net Profit After Tax and a 25% increase on the previous year. A pre-IPO special dividend of 1.6 cents per share fully franked was also paid.

The Board's enduring commitment to strong corporate governance throughout Pacific Smiles' history has smoothed the transition to the more formal rigours of the ASX listed company environment. Following the retirement of Lance Wheeldon from the Board noted in last year's Annual Report, after a considered selection process the Board was delighted to welcome Grant Bourke as a Director from October 2014. All Directors are highly engaged with the business, are committed to its success and embody the deep skills and experience needed.

I would like to thank the dentists who choose to practice from our fully-serviced facilities. Our business is all about providing them with the resources and the patient flow to enable their practice to thrive. Our success is aligned to theirs.

I would also like to thank our leadership team and all employees throughout the Group. A public listing places new demands upon an organisation and in particular, upon the leadership team. My fellow Directors and I believe that they have risen to the challenge and will continue to build and operate a successful Australian healthcare entity.

OPERATING AND FINANCIAL REVIEW

from John Gibbs

Overview

Pacific Smiles Group is leading the way in Australia with a branded network approach to the dental services industry. Commencing with three established dental centres in 2003, Pacific Smiles now has 42 Pacific Smiles Dental Centres and 7 nib Dental Care Centres throughout the eastern states and territories of mainland Australia.

We provide fully serviced surgeries to independent dentists who choose to practice from one or more of our dental centres. Those dentists are able to devote their working days to clinical dentistry while employees of Pacific Smiles take care of everything else including all administration and management of the dental centres and the wider business.

Our focus is on outstanding patient care and customer service. We were a Net Promoter Score pioneer in the dental services industry, introducing the methodology many years ago and achieving outstanding results, including a group-wide average score of over 60 in FY 2015. We have a proprietary internal training program called APPEx®, which stands for A Perfect Patient Experience. It is a compulsory learning module for all centre-based employees.

We prefer to expand via roll-out of new dental centres rather than via a roll-up of acquired independent dental practices. We grow our network by developing new dental centres in convenient locations in retail and services hubs in urban and regional settings.

Whilst ongoing acquisition of individual practices is not a feature of our expansion plans, opportunities for strategic acquisitions are considered on their merits.

On 21st November 2014, Pacific Smiles Group completed an IPO and listed on the ASX.

At the close of the year, Pacific Smiles Group employed approximately 700 staff and provided services to 270 dentists.

Operations Overview and Highlights

During 2015, we grew from 41 to 49 dental centres with eight new Pacific Smiles Dental Centres opened at Jesmond, Toronto, Blacktown and Narellan in NSW, Tuggeranong and Manuka in ACT, and Deception Bay and Brisbane CBD in QLD.

Our roll-out involves the development of geographic clusters of dental centres, so as Pacific Smiles benefits from ongoing operational and marketing efficiencies and advantages.

Three large dental centres at Haymarket, Parramatta and Wagga Wagga acquired from Medibank Private in June 2014, were integrated during the year into the Pacific Smiles Dental network. Integration of these dental centres was viewed from the beginning as a multi-year initiative, and solid progress was made during the first year on a number of operational aspects. The facility at Parramatta will relocate to new premises in September 2015 and this will further assist with ongoing successful progress.

Group Financial Performance

Statutory Results

The Group achieved statutory Net Profit After Tax of $8.4 million, up by 7.8% from $7.8 million in 2014. This result also exceeded the statutory Prospectus forecast for the year of $7.5 million.

The statutory results are impacted by the $1.4 million after-tax effect of one-off transaction costs associated with the IPO. Further, the results include the additional costs to conduct the business as an ASX-listed company from 21 November 2014 onwards. These significant events and changes during the reporting period make comparisons to the previous year more difficult. Therefore, further discussion of the results in this Operating and Financial Review focusses on the pro forma results for 2015 and the comparative period.

Pro Forma Results

On a pro forma basis, EBITDA increased by 25.3% to $18.2 million, exceeding the Prospectus pro forma forecast of $17.4 million. Pro forma Net Profit After Tax of $9.7 million was 31.9% higher than the previous year, and 8.8% higher that the Prospectus pro forma forecast of $8.9 million.

The strong financial results for the year were the result of strong revenue growth, coupled with steady profit margins. The Prospectus forecast anticipated that the integration of the three dental centres acquired in June 2014 would have a dampening effect on the Group's margins in 2015, so it was pleasing to conclude the year with an EBITDA to Patient Fees margin of 15.0%, compared to 15.1% in the previous year.

Group revenue was $74.9 million, which was up by 26.8% over the previous full year. This revenue consists mainly of the service fees charged to the dentists who practice from our dental centres.

Operating and Financial Review

Patient Fees generated by dentists at Pacific Smiles dental centres was $121.4 million, up 26.6% over the previous full year. This increase in patient fees comprised same centre growth of 4.3%, plus a substantial contribution from the three centres acquired from Medibank Private in June 2014 and a full year effect from new centres opened in 2014. Newly developed centres contributed, although some of them opened late in the financial year.

	Pro Forma	Pro Forma		Prospectus
$ millions	**2015**	**2014**	**Change**	**2015**
Revenue	**74.9**	**59.1**	**26.8%**	**76.1**
Gross profit	**71.0**	**55.3**	**28.3%**	**72.4**
EBITDA	**18.2**	**14.5**	**25.3%**	**17.4**
EBIT	**13.9**	**10.8**	**29.7%**	**12.9**
Net profit after tax	**9.7**	**7.4**	**31.9%**	**8.9**
Operating metrics				
Number of Dental Centres	49	41	19.5%	47
Commissioned Dental Chairs	226	203	11.3%	222
Patient Fees ($m)	121.4	95.9	26.6%	123.2
Same Centre Patient Fees growth	4.3%	(3.0%)		5.1%
Financial metrics				
Earnings per share (cents)	6.7	5.4	24.1%	6.1
EBITDA margin	24.3%	24.6%		22.9%
EBITDA to Patient Fees margin	15.0%	15.1%		14.1%
EBIT margin	18.6%	18.2%		16.9%

Pro forma Adjustments to the Statutory Income Statement

	2015	2014
	$ million	$ million
Statutory revenue	**74.9**	**59.1**
Pro forma revenue	**74.9**	**59.1**
Statutory net profit after tax	**8.4**	**7.8**
IPO transaction costs	2.0	-
Income tax effect of IPO transaction costs	(0.6)	-
Underlying statutory net profit after tax	**9.8**	**7.8**
Other pro forma adjustments:		
Listed public company costs	(0.2)	(0.6)
Net interest	0.1	-
Income tax effect of other pro forma adjustments	0.0	0.2
Pro forma net profit after tax	**9.7**	**7.4**

Operating and Financial Review

Pro forma adjustments have been presented on a consistent basis with the Prospectus pro forma adjustments, and are explained as follows:

Listed Public Company Costs – An estimate of the incremental full year costs Pacific Smiles would have incurred if it had operated as a listed company for the full period.

IPO Transaction Costs – IPO costs charged as expenses have been excluded from pro forma results.

Net Interest – An adjustment for the full year impact on interest income and interest expense as if the major IPO cash flows had taken effect on opening balances as at 1 July 2014.

Income Tax Effect – The tax effects of the above pro forma adjustments calculated at the corporate tax rate of 30%.

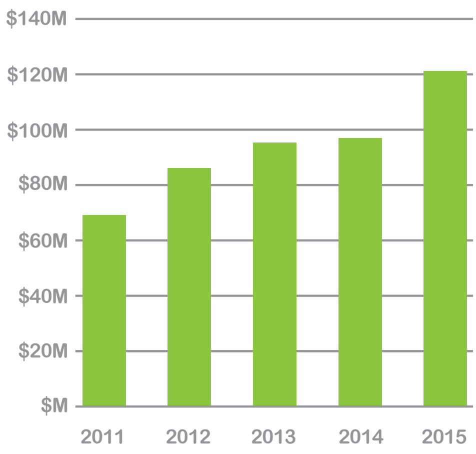
Financial Position

Pacific Smiles ended the financial year in a strong financial position, with a net cash balance of $15.2 million, improved from net debt of $5.8 million at 30 June 2014. Proceeds from the IPO bolstered cash reserves, and healthy operating cash flows also assisted.

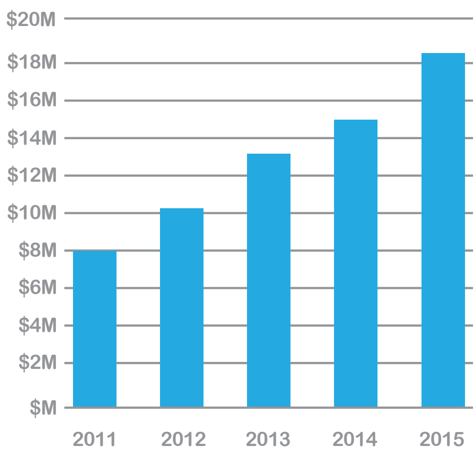
After paying for the costs of the IPO, net proceeds of $19.6 million flowed into the Company. These funds were partially used to repay $9.0 million in bank debt and to fund a special dividend to pre-IPO shareholders of $2.2 million.

The Group again invested in expanding its dental centre network and in renewing and upgrading existing facilities, equipment and systems. Total capital expenditure was $6.7 million, which included $5.2 million for new dental centres. During 2015, a total of eight new centres were opened, one existing centre at Gladesville NSW was relocated, and works were in progress at the end of the year to relocate the large Parramatta centre.

Patient Fees

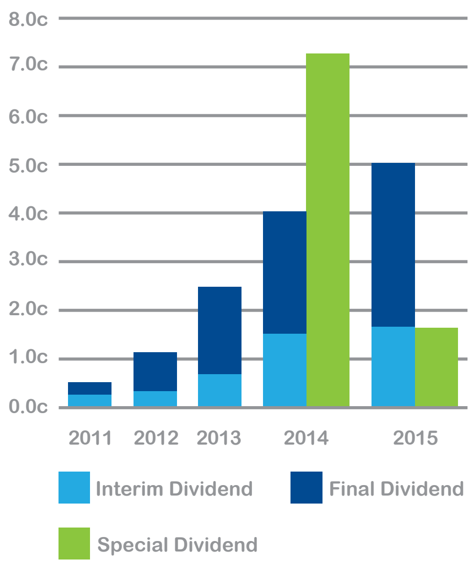


EBITDA (1)

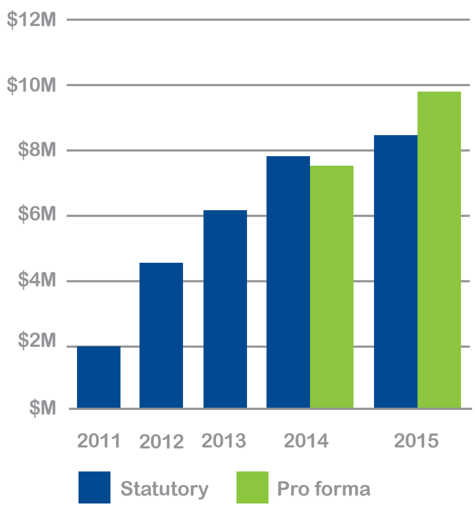


(1) Excludes IPO transaction costs expensed in 2015 and impairment of non-current assets in prior years

Dividends



Net Profit After Tax



Operating and Financial Review

The Market

The market for dental services in Australia is approximately $8.7 billion and this market has grown steadily over the long term.

Drivers of patient demand include general economic conditions and sentiment, income levels and job security, private health insurance participation rates and dental health and treatment awareness.

Demand for dental services is discretionary to the extent that some treatments and services may be delayed or foregone by the patient. This is more so for cosmetic and aesthetic treatments and less so for treatments required as a functional necessity. Some treatments, such as dental implants, deliver both aesthetic and functional benefits to patients and this particular treatment is generating higher levels of interest and activity.

Government funding is fairly limited compared to other sectors of healthcare. The Commonwealth funds the Child Dental Benefit Scheme and some partnership arrangements with the States and Territories, but this is a small proportion of the total funding of the market.

An increase in the number of local dentistry graduates over the last few years will be a sustained feature of the market. The expected impact is increased local competition in some areas but also a less constrained labour market and better access to dentists.

Business Strategy

Pacific Smiles Group strives to continue to create and build shareholder value through the ongoing rollout of quality branded and fully serviced dental centres that exceed the expectations of the dentists who practice there and the patients who attend.

Our business growth will be underpinned by the following strategic activities:

We will roll-out eight to ten new dental centres in FY 2016 and will continue to roll-out in the years ahead. Via our roll-out we will create an expanding network of accessible, modern, purpose-built dental centres that offer a comfortable and enjoyable environment for patients, dentists and employees.

We will focus on patient satisfaction levels and continually enhance our service levels to positively influence loyalty and retention.

We will work closely with each of the dentists who practice from our dental centres to help to enhance their professional satisfaction and practice development.

We will invest in and use information technology solutions that enhance service delivery, communications, internal efficiencies and management information.

We will launch new and innovative brand marketing initiatives to build greater awareness in the communities we serve and to attract new patients.

We will continue to collaborate with private health insurers and other third parties to encourage their members or customers to choose the dentists at our centres as their preferred providers.

We will enhance our high performance culture throughout all areas of the organisation through an emphasis on employee training and development, accountability and reward and recognition.

We will foster a culture of exceptional clinical governance and workplace safety for all.

Risk Management

Pacific Smiles is subject to various risk factors, with some of these specific to its business activities and others of a more general nature. Pacific Smiles has not identified any specific, material exposure to its economic, social or environmental sustainability over the long term.

Pacific Smiles has established policies and structures for oversight and management of material business risks. Further information regarding how Pacific Smiles recognises and manages risks is detailed in our Corporate Governance Statement and related governance policies on our website.

Risk Management (continued)

The following risk areas and mitigating factors have been identified by Pacific Smiles:

General economic conditions – downturns in general economic conditions could adversely impact demand for dental services, given the discretionary nature of some of those services. Dentists at Pacific Smiles dental centres provide a range of treatments to patients in a number of different geographic zones throughout the eastern states of Australia.

Reduction in private health insurance coverage – a reduction in private health insurance coverage could impact upon the attendance frequency of patients. Patients at Pacific Smiles dental centres are a mix of privately insured and non-insured individuals and there are facilities available to assist patients to pay for the treatments they require.

Competition induced fee pressure – an increase in the number of practicing dentists could increase competition for patients and the degree to which dentists compete on the basis of fee levels. Pacific Smiles centres are usually differentiated from other local providers and compete on the basis of convenience, value, access and overall patient experience.

Reputational damage – Actions by employees or dentists could give rise to reputational damage of Pacific Smiles and its brands. There is a close focus on internal procedures and clinical governance by management and the board.

Termination of Service and Facility Agreements by dentists - Under the Service and Facility Agreement between Pacific Smiles and dentists, the dentists may terminate without cause, on a few months' notice. Pacific Smiles views the dentists as a key customer group and focuses resources accordingly.

Outlook

In FY 2016, Pacific Smiles will continue its dual focus on geographic expansion and organic growth. A total of eight to ten new dental centres are anticipated to be rolled out in existing and new geographic clusters during the coming year, building upon our successful record in the establishment of new centres. The pipeline looks healthy for future years beyond FY 2016.

Patient fees and revenue growth are expected to accrue from a number of new marketing initiatives to attract new patients and service and quality enhancements to drive loyalty amongst the large patient base across the network of dental centres. The large centre at Parramatta, acquired from Medibank Private in June 2014, will be relocated as planned, to an excellent new site in the Parramatta commercial district.

Improved profitability will be underpinned by an ongoing drive by management to realise the benefits from increasing scale, streamlining operations and enhancing the patient experience across our centres.

We will continue to benefit from our strong balance sheet, with an expectation that future growth can be funded while maintaining a net cash position and a dividend pay-out ratio in the range of 70 to 100% of profit, as previously communicated.

Our Dental Network

Pacific Smiles Group owns and operates Pacific Smiles Dental Centres and nib Dental Care Centres located throughout Australian Capital Territory, New South Wales, Victoria and Queensland.

Corporate Governance Statement

As at 30 June 2015

Pacific Smiles Group Limited and the Board of Directors are committed to achieving and demonstrating the highest standards of corporate governance. Pacific Smiles Group Limited has reviewed its corporate governance practices against the Corporate Governance Principles and Recommendations (3rd edition) published by the ASX Corporate Governance Council.

The 2015 corporate governance statement is dated as at 30 June 2015 and reflects the corporate governance practices in place with effect from listing on the ASX on 21st November 2014 through until the end of the 2015 financial year. The 2015 corporate governance statement was approved by the Board on 20 August 2015. A description of the Group's current corporate governance practices is set out in the Group's corporate governance statement which can be viewed at http://www.pacificsmilesgroup.com.au/Investors/CorporateGovernance.

Directors' Report

For the year ended 30 June 2015

Your directors present their report on the consolidated entity (referred to hereafter as "the Group") consisting of Pacific Smiles Group Limited ("the Company") and the entities it controlled at the end of, or during the year ended 30 June 2015.

Directors

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

Mr Robert Cameron AO
Mr John Gibbs
Dr Alex Abrahams
Mr Ben Gisz
Mr Simon Rutherford

Mr Grant Bourke was appointed a director on 9 October 2014 and continues in office at the date of this report.

Mr Lance Wheeldon was a director from the beginning of the financial year until his retirement on 28 August 2014.

Principal Activities

Pacific Smiles Group principally operates dental centres at which independent dentists practice and provide clinical treatments and services to patients. Revenues and profits are primarily derived from fees charged to dentists for the provision of these fully serviced dental facilities.

Review of Operations

Information on the operations and financial position of the Group and its business strategies and prospects is set out in the Operating and Financial Review accompanying this report.

Dividends

Dividends paid to members during the financial year were as follows:

	2015	2014
	$'000	$'000
2014 special dividend of 7.33 cents* per share	-	10,002
Final dividend for the year ended 30 June 2014 of 2.50 cents* per share (2014 – 1.67 cents*)	3,410	2,273
Pre IPO special dividend of 1.60 cents per share (2014 – nil)	2,182	-
Interim dividend for the year ended 30 June 2015 of 1.67 cents (2014 – 1.50 cents*) per share	2,538	2,046
	8,130	14,321

* A subdivision of capital on 9 October 2014 resulted in the conversion of each one ordinary share into three ordinary shares. Dividends per share paid during the year and prior comparative period have been restated and presented on a post share-split basis.

Subsequent to the end of the financial year, the directors declared a final dividend of 3.33 cents per share in relation to the financial year ended 30 June 2015. The dividend, which totals $5.061 million, will be paid on 1 October 2015.

Information on Directors

Robert Cameron AO

BE Min (Hons) MBA Grad. Dip. Geoscience, FAICD, FAIM, FAusIMM

Non-executive Chairman, appointed in 2003

Member of the Nomination and Remuneration Committee

Bob is the founder and Chairman (Non-executive) of Centennial Coal Company Limited and was its Managing Director and Chief Executive Officer until 30 June 2011. He is currently Chairman of County Coal Limited, Chairman of Hunter Valley Training Company, a Trustee of the University of NSW Foundation and the Museum of Applied Arts and Sciences. In addition to his extensive business career, he has served on many community, educational, industry and government bodies.

John Gibbs

B.Bus, M.Bus. (Int. Mkg.), AFAIM, GAICD

Managing Director and Chief Executive Officer, appointed in 2008

John commenced as General Manager in 2004. His background experience includes the development and management of private health facilities, and the marketing and business development of medical and surgical devices. He established new private hospitals for Mayne Health and local joint-venture partners in the Asia-Pacific region, following his participation in private hospital expansion and upgrade projects for Mayne Health in Australia. John has undergraduate and postgraduate business and marketing degrees.

Dr Alex Abrahams

BDS (Syd Uni), AIMM

Founder and Executive Director, appointed in 2002

Alex has overseen the development of the Company from a group of partnerships to an incorporated entity on 1 January 2003. Alex is a dentist with a special interest in dental implants. Alex is a member of the Australian Dental Association and a member of the Australian Osseointegration Society (Implants). He is a director of Group Homes Australia Pty Limited, a Director of the Trustees of Canyon Property Trust and Key Health Unit Trust, and formerly a board member of Hunter Valley Grammar School.

Ben Gisz

B.Comm., CA, FFin, CFA

Non-executive Director, appointed in 2012

Chairman of the Nomination and Remuneration Committee

Member of the Audit and Risk Management Committee

Ben is a partner at TDM Asset Management, a Sydney based private investment firm. Ben has extensive financial markets experience, including roles in investment banking and private equity/principal investments with Investec Group in Sydney and London. Prior to this, Ben was an equities analyst with Credit Suisse. Ben holds a bachelor of commerce degree from the University of Sydney and is a fellow of the Financial Services Institute of Australasia. Ben is also a chartered accountant and a CFA charter holder.

Information on Directors (continued)

Simon Rutherford

B. Comm., CA, FAICD

Non-executive Director, appointed in 2003

Chairman of the Audit and Risk Management Committee

Simon is a chartered accountant and partner with PKF working in business advisory services. He is a director and responsible manager with PFK Corporate Finance Pty Limited and specialises in strategy, governance, structuring, business sales, mergers and acquisitions. In this role Simon has assisted various companies with capital raising, listing requirements and transactions. Simon is a Director of the Trustee of Canyon Property Trust and is involved with other syndicated investments. He has also served on a number of boards including National Brokers Group and Vow Financial Group.

Grant Bourke

BSc (Hons), MBA, MAICD

Non-executive Director, appointed in 2014

Member of the Audit and Risk Management Committee

Member of the Nomination and Remuneration Committee

Grant is an entrepreneur and investor, with a background in retailing and the food service industry. He is a Non-executive Director of Domino's Pizza Enterprises Ltd and Domino's Pizza Japan. Grant was deeply involved in the listing of Domino's on the ASX in 2005. Grant's involvement with Domino's started as a successful franchisee. He sold his stores to Domino's in exchange for a substantial shareholding, and then moved into senior executive positions within the Domino's organisation. Prior to joining Domino's, Grant worked in various technical, sales, and marketing roles in Australia, New Zealand and Japan.

Company Secretary

The Company Secretary is Jane Coleman B.Comm, MBA, CA, GAICD. Jane was appointed to the position of Company Secretary during 2006, and also holds the position of Chief Financial Officer within the Group. Jane is a chartered accountant. Before joining the Group, Jane held senior accounting roles at nib Health Funds and Credit Suisse, following a chartered accounting career as a manager at PricewaterhouseCoopers. Jane has also held external board positions within the finance and health sectors.

Directors' Report

For the year ended 30 June 2015

Meetings of Directors

The number of meetings of the Company's board of directors held during the year ended 30 June 2015, and the attendances by each director were:

	Full Meetings of Directors		Meetings of Committees			
			Audit and Risk Management		Nomination and Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Robert Cameron AO	17	16	-	-	3	2
John Gibbs	17	17	-	-	-	-
Alex Abrahams	17	17	-	-	-	-
Ben Gisz	17	17	4	4	3	3
Simon Rutherford	17	17	4	4	1	1
Grant Bourke	11	11	2	2	2	2
Lance Wheeldon	3	3	2	2	-	-

- Not a member of the relevant committee

Matters Subsequent to the End of the Financial Year

Other than the declaration of a final dividend subsequent to the end of the financial year, no other matter or circumstance has arisen since 30 June 2015 that has significantly affected, or may significantly affect:

(a) the Group's operations in future financial years, or

(b) the results of those operations in future financial years, or

(c) the Group's state of affairs in future financial years.

Likely Developments and Expected Results of Operations

The Group will continue to pursue opportunities to enhance the growth and prosperity of its business. Refer to the Operating and Financial Review accompanying this report for some further detail. Further information on likely developments in the operations of the Group and the expected results of operations have not been included in this annual financial report because the directors believe it would be likely to result in unreasonable prejudice to the Group.

Environmental Regulation

The Group's operations are not regulated by any significant environmental regulation.

Insurance of Officers and Auditors

During the financial year, the Group paid a premium in respect of a contract insuring its directors and officers against a liability incurred as such an officer. No such insurance contracts apply to insure auditors of the Group.

The liabilities insured include costs and expenses that may be incurred in defending civil or criminal proceedings that may be brought against the officers in their capacity as officers of the Group.

Remuneration Report (Audited)

The Directors 2015 Remuneration Report sets out remuneration information for Pacific Smiles Group Limited's non-executive directors, executive directors and other key management personnel for the year ended 30 June 2015.

The remuneration report is set out under the following headings:

(a) Key management personnel disclosed in this report
(b) Remuneration governance
(c) Executive remuneration policy and framework
(d) Relationship between remuneration and Pacific Smiles Group's performance
(e) Non-executive director remuneration policy
(f) Details of remuneration
(g) Employment contracts
(h) Details of share based compensation
(i) Equity instruments held by key management personnel
(j) Other transactions with key management personnel.

The information provided in this remuneration report has been audited as required by section 308(3C) of the *Corporations Act 2001.*

(a) Key management personnel disclosed in this report

The key management personnel are all the directors of the Group and the executive managers within the Group who report directly to the Board or Chief Executive Officer, and have prime responsibility for significant functional areas within the Group. These directors and executives have been identified as having the greatest authority for the strategic direction and management of the Group.

Non-executive Directors

Robert Cameron AO	Non-executive Chairman
Ben Gisz	Non-executive Director
Simon Rutherford	Non-executive Director
Grant Bourke	Non-executive Director (appointed 9 October 2014)
Lance Wheeldon	Non-executive Director (retired 28 August 2014)

Executive Directors

John Gibbs	Managing Director and Chief Executive Officer
Dr Alex Abrahams	Executive Director

Other Executives

Jane Coleman	Chief Financial Officer and Company Secretary
Paul Robertson	Chief Operating Officer
Alison Hughes	Head of Practitioner Services
Emma McKenny	Executive Manager – People and Culture (appointed 1 June 2015)

Where relevant, executive directors and other executives may hereafter be referred to collectively as executives within this remuneration report.

(b) Remuneration governance
The Nomination and Remuneration Committee is a committee of the Board. It is primarily responsible for making recommendations to the Board on:

- the over-arching executive remuneration framework;
- operation of the incentive plans which apply to the senior management team, including key performance indicators and performance hurdles;
- remuneration packages for the chief executive officer, executive director and senior management; and
- remuneration arrangements for non-executive directors.

The committee's objective is to ensure that remuneration policies and structures are fair and competitive and aligned with the long-term interests of the Group.

The Nomination and Remuneration Committee Charter, included on the Company's website at http://www.pacificsmilesgroup.com.au provides further information on the role of this committee.

(c) Executive remuneration policy and framework
In determining executive remuneration, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the Group to attract and retain key talent;
- aligned to the Group's strategic and business objectives and the creation of shareholder value;
- transparent; and
- acceptable to shareholders.

The executive remuneration framework has three components:

- base salary and benefits, including superannuation;
- short-term performance incentives ('STI') plan; and
- a long-term equity incentive ('LTI') plan.

Base salary and benefits
Base salaries are reviewed annually or upon any substantial changes to positions. There are no guaranteed pay increases included in any key management personnel contracts. Base salary includes any elected salary sacrifice arrangements as individually nominated.

Base salary is inclusive of required superannuation contributions.

Short-term performance incentives
Executives have the opportunity to earn an annual short-term incentive (STI) linked to the achievement of performance hurdles. The actual level of STI paid to each executive is determined at the end of the financial year based on the executives' achievement of specific KPIs and an annual performance review. Targets are reviewed annually.

The executive STI plan performance criteria are summarised below:

	% of Base Salary
Achieve Group net profit before tax targets	Up to 12.5%
Individual performance metrics (financial and non-financial)	Up to 7.5%
Maximum STI for full achievement of targets	**Up to 20.0%**
Exceptional performance bonus for over-achievement of net profit before tax target	Up to 15.0%
Total Maximum STI	**Up to 35.0%**

(c) Executive remuneration policy and framework (continued)

Ongoing participation by executives in the STI plan is at the discretion of the Board. With reference to recommendations from the Nomination and Remuneration Committee, the Board will approve all executive STI payments, and may use its discretion to adjust STI remuneration up or down, to prevent any inappropriate reward outcomes.

The STI amounts are paid in cash, and are those earned during the financial year and provided for in the annual financial statements. STI cash bonuses are generally payable in September following the end of the financial year, and once the financial results of the year have been subject to independent external audit.

Long-term equity incentives

During the year, the Company established a LTI plan to assist in the motivation, retention and reward of executives. The LTI plan is designed to align the interests of senior management more closely with the interests of shareholders by providing an opportunity for senior management to receive an equity interest in the Company through the granting of performance rights.

Vesting of the performance rights granted during the year will be subject to:

- satisfaction of earnings per share (EPS) performance hurdles (measured using the 2014 year as the base year) for the performance period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS compound annual growth rate (CAGR) of 15.0% per annum or less and 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles (or its subsidiaries) on the vesting date, subject to certain “good leaver” exemptions.

Performance rights that do not vest on the relevant vesting date will lapse. Performance rights will also lapse if total shareholder return (TSR) does not reach a minimum of 10.0% per annum over the performance period.

In the event of serious misconduct or a material misstatement in the Group’s financial statements, the Board may determine that certain performance-based remuneration (including STIs and/or LTIs) should not have been paid and may claw back performance-based remuneration paid in the preceding three financial years.

(d) Relationship between remuneration and Pacific Smiles Group's performance

The following table shows key performance indicators for the Group over the last five years.

	2015	2014	2013	2012	2011
	$'000	$'000	$'000	$'000	$'000
Revenue	74,898	59,081	60,074	55,641	47,686
EBITDA (statutory)	16,409	15,069	12,921	10,201	6,868
Net profit after tax (statutory)	8,360	7,752	6,137	4,577	1,902
Dividends per share – ordinary (cps)	5.0	4.0	2.5	1.1	0.6
Dividends per share – special (cps)	1.6	7.3	-	-	-
Earnings per share (cents)	5.7	5.7	n/a	n/a	n/a

(e) Non-executive director remuneration policy

Non-executive directors receive fees reflective of board roles and market levels. These fees are inclusive of their relevant responsibilities as part of the main Board and on the various Board committees. Fees are inclusive of any applicable superannuation.

These fees exclude any additional fees for special services which may be determined from time to time. No additional retirement benefits are payable. Non-executive directors do not receive performance-based compensation.

The non-executive director fees are reviewed annually to ensure that the fees reflect market rates. There are no guaranteed annual increases in any directors' fees.

Non-executive directors are entitled to be reimbursed for their reasonable expenses incurred in connection with the affairs of the Company.

The constitution of the Company provides that non-executive directors are entitled to receive compensation for their services as determined by approval at a general meeting. The current directors' fees pool is an aggregate sum of $500,000. Any change to this aggregate annual amount is required to be approved by shareholders. The Board may approve additional remuneration for special exertions and additional services performed by a director outside of the aggregated pool. Remuneration paid to directors in their capacity as employees also falls outside of the aggregated pool.

The following fees (inclusive of applicable superannuation) were applicable on an annualised basis:

	21 November 2014 to 30 June 2015	1 July 2014 to 20 November 2014	1 July 2013 to 30 June 2014
	$	$	$
Chairman	120,000	41,344	39,375
Other non-executive directors	70,000	33,075	31,500

(f) Details of remuneration

Details of the remuneration of the directors and other key management personnel of the Group are set out in the following tables. In line with Regulation 2M.3.03 of the Corporations Regulations 2001, the Company has elected not to disclose comparative amounts, as it was not listed on the ASX during the previous financial year.

	Short-term employee benefits			Long term benefits	Share based payments	
2015	**Salary & fees $**	**Bonus $**	**Super-annuation $**	**Long service leave $**	**Rights $**	**Total $**
Non-executive Directors						
Robert Cameron	81,554	-	7,748	-	-	89,302
Simon Rutherford	55,588	-	-	-	-	55,588
Ben Gisz	55,588	-	-	-	-	55,588
Grant Bourke (appointed 9 October 2014)	46,648	-	-	-	-	46,648
Lance Wheeldon (retired 28 August 2014)	9,963	-	946	-	-	10,909
Executive Directors						
John Gibbs	374,461	54,494	18,828	6,667	21,079	475,529
Alex Abrahams	165,806	24,651	15,752	3,000	10,540	219,749
Other Key Management Personnel						
Jane Coleman	262,221	40,474	23,532	5,000	15,810	347,037
Paul Robertson	212,219	31,795	18,137	3,743	12,296	278,190
Alison Hughes	185,930	26,550	17,326	3,327	7,026	240,159
Emma McKenny (from 1 June 2015)	14,561	-	1,277	242	-	16,080

There were no termination benefits paid or payable during the current financial year.

STI awarded

For each STI bonus included in the 2015 table above, the percentage of the available bonus that was earned in the financial year and the percentage that was forfeited because the person did not meet the target performance criteria are set out below.

Name	% of Maximum STI Awarded	Forfeited
John Gibbs	40%	60%
Alex Abrahams	40%	60%
Jane Coleman	42%	58%
Paul Robertson	40%	60%
Alison Hughes	38%	62%
Emma McKenny[1]	-	-

[1] Emma McKenny commenced as key management personnel with effect from 1 June 2015. Ms McKenny was not eligible for an STI in her capacity as key management personnel during 2015.

(g) Employment contracts

Remuneration and other terms of employment for the executives are formalised in employment contracts. The employment contracts specify the remuneration arrangements, benefits, notice periods and other terms and conditions. Participation in the STI and LTI arrangements are subject to the Board's discretion.

New employment contracts were implemented with each executive with effect from the Group's listing on the ASX on 21 November 2014, with the exception of Emma McKenny, who was formally appointed to an executive position with effect from 1 June 2015. The current executive contracts do not have fixed terms. Contracts may be terminated by the executive with notice, or by the Company with notice or by payment in lieu of notice, or with immediate effect in circumstances involving serious or wilful misconduct.

Executive	Annual Base Salary including Superannuation[1]	Termination Notice by Executive	Termination Notice or Payment in Lieu of Notice by Company
John Gibbs	$400,000	9 months	12 months
Alex Abrahams	$180,000	3 months	6 months
Jane Coleman	$300,000	6 months	9 months
Paul Robertson	$224,583	3 months	3 months
Alison Hughes	$199,623	3 months	6 months
Emma McKenny	$174,000	3 months	3 months

[1]Base salaries quoted are those in effect as at 30 June 2015.

(h) Details of share based compensation

Performance Rights

Under the LTI plan, performance rights of 2,137,500 were granted to the executive directors and certain executives at the time of the Company's IPO and listing on the ASX, being 21 November 2014. Those performance rights will vest after four years (the performance period), conditional on the achievement of relevant performance and service conditions measured from the listing date of 21 November 2014 to 30 June 2018.

The fair value of each performance right at grant date was $0.51.

No other share based compensation arrangements were in effect during the financial year.

(i) Equity instruments held by key management personnel

The tables below show the number of shares and performance rights in the Company that were held during the financial year by key management personnel, including their close family members and entities related to them. No amounts remain unpaid in respect of ordinary shares at the end of the financial year.

There were no shares granted during the reporting period as compensation, or on exercise of an option or right.

Ordinary Shares

2015	Balance at start of year[1]	Net change	Balance at end of year
Robert Cameron AO	3,540,000	(156,742)	3,383,258
Ben Gisz	25,671,291	(1,263,309)	24,407,982
Simon Rutherford	1,811,325	(70,308)	1,741,017
Grant Bourke (appointed 9 October 2014)	n/a	1,538,462	1,538,462
Lance Wheeldon (retired 28 August 2014)	2,682,540	n/a	n/a
John Gibbs	8,113,860	(1,613,860)	6,500,000
Alex Abrahams	45,009,501	(5,366,140)	39,643,361
Jane Coleman	1,650,000	(250,000)	1,400,000
Paul Robertson	675,000	(337,500)	337,500
Alison Hughes	17,622,435	(1,762,245)	15,860,190

[1]A subdivision of capital on 9 October 2014 resulted in the conversion of each one ordinary share into three ordinary shares. The balance at the start of the year has been restated and presented on a post share-split basis to assist with comparability.

The shareholdings disclosed in the table above exclude shares in which the key management personnel listed have only a nominal interest

Performance Rights

2015	Value of rights granted during the year[1]	Number of rights granted as compensation	Number of rights held at end of year (all unvested)
John Gibbs	$137,700	675,000	675,000
Alex Abrahams	$68,850	337,500	337,500
Jane Coleman	$103,275	506,250	506,250
Paul Robertson	$80,325	393,750	393,750
Alison Hughes	$45,900	225,000	225,000

[1] The value of rights granted in the year is the value of the rights calculated at grant date in accordance with AASB 2 Share-based Payment. This amount is allocated to remuneration over the vesting period (being four years).

This concludes the remuneration report, which has been audited.

Non-audit Services
Details of the amounts paid or payable to the auditor for non-audit services providing during the financial year by the auditor are outlined in Note 23 to the financial report.

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 25.

Rounding of Amounts
The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

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

RJ Cameron

Robert Cameron AO
Chairman

Greenhills

20 August 2015

Auditor’s Independence Declaration

Lead Auditor’s Independence Declaration under Section 307C of the Corporations Act 2001

To: the directors of Pacific Smiles Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit for the financial year ended 30 June 2015 there have been:

(i) no contraventions of the auditor independence requirements as set out in the *Corporations Act 2001* in relation to the audit; and

(ii) no contraventions of any applicable code of professional conduct in relation to the audit.

KPMG.

KPMG

Chris Allenby
Partner

Sydney
20 August 2015

KPMG, an Australian partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2015

	NOTES	2015	2014
		$'000	$'000
Revenue	2	74,898	59,081
Direct expenses		(3,910)	(3,740)
Gross profit		70,988	55,341
Other income	3	1,569	1,516
Expenses			
Consumable supplies expenses		(6,346)	(5,328)
Employee expenses		(31,608)	(23,774)
Occupancy expenses		(7,947)	(5,967)
Marketing expenses		(1,185)	(829)
Administration and other expenses		(7,090)	(5,890)
IPO transaction costs expensed		(1,972)	-
Depreciation and amortisation expense	4	(4,249)	(3,770)
Net finance costs	4	(110)	(51)
Profit before income tax		**12,050**	**11,248**
Income tax expense	5	(3,690)	(3,496)
Profit for the year		**8,360**	**7,752**
Other comprehensive income		-	-
Total comprehensive income for the year		**8,360**	**7,752**
		Cents	Cents
Earnings per share			
Basic earnings per share	21	5.7	5.7
Diluted earnings per share	21	5.7	5.7

The above Consolidated Statement of Profit or Loss and Other Comprehensive Income should be read in conjunction with the accompanying notes.

Consolidated Balance Sheet

As at 30 June 2015

	NOTES	2015	2014
		$'000	$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	15,560	3,767
Receivables	8	1,122	3,610
Inventories	9	2,212	1,990
Other	10	125	118
Total Current Assets		19,019	9,485
Non-Current Assets			
Property, plant and equipment	11	24,606	22,010
Intangible assets	12	11,541	11,610
Deferred tax assets	13	4,033	3,178
Total Non-Current Assets		40,180	36,798
Total Assets		59,199	46,283
LIABILITIES			
Current Liabilities			
Payables	14	9,707	9,452
Borrowings	15	244	228
Current tax liabilities	16	943	1,604
Provisions	17	2,859	2,761
Total Current Liabilities		13,753	14,045
Non-Current Liabilities			
Borrowings	15	150	9,393
Deferred tax liabilities	18	275	438
Provisions	17	4,012	3,564
Total Non-Current Liabilities		4,437	13,395
Total Liabilities		18,190	27,440
Net Assets		**41,009**	**18,843**
EQUITY			
Contributed equity	19	35,053	13,184
Reserves	20	67	-
Retained profits		5,889	5,659
Total Equity		**41,009**	**18,843**

The above Consolidated Balance Sheet should be read in conjunction with the accompanying notes.

Consolidated Statement of Changes in Equity

For the year ended 30 June 2015

	NOTES	Contributed equity	Reserves	Retained profits	Total equity
		$'000	$'000	$'000	$'000
Consolidated Balance at 30 June 2013		12,610	-	12,228	24,838
Total comprehensive income for the year		-	-	7,752	7,752
Transactions with owners of the Company, recognised directly in equity:					
Contributions of equity, net of transaction costs	19	574	-	-	574
Dividends provided for or paid	6(a)	-	-	(14,321)	(14,321)
		574	-	(14,321)	(13,747)
Consolidated Balance at 30 June 2014		**13,184**	**-**	**5,659**	**18,843**
Total comprehensive income for the year		-	-	8,360	8,360
Transactions with owners of the Company, recognised directly in equity:					
Contributions of equity, net of transaction costs	19	21,869	-	-	21,869
Dividends provided for or paid	6(a)	-	-	(8,130)	(8,130)
Share based payments charge – performance rights	20	-	67	-	67
		21,869	67	(8,130)	13,806
Consolidated Balance at 30 June 2015		**35,053**	**67**	**5,889**	**41,009**

The above Consolidated Statement of Changes in Equity should be read in conjunction with the accompanying notes.

Consolidated Statement of Cash Flows

For the year ended 30 June 2015

	NOTES	2015	2014
		$'000	$'000
Cash flows from operating activities			
Receipts from customers		84,786	64,901
Payments to suppliers and employees		(65,097)	(47,792)
		19,689	17,109
Interest received		195	194
Interest and finance costs paid		(336)	(206)
Income taxes paid		(5,112)	(3,743)
Net cash inflow from operating activities	31(a)	14,436	13,354
Cash flows from investing activities			
Proceeds from disposal of a business	29(d)	-	342
Receipts/(payments) for purchase of a business	29(b)	1,500	(6,037)
Payments for property, plant and equipment		(6,673)	(5,329)
Proceeds from disposal of property, plant and equipment		6	8
Loans advanced		-	(242)
Loan repayments received		242	-
Net cash outflow from investing activities		(4,925)	(11,258)
Cash flows from financing activities			
Proceeds from issue of shares, net of transaction costs	19	19,640	574
Proceeds from borrowings		-	9,000
Repayment of borrowings		(9,228)	(3,351)
Dividends paid	6(a)	(8,130)	(14,321)
Net cash inflow/(outflow) from financing activities		2,282	(8,098)
Net increase/(decrease) in cash and cash equivalents		**11,793**	**(6,002)**
Cash and cash equivalents at the beginning of the financial year	7	3,767	9,769
Cash and cash equivalents at the end of the financial year	7	**15,560**	**3,767**
Non-cash investing and financing activities	31(b)		

The above Consolidated Statement of Cash Flows should be read in conjunction with the accompanying notes.

Notes to the Consolidated Financial Statements

30 June 2015

1. Summary of Significant Accounting Policies

(a) Corporate Information

The financial statements are for the consolidated entity consisting of Pacific Smiles Group Limited ("the Company") and its subsidiaries ("the Group").

Pacific Smiles Group Limited is a public company limited by shares, incorporated and domiciled in Australia. On 21 November 2014 the Company was listed on the ASX. Its registered office and its principal place of business are located at 6 Molly Morgan Drive, Greenhills, NSW.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 12 to 23, which is not part of this financial report.

The financial report is presented in Australian Dollars, which is the Company's functional currency.

The financial report was authorised for issue by the directors on 20 August 2015. The Company has the power to amend and reissue the financial report.

(b) Basis of Preparation

Statement of Compliance

The principal accounting policies adopted in preparation of these consolidated financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards (AASBs) adopted by the Australian Accounting Standards Board (AASB) and the Corporations Act 2001. Pacific Smiles Group Limited is a for-profit entity for the purpose of preparing the financial statements.

The financial statements also comply with International Financial Reporting Standards (IFRS) adopted by the International Accounting Standards Board (IASB).

Historical Cost Convention

These financial statements have been prepared on an accruals basis and are based on historical costs, modified where applicable, by the measurement at fair value of selected non-current assets, financial assets and financial liabilities.

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 a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the financial statements include asset impairment testing.

New Accounting Standards and Accounting Interpretations

The Group has adopted all of the new and revised standards issued by the Australian Accounting Standards Board that are relevant to its operations and effective for the reporting period. Details of the impact of the adoption of these new accounting standards, where applicable, are set out in the individual accounting policy notes.

Certain new accounting standards and interpretations have been published by the Australian Accounting Standards Board that are not mandatory for 30 June 2015 reporting periods and have not been adopted early by the Group. The Group's assessment of the impact of these new standards and interpretations is set out below.

AASB 115 Revenue from Contracts with Customers is effective from 1 January 2017. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2017 and currently has no intention of adopting this standard earlier. The potential impact of the standard has been assessed at this stage as minimal.

There are no other such standards that are not yet effective and that are expected to have a material impact on the Group in the current or future reporting periods and on foreseeable future transactions.

(c) Basis of Consolidation

The consolidated financial statements incorporate the assets and liabilities of all subsidiaries of Pacific Smiles Group Limited ("Company" or "parent entity") as at 30 June 2015 and the results of all subsidiaries for the year then ended. Pacific Smiles Group Limited and its subsidiaries together are referred to in this financial report as the "Group" or the "consolidated entity".

Subsidiaries are entities controlled by the Group. The Group controls an entity when it 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 over the entity. The financial statements of subsidiaries are included in the consolidated financial statements from the date on which control commences until the date on which control ceases.

Subsidiaries are fully consolidated from the date on which control is transferred to the Group. The acquisition method of accounting is used to account for business combinations by the Group (refer to note 1(h)).

Intercompany transactions, balances and unrealised gains on transactions between Group companies are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred.

Accounting policies of subsidiaries are consistent with the policies adopted by the Group.

Investments in subsidiaries are accounted for at cost in the individual financial statements of the parent entity.

1. Summary of Significant Accounting Policies (continued)

(d) Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision maker. The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

(e) Revenue Recognition

Revenue is recognised at the fair value of consideration received or receivable.

Revenue from the rendering of services is recognised once the services have been provided and is measured in accordance with contractual calculation methods and rates.

Revenue from the sale of goods is net of returns, discounts and other allowances, and is recognised when the significant risks and rewards of ownership of the goods have passed to the buyer. Risks and rewards of ownership are considered to pass to the buyer at the time when control of the goods passes to the customer in the case of the supply of non-customised products, or at the time a significant monetary deposit is taken in the case of customised products.

Government subsidies are recognised at their fair value where there is reasonable assurance that the subsidy will be received and the Group will comply with all attached conditions.

Interest income is recognised as it accrues in profit and loss.

(f) Income Tax

The income tax expense 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 between the tax bases of assets and liabilities and their carrying amounts in the financial statements.

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the jurisdictions where the Company and its subsidiaries 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 interpretations. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

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. However, the deferred income tax is 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 transactions affects neither accounting nor taxable profit or 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 and tax bases of investments in controlled entities where the parent entity 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 tax liabilities are offset where the entity has a legally enforceable right to offset and intends to either settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or 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 income or directly in equity, respectively.

(g) Leases

Leases of property, plant and equipment where the Group, as lessee, has substantially all the risks and rewards of ownership are classified as finance leases. Finance leases are capitalised at the lease inception at the lower of the fair value of the lease asset and the present value of the minimum lease payments. The corresponding rental obligations, net of finance charges, are included in borrowings. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate of the finance balance outstanding. The interest element of the finance cost is charged to the profit and 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 are depreciated over the shorter of the asset's useful life and the lease term.

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

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term.

Notes to the Consolidated Financial Statements

30 June 2015

1. Summary of Significant Accounting Policies (continued)

(h) Business Combinations

The acquisition method of accounting is used to account for all business combinations. Cost is measured as the fair value of the assets given, equity instruments issued or liabilities incurred or assumed. The consideration also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired is recorded as goodwill (refer to note 1(n)).

Where contingent consideration is classified as a financial liability and amounts are subsequently re-measured to fair value, changes in fair value are recognised in profit and loss.

(i) Impairment of Assets

Goodwill and intangible assets that have an indefinite useful life are not subject to amortisation and are tested at least annually for impairment. Other assets, including those that are subject to depreciation or amortisation are reviewed 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 to sell and value in use.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows which are largely independent of the cash flows 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 each reporting date. Cash inflows considered for the purposes of impairment testing are discounted to present value.

Significant judgment has been used in testing assets for impairment and in determining the amounts recognised as impairment losses at reporting date. Further details of any material impairment losses recognised in the financial statements are provided in the notes dealing with the relevant asset category.

(j) Cash and Cash Equivalents

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

(k) Receivables

Receivables are recognised initially at fair value and subsequently measured at amortised cost, less provision for impairment if applicable.

The amount of the impairment loss is recognised in profit and loss with other expenses. When a receivable for which an impairment allowance had been recognised becomes uncollectible in a subsequent period, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against other expenses in profit and loss.

(l) Inventories

Inventories held for sale and stores of consumable supplies are stated at the lower of cost and net realisable value. Costs are assigned to individual items of inventory on the basis of actual costs. Net realisable value is the estimated selling price less estimated costs associated with the sale.

(m) Property, Plant and Equipment

All property, plant and equipment is stated at historical cost less depreciation, amortisation and accumulated impairment losses.

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. All other repairs and maintenance are charged to profit and loss during the reporting period in which they are incurred.

Depreciation is calculated using the straight line method to allocate the cost of assets, net of their residual values, over their estimated useful lives, as follows:

Leasehold improvements	10 to 20 years
Plant and equipment	3 to 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 amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (refer to note 1(i)).

(n) Intangible Assets

Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired business at the date of acquisition. Goodwill on acquisitions of businesses is included in intangible assets.

Goodwill acquired in business combinations is not amortised. Instead, goodwill is tested for impairment annually or more

1. Summary of Significant Accounting Policies (continued)

(n) Intangible Assets (continued)

frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses.

Goodwill is allocated to relevant cash-generating units (CGU) for the purpose of impairment testing.

Rights and Licences

Contractual rights and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of the rights and licences over their estimated useful lives, being fifteen years.

(o) Payables

These amounts represent liabilities for goods and services provided to the Group prior to the end of the financial year which are unpaid.

(p) Borrowings

Borrowings are measured at amortised cost. Borrowing costs are expensed as incurred.

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

(q) Employee Benefits

The employee benefits provisions cover the Group's liability for employees' annual leave and long service leave entitlements.

Short-term Obligations

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided. The liabilities 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.

Long-term Obligations

The Group's net obligation in respect of long-term employee benefits is the amount of future benefit that employees have earned in return for their service in the current and prior periods. Consideration is given to expected future wage and salary levels, experience of employee departures and periods of service. The benefit is discounted to determine its present value. Re-measurements are recognised in profit or loss in the period in which they arise.

The obligations are presented as a current liability in the balance sheet if the Group does not have an unconditional right to defer settlement for at least twelve months after the reporting date, regardless of when the actual settlement is expected to occur.

Share Based Payments

Share-based compensation benefits are provided to selected employees via an LTI plan which was established during the period, with effect from the Company's listing on the Australian Securities Exchange (ASX). Further information on the LTI plan is set out in note 22.

The fair value of performance rights granted under the LTI plan is recognised as an employee benefits expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the performance rights granted, which includes any market performance conditions and the impact of any non-vesting conditions but excludes the impact of any service and non-market performance vesting conditions.

Non-market vesting conditions are included in assumptions about the number of performance rights that are expected to vest. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are satisfied. At the end of each period, the Company revises its estimates of the number of performance rights that are expected to vest based on the non-market vesting conditions. It recognises the impact of the revision to original estimates, if any, in profit or loss, with a corresponding adjustment to equity.

(r) Provisions

A provision is recognised if, as a result of a past event, the Group has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability.

Make Good Provision

The Group is required to restore most leased premises to their original condition at the end of the respective lease terms. A provision has been recognised for the present value of the estimated expenditure required to remove any leasehold improvements and repair any associated damage. These costs have been capitalised as part of the cost of leasehold improvements and are amortised over the shorter of the term of the lease or the useful life of the assets.

Onerous Contracts

A provision for onerous contracts is recognised when the expected benefits to be derived by the Group from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The provision is measured at the present value of the lower of the expected cost of terminating the contract and the expected net cost of continuing with the contract. Before a provision is established, the Group recognises any impairment loss on the assets associated with that contract.

1. Summary of Significant Accounting Policies (continued)

(s) Dividends

Provision is made for the amount of any dividend declared on or before the end of the financial year but not distributed at balance date.

(t) Earnings Per Share

Basic earnings per share

Basic earnings per share is calculated by dividing:

- the profit attributable to owners of the Company, excluding any costs of servicing equity other than ordinary shares
- by the weighted average number of ordinary shares outstanding during the financial year, adjusted for bonus elements in ordinary shares issued during the year.

Diluted earnings per share

Diluted earnings per share adjusts the figures used in the determination of basic earnings per share to take into account:

- the after income tax effect of interest and other financial costs associated with dilutive potential ordinary shares, and
- the weighted average number of additional ordinary shares that would have been outstanding assuming the conversion of all dilutive potential ordinary shares.

(u) Goods and Services Tax (GST)

Revenues, expenses and assets are recognised net of the amount of GST, except where the amount of GST incurred is not recoverable from the taxation authority. In these circumstances, the GST is recognised as part of the cost of acquisition of the asset or as part of an item of expense. Receivables and payables in the balance sheet are shown inclusive of GST.

Cash flows are presented in the cash flow statement on a gross basis, except for the GST component of investing and financing activities, which are disclosed as operating cash flows.

(v) Rounding of Amounts

The Company is of a kind referred to in Class Order 98/100, issued by the Australian Securities and Investments Commission, relating to the 'rounding off' of amounts in the directors' report and financial report. Amounts in the directors' report and financial report have been rounded off to the nearest thousand dollars, or in certain cases, to the nearest dollar.

(w) Parent Entity Financial Information

The financial information for the parent entity, Pacific Smiles Group Limited, disclosed in note 32 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries, associates and joint venture entities

Investments in subsidiaries are accounted for at cost in the financial statements of Pacific Smiles Group Limited.

Tax consolidation legislation

Pacific Smiles Group Limited and its wholly-owned Australian controlled entities have implemented the tax consolidation legislation.

The head entity, Pacific Smiles Group Limited, and the controlled entities in the tax consolidated group account for their own current and deferred tax amounts. These tax amounts are measured as if each entity in the tax consolidated group continues to be a stand-alone taxpayer in its own right.

In addition to its own current and deferred tax amounts, Pacific Smiles Group Limited also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from controlled entities in the tax consolidated group.

The entities have also entered into a tax funding agreement under which the wholly–owned entities fully compensate Pacific Smiles Group Limited for any current tax payable assumed and are compensated by Pacific Smiles Group Limited for any current tax receivable and deferred tax assets relating to unused tax losses or unused tax credits that are transferred to Pacific Smiles Group Limited under the tax consolidation legislation. The funding amounts are determined by reference to the amounts recognised in the wholly-owned entities' financial statements.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as current amounts receivable from or payable to other entities in the Group.

Any difference between the amounts assumed and amounts receivable or payable under the tax funding agreement are recognised as a contribution to (or distribution from) wholly-owned tax consolidated entities.

	2015	2014
	$'000	$'000
2. Revenue		
Services rendered	74,467	58,722
Sale of goods	431	359
	74,898	59,081
3. Other Income		
Rents	1,447	923
Consideration receivable on surrender of lease	-	475
Sundry income	122	118
	1,569	1,516
4. Expenses		
Profit before income tax includes the following specific expenses:		
Employee benefits – share based payments expense	67	-
Depreciation and amortisation		
Plant and equipment	2,688	2,323
Leasehold improvements	1,492	1,447
Total Depreciation	4,180	3,770
Amortisation		
Rights and licences	69	-
Total Amortisation	69	-
Net loss on disposal of non-current assets	24	279
Impairment loss/(write-back) on write-down of assets to recoverable amount		
Receivables – other entities	11	71
Net finance costs		
Interest and finance charges paid/payable	345	235
Interest received/receivable	(235)	(184)
Total net finance costs	110	51
Defined contribution superannuation plans expense	2,613	1,853

	2015	2014
	$'000	$'000
5. Income Tax Expense		
Current tax	4,709	3,643
Deferred tax (note 13, 18)	(1,019)	(147)
	3,690	3,496
Profit before income tax expense	12,050	11,248
Income tax calculated at 30% (2014: 30%)	3,615	3,375
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Amortisation of intangibles	-	-
Share based payments	20	-
Sundry items	55	121
Income tax expense	3,690	3,496
6. Dividends		
(a) Dividends paid during the year:		
2014 Special dividend of 7.33 cents* per share, fully franked	-	10,002
Final dividend for the year ended 30 June 2014 of 2.50 cents* (2014 – 1.67 cents*) per share, fully franked	3,410	2,273
Pre IPO special dividend of 1.60 cents (2014 – nil), per share fully franked	2,182	-
Interim dividend for the year ended 30 June 2015 of 1.67 cents (2014 – 1.50 cents*) per share, fully franked	2,538	2,046
	8,130	14,321
(b) Dividends declared but not recognised at the end of the year:		
The Directors have recommended the payment of a final dividend of 3.33 cents (2014 – 2.50 cents*) per share, fully franked.	5,061	3,410
It is expected to be paid on 1 October 2015 out of retained earnings at 30 June 2015, but not recognised as a liability at year end		
*A subdivision of capital on 9 October 2014 resulted in the conversion of each one ordinary share into three ordinary shares. Dividends per share paid during the year and prior comparative period have been restated and presented on a post share-split basis.		
(c) Franking credits available for subsequent financial years based on tax rate of 30% (2014: 30%)	6,375	5,074

The above amounts represent the balance of the franking account as at the end of the financial year, adjusted for franking credits that will arise from the payment of the amount of income tax payable or collection of income tax receivable.

The consolidated amount includes franking credits that would be available to the parent entity if distributed profits of subsidiaries were paid as dividends.

	2015	2014
	$'000	$'000
7. Cash and Cash Equivalents		
CURRENT		
Cash at bank and in hand	15,560	3,767
8. Receivables		
CURRENT		
Trade debtors	138	196
Provision for doubtful debts	(80)	(94)
	58	102
Deferred amount receivable in connection with consideration for business acquisition	-	1,500
Consideration receivable on surrender of lease – related entity	-	475
Sundry debtors	1,064	1,533
	1,122	3,610
9. Inventories		
CURRENT		
Inventories – at cost	2,212	1,990
10. Other Assets		
CURRENT		
Prepayments	67	21
Other	58	97
	125	118
11. Property, Plant and Equipment		
NON-CURRENT		
Leasehold improvements – at cost	23,829	20,360
Less accumulated depreciation and impairment	(8,414)	(6,921)
	15,415	13,439
Plant and equipment – at cost	23,694	21,231
Less accumulated depreciation and impairment	(14,503)	(12,660)
	9,191	8,571
Total property, plant and equipment	24,606	22,010

11. Property, Plant and Equipment (continued)

Movements in Carrying Amounts

2015	Leasehold improvements	Plant and equipment	Total
	$'000	$'000	$'000
Carrying amount at the beginning of the year	13,439	8,571	22,010
Additions	3,468	3,339	6,807
Disposals	-	(31)	(31)
Depreciation expense	(1,492)	(2,688)	(4,180)
Carrying amount at the end of the year	15,415	9,191	24,606

2014	Leasehold improvements	Plant and equipment	Total
	$'000	$'000	$'000
Carrying amount at the beginning of the year	11,282	7,304	18,586
Additions	3,827	3,800	7,627
Disposals	(223)	(210)	(433)
Depreciation expense	(1,447)	(2,323)	(3,770)
Carrying amount at the end of the year	13,439	8,571	22,010

12. Intangible Assets

	2015	2014
	$'000	$'000
NON-CURRENT		
Goodwill	12,517	12,517
Less accumulated amortisation and impairment	(1,892)	(1,892)
	10,625	10,625
Rights and licences	985	1,665
Less accumulated amortisation and impairment	(69)	(680)
	916	985
Total intangible assets	11,541	11,610

Movements in Carrying Amounts

2015	Goodwill	Rights and licences	Total
	$'000	$'000	$'000
Carrying amount at the beginning of the year	10,625	985	11,610
Disposals	-	(69)	(69)
Carrying amount at the end of the year	10,625	916	11,541

12. Intangible Assets (continued)

2014	Goodwill	Rights and licences	Total
	$'000	$'000	$'000
Carrying amount at the beginning of the year	7,841	-	7,841
Additions	2,884	985	3,869
Disposals	(100)	-	(100)
Carrying amount at the end of the year	10,625	985	11,610

Impairment testing for cash generating units (CGUs)
The impairment assessments were made on the basis of the assets' expected value in use and require the use of key assumptions. The calculations use discounted cash flow projections covering a five year period and are based on financial budgets approved by management and extrapolations using estimated growth rates. The table below sets out the key assumptions.

	2015	2014
Discount rate	10.0%	8.7%
Long term growth rate	5.0%	5.0%

For the purposes of impairment testing, goodwill has been allocated to the Group's CGUs as follows:

	2015	2014
	$'000	$'000
Northern Brisbane	2,446	2,446
Multiple units without significant goodwill	8,179	8,179
	10,625	10,625

Discounted cash flow forecasts were reviewed for each CGU, and the carrying value of the assets exceeded their recoverable amount. No impairment losses were recorded in the current year.

13. Deferred Tax Assets

	2015	2014
	$'000	$'000
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Provision for doubtful debts	24	28
Depreciation of property, plant and equipment	1,316	1,228
Accrued expenses	214	267
Prepayments	679	-
Provisions	1,794	1,646
Other	6	9
Deferred tax assets	4,033	3,178
Movements:		
Balance at the beginning of the year	3,178	2,038
Credited/(charged) to the income statement	855	585
Additions on business acquisition	-	585
Reversal of deferred tax assets on disposal of business	-	(30)
Balance at the end of the year	4,033	3,178

	2015	2014
	$'000	$'000
14. Payables		
CURRENT		
Trade payables and accruals – related entities	32	45
Trade payables and accruals – other entities	9,675	9,407
	9,707	9,452
15. Borrowings		
CURRENT		
Secured:		
Bank loans	244	228
Total	244	228
NON-CURRENT		
Secured:		
Bank bills	-	9,000
Bank loans	150	393
Total	150	9,393

Security

Bank bills, bank loans and asset finance provided by the bank are secured by registered equitable mortgage over the whole of the assets and undertakings of the Group, including uncalled capital and inter-entity guarantees.

Financing Arrangements

	2015	2014
Access was available at balance date to the following lines of credit:		
Total bank borrowings facilities	13,193	13,421
Used at balance date	(2,339)	(11,178)
Unused at balance date	10,854	2,243

Covenants attaching to bank borrowings were complied with during the year. Further details on financing facilities are included in note 28.

	2015	2014
16. Current Tax Liabilities		
CURRENT		
Income tax payable	943	1,604

17. Provisions

	2015	2014
	$'000	$'000
CURRENT		
Employee benefits	2,630	2,580
Straight-line operating lease adjustment	189	95
Onerous contracts	40	86
	2,859	2,761
NON-CURRENT		
Employee benefits	880	865
Straight-line operating lease adjustment	1,577	1,300
Onerous contracts	138	117
Make good provision	1,417	1,282
	4,012	3,564

	Employee Benefits	Straight-line Lease Adjustment	Make Good Provision	Onerous Contracts	Total
	$'000	$'000	$'000	$'000	$'000
Movements:					
Balance at the beginning of the year	3,445	1,395	1,282	203	6,325
Additional provisions charged/(written back)	2,127	546	135	39	2,847
Amounts used	(2,062)	(175)	-	(64)	(2,301)
Balance at the end of the year	3,510	1,766	1,417	178	6,871

18. Deferred Tax Liabilities

	2015	2014
	$'000	$'000
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Intangible assets	275	295
Receivables	-	143
Deferred tax liabilities	275	438
Movements:		
Balance at the beginning of the year	438	-
Charged/(credited) to the income statement	(163)	438
Balance at the end of the year	275	438

19. Contributed Equity

(a) Share Capital – No. of Shares	2015	2014
Ordinary shares – fully paid	151,993,395	43,641,151
Ordinary shares – partly paid	-	1,823,314
	151,993,395	45,464,465

Share Capital - $ of shares	2015 $'000	2014 $'000
Ordinary shares – fully paid	35,053	12,546
Ordinary shares – partly paid	-	638
	35,053	13,184

(b) Movements in Ordinary Share Capital	Number of Shares	$'000
Details		
Balance 30 June 2013	45,464,465	12,610
Amounts paid up on partly paid shares balance 30 June 2014	-	574
Balance 30 June 2014	45,464,465	13,184
Subdivision of capital, converting each ordinary share into three ordinary shares		-
Reversal of shares	(45,464,465)	
Conversion to three ordinary shares	136,393,395	-
Amounts paid up on partly paid shares	-	2,188
Share issue at IPO - $1.30 per share	15,600,000	20,280
	151,993,395	35,652
Less: Transaction costs arising on share issue		(856)
Deferred tax credit recognised directly in equity		257
Balance 30 June 2015	151,993,395	35,053

(c) Ordinary Shares

Fully paid ordinary shares – Ordinary shares participate in dividends and the proceeds on winding up of the Company in proportion to the number of shares held. At shareholders' meetings, each ordinary share is entitled to one vote when a poll is called, otherwise each shareholder has one vote on a show of hands.

Partly paid ordinary shares – The partly paid ordinary shares are called on in accordance with their underlying agreements and as required by the Company. In any case, on winding up of the Company, the balance of partly paid shares, if any, may be called up. The proceeds on winding up are proportional to the amounts paid on partly paid shares. Partly paid shares carry equal dividend participation and voting rights as fully paid shares, although any dividends must first be applied to the unpaid balance on the shares.

(d) Capital Management

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

During 2015, pursuit of the Group's capital management strategy resulted in an initial public offering of the shares of Pacific Smiles Group Limited, including new share capital issued by the Company and the admission of the Company to the official list of the ASX.

	2015	2014
	$'000	$'000
20. Reserves		
Share based payments reserve	67	-
21. Earning Per Share		
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	8,360	7,752
	Shares	**Shares**
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	145,881,614	136,393,395
	Cents	**Cents**
Basic earnings per share	5.7	5.7
Diluted earnings per share	5.7	5.7

Information Concerning the Classification of Shares

(i) Partly Paid Shares

Partly paid shares were fully paid up by the date of the IPO and listing of the Company on the ASX on 21 November 2014. Until that time, partly paid shares carried equal dividend participation and voting rights as fully paid shares, although dividends were required to be first applied to the unpaid balance of the shares. Partly paid shares have been included as ordinary share equivalents in the determination of basic and diluted earnings per share.

(ii) Performance Rights

Performance rights granted to employees under the Company's long term incentive plan are considered to be potential ordinary shares and are only included in the determination of diluted earnings per share to the extent to which they are dilutive. The total 2,137,500 performance rights granted during the year (2014 – nil) are not included in the calculation of diluted earnings per share because they are contingently issuable ordinary shares and conditions were not satisfied at 30 June 2015. These performance rights could potentially dilute basic earnings per share in the future.

22. Share Based Payments

(a) Long Term Incentive Plan Overview

During the year, the Company established a LTI plan to assist in the motivation, retention and reward of senior management. The LTI plan is designed to align the interests of senior management more closely with the interests of shareholders by providing an opportunity for senior management to receive an equity interest in the Company through the granting of performance rights.

Under the LTI plan, 2,137,500 performance rights were granted to the executive directors and certain executives at the time of the Company's IPO and listing on the ASX. Those performance rights will vest after four years (the performance period), conditional on the achievement of relevant performance and service conditions measured from the listing date of 21 November 2014 to 30 June 2018. Vesting of the performance rights will be subject to:

- satisfaction of earnings per share (EPS) performance hurdles (measured using the FY2014 year as the base year) for the performance period. The number of performance rights (PR) vesting will be determined on a sliding scale from nil vesting for an EPS CAGR of 15.0% per annum or less and 100% vesting for an EPS CAGR of 25.0% per annum; and
- the participant remaining employed by Pacific Smiles (or its subsidiaries) on the vesting date, subject to certain "good leaver" exemptions.

Performance rights that do not vest on the relevant vesting date will lapse. Performance rights will also lapse if total shareholder return (TSR) does not reach a minimum of 10.0% per annum over the performance period.

22. Share Based Payments (continued)

(b) Performance Rights

Date Granted	Balance at 1 July 2014	Granted in period	Forfeited or lapsed in period	Balance at 30 June 2015
21 November 2014	-	2,137,500	-	2,137,500

(c) Fair Value of Performance Rights Granted

The assessed fair value at grant date of performance rights granted during the year ended 30 June 2015 was $0.51 per performance right. The fair value at grant date has been determined via a pricing model which uses a Monte Carlo simulation, and takes into account the term of the right (4 years), the share price at grant date (IPO offer price of $1.30 per share), exercise price (nil), expected price volatility of the underlying share (30.00%), the expected dividend yield (4.00%) and the risk free interest rate (3.64%) for the term of the right.

	2015	2014
	$'000	$'000
23. Remuneration of Auditors		
Audit and review of financial statements	110	53
Non-audit services:		
Tax compliance and advisory services	28	19
Advisory services – IPO and ASX listing	349	-
	487	72
24. Contingencies		
Bank guarantees	1,946	1,557

The bank guarantees at the end of the financial year relate to security provided under operating leases for premises

25. Commitments

(a) Capital Commitments

	2015	2014
Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:		
Property, plant and equipment		
Payable within one year	1,735	376

(b) Operating Lease Commitments

	2015	2014
Non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities are as follows:		
Payable within one year	6,907	6,168
Payable later than one year but not later than five years	21,701	19,084
Payable later than five years	17,092	16,854
	45,700	42,106

Operating leases relate to rented premises and motor vehicles. Leases have various terms, including some options to extend the terms.

26. Subsidiaries

The parent entity within the Group is Pacific Smiles Group Limited.

The consolidated financial statements incorporate the assets, liabilities and results of the following subsidiaries in accordance with the accounting policy described in note 1(c):

Name of Entity	Country of incorporation	Class of shares	Equity holding 2015	Equity holding 2014
			%	%
Dentist Smiles Group Pty Limited	Australia	Ordinary	100	100
Dental Assistant Training Solutions Pty Limited	Australia	Ordinary	100	100
Pacific Eyes Pty Limited *	Australia	Ordinary	100	100
Pacific Medical Care Pty Limited **	Australia	Ordinary	100	100

* No longer trading
** Subsidiary has not traded since incorporation.

27. Related Party Disclosures

(a) Key Management Personnel Compensation

	2015	2014
	$	$
Short-term employment benefits	1,746,049	1,510,785
Long-term benefits	21,979	15,580
Share-based payments	66,751	-
	1,834,779	1,526,365

Detailed remuneration disclosures are provided in the Remuneration Report within the Directors' Report.

(b) Related Party Transactions

Other than remuneration for their positions as directors and executives of the Company, key management personnel or entities related to them entered into a number of transactions with the Company. Information on these transactions is set out below.

Bourke Family Investments Pty Limited, an entity related to Grant Bourke, subscribed for shares in the Company's IPO during 2015.

Key management personnel or their related parties held shares in the Company during 2015 and 2014, and as such, participated in dividends. Amounts were paid up in accordance with the terms associated with partly paid shares. All partly paid shares were fully paid up prior to the Company's IPO during 2015.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, provided premises rental to the Company during 2015 and 2014 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the Company during 2015 and 2014 on normal commercial terms and conditions.

88 Park Avenue Pty Limited ATF the Key Health Unit Trust, an entity related to Alex Abrahams, leased business premises to the Company during 2015 and 2014 on normal commercial terms and conditions.

Susan Abrahams, an individual related to Alex Abrahams, leased business premises to the Company during 2015 and 2014 on normal commercial terms and conditions. The lease over these premises was surrendered in July 2014, resulting in a surrender fee being paid by Susan Abrahams to the Company.

The Company received fees for the provision of services to Alex Abrahams during 2015 and 2014 under normal terms and conditions of dental service and facility agreements.

The Company paid fees for management and support services to Whitesail Pty Limited ATF The Whitesail Trust during 2014. The agreement ended as at 30 June 2014. The entity is related to Alex Abrahams. Fees were based on an agreement approved by the board, which reflected commercial terms and conditions. The majority of the fees were for the personal services of Alex Abrahams in his capacity as a director and executive of the Group, and the relevant portion of the fees has been included within the disclosures of key management personnel compensation for 2014. In 2015, Alex Abrahams was engaged as a direct employee of the Company for these roles.

The Company procured marketing services during 2015 from Direct Impact Media, a business which is part of Domino's Pizza Enterprises Limited, an entity related to Grant Bourke. Fees were negotiated at arms-length and were based on normal commercial terms and conditions.

27. Related Party Disclosures (continued)

The Company paid consultancy fees for specific professional advice and assistance to TDM Asset Management Pty Ltd. TDM Asset Management Pty Ltd is an entity related to Ben Gisz. During 2015 the consultancy fees were in connection with the Company's IPO, and in 2014 they were in connection with the Company's acquisition of the Dental and Eye Care Practice business from Australian Health Management Group Pty Ltd. Fees paid were based on normal commercial terms and conditions.

The aggregate amounts of each of the above types of transactions were:

	2015	2014
	$	$
Subscriptions for new ordinary shares – fully paid	2,000,001	-
Dividends paid	4,408,196	8,555,364
Revenues from rendering services	323,286	291,370
Fees receivable in relation to lease surrender	-	475,500
Rental expenses	1,220,942	1,289,979
Marketing expenses	120,428	-
Consultancy fees paid	210,367	71,060
Employee expenses	12,212	-
Administration and support services expenses	5,288	78,422

28. Financial Risk Management

Financial Risk Management Objectives

The Group's activities expose it to a variety of financial risks: market risk (interest rate risk), credit risk and liquidity risk.

The board has overall responsibility for the establishment and oversight of the risk management framework, and is supported by the Board Audit and Risk Management Committee. Senior management develops and monitors risk management policy, and reports regularly to the directors on issues and compliance matters. Risk management principles and systems are reviewed regularly to reflect changes in market conditions and the Group's activities.

The Group's principal financial instruments during the 2015 and 2014 financial years comprised bank bills, bank and other loans, and cash. The main purpose of these instruments has been to raise finance for the Group's operations and investments. The Group has various other financial instruments such as trade and other debtors and creditors, which arise directly from its operations. The Group does not trade in financial instruments.

Market Risk

The Group's exposure to market risk for changes in interest rates at the end of the year related primarily to cash balances. The new share capital raised via the Company's initial public offering during the 2015 financial year was used to repay a bank bill liability of $9,000,000 outstanding at that time, and resulting in only minimal other bank borrowings outstanding at the end of the financial year.

Cash balances are held in a combination of short term fixed interest deposit accounts and other cheque and on-call accounts which attract variable interest rates. The weighted average interest rate on cash balances at the end of the year was 2.23% (2014: 1.88%) for the Group.

The weighted average interest rate on borrowings at the end of the year was 6.8% (2014: 4.87%) for the Group.

28. Financial Risk Management (continued)

	2015	2014
	$'000	$'000
Interest Rate Sensitivity Analysis		
Effect on profit before tax and equity:		
1% increase in interest rates	55	41
1% decrease in interest rates	(55)	(41)

Credit Risk

The Group has no significant concentrations of credit risk. The Group does not have significant credit exposure to any one financial institution or customer. The credit risk on financial assets of the consolidated entity which have been recognised in the balance sheet is generally the carrying amount, net of any provision for doubtful debts.

Liquidity Risk

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of working capital and bank borrowings. The Group aims to achieve this flexibility by keeping committed credit lines available. Opportunities to raise additional capital from shareholders are also considered where appropriate. Bank financing facilities are identified at note 15.

The Group manages liquidity risk by continuously monitoring forecast and actual cash flows to ensure sufficient liquidity is always available to meet liability obligations as they fall due. Liabilities have been classified as current where it is probable that they will be settled within twelve months or if there is a contractual obligation that may require settlement within twelve months, regardless of how likely settlement under contractual arrangements is judged to be. The Group's current assets, available financing facilities, and ongoing positive operating cash flows continue to be sufficient to satisfy all payment obligations within the time frames required.

Maturities of Financial Liabilities

The following tables show the maturity groupings of gross (undiscounted) payment obligations under contracts for financial liabilities.

	Less than 6 months	6 to 12 months	1 to 5 Years	Total Contractual Amounts
	$'000	$'000	$'000	$'000
Consolidated – 2015				
Bank bills	-	-	-	-
Bank loans	120	124	150	394
Payables and accruals	9,707	-	-	9,707
	9,827	124	150	10,101
Consolidated – 2014				
Bank bills	-	-	9,000	9,000
Bank loans	112	116	393	621
Payables and accruals	9,452	-	-	9,452
	9,564	116	9,393	19,073

Fair Value

The fair value of financial assets and liabilities held by the Group approximate the individual carrying values of those assets and liabilities.

29. Business Combinations

(a) Summary of Acquisitions

On 13 June 2014, the Group acquired Dental and Eye Care Centres located at Haymarket and Parramatta, and a Dental Centre at Wagga Wagga, New South Wales. The two Eye Care businesses were sold immediately following the purchase.

Details of the aggregate fair value of the assets and liabilities acquired and goodwill are as follows:

	2015	2014
	$'000	$'000
Purchase consideration (refer to (b) below):		
Cash paid/payable	-	4,540
Fair value of net identifiable assets acquired (refer to (c) below)	-	(1,656)
Goodwill (note 12)	-	2,884

(b) Purchase Consideration

	2015	2014
Outflow of cash to acquire businesses, net of cash acquired		
Total cash consideration	(1,500)	6,164
Cash acquired	-	(3)
Post completion adjustments receivable	-	(124)
Payments/(receipts) per statement of cash flows	(1,500)	6,037
Deferred consideration receivable	1,500	(1,500)
Total outflow	-	4,537

Acquisition-related transaction costs of $382,000 were included in other expenses in the Statement of Comprehensive Income and in operating cash flows in the Statement of Cash Flows during 2014.

(c) Assets and Liabilities Acquired

The assets and liabilities arising from the acquisitions were as follows:

	2015	2014
Cash	-	3
Trade receivables	-	5
Inventories	-	443
Plant and equipment	-	1,116
Deferred tax asset	-	585
Intangible assets	-	985
Provisions	-	(1,481)
Net identifiable assets acquired	-	1,656

29. Business Combinations (continued)

(d) Disposal of Eye Care Business

On 13 June 2014, immediately subsequent to the purchase of the Dental and Eye Care businesses at Haymarket and Parramatta, the Group, completed the sale of the Eye Care businesses. These businesses did not trade under the ownership of Pacific Smiles Group Limited.

Details of the aggregate fair value of the assets and liabilities disposed were as follows:

	2015	2014
	$'000	$'000
Total disposal consideration	-	342
Fair value of net assets disposed	-	(325)
Net profit on disposal	-	17
Inflow of cash from disposal of business, net of cash disposed		
Deferred consideration	-	250
Cash received	-	100
Post completion adjustments payable	-	(8)
Total inflow	-	342

No cash or bank overdrafts were disposed of as part of the business disposal. Deferred consideration was receivable in equal installments after the end of the financial year and all amounts due were collected by 30 June 2015.

	2015	2014
The assets and liabilities disposed were as follows:		
Inventories	-	166
Plant and equipment	-	130
Intangible assets	-	100
Deferred tax assets	-	30
Provision for employee benefits	-	(101)
Net identifiable assets disposed	-	325

30. Segment Information

The Group's activities are within the dental sector. The Group's activities are located throughout Eastern Australia.

The financial results from this segment are consistent with the financial statements for the Group as a whole.

31. Notes to the Statement of Cash Flows

	2015	2014
	$'000	$'000
(a) Reconciliation of Profit after Income Tax to Net Cash Inflow from Operating Activities		
Profit for the year	8,360	7,752
Depreciation and amortisation	4,249	3,770
Net loss on disposal of non-current assets	24	279
IPO transaction costs classified as investing cash flows	1,972	-
Share based payments expense	67	-
Change in operating assets and liabilities		
(Increase)/decrease in receivables	750	(1,395)
(Increase)/decrease in inventories	(222)	(110)
(Increase)/decrease in other operating assets	(7)	(23)
(Increase)/decrease in deferred tax assets	(599)	(585)
Increase/(decrease) in trade payables	256	3,131
Increase/(decrease) in provisions	410	197
Increase/(decrease) in income tax	(661)	(100)
Increase/(decrease) in deferred tax liabilities	(163)	438
Net cash inflow from operating activities	14,436	13,354
(b) Non-cash Investing and Financial Activities		
Capitalisation of estimated future make-good obligations in relation to leasehold premises	135	1,182

32. Parent Entity Financial Information

(a) Summary Financial Information

The individual financial statements for the parent entity show the following aggregate amounts:

	2015 $'000	2014 $'000
Balance Sheet		
Current assets	20,008	10,349
Total assets	60,073	47,006
Current liabilities	13,774	14,068
Total liabilities	18,197	27,462
Shareholders' equity		
Issued capital	35,053	13,184
Reserves	67	-
Retained earnings	6,756	6,360
	41,876	19,544
Profit or loss for the year	8,527	7,856
Total comprehensive income	8,527	7,856
(b) Contingent Liabilities of the Parent Entity		
Bank guarantees	1,946	1,557

The parent entity did not have any contingent liabilities or financial guarantees as at 30 June 2015 or 30 June 2014, other than bank guarantees.

Directors' Declaration

For the year ended 30 June 2015

In the directors' opinion:

(a) the financial statements and notes set out on pages 26 to 52 are in accordance with the Corporations Act 2001, including:

(i) giving a true and fair view of the consolidated entity's financial position as at 30 June 2015 and of its performance for the financial year ended on that date;

(ii) complying with Australian Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements; and

(b) there are reasonable grounds to believe that the Company will be able to pay its debts as and when they become due and payable.

Note 1 confirms that the financial statements comply with International Financial Reporting Standards as issued by the International Accounting Standards Board.

The directors have been given the declarations by the Chief Executive Officer and Chief Financial Officer required by section 295A of the Corporations Act 2001.

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

Robert Cameron AO
Chairman

Greenhills

20 August 2015

Independent Auditor's Report

Independent auditor's report to the members of Pacific Smiles Group Limited

Report on the financial report

We have audited the accompanying financial report of Pacific Smiles Group Limited (the "Company"), which comprises the consolidated balance sheet as at 30 June 2015, and consolidated statement of comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year ended on that date, notes 1 to 32 comprising a summary of significant accounting policies and other explanatory information and the directors' declaration of the Group comprising the Company and the entities it controlled at the year's end or from time to time during the financial year.

Directors' responsibility for the financial report

The directors of the Company are responsible for the preparation of the financial report that gives a true and fair view in accordance with Australian Accounting Standards and the *Corporations Act 2001* and for such internal control as the directors determine is necessary to enable the preparation of the financial report that is free from material misstatement whether due to fraud or error. In note 1(b), the directors also state, in accordance with Australian Accounting Standard AASB 101 *Presentation of Financial Statements*, that the financial statements of the Group comply with International Financial Reporting Standards.

Auditor's responsibility

Our responsibility is to express an opinion on the financial report based on our audit. We conducted our audit in accordance with Australian Auditing Standards. These Auditing Standards require that we comply with relevant ethical requirements relating to audit engagements and plan and perform the audit to obtain reasonable assurance whether the financial report is free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial report. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial report, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of the financial report that gives a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the financial report.

We performed the procedures to assess whether in all material respects the financial report presents fairly, in accordance with the *Corporations Act 2001* and Australian Accounting Standards, a true and fair view which is consistent with our understanding of the Group's financial position and of its performance.

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

Independent Auditor's Report

Independent auditor's report to the members of Pacific Smiles Group Limited (continued)

Independence

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

Auditor's opinion

In our opinion:

(a) the financial report of the Pacific Smiles Group Limited is in accordance with the *Corporations Act 2001*, including:

   (i) giving a true and fair view of the Group's financial position as at 30 June 2015 and of its performance for the year ended on that date; and

   (ii) complying with Australian Accounting Standards and the Corporations Regulations 2001.

(b) the financial report also complies with International Financial Reporting Standards as disclosed in note 1(b).

Report on the remuneration report

We have audited the Remuneration Report included in pages 17 to 23 of the directors' report for the year ended 30 June 2015. 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 auditing standards.

Auditor's opinion

In our opinion, the remuneration report of Pacific Smiles Group Limited for the year ended 30 June 2015, complies with Section 300A of the *Corporations Act 2001*.

KPMG

KPMG

Chris Allenby
Partner

Sydney
20 August 2015

Shareholder Information

As at 31 July 2015

Distribution of Equity Security Holders

Range	Number of equity security holders
1 – 1,000	124
1,001 – 5,000	253
5,001 – 10,000	146
10,001 – 100,000	139
100,001 and over	87
Total	749

There were 24 holders of less than a marketable parcel of ordinary shares.

Twenty Largest Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Alexander John Abrahams	29,936,010	19.70
Alison Jane Hughes	15,860,190	10.43
UBS Wealth Management Australia Nominees Pty Ltd	13,893,665	9.14
National Nominees Limited	9,463,464	6.23
Just Paddling Pty Ltd	6,089,082	4.01
BNP Paribas Noms Pty Ltd	4,576,004	3.01
RBC Investor Services Australia Nominees Pty Ltd	4,230,763	2.78
JP Morgan Nominees Australia Pty Ltd	3,492,119	2.30
Robert G Cameron and Paula S Cameron	3,383,258	2.23
John Gibbs	3,337,265	2.20
Susan Louise Abrahams	3,268,269	2.15
Channing Holdings Pty Ltd	3,090,150	2.03
Karen Wright	2,022,000	1.33
Contemplator Pty Ltd	1,920,270	1.26
Joseph Nominees Pty Ltd	1,819,770	1.20
Sandini Pty Ltd	1,819,769	1.20
Sudemo Pty Ltd	1,741,017	1.15
Citicorp Nominees Pty Ltd	1,722,047	1.13
William McIllwraith Pty Ltd	1,695,000	1.12
Amanda Taylor	1,647,735	1.08
Total	**115,007,847**	**75.68**
Other holders	36,985,548	24.32
Total quoted equity securities	**151,993,395**	**100.00**

Shareholder Information

As at 31 July 2015

Unquoted Equity Securities

	Number on issue	Number of holders
Performance rights issued under the Company's LTI plan	2,137,500	5

Substantial Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Alexander John Abrahams and his associates	39,643,361	26.08
TDM Asset Management Pty Ltd and its associates	24,407,982	16.06
Alison Jane Hughes	15,860,190	10.43

Escrowed Equity Securities

	Number of ordinary shares held
Ordinary shares subject to voluntary escrow arrangements until three business days after the date on which the Company's financial results for the year ended 30 June 2015 are released to the ASX	96,315,232

Voting Rights

Each ordinary share carries the right to one vote. No voting rights attached to performance rights.

Corporate Directory

Principal Registered Office
Level 1, 6 Molly Morgan Drive, Greenhills NSW 2323
T 02 4930 2000 / F 02 4930 2099
W www.pacificsmilesgroup.com.au

Directors

Robert Cameron AO *Non-executive Chairman*	Grant Bourke *Non-executive Director*
John Gibbs *Managing Director & Chief Executive Officer*	Ben Gisz *Non-executive Director*
Dr Alex Abrahams *Executive Director*	Simon Rutherford *Non-executive Director*

Company Secretary
Jane Coleman

Auditor
KPMG
10 Shelley Street, Sydney NSW 2000

Share Registry
Link Market Services Limited
Level 12, 680 George Street, Sydney NSW 2000
Locked Bag A14, Sydney South NSW 1235
T 1300 554 474 / F 02 9287 0303
E registrars@linkmarketservices.com.au

Stock Exchange Listing
Pacific Smiles Group Limited shares are listed on the Australian Security Exchange under the code "PSQ".

PACIFIC SMILES GROUP

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