


Keep
Smiling



2018
ANNUAL
REPORT



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*“Our true purpose
is to improve the
oral health of ALL
Australians to
world’s best.”*



2018 Highlights

PATIENT FEES – UP 12.0%

\$164.5m

SAME CENTRE GROWTH – UP 130bps

5.1%

ORDINARY DIVIDENDS – UP 3.4%

6.1 cps

DENTAL CENTRES - UP 14% ON PCP

80

UNDERLYING EBITDA – UP 2.9%

\$21.5m

UNDERLYING NPAT – DOWN 9.7%

\$9.3m

Chairman's Review

During financial year 2018, Pacific Smiles Group expanded its network of dental centres to 80 locations throughout Queensland, New South Wales, the Australian Capital Territory and Victoria. In line with recent years, all new locations are within regional or sub regional shopping centres where foot traffic is strong and brand exposure is optimised. The centres are open seven days a week and offer appointments at times convenient to their patients.



Patient care and customer service will always be the absolute priority of our people and I am pleased to report that our Net Promoter Score has improved again, averaging over 75 for the Group overall. This is incredibly high and a testament to the commitment of our front-line staff and dentists to deliver outstanding care.

The continued growth of our branded network, impressive as it is, was just one part of the story, as management positioned the Company for long-term success. Key initiatives for the year included the acquisition of Everything Dentures and Sculpt Laboratory, the right-sizing of Pacific Smiles Dental in Parramatta and the completion of the nib Dental Care Centre network. Management focus was also upon professional training and development for dentists and on strategic investments into information and communication technologies. The strategic intent of each of these initiatives will be covered in the CEO Update, but suffice to say, they help to shape Pacific Smiles as a dental centre operator that is differentiated from the cottage industry and from scale competitors.

Overall, the financial performance in FY2018 was not as strong as we expected at the start of the financial year and we experienced soft trading in May and June, resulting in a trading update in June. Patient volume growth was solid, but not strong enough to achieve the EBITDA guidance, given the relatively fixed cost base in the business.

During the year, Non-Executive Director Grant Bourke resigned and a new Non-Executive Director Zita Peach joined the Board. I continue to be very impressed with the Board of Directors and thank them for their contributions in FY2018.

A further change has been announced since the end of the financial year, advising of a transition of the Chief Executive Officer and Managing Director role from John Gibbs to Phil McKenzie in October 2018. Having led Pacific Smiles for almost 15 years, John is ready for his next challenge.

The Board and I thank John for his impressive leadership which saw Pacific Smiles grow from three dental centres to 80 during his tenure. He and his management team have built a world-class dental centre network of which all stakeholders can be very proud.

I take this opportunity to thank all of the dentists and employees who work across our two branded networks. They are the ones who deliver the care and service every day that makes Pacific Smiles such a compelling proposition for patients. Together, they demonstrate our True Purpose of improving the oral health of ALL Australians to world's best, every day.

Pacific Smiles will continue to grow and improve. With a large proportion of our dental centres less than three years old and achieving growth rates in excess of network average, we expect to see ongoing uplift over many years. Combined with the year after year step-up in Net Promoter Score, it is clear that we are building a business for the long term, centre by centre, as we continue to roll-out.

A final dividend of 3.8 cents per share has been declared in relation to FY2018 and this will be paid in October 2018. This represents 100% of underlying Net Profit After Tax.

I would like to thank our shareholders for their continued support.

A handwritten signature in black ink, reading "Robert Cameron". The signature is written in a cursive, flowing style.

Robert Cameron AO
Chairman



“Pacific Smiles’ absolute commitment to outstanding patient care and customer service is reflected by our high Net Promoter Scores.”



Managing Director's Review

Overview

With continued roll-out of new dental centres, typically in busy suburban retail hubs, Pacific Smiles Group Limited (Pacific Smiles) now owns and operates 70 Pacific Smiles Dental Centres and 10 nib Dental Care Centres in Queensland, New South Wales, Victoria and the Australian Capital Territory.



Dental practitioners engage Pacific Smiles in order to practice from one or more fully serviced facilities in exchange for a monthly service fee. The dentists devote their working days to clinical dentistry while Pacific Smiles provides them with everything else they require for a successful practice including administration, IT systems, human resources, marketing, equipment, consumables and facility management.

Approximately 380 dentists have engaged Pacific Smiles in this way, enjoying the benefits of practicing at one or more of the 80 facilities owned and operated by Pacific Smiles.

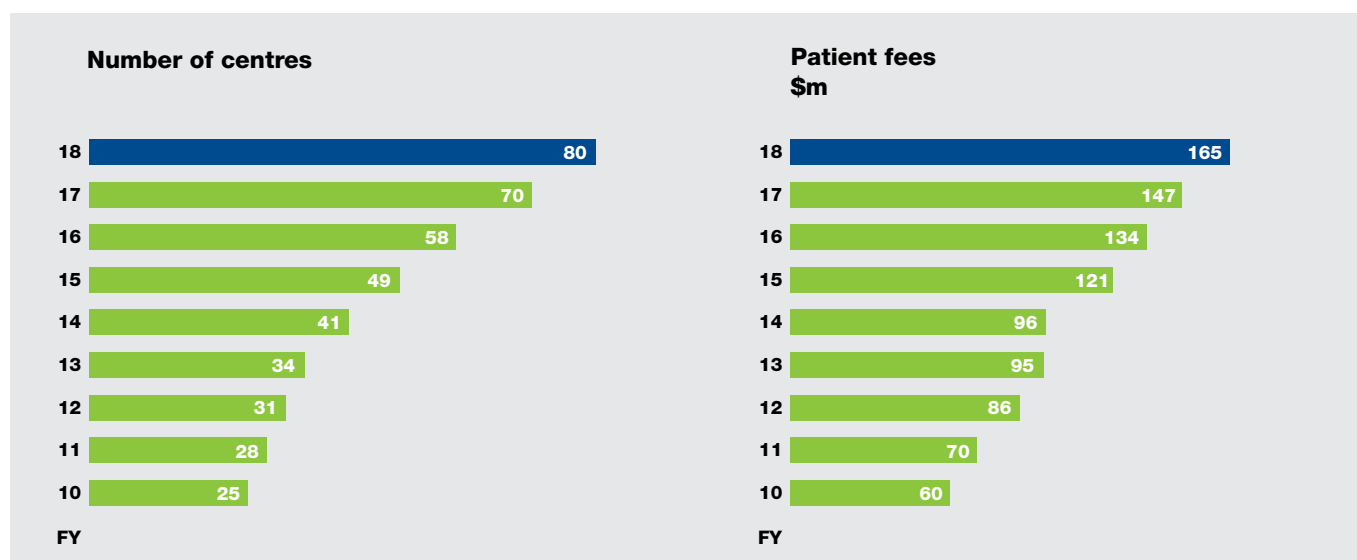
An absolute commitment to outstanding patient care and customer service at dental centres operated by Pacific Smiles is reflected in strong patient demand and in a high Group-average Patient Net Promoter Score of above 75. Convenient locations, extended opening hours and on line appointments enhance patient access and convenience and an outstanding in-centre experience underpins patient trust and loyalty.

Operations Overview and Highlights

Solid progress was made during the year in building up our two branded networks through the eastern States of Australia. A total of 10 new centres were opened during the year, at Figtree and Shellharbour in the Illawarra, Balgowlah in Sydney, Gungahlin and Woden in the Australian Capital Territory, Leopold, Greensborough and Glen Waverley in Victoria and Buddina and Runaway Bay in Queensland. In all cases, the new centres were located within or adjacent to already established clusters of Pacific Smiles Dental and nib Dental Care Centres.

The nib Dental Care Centre network was extended into Queensland and the Australian Capital Territory during the year, growing this network to 10 plus an additional co-branded Pacific Smiles Dental Centres/nib Dental Care Centre. In Queensland, an existing Pacific Smiles Dental Centre in the CBD was rebranded to a nib Dental Care Centre. In the Australian Capital Territory, a new nib Dental Care Centre was established in excess space adjacent to the existing Pacific Smiles Dental Centre in Woden. With the completion of this network, the vast majority of nib customers are within reasonable proximity of a nib Dental Care Centre. This is an important achievement, given the restriction of the no-gap check-ups to nib Dental Care Centres.

Supporting a commitment to providing patients with as broad a range of dental services as possible, Everything Dentures was acquired in November 2017. Everything Dentures engages prosthetists (registered dental professionals who focus on custom dentures, mouth guards, splints and other oral appliances) and places them into their own branded denture clinics or into dental centres owned and operated by third parties. The strategic benefit for Pacific Smiles is linked to the preference by most dentists to refer out dentures to external prosthetists. The acquisition allows this important clinical work to be kept within Pacific Smiles, which is much more convenient for patients.







Managing Director's Review



*“During the year we
provided 670,000 patient
appointments and welcomed
120,000 new patients.”*

A further strategic advantage is the vertical integration benefits delivered by Sculpt Dental Laboratory, which is part of Everything Dentures. Ownership of a dental laboratory allows for retention of revenues that would otherwise flow to third party laboratories, in relation to the laboratory work requested by the dentists and prosthetists who practice from Pacific Smiles Dental Centres. Sculpt Dental Laboratory also provides services to dentists outside of Pacific Smiles.

Another feature of the year was the strong investment in dentist development and training, including a boosted graduate program for recent graduate dentists, establishment of a network of mentor dentists across the centres plus a pilot for regional clinical mentor dentists with responsibility for clinical development in a cluster of dental centres. The significantly uplifted focus in this area is recognition of the critical importance of providing dentists with industry leading value-add skills development to help them to develop their clinical practice at Pacific Smiles Dental Centres and to provide a wider array of services to the patients.

As with the prior year, information technology featured strongly in terms of management priority and investment. A number of key projects were advanced during the year to leverage data and processes from the data warehouse and practitioner database, the two foundation projects. Reporting has been transformed and a number of processes automated; however, there is still a way to go here to bring all systems up to the scalable standards required.

Ongoing challenges at Pacific Smiles Dental, Parramatta, prompted a reset at this centre, to right-size the staffing to the current and anticipated patient demand. With costs rebased and culture reset, this centre's performance has materially improved. The two ex-DEP centres of Pacific Smiles Dental, Parramatta, and Pacific Smiles Dental, Town Hall are not yet performing at the level expected of centres of their size and maturity, but they are both improving and are no longer the problematic centres that they were.

Group Financial Performance

\$ millions	Underlying 2018	Underlying 2017	Change
Revenue	104.5	91.5	14.3%
Gross profit	96.5	85.9	12.3%
EBITDA	21.5	20.9	2.9%
EBIT	13.7	14.9	(9.5%)
Net profit after tax	9.3	10.3	(9.7%)
Operating metrics			
Number of Dental Centres	80	70	14.3%
Commissioned Dental Chairs	308	276	11.6%
Patient Fees (\$ millions)	164.5	147.0	12.0%
Same Centre Patient Fees growth	5.1%	3.8%	
Financial metrics			
Earnings per share (cents)	6.1	6.7	(9.0%)
EBITDA margin	20.6%	22.9%	
EBITDA to Patient Fees margin	13.1%	14.2%	
EBIT margin	13.1%	16.3%	

Adjustments to the Statutory Income Statement

	2018 \$ million	2017 \$ million
Statutory net profit after tax	6.6	10.0
Severance and HR consultancy expense	0.2	0.4
Major dental centre restructure	2.4	–
Business acquisition costs	0.1	–
Asset write-off	0.4	–
Executive LTI plan expense/(write-back)	0.1	–
Income tax effect of adjustments	(0.4)	(0.1)
Underlying statutory net profit after tax	9.3	10.3

DENTISTS KEEPING IT IN THE FAMILY

“I have built my practice over 32 years at Pacific Smiles Greenhills and I am extremely proud to now have the pleasure of my daughter joining me to develop her career as a dentist.”

Dr Anne Bailey



Managing Director's Review



Managing Director's Review

Statutory Results

The Group achieved statutory net profit after tax of \$6.6 million, a decrease of 34.8% from \$10.0 million in 2017. The statutory results were impacted by the one-off restructuring and impairment costs for the Parramatta dental centre, one-off costs associated with dental chair write-offs and higher depreciation costs associated with the rollout strategy of new centres. These significant events make year on year performance comparisons more difficult. As such, the Operating and Financial Review discussions will focus on the underlying results for 2018 and the comparative period.

Underlying and Statutory Results

For the financial year the underlying EBITDA increased by 2.9% to \$21.5 million compared with 2017. Higher depreciation costs associated with the rollout strategy of new centres, resulted in the underlying Net Profit After Tax decreasing by 9.7% to \$9.3 million compared to \$10.3 million for the prior year.

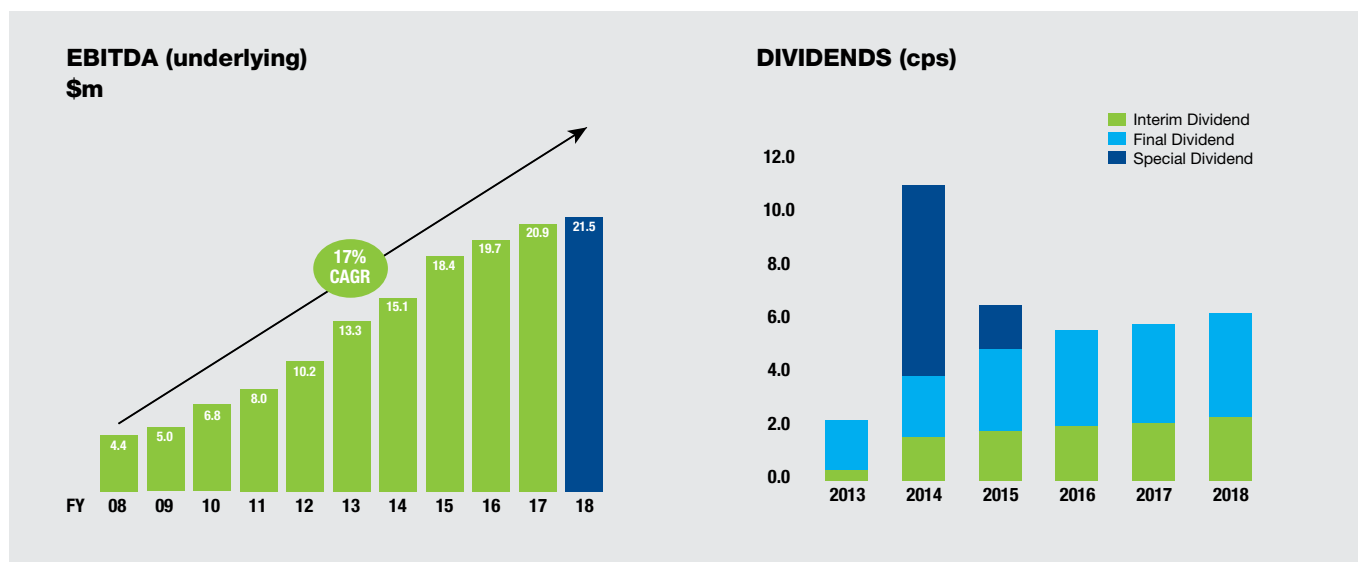
Group revenue was \$104.5 million, up by 14.3% over the previous financial year. This revenue consists mainly of the service fees charged to the dentists who practice from our centres. Pacific Smiles provides dentists with fully serviced and equipped facilities including support staff, materials, marketing and administrative services. This enables dentists to maximise time treating patients.

Revenue growth is achieved through the combination of our existing dental centres and our new dental centres opened in recent years. Patient fees increased 12.0% over the previous year to \$164.5 million due to same centre fee growth of 5.1%, plus the full year effect from new centres opened in 2017 and part-year impact of new centre openings in 2018.

The Group's underlying EBITDA to Patient fees margin declined in 2018 to 13.1%. Although Pacific Smiles achieved solid same centre growth in 2018, this was lower than expected due to softer trading and reduced labour efficiency in the more mature dental centres, as well as additional IT investments. In response to the ongoing underperformance of the centres acquired from Medibank Private, in November 2017 the Pacific Smiles Dental Centre at Parramatta was right-sized and is now staffed for seven dental chairs. Clinical treatments and services are being provided by dentists and prosthetists and visiting specialists, but no longer by hygienists. Patient volumes have remained steady and EBITDA and margins have improved. The centres acquired from Medibank Private are positive contributors, but at lower margins than is usual for large, mature centres and have therefore been dilutive to overall margin. The restructure of the Pacific Smiles Dental Centre at Parramatta was a key step in addressing this. The new Pacific Smiles' Dental Centres are typically not profitable in the first year of operation. This means the accelerated dental centre rollout strategy also impacts Group profitability in the short term. The 2018 new openings have performed in line with expectations and, like the centres opened in prior years, will be strong contributors to long term growth and profit margins over time. Corporate costs increased in 2018 due to additional positions to broaden expertise and support the growth plans.

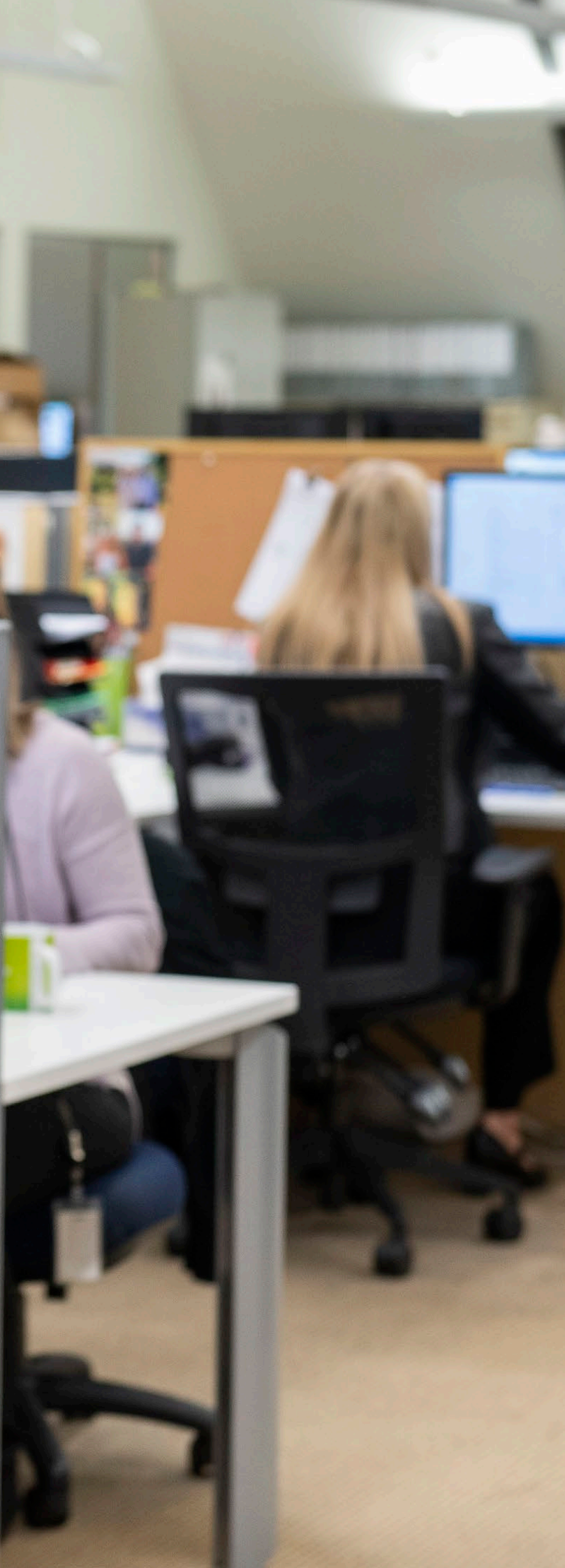
Financial Position

In line with Pacific Smiles' long term growth strategy, total capital expenditure for 2018 was \$13.8 million. This included \$8.3 million for new dental centres and \$1.6 million in upgrades for existing centres, equipment replacements, commissioning of nine additional surgeries in existing centres and additional IT infrastructure.





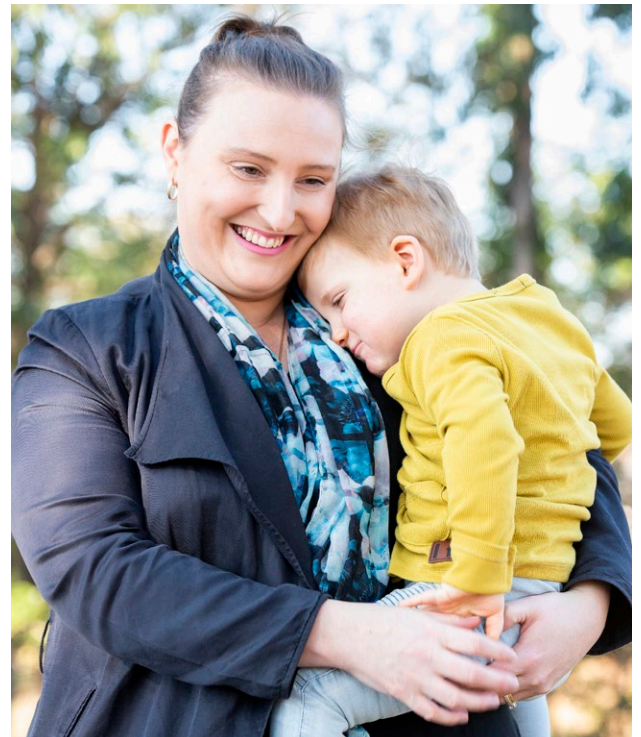




EMPLOYEES

“Pacific Smiles has provided me with amazing opportunities over the 14 years I have been with the Company. I started my career as a trainee dental assistant and now hold a senior management position, helping to shape the direction of the Company.”

Jess Garside



Managing Director's Review



“Outlook is for a continued roll-out of branded dental centres as we scale to our long term dental network potential of at least 250 centres.”

Borrowings increased to \$12.0 million in the current year from \$5.0 million in 2017, primarily to support the expansion of the dental centre network and upgrades of existing facilities, equipment and systems.

Ordinary dividends of \$9.1 million were paid to shareholders in 2018, compared with \$8.7 million in the prior year. After considering the final dividend declared of 3.8 cents per share in relation to 2018, which will be paid in October 2018, the dividend payout increased to 100.2% of underlying Net Profit After Tax (2017 was 87.2% of underlying Net Profit After Tax).

The Market

The market for dental services in Australia is approximately \$9 billion to \$10 billion per annum and the market has grown steadily over the long term.

Funding for dental services is predominantly from individuals, however private health insurance participation supports dental attendances and spending through co-payment arrangements. APRA's latest dental service data reported that more than 41 million dental services were funded by health funds in the 12 months ending March 2018. The health funds pay more than \$2.6 billion per annum in dental benefits. 90% of dental health services provided to low and middle income earners are subsidised by health funds and 60% of dental treatments/services in hospitals (typically extractions and restorations) are paid for by health funds.

The proportions of total expenditure on dental services by health funds and by government are trending in opposite directions. Health funds have increased their proportion from 14.0% in 2009-10 to 18.1% in 2015-16, according to the Australian Institute of Health and Welfare, while the proportion by the Australian Government has decreased from 16.3% in 2009-10 to 15.9% in 2015-16. Expenditure by State and Local Governments has decreased from 8.2% in 2009-10 to 7.7% in 2015-16. The Child Dental Benefit Schedule and some partnership arrangements with the States and Territories continue to be the main funding programs of the Commonwealth government, whereas the various States and Territories operate systems to overflow patients from public clinics to the private sector.

The industry continues to be highly fragmented with the majority of providers operating from small-scale single locations, although corporate activity in the sector is increasing. There are more branded networks, including some owned and operated by private health insurance organisations, who market to their own members to encourage them to attend.

The other major feature of the market is the continued growth in the number of registered dentists. The increase in recent years has been due to the combined impact of overseas trained dentists and local graduates. The number of registered dentists was 16,684 in March 2018, up by 2.9% from a year earlier.

Business Strategy

The overarching business strategy is to continue the roll-out of quality dental centres in convenient locations such as popular shopping centres, which patients can easily access to attend to their dental care needs. The roll-out strategy facilitates consistency of operations and market positioning. A cluster-by-cluster approach in the suburban markets of the eastern State and Territory capital cities, allows for efficiency of marketing and management and greater brand presence to help drive market share gain.

With our True Purpose to improve the oral health of ALL Australians to world's best, the strategy is not only about also extending our reach through the roll-out of new centres, but also the growth of all centres in the network through expansion of service offering and increase in market share through effective and innovative marketing and delivery of an outstanding patient experience.

Fundamental to the achievement of true purpose is the continued uplift in clinical skills and range across the network, dentist training and development is an integral part of the strategy going forward.

Outlook

As in previous years, the outlook is for a continued roll-out of branded dental centres in new and adjacent geographic clusters throughout the eastern States and Territories of Australia, as we scale to our long term dental network; potential of at least 250 centres.

There will be ongoing refinement of site selection, centre presentation, patient marketing and staff and dentist development and training, plus continued strategic technology investments to build a more scalable enterprise with better access to data to enhance marketing and operations and to boost overall performance. Patient and dentist experience will be very much our focus, as we bolster our service quality to both these customer groups and strive for continuous improvement in their experiences.

As we continue to scale and as recent years of new centre cohorts mature, we will generate increased revenues and improved profitability. Corporate and operational efficiency gains will accrue from the increased scale and through strategic investments in technology and process improvements, over time.

Pacific Smiles will pursue its true purpose of improving the oral health of ALL Australians to world's best, without compromising the professional and ethical standards that have defined the organisation from the start.

Managing Director's Review

Risk Management

Pacific Smiles is subject to various risk factors, both business-specific and of a 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 can be sourced from our Corporate Governance Statement and related governance policies on our website.

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

Risk Area	Mitigating Factors
<i>General economic conditions</i> – 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.
<i>Reduction in private health insurance coverage</i> – Changes to the nature or extent of 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 payment plans and treatment payment options available.
<i>Competition-induced fee pressure</i> – 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 Dental Centres are usually differentiated from other local providers and compete on the basis of convenience, value, access and overall patient experience.
<i>Termination of Service and Facility Agreements by dentists</i> – Under the Service and Facility Agreements 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, with increased focus on this area in FY18.
<i>Reputational damage</i> – Actions by employees or dentists could give rise to reputational damage to Pacific Smiles and its brands.	There is a close focus on internal procedures and clinical governance by management and the Board. This has been further enhanced with new internal and external appointments to the Dental Advisory Committee.
<i>Supply of skilled dentists</i> – Should the availability of appropriately skilled and aligned dentists become restricted, then growth and expansion of Pacific Smiles could be slowed, and/or the cost of dentists could escalate.	The focus on training and development of dentists, including a structured mentoring program for new graduate dentists, is building a platform of appropriately skilled and aligned dentists for the long term.



John Gibbs
Managing Director and CEO



Dental Centre Locations

Queensland

- Bribie Island
- nib Brisbane CBD
- Browns Plains
- Buddina*
- Burleigh Heads
- Capalaba
- Deception Bay
- Helensvale
- Morayfield
- Mt Gravatt
- Mt Ommaney
- North Lakes
- Redbank Plains
- Runaway Bay*
- Strathpine

Victoria

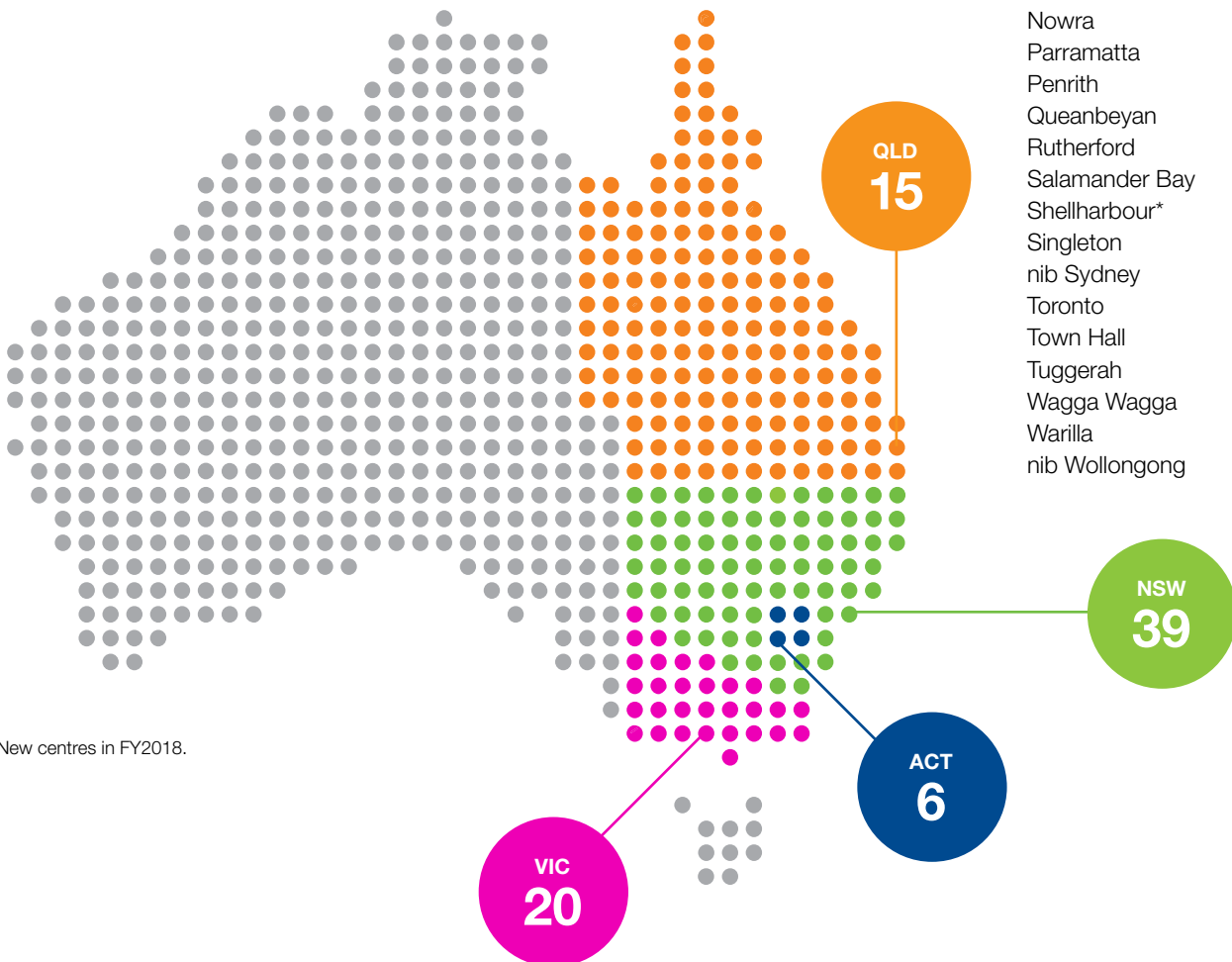
- Bairnsdale
- Bendigo
- Cranbourne Park
- Drysdale
- Glen Waverley*
- Greensborough*
- Leopold*
- Melbourne
- nib Melbourne
- Melton
- Mill Park
- Mulgrave
- Point Cook
- Ringwood
- Sale
- Torquay
- Traralgon
- Warragul
- Waurm Ponds
- Werribee

Australian Capital Territory

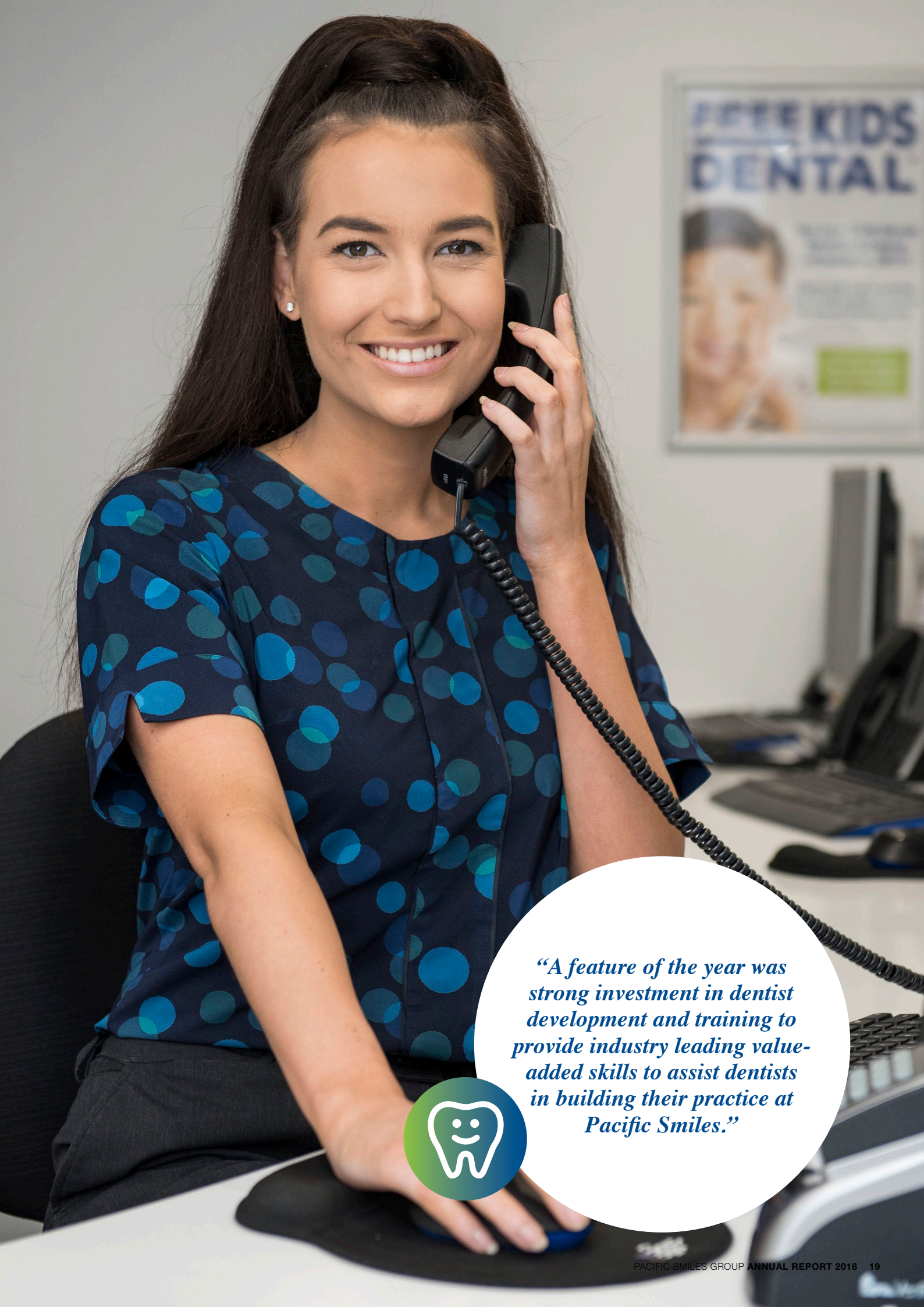
- Belconnen
- Gungahlin*
- Manuka
- Tuggeranong
- Woden
- nib Woden*

New South Wales

- Balgowlah*
- Bateau Bay
- Belmont
- Belrose
- Blacktown
- Brookvale
- Campbelltown
- Charlestown
- nib Chatswood
- Erina
- nib Erina
- Figtree*
- Forster
- Gladesville
- nib Glendale
- Greenhills
- Jesmond
- Kotara
- Lake Haven
- Marrickville
- Morisset
- Narellan
- nib Newcastle
- nib North Parramatta
- Nowra
- Parramatta
- Penrith
- Queanbeyan
- Rutherford
- Salamander Bay
- Shellharbour*
- Singleton
- nib Sydney
- Toronto
- Town Hall
- Tuggerah
- Wagga Wagga
- Warilla
- nib Wollongong



* New centres in FY2018.



“A feature of the year was strong investment in dentist development and training to provide industry leading value-added skills to assist dentists in building their practice at Pacific Smiles.”



COMMUNITY

“With a strong commitment to our true purpose of improving the oral health of ALL Australians to world’s best, our employees and dentists willingly donate their time to various community programs and organisations to help those most in need.”





Corporate Governance

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 2018 corporate governance statement is dated as at 30 June 2018 and reflects the corporate governance practices in place for the 2018 financial year. The 2018 corporate governance statement was approved by the Board on 22 August 2018. 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 www.pacificsmilesgroup.com.au/Investors/CorporateGovernance.

Directors' Report

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 2018.

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 Gibb

Dr Alex Abrahams

Mr Grant Bourke (resigned 5 March 2018)

Mr Ben Gisz

Mr Simon Rutherford

Ms Zita Peach (appointed 18 August 2017)

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:

	2018 \$'000	2017 \$'000
Interim dividend for the year ended 30 June 2018 of 2.30 cents (2017 – 2.20 cents) per share, fully franked	3,496	3,344
Final dividend for the year ended 30 June 2017 of 3.70 cents (2016 – 3.50 cents) per share, fully franked	5,624	5,320
	9,120	8,664

Subsequent to the end of the financial year, the Directors declared a final dividend of 3.80 cents per share in relation to the financial year ended 30 June 2018. The dividend, which totals \$5.776 million, will be paid on 5 October 2018.

Directors' Report continued



Robert Cameron AO

HONDENG UNSW, BE MIN (HONS)
MBA GRAD. DIP. GEOSCIENCE,
FAICD, FAIM, FAUSIMM

**Non-Executive Chairman,
appointed in 2003**

**Member of the Nomination and
Remuneration Committee**



John Gibbs

B.BUS, M.BUS. (INT. MKG.),
AFAIM, GAICD

**Managing Director and Chief
Executive Officer, appointed in 2008**



Dr Alex Abrahams

BDS (SYD UNI)
GAICD

**Founder and Executive Director,
appointed in 2002 until 30 June 2017**

**Non-Executive Director,
appointed 1 July 2017**

Bob is the founder of Centennial Coal Company Limited and was its Managing Director and Chief Executive Officer until 2011 and Chairman from then until 31 March 2017. He is currently Chairman of County International Limited, Chairman of Hunter Valley Training Company, and 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 commenced as General Manager in 2004. His background experience includes the development and management of private health facilities and business development roles in medical and surgical device markets. He was involved in establishing new private hospitals in the Asia-Pacific region and private hospital projects in Australia. John has undergraduate and postgraduate business and marketing degrees.

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 and a Director of the Trustees of Canyon Property Trust and Key Health Unit Trust.



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. Ben is a Non-Executive Director of specialty retailer kikki.K Holdings Pty Ltd.



Zita Peach

BSC, FAICD, FAMI

**Non-Executive Director,
appointed 18 August 2017**

**Member of the Nomination and
Remuneration Committee**

Zita has more than 25 years of commercial experience in the pharmaceutical, biotechnology, medical devices and health services industries. Zita is a Non-Executive Director of the ASX-listed AirXpanders, Inc., Monash IVF Group Limited, Starpharma Holdings Limited and Visioneering Technologies, Inc. Zita is also a member of the Hudson Institute of Medical Research Board.



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 PKF 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 Haemokinesis Pty Limited and 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.

Directors' Report continued

Effective from the 28 October 2018, Mr John Gibbs will step down as the CEO and Managing Director, a role he has held for 11 years. Mr Gibbs will assist with the leadership transition for up to six months following his departure.

Company Secretary

Mark Licciardo and Belinda Cleminson of Mertons Corporate Services (Mertons) are joint company secretaries. Mark is the founder of Mertons and a Director of various Australian Stock Exchange (ASX) listed public and private companies. Belinda has extensive experience as a Company Secretary of Australian listed and unlisted companies including providing support to ASX 200 clients.

Meetings of Directors

The number of meetings of the Company's Board of Directors held during the year ended 30 June 2018, and the attendances by each Director, were:

	Meetings of Committees					
	Full Meetings of Directors		Audit and Risk Management		Nomination and Remuneration	
	Held	Attended	Held	Attended	Held	Attended
Robert Cameron AO	12	12	–	–	2	2
John Gibbs	12	12	–	–	–	–
Alex Abrahams	12	12	–	–	–	–
Ben Gisz	12	12	3	3	2	2
Simon Rutherford	12	12	3	3	–	–
Grant Bourke	7	7	2	2	1	1
Zita Peach	10	10	–	–	1	1

– 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 2018 that has significantly affected, or may significantly affect:

- the Group's operations in future financial years, or
- the results of those operations in future financial years, or
- 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 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 the Directors and officers of the Group against liability incurred as such a Director or officer, other than conduct involving a wilful breach of duty in relation to the Group, to the extent permitted by the Corporations Act 2001. The contract of insurance prohibits disclosure of the nature of the liability and the amount of the premium. No such insurance contracts entered into by the Group apply to insure auditors of the Group.

Remuneration Report (Audited)

This Directors 2018 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 2018.

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.

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
Grant Bourke	Non-Executive Director (resigned 5 March 2018)
Ben Gisz	Non-Executive Director
Simon Rutherford	Non-Executive Director
Dr Alex Abrahams	Non-Executive Director
Zita Peach	Non-Executive Director (appointed 18 August 2017)

Executive Directors

John Gibbs	Managing Director and Chief Executive Officer
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Other Executives

Allanna Ryan	Chief Financial Officer
Paul Robertson	Chief Operating Officer
Dr Alison Hughes	Principal Dental Officer
Emma McKenny	Executive Manager – People and Culture
Nadia Henry	Chief Marketing Officer (appointed 29 January 2018)
David Williams	Chief Information Officer (appointed 10 July 2017)
Andrew Streat	Executive Manager – Business Development (resigned 8 September 2017)

Where relevant, Executive Directors and other executives may hereafter be referred to collectively as executives within this Remuneration Report.

Directors'

Report continued

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;
- are aligned with the long-term interests of the Group;
- attract and reward; and
- retain the best people.

The Nomination and Remuneration Committee Charter, included on the Company's website at 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;
- acceptable to shareholders; and
- rewarding for performance.

The executive remuneration framework has three components:

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

Base salary and benefits

Base salaries are reviewed and benchmarked 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 executive's 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 12.3%
Individual performance metrics (financial and non-financial)	Up to 13.7%
Maximum STI for full achievement of targets	Up to 26.0%
Exceptional performance bonus for over-achievement of net profit before tax target	Up to 9.0%
Total maximum STI	Up to 35.0%

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

The Group has 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.

Performance rights have been issued to selected senior managers pursuant to the LTI plan in financial years from 2015 to 2018.

Vesting of the performance rights on issue is subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four-year 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 Group (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 relevant 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.

Directors'

Report continued

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.

	2018 \$'000	2017 \$'000	2016 \$'000	2015 \$'000	2014 \$'000
Revenue	104,528	91,471	83,337	74,898	59,081
EBITDA (statutory)	18,439	20,552	19,306	16,409	15,069
Net profit after tax (statutory)	6,604	10,037	9,903	8,360	7,752
Dividends per share – ordinary (cps)	6.1	5.9	5.5	5.0	4.0
Dividends per share – special (cps)	–	–	–	1.6	7.3
Earnings per share (cents)	4.3	6.6	6.5	5.7	5.7

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 Directors 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 \$800,000. 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.

f. Details of remuneration

Details of the remuneration of the Directors and other key management personnel of the Group for the current and prior financial year are set out in the following table.

2018	Short-term employee benefits				Long-term benefits	Share-based payments	Total
	Salary and fees \$	Bonus \$	Super-annuation \$	Other* \$	Long service leave \$	Rights \$	
Non-Executive Directors							
Robert Cameron	109,589	–	10,411	–	–	–	120,000
Grant Bourke (resigned 5 March 2018)	46,667	–	–	–	–	–	46,667
Ben Gisz	70,000	–	–	–	–	–	70,000
Simon Rutherford	70,000	–	–	–	–	–	70,000
Alex Abrahams	70,000	–	–	–	–	798	70,798
Zita Peach (appointed 18 August 2017)	54,338	–	5,162	–	–	–	59,500
Executive Director							
John Gibbs	417,378	30,085	20,049	–	7,250	24,378	499,140
Other Key Management Personnel							
Allanna Ryan	231,746	19,179	19,543	–	4,175	19,092	293,735
Paul Robertson	258,185	20,571	20,049	–	4,552	16,261	319,618
Alison Hughes	178,493	15,666	17,874	–	3,273	11,937	227,243
Emma McKenny	172,173	15,926	17,310	–	3,225	15,253	223,887
Nadia Henry (appointed 29 Jan 2018)	94,112	5,997	8,097	–	1,582	–	109,788
David Williams (appointed 10 Jul 2017)	177,895	18,375	16,732	–	3,333	15,701	232,036
Andrew Streat (until 15 Sep 2017)	49,656	–	4,385	–	–	–	54,041

Directors'

Report continued

	Short-term employee benefits				Long-term benefits	Share-based payments	Total \$
	Salary and fees \$	Bonus \$	Super-annuation \$	Other* \$	Long service leave \$	Rights \$	
2017							
Non-Executive Directors							
Robert Cameron	109,589	–	10,411	–	–	–	120,000
Grant Bourke	70,000	–	–	–	–	–	70,000
Ben Gisz	70,000	–	–	–	–	–	70,000
Simon Rutherford	70,000	–	–	–	–	–	70,000
Executive Directors							
John Gibbs	385,006	16,400	19,616	–	6,667	(18,056)	409,633
Alex Abrahams	166,392	6,750	15,659	–	31,227	(9,860)	210,168
Other Key Management Personnel							
Jane Coleman (until 3 Mar 2017)	257,274	–	22,046	225,000	3,654	(12,710)	495,264
Allanna Ryan (appointed 3 Mar 2017)	61,539	–	5,111	–	1,123	5,025	72,798
Paul Robertson	248,997	12,975	19,604	–	4,441	(7,743)	278,274
Alison Hughes	166,316	10,979	16,195	–	3,111	(2,770)	193,831
Emma McKenny	171,472	8,182	16,292	–	3,141	7,468	206,555
Peter McKinney (until 18 Oct 2016)	77,925	–	7,540	67,500	1,419	(23,536)	130,848
Andrew Streat (appointed 13 Jun 2017)	7,506	–	658	–	126	–	8,290

* Other benefits include termination benefits paid to Jane Coleman and Peter McKinney in 2017. There were no termination benefits paid or payable to Key Management Personnel during 2018.

STI awarded

For each STI bonus included in the 2018 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	20%	80%
Allanna Ryan	22%	78%
Paul Robertson	22%	78%
Alison Hughes	22%	78%
Emma McKenny	23%	77%
Nadia Henry ¹	17%	83%
David Williams	26%	74%

¹ Nadia Henry commenced as Key Management Personnel with effect from 28 January 2018, and was only eligible for a pro-rated STI in her capacity as Key Management Personnel during 2018.

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 is subject to the Board's discretion.

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	Termination Notice by Executive	Termination Notice or Payment in Lieu of Notice by Company
John Gibbs	9 months	12 months
Allanna Ryan	6 months	6 months
Paul Robertson	3 months	3 months
Alison Hughes	3 months	6 months
Emma McKenny	3 months	3 months
Nadia Henry	3 months	3 months
David Williams	3 months	3 months

h. Details of share-based compensation

Performance Rights

Under the LTI plan, performance rights have been granted to the Executive Directors and certain executives. These performance rights will vest after four years (the performance period), and are conditional on the achievement of relevant performance and service conditions.

Grant Date	Number of Rights Granted	Fair Value per Right at Grant Date	Vesting Date
21 November 2014	2,137,500*	\$0.51	21 November 2018
30 November 2015	1,725,000	\$0.89	30 November 2019
30 November 2016	2,200,000	\$0.76	30 November 2020
1 December 2017	2,100,000	\$0.62	1 December 2021

* 1,631,250 rights were revoked on 31 January 2018.

Directors'

Report continued

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

2018	Balance at start of year	Net change	Balance at end of year
Robert Cameron AO	3,383,258	150,000	3,533,258
Grant Bourke (resigned 5 March 2018)	1,538,462	(1,150,000)	388,462
Ben Gisz	19,712,581	4,892,494	24,605,075
Simon Rutherford	1,741,017	–	1,741,017
John Gibbs	6,500,000	–	6,500,000
Alex Abrahams	38,173,361	–	38,173,361
Paul Robertson	300,000	–	300,000
Alison Hughes	15,860,190	–	15,860,190
Zita Peach (appointed 18 August 2017)	–	5,155	5,155

2017	Balance at start of year	Net change	Balance at end of year
Robert Cameron AO	3,383,258	–	3,383,258
Grant Bourke	1,538,462	–	1,538,462
Ben Gisz	19,712,581	–	19,712,581
Simon Rutherford	1,741,017	–	1,741,017
John Gibbs	6,500,000	–	6,500,000
Alex Abrahams	39,913,361	(1,740,000)	38,173,361
Jane Coleman	1,400,000	–	1,400,000
Paul Robertson	300,000	–	300,000
Alison Hughes	15,860,190	–	15,860,190

Performance Rights

	Balance at start of year	Net change	Balance at end of year (all unvested)
2018			
John Gibbs	1,675,000	(175,000)	1,500,000
Alex Abrahams	787,500	(337,500)	450,000
Paul Robertson	1,043,750	(68,750)	975,000
Alison Hughes	400,000	–	400,000
Emma McKenny	550,000	325,000	875,000
Allanna Ryan	100,000	400,000	500,000
David Williams	100,000	325,000	425,000
	Balance at start of year	Net change	Balance at end of year (all unvested)
2017			
John Gibbs	1,175,000	500,000	1,675,000
Alex Abrahams	562,500	225,000	787,500
Jane Coleman	906,250	400,000	1,306,250
Paul Robertson	693,750	350,000	1,043,750
Alison Hughes	225,000	175,000	400,000
Emma McKenny	300,000	250,000	550,000
Peter McKinney	450,000	(450,000)	–
Allanna Ryan	–	100,000	100,000

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 22 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 36.

Rounding of Amounts

The Company is of a kind referred to in ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding Instrument). Pursuant to this instrument, 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.



Robert Cameron AO

Chairman

Greenhills
22 August 2018

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 of Pacific Smiles Group Limited for the financial year ended 30 June 2018 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

Sarah Cain

Sarah Cain

Partner

Sydney

22 August 2018

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2018

	Notes	2018 \$'000	2017 \$'000
Revenue	2	104,528	91,471
Direct expenses		(8,318)	(5,559)
		96,210	85,912
Other income	3	1,217	1,181
Expenses			
Consumable supplies expenses		(8,374)	(7,416)
Employee expenses		(44,162)	(38,373)
Occupancy expenses		(11,960)	(10,224)
Marketing expenses		(1,819)	(1,757)
Administration and other expenses		(12,673)	(8,771)
Depreciation and amortisation expense	4	(7,833)	(6,042)
Net finance costs	4	(393)	(172)
Profit before income tax		10,213	14,338
Income tax expense	5	(3,609)	(4,301)
Profit for the year		6,604	10,037
Other comprehensive income		-	-
Total comprehensive income for the year		6,604	10,037
		Cents	Cents
Earnings per share			
Basic earnings per share	20	4.3	6.6
Diluted earnings per share	20	4.3	6.6

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 2018

	Notes	2018 \$'000	2017 \$'000
ASSETS			
Current Assets			
Cash and cash equivalents	7	6,683	5,880
Receivables	8	869	972
Current tax receivable	16	771	67
Inventories	9	3,260	2,891
Other	10	465	693
Total Current Assets		12,048	10,503
Non-Current Assets			
Property, plant and equipment	11	47,324	41,930
Intangible assets	12	11,004	11,409
Deferred tax assets	13	4,964	4,353
Total Non-Current Assets		63,292	57,692
Total Assets		75,340	68,195
LIABILITIES			
Current Liabilities			
Payables	14	11,042	9,842
Provisions	17	3,301	3,018
Total Current Liabilities		14,343	12,860
Non-Current Liabilities			
Payables	14	149	–
Borrowings	15	12,000	5,000
Provisions	17	6,970	6,046
Total Non-Current Liabilities		19,119	11,046
Total Liabilities		33,462	23,906
Net Assets		41,878	44,289
EQUITY			
Contributed equity	18	35,053	35,053
Reserves	19	277	172
Retained profits		6,548	9,064
Total Equity		41,878	44,289

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 2018

	Notes	Contributed equity \$'000	Reserves \$'000	Retained profits \$'000	Total equity \$'000
Consolidated Balance at 30 June 2016		35,053	224	7,691	42,968
Total comprehensive income for the year		–	–	10,037	10,037
Transactions with owners of the Company, recognised directly in equity:					
Dividends provided for or paid	6(a)	–	–	(8,664)	(8,664)
Share-based payments charge – performance rights	19	–	(52)	–	(52)
		–	(52)	(8,664)	(8,716)
Consolidated Balance at 30 June 2017		35,053	172	9,064	44,289
Total comprehensive income for the year		–	–	6,604	6,604
Transactions with owners of the Company, recognised directly in equity:					
Dividends provided for or paid	6(a)	–	–	(9,120)	(9,120)
Share-based payments charge – performance rights	19	–	105	–	105
		–	105	(9,120)	(9,015)
Consolidated Balance at 30 June 2018		35,053	277	6,548	41,878

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 2018

	Notes	2018 \$'000	2017 \$'000
Cash flows from operating activities			
Receipts from customers		116,135	101,541
Payments to suppliers and employees		(93,379)	(79,528)
		22,756	22,013
Interest received		33	42
Interest and finance costs paid		(426)	(210)
Income taxes paid		(4,912)	(4,725)
Net cash inflow from operating activities	29(a)	17,451	17,120
Cash flows from investing activities			
Payments for purchase of a business	28	(816)	–
Payments for property, plant and equipment		(13,769)	(13,569)
Proceeds from disposal of property, plant and equipment		57	43
Net cash outflow from investing activities		(14,528)	(13,526)
Cash flows from financing activities			
Proceeds from borrowings		7,000	5,000
Repayment of borrowings		–	(150)
Dividends paid	6(a)	(9,120)	(8,664)
Net cash outflow from financing activities		(2,120)	(3,814)
Net decrease in cash and cash equivalents		803	(220)
Cash and cash equivalents at the beginning of the financial year	7	5,880	6,100
Cash and cash equivalents at the end of the financial year	7	6,683	5,880

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

Notes to the Financial Statements

For the year ended 30 June 2018

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, New South Wales.

A description of the nature of the consolidated entity's operations and its principal activities is included in the Directors' Report on pages 23 to 35, 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 22 August 2018. 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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

(b) Basis of Preparation (continued)

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 2018 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 15 Revenue from Contracts with Customers is effective for annual reporting periods beginning on or after 1 January 2018. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2019 and currently has no intention of adopting this standard earlier. The potential impact of the standard has been assessed at this stage as minimal.

AASB 16 Leases is effective for annual reporting periods beginning on or after 1 January 2019. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2020 and currently has no intention of adopting this standard earlier. The Group is assessing the potential impact of the application of AASB 16 on its financial statements, including the potential impact of the various transition provisions available to the Group. Based on current lease obligations, the estimated Group impact of AASB 16 under the modified retrospective approach would result in an initial \$53,388,000 right of use asset, \$52,236,000 lease liability, and a reduction in existing lease assets of \$1,152,000. Partially offsetting the liability increase would be the write-back of \$4,572,000 in existing lease liabilities, adjusted to the opening balance of retained earnings.

AASB 9 Financial Instruments is effective for annual reporting periods beginning on or after 1 January 2018. The Group is not required to adopt this new standard until the annual reporting period ending 30 June 2019 and currently has no intention of adopting this standard earlier. It includes revised guidance on the classification and measurement of financial instruments, a new expected credit loss model for calculating impairment on financial assets, and new general hedge accounting requirements. The potential impact of the standard has yet to be assessed, but the impact is expected to be 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 2018 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.

(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 substantively 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 assets and liabilities 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 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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

(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.

(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 judgement 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 categories.

(j) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions, and 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 are 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 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 (CGUs) 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 15 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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

1. Summary of Significant Accounting Policies (continued)

(q) Employee Benefits (continued)

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 12 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 a long-term equity incentive ('LTI') plan. Further information on the LTI plan is set out in Note 21.

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 their 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.

Restructuring

A provision for restructuring is recognised when the Group has approved a detailed and formal restructuring plan, and the restructuring has either commenced or has been announced. Future operating losses are not provided for.

(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 components 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 ASIC Corporations (Rounding in Financial/Directors' Reports) Instrument 2016/191 (Rounding Instrument). Pursuant to this instrument, 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 30 has been prepared on the same basis as the consolidated financial statements, except as set out below.

Investments in subsidiaries

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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

2. Revenue

	2018 \$'000	2017 \$'000
Services rendered	104,019	90,967
Sale of goods	509	504
	104,528	91,471

3. Other Income

	2018 \$'000	2017 \$'000
Rents	1,090	1,168
Sundry income	127	13
	1,217	1,181

4. Expenses

Profit before income tax includes the following specific expenses:

	2018 \$'000	2017 \$'000
Employee benefits – share-based payments expense	105	(52)
Depreciation and amortisation		
Plant and equipment	3,893	3,252
Leasehold improvements	3,874	2,724
Total Depreciation	7,767	5,976
Amortisation		
Rights and licences	66	66
Total Amortisation	66	66
Net loss/(profit) on disposal of non-current assets	376	(8)
Impairment loss on write-down of assets to recoverable amount		
Receivables – other entities	25	25
Goodwill	1,002	–
Fixed Assets	642	–
Net finance costs		
Interest and finance charges paid/payable	426	210
Interest received/receivable	(33)	(38)
Total net finance costs	393	172
Defined contribution superannuation plans expense	3,518	3,067

5. Income Tax Expense

	2018 \$'000	2017 \$'000
Current tax	4,209	4,674
Deferred tax	(600)	(373)
	3,609	4,301
Profit before income tax expense	10,213	14,338
Income tax calculated at 30% (2017: 30%)	3,064	4,301
Tax effect of amounts which are not deductible/(taxable) in calculating taxable income:		
Impairment	493	–
Share-based payments	32	(16)
Sundry items	20	16
Income tax expense	3,609	4,301

6. Dividends

	2018 \$'000	2017 \$'000
(a) Dividends paid during the year:		
Interim dividend for the year ended 30 June 2018 of 2.30 cents (2017 – 2.20 cents) per share, fully franked	3,496	3,344
Final dividend for the year ended 30 June 2017 of 3.70 cents (2016 – 3.50 cents) per share, fully franked	5,624	5,320
	9,120	8,664
(b) Dividends declared but not recognised at the end of the year:		
The Directors have declared the payment of a final dividend of 3.80 cents (2017 – 3.70 cents) per share, fully franked.	5,776	5,624
It is expected to be paid on 5 October 2018 out of retained earnings at 30 June 2018, but not recognised as a liability at year end.		
(c) Franking credits available for subsequent financial years:		
Based on tax rate of 30% (2017: 30%)	10,408	10,045

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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

7. Cash and Cash Equivalents

	2018 \$'000	2017 \$'000
CURRENT		
Cash at bank and in hand	6,683	5,880

8. Receivables

	2018 \$'000	2017 \$'000
CURRENT		
Trade debtors	658	529
Provision for doubtful debts	(52)	(81)
	606	448
Sundry debtors	263	524
	869	972

9. Inventories

	2018 \$'000	2017 \$'000
CURRENT		
Inventories – at cost	3,260	2,891

10. Other Assets

	2018 \$'000	2017 \$'000
CURRENT		
Prepayments	328	595
Other	137	98
	465	693

11. Property, Plant and Equipment

	2018 \$'000	2017 \$'000
NON-CURRENT		
Leasehold improvements – at cost	48,061	40,323
Less accumulated depreciation and impairment	(16,524)	(12,008)
	31,537	28,315
Plant and equipment – at cost	39,069	33,401
Less accumulated depreciation and impairment	(23,282)	(19,786)
	15,787	13,615
Total property, plant and equipment	47,324	41,930

Movements in Carrying Amounts

	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
2018			
Carrying amount at the beginning of the year	28,315	13,615	41,930
Additions	7,766	6,471	14,237
Disposals	(28)	(406)	(434)
Depreciation expense	(3,874)	(3,893)	(7,767)
Impairment loss	(642)	–	(642)
Carrying amount at the end of the year	31,537	15,787	47,324

	Leasehold improvements \$'000	Plant and equipment \$'000	Total \$'000
2017			
Carrying amount at the beginning of the year	22,666	11,519	34,185
Additions	8,380	5,377	13,757
Disposals	(7)	(29)	(36)
Depreciation expense	(2,724)	(3,252)	(5,976)
Impairment loss	–	–	–
Carrying amount at the end of the year	28,315	13,615	41,930

(a) Impairment loss in relation to restructure of a Pacific Smiles Dental Centre

During the year, the Group restructured the Parramatta Pacific Smiles Dental Centre. The centre continued to perform below management expectations and, as a result, actions were taken to reduce operational capacity to right-size the centre and better match the capacity at which it was operating. Accordingly, the Group has recognised an impairment loss on property, plant and equipment of \$642,000, in the year ended 30 June 2018, based on the cash-generating unit's value in use.

Notes to the Financial Statements continued

For the year ended 30 June 2018

12. Intangible Assets

	2018 \$'000	2017 \$'000
NON-CURRENT		
Goodwill	13,180	12,517
Less accumulated amortisation and impairment	(2,894)	(1,892)
	10,286	10,625
Rights and licences	985	985
Less accumulated amortisation and impairment	(267)	(201)
	718	784
Total intangible assets	11,004	11,409

Movements in Carrying Amounts

2018	Goodwill \$'000	Rights and licences \$'000	Total \$'000
Carrying amount at the beginning of the year	10,625	784	11,409
Additions	663	–	663
Amortisation expense	–	(66)	(66)
Impairment expense	(1,002)	–	(1,002)
Carrying amount at the end of the year	10,286	718	11,004

2017	Goodwill \$'000	Rights and licences \$'000	Total \$'000
Carrying amount at the beginning of the year	10,625	850	11,475
Additions			
Amortisation expense	–	(66)	(66)
Carrying amount at the end of the year	10,625	784	11,409

(a) Impairment loss in relation to restructure of a Pacific Smiles Dental Centre

As described in Note 11, the Group has restructured the Parramatta Pacific Smiles Dental Centre. An impairment loss has been recognised to goodwill as a result of this restructure of \$1,002,000 in the year ended 30 June 2018, based on the cash-generating unit's value in use of \$57,153,000. These costs have been included in "administration and other expenses".

Future cash flows are discounted using the Group's weighted average cost of capital of 9.6% (2017: 9.8%).

(b) Impairment testing for cash generating units (CGUs)

For the purposes of impairment testing, the carrying amount of goodwill has been allocated to groups of CGUs as follows:

	2018 \$'000	2017 \$'000
New South Wales	5,209	5,548
Victoria	2,631	2,631
Queensland	2,446	2,446
	10,286	10,625

The impairment assessments for each CGU are made on the basis of the assets' expected value in use and involve the use of key assumptions. Recoverable amounts of the CGUs exceeded their carrying values, and therefore no impairment losses besides the impairment described in Note 12(a) were recorded in the year.

The calculations use discounted cash flow projections covering a 10 year period, which is consistent with the typical lease term entered into for the Group's dental centre locations, and matches the average growth profile of our dental centres. The cash flows for years one to five are based on detailed management projections, which consider historical financial results and trends, the Board-approved financial budget for the next financial year and reasonable expectations regarding future business and market circumstances. Cash flows beyond the first five year period are extrapolated using an estimated growth rate of 3%.

A long term growth rate of 2.5% is used in determining the terminal values, which is considered reasonable in the context of the long term growth rates for the markets in which each CGU operates.

Future cash flows are discounted using the Group's weighted average cost of capital of 9.6% (2017: 9.8%).

(c) Rights and Licences

Rights and licences relate to AHM marketing rights at each Pacific Smiles Dental Centre with 11 amortisation periods remaining as at balance date.

13. Deferred Tax Assets

	2018 \$'000	2017 \$'000
NON-CURRENT		
The balance comprises temporary differences attributable to:		
Provision for doubtful debts	14	29
Depreciation of property, plant and equipment	2,052	1,658
Accrued expenses	222	204
Prepayments	170	339
Provisions	2,722	2,358
Intangibles	(216)	(235)
Deferred tax assets	4,964	4,353

Notes to the Financial Statements continued

For the year ended 30 June 2018

14. Payables

	2018 \$'000	2017 \$'000
CURRENT		
Trade payables and accruals – related entities	–	14
Trade payables and accruals – other entities	10,893	9,828
Deferred consideration payable	149	–
	11,042	9,842
NON-CURRENT		
Deferred consideration payable	149	–
	149	–

15. Borrowings

	2018 \$'000	2017 \$'000
NON-CURRENT		
Secured:		
Bank loans	12,000	5,000
Total	12,000	5,000

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.

	2018 \$'000	2017 \$'000
Financing Arrangements		
Access was available at balance date to the following lines of credit:		
Total bank borrowings facilities	24,500	14,500
Used at balance date	(14,664)	(7,490)
Unused at balance date	9,836	7,010

Covenants attached to bank borrowings were complied with during the year. Further details on financing facilities are included in Note 27.

16. Current Tax Receivable

	2018 \$'000	2017 \$'000
CURRENT		
Income tax receivable	771	67

17. Provisions

	2018 \$'000	2017 \$'000
CURRENT		
Employee benefits	3,110	2,848
Straight-line operating lease adjustment	191	170
	3,301	3,018
NON-CURRENT		
Employee benefits	810	935
Straight-line operating lease adjustment	4,180	3,255
Make good provision	1,980	1,856
	6,970	6,046

Movements:

	Employee Benefits \$'000	Straight- line Lease Adjustment \$'000	Make Good Provision \$'000	Total \$'000
Balance at the beginning of the year	3,783	3,425	1,856	9,064
Amounts recognised in connection with business combinations	39	–	–	39
Additional provisions charged	2,230	1,150	124	3,504
Amounts used	(2,132)	(204)	–	(2,336)
Balance at the end of the year	3,920	4,371	1,980	10,271

18. Contributed Equity

(a) Share Capital

	2018 \$'000	2017 \$'000
Ordinary shares – fully paid	35,053	35,053

(b) Movements in Share Capital

	Number of Shares	\$'000
Balance 30 June 2017	151,993,395	35,053
Balance 30 June 2018	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.

(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.

Notes to the Financial Statements continued

For the year ended 30 June 2018

19. Reserves

	2018 \$'000	2017 \$'000
Share-based payments reserve	277	172

20. Earnings Per Share

	2018 \$'000	2017 \$'000
Profit attributable to the ordinary equity holders of the Company used in calculating basic and diluted earnings per share	6,604	10,037
	Shares	Shares
Weighted average number of ordinary shares used as the denominator in calculating basic and diluted earnings per share	151,993,395	151,993,395
	Cents	Cents
Basic earnings per share	4.3	6.6
Diluted earnings per share	4.3	6.6

Information Concerning the Classification of Shares

(i) 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 6,531,250 performance rights on issue 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 2018. These performance rights could potentially dilute basic earnings per share in the future.

21. Share-Based Payments

(a) Long-Term Incentive Plan Overview

The Group has 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.

Performance rights have been issued to selected senior managers pursuant to the LTI plan in financial years 2018, 2017, 2016 and 2015.

The performance rights will vest for a set term (the performance period), and are conditional on the achievement of relevant performance and service conditions. Vesting of the performance rights will be subject to:

- satisfaction of earnings per share (EPS) performance hurdles for a four year 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 Group (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 relevant performance period.

(b) Performance Rights

	Balance at 1 July 2017	Granted	Forfeited, lapsed or vested	Balance at 30 June 2018
21 November 2014	2,137,500	–	(1,631,250)	506,250
30 November 2015	1,725,000	–	–	1,725,000
30 November 2016	2,200,000	–	–	2,200,000
1 December 2017	–	2,100,000	–	2,100,000
Total	6,062,500	2,100,000	(1,631,250)	6,531,250

(c) Fair Value of Performance Rights Granted

The fair values at grant dates have been determined via pricing models which use a Monte Carlo simulation, and take into account the following inputs:

	2018	2017
Grant Date	1 December 2017	30 November 2016
Fair value of right	\$0.62	\$0.76
Share price at grant date	\$1.79	\$2.15
Exercise price	Nil	Nil
Term	4 years	4 years
Expected price volatility	30%	30%
Expected dividend yield	4.0%	4.0%
Risk free interest rate	2.00%	2.00%

22. Remuneration of Auditors

	2018 \$'000	2017 \$'000
Audit and review of financial statements	129	119
Other audit services	15	–
Non-audit services:		
Tax compliance and advisory services	27	22
	171	141

23. Contingencies

	2018 \$'000	2017 \$'000
Bank guarantees	2,664	2,490

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

Notes to the Financial Statements continued

For the year ended 30 June 2018

24. Commitments

(a) Capital Commitments

Capital expenditure contracted for at the reporting date but not recognised as liabilities is as follows:

	2018 \$'000	2017 \$'000
Property, plant and equipment Payable within one year	390	2,172

(b) Operating Lease Commitments

Non-cancellable operating leases contracted for at the reporting date but not recognised as liabilities are as follows:

	2018 \$'000	2017 \$'000
Payable within one year	10,474	9,629
Payable later than one year but not later than five years	37,432	35,200
Payable later than five years	23,478	26,721
	71,384	71,550

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

25. 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	
			2018 %	2017 %
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
Everything Dentures Pty Limited**	Australia	Ordinary	100	100

* No longer trading.

** Name changed from Pacific Medical Care Pty Limited to Dentalwise Pty Limited 5 September 2016. Name changed to Everything Dentures Pty Limited 14 April 2018.

26. Related Party Disclosures

(a) Key Management Personnel Compensation

	2018 \$	2017 \$
Short-term employment benefits	2,265,643	2,050,434
Long-term benefits	27,390	54,909
Termination benefits	–	292,500
Share-based payments	103,420	(62,182)
	2,396,453	2,335,661

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.

Key Management Personnel or their related parties held shares in the Company during 2018 and 2017, and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, provided premises rental to the Company during 2018 and 2017 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the Company during 2018 and 2017 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 2018 and 2017 on normal commercial terms and conditions.

The Company received fees for the provision of services to Alex Abrahams during 2018 and 2017 under normal terms and conditions of dental service and facility agreements.

The Company paid fees for clinical consultancy services to Whitesail Pty Limited ATF The Whitesail Trust during 2018. The entity is related to Alex Abrahams; fees were based on an agreement approved by the Board and reflecting normal commercial terms and conditions.

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

	2018 \$	2017 \$
Dividends paid	4,037,250	3,943,492
Revenues from rendering services	1,177	87,910
Rental expenses	1,230,525	1,228,256
Consultancy expenses	80,000	–

Notes to the Financial Statements continued

For the year ended 30 June 2018

27. 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 2018 and 2017 financial years comprised 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 was minimal, with bank debt partially offset by cash balances at 30 June.

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 0.87% (2017: 0.97%) for the Group.

Variable rate bank loans totalling \$12,000,000 form part of an ongoing loan facility which was updated during the financial year. The overall facility has a confirmed two years eight months term which expires on 30 September 2020. The loans are subject to interest charged at the prevailing variable rate payable on each reset date. The weighted average interest rate on borrowings at the end of the year was 4.89% (2017: 5.12%) for the Group.

Interest Rate Sensitivity Analysis

	2018 \$'000	2017 \$'000
Effect on profit before tax and equity:		
1% increase in interest rates	(53)	7
1% decrease in interest rates	53	(7)

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 in 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. The Group's balance sheet shows an excess of current liabilities over current assets at balance date of \$2,295,000. Liabilities have been classified as current where it is probable that they will be settled within 12 months or if there is a contractual obligation that may require settlement within 12 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 timeframes 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 \$'000	6 to 12 months \$'000	1 to 5 years \$'000	Total contractual amounts \$'000
Consolidated – 2018				
Bank loans	–	–	12,000	12,000
Payables and accruals	11,042	–	–	11,042
	11,042	–	12,000	23,042
Consolidated – 2017				
Bank loans	–	–	5,000	5,000
Payables and accruals	9,842	–	–	9,842
	9,842	–	5,000	14,842

Fair Value

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

28. Business Combinations

(a) Summary of Acquisitions

On 7 November 2017, the Group acquired 100% of the assets and liabilities of The Prosthetic Group Pty Ltd, trading as Everything Dentures (“ETD”), a provider of prosthetic denture services and dental laboratory services. Everything Dentures consisted of three existing denture clinics – one located in Five Dock, Sydney and two located in Canberra, Australian Capital Territory as well as Sculpt Dental Laboratories in Five Dock and Canberra. An incentive payment is due at the end of the vendors’ five-year employment agreement based on a multiple of earnings incremental to an agreed target.

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

	2018 \$'000	2017 \$'000
Purchase consideration (refer to (b) below):		
Cash paid/payable	1,115	–
Fair value of net identifiable assets acquired (refer to (c) below)	(452)	–
Goodwill	663	–

Notes to the Financial Statements continued

For the year ended 30 June 2018

28. Business Combinations (continued)

(b) Purchase Consideration

	2018 \$'000	2017 \$'000
Outflow of cash to acquire businesses, net of cash acquired		
Total cash consideration	816	–
Cash acquired	–	–
Post-completion adjustments receivable	–	–
Payments/(receipts) per statement of cash flows	816	–
Deferred consideration payable	299	–
Total outflow	1,115	–

(c) Assets and Liabilities Acquired

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

	2018 \$'000	2017 \$'000
Trade receivables	86	–
Inventories	49	–
Plant and equipment	344	–
Deferred tax asset	12	–
Provisions	(39)	–
Net identifiable assets acquired	452	–

(d) Acquisition related costs

The Group incurred acquisition related costs of \$76,000 on legal and due diligence expenses. These costs have been included in “administration and other expenses”.

29. 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.

30. Notes to the Statement of Cash Flows

(a) Reconciliation of Profit After Income Tax to Net Cash Inflow from Operating Activities

	2018 \$'000	2017 \$'000
Profit for the year	6,604	10,037
Depreciation and amortisation	7,833	6,042
Net loss/(profit) on disposal of non-current assets	376	(8)
Impairment losses	1,644	–
Share-based payments (credited)/expense	105	(52)
Change in operating assets and liabilities		
Decrease in receivables	190	363
(Increase) in inventories	(320)	(385)
Decrease/(increase) in other operating assets	227	(519)
(Increase) in deferred tax assets	(599)	(118)
Increase in trade payables	1,051	1,288
Increase in provisions	1,044	777
(Decrease) in income tax	(704)	(50)
(Decrease) in deferred tax liabilities	–	(255)
Net cash inflow from operating activities	17,451	17,120

(b) Non-cash Investing and Financing Activities

	2018 \$'000	2017 \$'000
Capitalisation of estimated future make-good obligations in relation to leasehold premises	124	187

Notes to the Financial Statements continued

For the year ended 30 June 2018

31. Parent Entity Financial Information

(a) Summary Financial Information

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

	2018 \$'000	2017 \$'000
Balance Sheet		
Current assets	11,043	10,480
Total assets	73,205	68,092
Current liabilities	11,852	12,558
Total liabilities	30,822	23,603
Shareholders' equity		
Issued capital	35,053	35,053
Reserves	277	171
Retained earnings	7,053	9,265
	42,383	44,489
Profit or loss for the year	6,908	10,193
Total comprehensive income	6,908	10,193

(b) Contingent Liabilities of the Parent Entity

	2018 \$'000	2017 \$'000
Bank guarantees	2,664	2,490

The parent entity did not have any contingent liabilities or financial guarantees as at 30 June 2018 or 30 June 2017, other than bank guarantees.

Directors' Declaration

In the Directors' opinion:

- a. the financial statements and notes set out on pages 37 to 64 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 2018 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
22 August 2018

Independent Auditor's Report



Independent Auditor's Report

To the shareholders of Pacific Smiles Group Limited

Report on the audit of the Financial Report

Opinion

We have audited the **Financial Report** of Pacific Smiles Group Limited (the Company).

In our opinion, the accompanying Financial Report of the Company is in accordance with the *Corporations Act 2001*, including:

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

The **Financial Report** comprises:

- Consolidated balance sheet as at 30 June 2018;
- Consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity, and consolidated statement of cash flows for the year then ended;
- Notes including a summary of significant accounting policies; and
- Directors' Declaration.

The **Group** consists of the Company and the entities it controlled at the year-end or from time to time during the financial year.

Basis for opinion

We conducted our audit in accordance with *Australian Auditing Standards*. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the Financial Report* section of our report.

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



Key Audit Matters

The **Key Audit Matters** we identified are:

- Revenue recognition
- Carrying value of intangible assets

Key Audit Matters are those matters that, in our professional judgment, were of most significance in our audit of the Financial Report of the current period.

These matters were addressed in the context of our audit of the Financial Report as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Revenue recognition (\$104,528,000)

Refer to Note 2 to the Financial Report.

The key audit matter	How the matter was addressed in our audit
<p>A substantial amount of the Group’s revenue relates to revenue from the rendering of services, being service fees charged to dentists who practice from the Group’s fully serviced dental surgeries.</p> <p>We focused on revenue recognition as a key audit matter due to the significant audit effort required to test the Group’s revenue, including:</p> <ul style="list-style-type: none"> • The high volume of transactions recorded as revenue; • The significant value of revenue recognised; and • The opening of 10 new dental centres during the current year. 	<p>Our procedures included:</p> <ul style="list-style-type: none"> • Evaluating the Group’s processes for capturing and recognising revenue in accordance with the relevant accounting standards. • Testing the application of key controls in the revenue calculation process, including: <ul style="list-style-type: none"> - Daily bank account reconciliations; - Management’s review and approval of monthly revenue calculations; - Management’s review and authorisation of payments to dentists; and - Selecting a sample of services fees charged to dentists and agreeing them to contractual terms. • We applied substantive procedures by: <ul style="list-style-type: none"> - Comparing total patient fees received as cash receipts to revenue recognised during the year. - Assessing revenue recognised against budget, prior year and historical trends for new centres opened during the year. - Performing recalculation procedures to determine that revenue has been recognised in the appropriate accounting period.

Independent Auditor's Report continued



Carrying value of intangible assets (\$11,004,000)

Refer to Note 12 to the Financial Report

The key audit matter

Carrying value of intangible assets, including goodwill, was identified as a key audit matter due to:

- The size of the balance, being 15% of total assets; and
- The significant level of judgement involved in forecasting and discounting future cash flows, which form the basis for assessing whether intangible assets are impaired.

We focused on the significant forward-looking assumptions the Group applied in their value-in-use model, including:

- Forecast operating cash flows, growth rates and terminal growth rates – the Group has experienced competitive market conditions with varying levels of year on year sales growth across centres of varying maturity and geographic regions. These conditions increase the possibility of intangible assets being impaired, plus the risk of inaccurate forecasts or a wider range of possible outcomes for us to consider; and
- Discount rate - these are complicated in nature and vary according to the conditions and environment the Group is subject to from time to time and the models approach to incorporating risks into the cash flows or discount rates. The Group's modelling is sensitive to changes in the discount rate.

The Group has a large number of individual dental centre locations, which includes 10 new centres opened during the financial year, necessitating our consideration of the Group's determination of Cash Generating Units (CGUs), based on the smallest group of assets to generate largely independent cash inflows.

The Group also completed a business combination during the year, increasing the value of goodwill recognised on balance sheet.

How the matter was addressed in our audit

Our procedures included:

- Working with our valuation specialists, we considered the appropriateness of the value-in-use method applied by the Group to perform the annual impairment testing of intangible assets against the requirements of the relevant accounting standards, including:
 - Assessing the integrity of the model used, including the accuracy of the underlying calculation formulas.
 - Assessing the Group's allocation of corporate assets to CGUs and the allocation of corporate costs to the forecast cash flows contained in the model, for consistency.
 - Comparing forecast cash flows contained in the model to Board approved forecasts.
 - Assessing the accuracy of previous Group forecasts to inform our evaluation of forecasts incorporated in the model.
- We considered the sensitivity of the model by varying key assumptions, such as forecast growth rates, terminal growth rates and discount rates, within a reasonably possible range, to identify those CGUs at higher risk of impairment and to focus our further procedures.
- Working with our valuation specialists we independently developed a discount rate range considered comparable using publicly available market data for comparable entities, adjusted by risk factors based on the size and location of the Group's CGUs.
- We considered the Group's determination of their CGUs based on our understanding of the operations of the Group's business, impact of the business combination that occurred during the year and how independent cash inflows were generated, against the requirements of the relevant accounting standards.



- We assessed the disclosures in the financial report using our understanding of the issue obtained from our testing and against the requirements of the relevant accounting standards.

Other Information

Other Information is financial and non-financial information in Pacific Smiles Group Limited's annual reporting which is provided in addition to the Financial Report and the Auditor's Report. The Directors are responsible for the Other Information.

The Other Information we obtained prior to the date of this Auditor's Report was the Director's Report, the Chairman's Review, the Remuneration Report, the Shareholder Information and the Corporate Directory. The Highlights and the Managing Director's Review are expected to be made available to us after the date of the Auditor's Report.

Our opinion on the Financial Report does not cover the Other Information and, accordingly, we do not and will not express an audit opinion or any form of assurance conclusion thereon, with the exception of the Remuneration Report and our related assurance opinion.

In connection with our audit of the Financial Report, our responsibility is to read the Other Information. In doing so, we consider whether the Other Information is materially inconsistent with the Financial Report or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

We are required to report if we conclude that there is a material misstatement of this Other Information, and based on the work we have performed on the Other Information that we obtained prior to the date of this Auditor's Report we have nothing to report.

Responsibilities of the Directors for the Financial Report

The Directors are responsible for:

- preparing the Financial Report that gives a true and fair view in accordance with *Australian Accounting Standards* and the *Corporations Act 2001*;
- implementing necessary internal control to enable the preparation of a Financial Report that gives a true and fair view and is free from material misstatement, whether due to fraud or error; and
- assessing Group's ability to continue as a going concern. This includes disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless they either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Auditor's responsibilities for the audit of the Financial Report

Our objective is:

- to obtain reasonable assurance about whether the Financial Report as a whole is free from material misstatement, whether due to fraud or error; and
- to issue an Auditor's Report that includes our opinion.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with *Australian Auditing Standards* will always detect a material misstatement when it exists.

Misstatements can arise from fraud or error. They are considered material if, individually or in the

Independent Auditor's Report continued



aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of this Financial Report.

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1.pdf. This description forms part of our Auditor's Report.

Report on the Remuneration Report

Opinion

In our opinion, the Remuneration Report of Pacific Smiles Group Limited for the year ended 30 June 2018, complies with *Section 300A* of the *Corporations Act 2001*.

Directors' responsibilities

The Directors of the Company are responsible for the preparation and presentation of the Remuneration Report in accordance with *Section 300A* of the *Corporations Act 2001*.

Our responsibilities

We have audited the Remuneration Report included in pages 23 to 35 of the Directors' report for the year ended 30 June 2018.

Our responsibility is to express an opinion on the Remuneration Report, based on our audit conducted in accordance with *Australian Auditing Standards*.

KPMG

Sarah Cain

Partner

Sydney

22 August 2018

Shareholder Information

As at 1 August 2018

Distribution of Equity Security Holders

Range	Number of equity security holders
1 – 1,000	223
1,001 – 5,000	296
5,001 – 10,000	139
10,001 – 100,000	186
100,001 and over	68
Total	912

There were 103 holders of less than a marketable parcel of ordinary shares.

Twenty Largest Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
HSBC Custody Nominees (Australia) Limited	25,044,245	16.48
Alexander John Abrahams	19,936,010	13.12
Alison Jane Hughes	15,860,190	10.43
Susan Louise Abrahams	13,268,269	8.73
National Nominees Limited	8,382,947	5.52
BNP Paribas Noms Pty Ltd	7,248,204	4.77
JP Morgan Nominees Australia Limited	5,379,217	3.54
Just Paddling Pty Ltd	3,789,082	2.49
Robert G Cameron and Paula S Cameron	3,533,258	2.32
John Gibbs	3,337,265	2.20
Channings Holdings Pty Ltd	3,090,150	2.03
Karen Wright	2,022,000	1.33
BNP Paribas Nominees Pty Ltd	1,906,352	1.25
Mirrabooka Investments Limited	1,817,048	1.20
Lodka Pty Ltd	1,748,914	1.15
Sudemo Pty Ltd	1,741,017	1.15
Amanda Taylor	1,647,735	1.08
Joseph Nominees Pty Limited	1,637,793	1.08
Sterling Surgical Pty Ltd	1,515,000	1.00
William Mcillwraith Pty Ltd	1,244,000	0.82
Total	124,148,696	81.58
Other holders	27,844,699	18.32
Total quoted equity securities	151,993,395	100.00

Shareholder Information continued

As at 1 August 2018

Unquoted Equity Securities

	Number on issue	Number of holders
Performance rights issued under the Company's LTI plan	6,531,250	9

Substantial Shareholders

Name	Number of ordinary shares held	Percentage of issued shares %
Alexander John Abrahams and his associates	38,173,361	25.12
TDM Asset Management Pty Ltd and its associates	24,605,075	16.19
Alison Jane Hughes	15,860,190	10.43

Voting Rights

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

John Gibbs

Managing Director and Chief Executive Officer

Dr Alex Abrahams

Non-Executive Director

Ben Gisz

Non-Executive Director

Simon Rutherford

Non-Executive Director

Zita Peach

Non-Executive Director

Company Secretaries

Mark Licciardo and Belinda Cleminson

Auditor

KPMG

Tower Three, 300 Barangaroo Avenue
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".



www.pacificsmilesgroup.com.au