PACIFIC SMILES GROUP

ANNUAL REPORT
2020

2020 Performance Highlights

PATIENT FEES – UP 0.6%

$186.3m

SAME CENTRE GROWTH

(4.5%)

DENTAL CENTRES – UP 5.6%

94

UNDERLYING EBITDA – UP 2.9%

$23.5m

UNDERLYING NPAT – DOWN 9.7%

$8.1m

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2020 Operational Snapshot

DENTAL CENTRES
5 new

DENTISTS
>600

DENTAL CENTRES
94

NEW DENTAL CHAIRS
32

DENTIST AND GRADUATE DEVELOPMENT
20

PATIENT NET PROMOTER SCORE
>80

EMPLOYEE RETENTION
>80%

We’re Here When You Need Us

Pacific Smiles is committed to caring for the health and well-being of our patients, dentists and employees in all our local communities.

Operating 90+ Dental Centres

Pacific Smiles provides dentists with fully serviced and equipped facilities including support staff, materials, marketing and administrative services.

Over 600 Dentists

Assisted by more than 1,400 support staff, attend to over 767,000 patient appointments at Pacific Smiles centres each year.

Pacific Smiles – founded by dentists for dentists.

Chairperson's Letter

I am extremely proud to chair the Board of this financially successful and culturally strong company that always remains focused on the professional support of the dentists who choose to practice with us, the wellbeing of our employees and the oral health of our patients.

This financial year I accepted the role of Chairperson of Pacific Smiles Group, following Robert (Bob) Cameron's retirement after 17 years as Chairman. Robert (Bob) Cameron stepped down as Chair in February 2020 and on behalf of the Board I would like to thank Bob for his immense contribution to the company since its inception to growth to 93 centres in his tenure.

Mark Bloom joined the Board as a non-executive director this year adding his extensive experience in running global and local finance and information technology teams. Mark most recently held the position of CFO at ASX 20 listed Scentre Group Limited (owner and operator of Westfield in AU and NZ).

In the year 2020, we must acknowledge the challenges COVID-19 has brought us as we operate this business with an agile mindset to ensure the best management of the virus and the safety of practitioners, employees and patients. In April, Pacific Smiles Group reverted to emergency services with only 16 centres remaining open. Despite these challenges Pacific Smiles Groups delivered $186.3 million in patient fees and $23.5 million in underlying EBITDA in no small part due to the unified commitment of practitioners, employees and our patients.

The Board has focused on empowering the organisation and facilitating capital investment to drive Pacific Smiles Group's growth. In FY20, we opened 5 new centres with only 1 new centre in the second half of the year. While COVID-19 has caused a near-term disruption in new openings we remain very excited by the long-term opportunity to open more than 250 centres throughout Australia. Additionally, we have enabled key leadership opportunities and are delighted that almost 90% of key leadership roles are held by women. This is a continuation of Pacific Smiles Group's focus on cultivating culture as a competitive advantage. At Pacific Smiles Group, we strive to improve, adapt and refuse to be satisfied with the status quo, always developing our offering to better suit all key stakeholder groups.

We are proud to support the Australian Dental Health Foundation who continue to improve the oral health of disadvantaged Australians. The Foundation coordinates life changing treatment, positively impacting the quality of life and smiles of many Australians.

FY21 has commenced with the announcement of Pacific Smiles Group signing an initial 10-year base term Management Services Agreement with Western Australian health fund market leader HBF. This relationship consolidates Pacific Smiles' position as the leading organic growth focused dental service organisation in Australia. At the same time, we continue our successful agreement with nib health funds as the owner and operator of nib Dental Care centres. The new financial year also marked the retirement of our co-founder Dr Alex Abrahams as a Non-Executive Director. His passion and drive to create a better work environment for dentists and better oral health outcomes for patients led to the group's success. The Board thanks Alex for his significant contribution.

I would like to thank the dentists who choose to practice at our centres and who ensure leading standards in patient care. Thanks also to the employees, my fellow Directors and the members of the Executive Leadership Team for their hard work and adaptability this year, particularly enabling the business to stand back up so quickly and safely in quarter four. Phil McKenzie, in his second year as Managing Director, led this strong and focused performance; making decisions with speed and conviction and proactively adapting during uncertain times. On behalf of the Board I would like to thank Phil for his energetic leadership.

The last financial year's investment in growth opportunities incorporating capital investment, network growth and leadership opportunities will lay a solid foundation for the future strength and success of the organisation in the coming year. Only the best professional services will excel in the current market that requires constant adaptability, and with 'Adapt' forming one of our key cultural values we will be able to continue to provide the public access to the world's best oral healthcare.

No final dividend was declared in relation to FY2020. Total dividends in relation to FY2020 represented 46% of underlying net profit after tax.

Thank you to our shareholders for your continued support.

Zita Peach
Chairperson

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

During the year we provided over 767,000 patient appointments

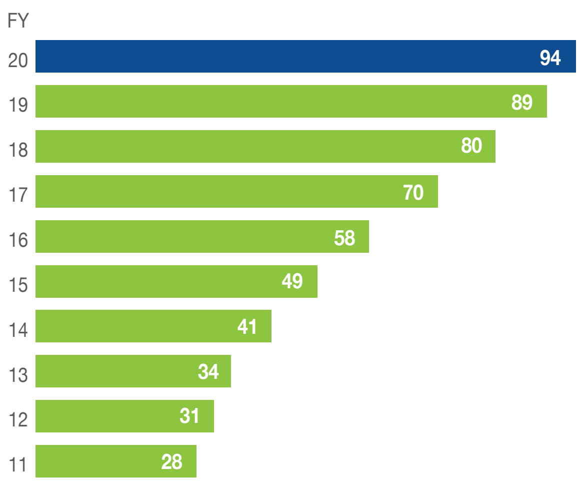
Managing Director's Report

In FY 2020, Pacific Smiles delivered over 767,000 patient appointments with a patient net promoter score of greater than 80%. We opened 5 new dental centres in Robina and Mitchelton in Queensland and Epping, Ocean Grove and Narre Warren in Victoria taking the network total to 94. In my second year as Managing Director, I couldn't be more pleased with our results progression or more appreciative of the contribution of every person involved with this organisation.

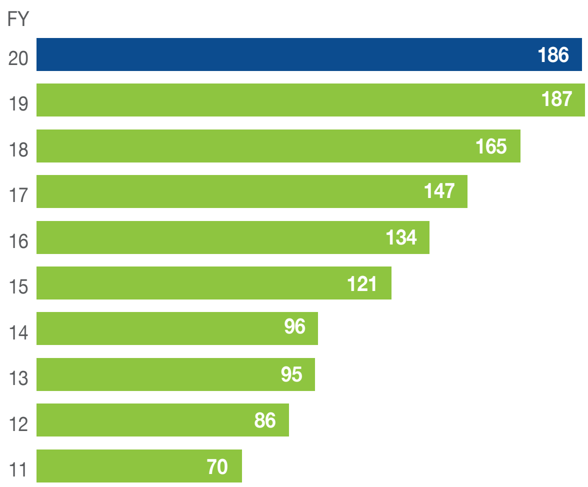
After 17 years as founding Chairman of the Board Robert Cameron AO has retired and we would like to thank him for his significant contribution to the business over the years; and from me personally for facilitating my successful transition in as Managing Director. Pacific Smiles congratulates Zita Peach stepping up to the role of Chairperson. Zita's decades of relevant healthcare experience and positive focus since joining the board in 2017 has been to empower the management team to deliver on our organisational growth strategy. The Board and management are also pleased to welcome Mark Bloom to the Pacific Smiles Group Board adding to its caliber with a highly respected commercial financial skillset and deep retail property experience.

To ensure our growth plans are met, we have invested by adding key leadership roles to the Executive Team for the Property and Technology functions. Attracting and investing in top tier talent will enable us to scale and not dilute our culture. The pride and diligent dedication shown by our people every day makes Pacific Smiles Group the company that it is.

Number of Centres



Patient Fees $m



Australian Dental Health Foundation

Sponsor for over 4 years delivering free dental treatment to disadvantaged Australians

Child Dental Benefits

We've helped approximately 40,000 kids smiles with the Child Dental Benefits Schedule

We are clear about our why, our way and our how. 'Our why' is our True Purpose; to improve the oral health of all Australians to world's best. 'Our way' leverages our culture play book; Unifying, Adapting, and Playing to win. 'Our how' is our value propositions; dentists are respected, employees matter, and our patients trust in Pacific Smiles Group.

Operational Overview and Insights

The first half of the financial year delivered strong underlying EBITDA growth of 15.0% and the opening of four new dental centres. Our Insight graduate program had a record number of applications and 20 new graduates began the program with Pacific Smiles Group this year, our biggest intake to date. We also launched the Pacific Smiles education experience node for University of Sydney final year dental students. This program was developed to broaden the student training program and provide experience in a private practice setting. The University of Sydney Dental School has been providing education and training in dentistry and oral health for over 100 years and we are proud to partner with the university to help shape the future of oral healthcare in Australia.

The third quarter for 2020 delivered the Australian market unforeseen health and business challenges with the impact of COVID-19. Pacific Smiles' proven business processes, system and protocols for servicing dentists and caring for patients and each other enabled us to successfully manage through the crisis and stand the business back up efficiently and effectively, once restrictions eased in May.

Over 600 dentists were actively supported by Pacific Smiles' during the peak of the COVID-19 pandemic in Australia. Restrictions on dental practices changed on multiple occasions and it was important for us to guide practitioners in complying with the guidelines put forward by the Australian Dental Association and enforced by Australian Health Protection Principle Committee (AHPPC). In doing so, practitioners were able to continue to assist patients needing care during the pandemic, both face to face and via tele-dentistry, with the safety of the patients and the dental team top of mind.

The fourth quarter was about leading out of the disruption and uncertainty with agility. Our commitment to expanding services to patients was demonstrated with the opening of a new dental centre in Narre Warren, Victoria.

The long-term plan remains simple and focused on growing the core business through our unique greenfield centre expansion program; the goal of more than 250 centres and 800 chairs is unchanged.

We will continue to make decisions with a long-term view consistent with our known success factors and capitalising on technology innovations. The dedication and discipline of the entire team, focused equally on execution today and the long-term performance objectives of the business, will ensure prosperity.

Statutory Results

Statutory net profit after tax for the year was $6.4 million. This result is down on the 2019 statutory net profit after tax of $8.6 million, a decrease of 25.5%. The statutory results for the year were impacted by COVID-19 and Government mandated restrictions on dental services and several underlying adjustments as detailed in the table below.

The new standard resulted in the Group recognising depreciation and interest costs, rather than operating lease expenses. During the year the Group recognised $9.2 million of depreciation charges, $2.8 million of interest costs from these leases payable and $0.03 million of interest income from leases receivable. AASB 16 had an impact of $0.1 million on net profit after tax (NPAT).

The Operational overview and insights discussions will focus on the underlying results for 2020 and the comparative period and excluding the impacts of AASB 16 in 2020 given the standard does not require restatement of comparatives. Removing these impacts enhances the year on year performance comparisons.

Underlying Results

Underlying EBITDA, exclusive of the impacts of AASB 16, increased by 2.9% to $23.5 million compared with the previous financial year.

For the 8 months to 29 February 2020, prior to COVID-19 restrictions, both patient fees and underlying EBITDA were tracking at approximately 14% growth on the prior corresponding period.

On 30 March 2020, the Australian Health Protection Principle Committee (AHPPC) mandated Level 3 restrictions to dental services. This resulted in 76 dental centres closing for a period of 4 weeks, and a large proportion of our workforce being stood down during this time. The centres which remained open were selected due to the role they played as regional 'hubs' to continue to offer emergency care within their communities.

Almost 90% of key leadership roles are held by women at Pacific Smiles Group.

Restrictions were eased to Level 2 on 24 April and returned to normal dental services (with COVID-19 precautions) from 11 May. At this time all centres re-opened and employees were stood back up to support patient volumes. Our ability to be operationally agile throughout this period led to strong patient volumes in June with same centre patient fee growth for the month of 12.4%.

Underlying NPAT decreased by 9.7% to $8.1 million compared to $8.9 million for the prior year.

To reduce the cost base and preserve cash during the nationwide restrictions, the Chief Executive Officer and Executive Leadership team salaries and Non-executive Director fees were reduced for a period of time. Short-term incentive bonuses were not paid this year, notwithstanding that prior to COVID-19 management were on track to achieve the targets for 2020. Executive team salaries were reinstated in recognition of the workload required to support the business to rapidly scale at the conclusion of the restrictions.

A cost reduction program was implemented in late March 2020 to review and negotiate savings with key suppliers and with landlords. We were able to negotiate approximately $1 million in abatements and deferrals with the vast majority of landlords.

Pacific Smiles successfully applied for the Government's JobKeeper scheme and was eligible from 1 April 2020. In FY 2020, the Company is entitled to $8.4 million for its eligible employees.

Depreciation costs (excluding the impact of AASB 16) totalled $11.0 million an increase of $1.6 million on the prior period. Group revenue was $120.6 million, down 1.3% over the previous financial year. Revenue is 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. Dentists are then free to focus on offering exceptional patient care.

The Government mandated restrictions on dental services resulted in an estimated reduction in patient fees of $28.0 million. Up until the end of February, Pacific Smiles was tracking at achieving patient fee growth of 14.2% but ended the year down by 0.6% due to the restrictions.

Revenue growth is achieved through the combination of our existing dental centres and our new dental centres opened in recent years. Patient fees decreased 0.6% over the previous year to $186.3 million due to the impact of COVID-19 on same centre patient fees which contracted by 4.5%. The new centres have performed in line with expectations prior to COVID-19 and will be strong contributors to long-term growth and profit margins over time.

The Group's underlying EBITDA to Patient fees margin increased in 2020 to 12.6%, supported by the JobKeeper Government scheme and operational capability to scale expenditure. The year saw a decline in top line growth across our network of centres with COVID-19 restrictions reducing appointment volumes. The increasing proportion of fees coming from centres opened in the last 3 years unfavourably impacted the EBITDA to Patient fees margin given that the less mature Pacific Smiles' dental centres typically generate lower margins. This means the accelerated dental centre rollout strategy also affects Group profitability, and therefore margins, in the short term.

Adjustments to the Statutory Income Statement

	2020 $ million	2019 $ million
Statutory net profit after tax	6.4	8.6
Severance and HR consultancy expense	0.2	0.6
Executive LTI plan expense/(write-back)	0.5	(0.1)
Lease adjustments	–	(0.0)
Non-scheduled IT outage	0.5	–
Asset impairment	0.8	–
Restructuring	0.3	–
Income tax effect of adjustments	(0.7)	(0.2)
Underlying statutory net profit after tax	8.0	8.9
Net tax impacts of AASB 16	0.1	–
Underlying statutory net profit after tax excluding the impacts of AASB 16	8.1	8.9

Financial Position

Pacific Smiles' strong focus on cash management resulted in net debt of $6.7 million as at 30 June 2020. In order to maximise financial flexibility in the current environment, the Group secured an additional debt facility of $10.0 million in August 2020. This takes the overall debt facility to $40.0 million and gives Pacific Smiles significant capacity should there be future COVID-19 mandated restriction periods in 2021, as well as focusing on the long-term growth strategy of dental centre rollouts.

Capital expenditure for the year was lower at $10.0 million (FY2019: $16.5 million), reflecting a spending pause during March to May 2020. It includes 5 new centres, additional chairs in existing centres, automated sterilisation systems and the bulk purchase of dental chairs.

Borrowings increased by $5.0 million to $22.0 million in the current year to support the expansion of the dental centre network and upgrades of existing facilities, equipment and systems.

The Group implemented a Dividend Reinvestment Plan for the fully franked interim dividend of 2.40 cents per share this year. This action gave existing shareholders the flexibility to reinvest in the business, while allowing the Company to retain additional cash of $1.7 million as a buffer for the period of shutdowns.

With shareholders electing to receive $1.7 million as ordinary shares, a further $7.3 million cash dividend was paid to shareholders this financial year. In total, ordinary dividends of $9.0 million were paid to shareholders in 2020, compared with $9.3 million in the prior year.

No final dividend was declared for FY2020. The dividend payout ratio is 46.3% of underlying Net Profit After Tax, exclusive of AASB 16 (2019 was 98.8% of underlying Net Profit After Tax).

The Market

The market for dental services in Australia is approximately $10 billion to $11 billion per annum and continues to grow 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. The Australian Health Practitioner Regulation Agency's (APRHA) latest dental service data reported that more than 44 million dental services per annum were funded by health funds as at March 2020, with health funds paying more than $2.0 billion per annum in dental benefits.

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 19.1% in 2017-18, according to Australian Institute of Health and Welfare. The proportion

Group Financial Performance

$ millions	Underlying 2020*	Underlying 2019	Change
Revenue	120.6	122.2	(1.3%)
Gross profit	109.9	110.3	(0.4%)
EBITDA	23.5	22.8	2.9%
EBIT	12.5	13.4	(7.1%)
Net profit after tax	8.1	8.9	(9.7%)
Operating metrics			
Number of Dental Centres	94	89	5.6%
Commissioned Dental Chairs	383	351	9.1%
Patient Fees ($ millions)	186.3	187.4	(0.6%)
Same Centre Patient Fees growth	(4.5%)	8.6%	
Financial metrics			
Earnings per share (cents)	5.3	5.9	(9.9%)
EBITDA margin	19.5%	18.7%	
EBITDA to Patient Fees margin	12.6%	12.2%	
EBIT margin	10.3%	11.0%	

* Excludes the impacts of AASB 16.

by the Australian Government has decreased from 16.3% in 2009-10 to 15.0% in 2017-18, with expenditure by State and Local Governments maintained at 8.2% in 2009-10 and in 2017-18. 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 attendance.

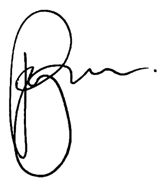
The other major feature of the market is the continued growth in the number of registered dentists. The increase in recent years has been the combined impact of overseas trained dentists and local graduates. The number of registered dentists was 18,157 in March 2020, up 2.8% on the prior year. The demographic shift in the dental workforce continues with females making up 53% of registered dentists, increasing 1% on the year earlier.

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.

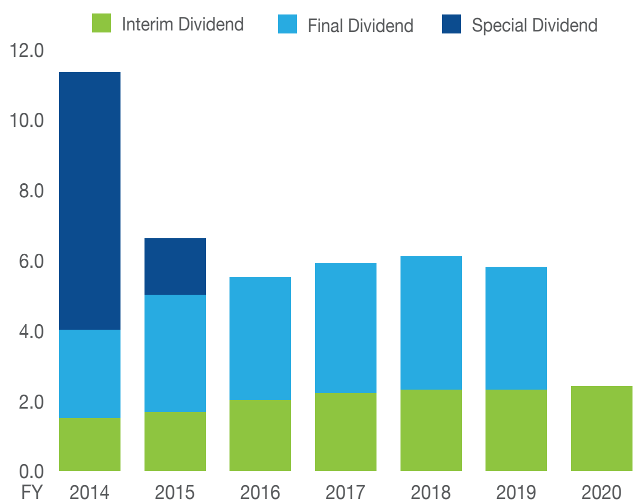
Pacific Smiles has established policies and structures for oversight and management of material business risks. Further information regarding how Pacific Smiles recognises and manages risks can be sourced from our Corporate Governance Statement and related governance policies on our website.

The risk areas and mitigating factors identified by Pacific Smiles are shown on page 15.

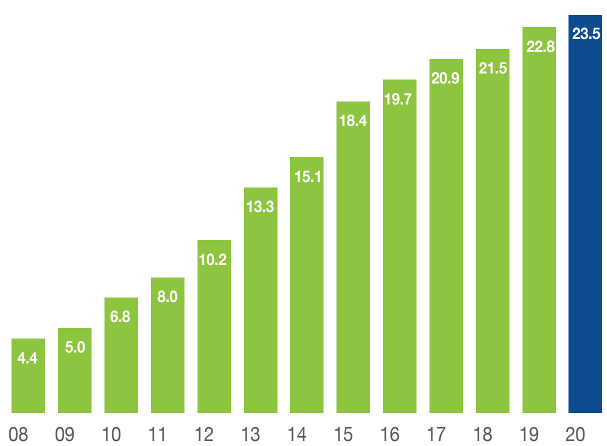


Phil McKenzie
Chief Executive Officer and Managing Director

Dividends



EBITDA (underlying) $m

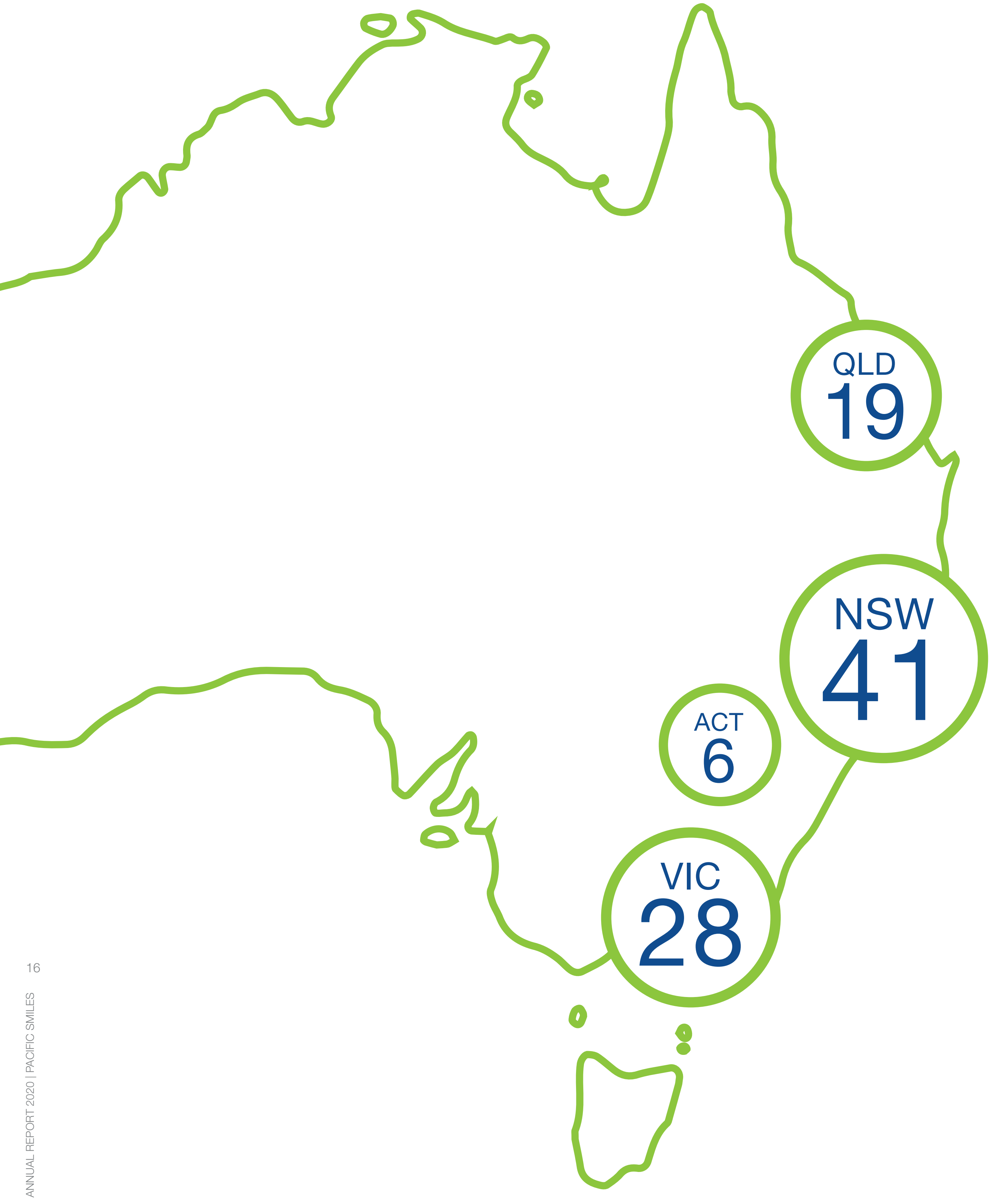


"During the height of the COVID-19 pandemic in Australia there was so much uncertainty, yet we felt informed,cared for and supported by our dentist at Pacific Smiles as their only priority."

Table 1: Risk Management

Risk Area	Mitigating Factors
General economic conditions Downturns in general economic conditions could adversely impact demand for dental services, given the discretionary nature of some of those services.	Dentists at Pacific Smiles' dental centres provide a range of treatments to patients in a number of different geographic zones throughout the eastern States of Australia.
Reduction in private health insurance coverage 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 various payment plans and treatment payment options available.
Competition-induced fee pressure An increase in the number of practicing dentists could increase competition for patients and the degree to which dentists compete on the basis of fee levels.	Pacific Smiles' dental centres are usually differentiated from other local providers and compete on the basis of convenience, value, access and overall patient experience.
Termination of Service and Facility Agreements by dentists 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.
Reputational damage 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 by the internal and external appointments to the Dental Advisory Committee.
Supply of skilled dentists 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.
Pandemic Should a pandemic restrict the dental services able to be performed in specific locations, States or nationally due to the risk of infection to staff, dentists and patients.	Close monitoring and adherence to Government or professional body recommendations. Ensuring adequate stock of appropriate personal protective equipment (PPE), and close focus on internal procedures and clinical governance by management and the Board.
Cyber Security Actions whereby the Company's IT systems are accessed and result in the failure of or interruption to key IT systems or a material patient privacy breach.	Pacific Smiles Group has industry best practice controls in place to minimise technology related business interruptions and to manage the end-to-end cyber lifecycle. It also has cyber and technology roadmaps in place to continually uplift its maturity in both areas to meet compliance and operational expectations.
Key Supply Chain Should an event result in the closure, restriction or delay of key consumables or personal protective equipment (PPE) meaning our ability to meet the needs of patients or support dentists could be impacted.	Long-term relationships with national suppliers and back-up suppliers identified. Close monitoring of inventory levels and ensuring adequate stock of appropriate personal protective equipment (PPE). Strategy for emergency store of critical PPE enacted.

Dental Centre Locations



NSW

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

VIC

Bairnsdale
Bendigo
Caroline Springs
Chirnside Park
Cranbourne Park
Drysdale
Epping
Glen Iris
Glen Waverley
Greensborough
Keysborough
Leopold
Melbourne
nib Melbourne
Melton
Mill Park
Mulgrave
Narre Warren
Ocean Grove
Point Cook
Preston
Ringwood
Sale
Torquay
Traralgon
Warragul
Waurn Ponds
Werribee

QLD

Aspley
Birtinya
Bribie Island
Brisbane CBD
Browns Plains
Buddina
Burleigh Heads
Capalaba
Deception Bay
Helensvale
Mitchelton
Morayfield
Mount Gravatt
Mount Ommaney
North Lakes
Redbank Plains
Robina
Runaway Bay
Strathpine

ACT

Belconnen
Gungahlin
Manuka
Tuggeranong
Woden
nib Woden

Directors' Report and Financial Statements

FOR THE FINANCIAL YEAR ENDED 30 JUNE 2020

Directors' Report

The Directors present their report, together with the financial statements, on the consolidated entity (referred to hereafter as the 'consolidated entity') consisting of Pacific Smiles Group Limited (referred to hereafter as the 'company' or 'parent entity') and the entities it controlled at the end of, or during, the year ended 30 June 2020.

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, unless otherwise stated:

Ms Zita Peach (appointed Chairperson 19 February 2020)
Mr Robert Cameron AO (resigned 19 February 2020)
Mr Phil McKenzie
Dr Alex Abrahams (resigned 23 July 2020)
Mr Mark Bloom (appointed 18 October 2019)
Mr Hilton Brett
Mr Ben Gisz
Mr Simon Rutherford

Principal activities

The consolidated entity 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.

Dividends

Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 3.50 cents (2018: 3.80 cents) per ordinary share, fully franked	5,320	5,776
Interim dividend for the year ended 30 June 2020 of 2.40 cents (2019: 2.30 cents) per ordinary share, fully franked	3,648	3,496
	8,968	9,272

Dividend reinvestment plan

The consolidated entity's dividend reinvestment plan (DRP) applied to the fully franked interim dividend of 2.40 cents per share announced on 20 February 2020. The DRP allowed eligible shareholders to reinvest all or part of their dividend payments into Pacific Smiles shares. The price at which shares are allocated under the DRP is the daily volume weighted average market price of the company's shares sold in the ordinary course of trading on the ASX over a period of 5 days beginning on 20 April 2020. Shares allocated under the DRP rank equally with the company's existing fully paid ordinary shares. The DRP resulted in shareholders electing to receive an additional 1,522,155 shares in total, priced at $1.716 million.

There were no dividends declared but not recognised at the end of the financial year.

Review of operations

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

Significant changes in the state of affairs

There were no significant changes in the state of affairs of the consolidated entity during the financial year.

Matters subsequent to the end of the financial year

Coronavirus (COVID-19) pandemic

The impact of the Coronavirus (COVID-19) pandemic is ongoing, and it is not practicable to estimate the potential impact after the reporting date. There has been no material impact to the consolidated entity's financial performance or position arising from the pandemic from the end of the reporting period to the date of this report. The situation is ongoing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Management services agreement with HBF

Pacific Smiles has signed an initial 10-year base term Management Services Agreement (MSA) with Western Australian health fund HBF in early July 2020. Under the agreement HBF will build a minimum of five HBF Dental (HBFD) clinics across Western Australia over the next 18 months. Pacific Smiles will be the exclusive operator of these and any additional HBFD clinics rolled out in Western Australia for the term of the MSA.

Pacific Smiles will receive a percentage of revenue from the operations in return for providing comprehensive operational support for the design, construction, and all aspects of the clinics' day to day operations. HBF will be responsible for funding capital expenditure and in-clinic operating costs. Pacific Smiles does not expect the arrangement to be material to earnings within the first year of operation.

Resignation of director

Dr Alex Abrahams has resigned as Non-executive Director on 23 July 2020.

Other events

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect, the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Likely developments and expected results of operations

The consolidated entity 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 details.

Environmental regulation

The consolidated entity is not subject to any significant environmental regulation under Australian Commonwealth or State law.

Information on Directors

Ms Zita Peach

Non-executive Chairperson, appointed February 2020
Non-executive Director, appointed August 2017
Member of the Nomination and Remuneration Committee

BSc, FAICD, FAMI

Zita has more than 25 years of commercial experience in the pharmaceutical, biotechnology, medical devices and health services industries. She has extensive sales and marketing experience across a broad range of sectors in healthcare, locally and internationally, as well as leading international expansions and conducting major business transactions. At leading global healthcare company Fresenius Kabi, Zita was Executive Vice President for South Asia Pacific, Managing Director for Australia and New Zealand and Chair of the Boards for Malaysia, Australia and New Zealand. Zita was Vice President of Business Development at CSL Limited and has an extensive track record in mergers and acquisitions deals, licensing and commercialising products and technologies on a global scale. Zita is a Non-executive Director of Monash IVF Group Limited, Starpharma Holdings Limited and Visioneering Technologies, Inc. Zita is also a member of the Hudson Institute of Medical Research Board. Zita is a Fellow of the Australian Institute of Company Directors and a Fellow of the Australian Marketing Institute.

Other current directorships: Monash IVF Group Limited, Starpharma Holdings Limited, VIsioneering Technologies, Inc.

Former directorships (last 3 years): AirXpanders Inc.

Interests in shares: 22,095

Mr Phil McKenzie

Chief Executive Officer and Managing Director, appointed October 2018

B.Bus (Auckland Uni)

Prior to joining Pacific Smiles, Phil was Chief Executive Officer for Audiology Management Group (AMG), a leading audiology services business with a network of more than 200 clinic locations across the USA. During his time at AMG, Phil balanced and transitioned the model from acquisition driven to greenfield expansion and delivered strong financial performance for the group. Prior to his role as CEO of AGM, Phil was CEO of Widex Australia, New Zealand, Singapore, Hong Kong and India retail where he successfully turned around and grew those operations. Phil has also held leadership positions at Apple Retail as Australian Market Director and was a driver of Apple's retail entry into the Australian market from 2008 to 2011, and Luxottica as National Operations Manager from 2005 to 2007.

Other current directorships: Nil

Former directorships (last 3 years): Nil

Interests in shares: Nil

Dr Alex Abrahams

Founder and Executive Director, appointed in 2002 until June 2017
Non-executive Director, appointed June 2017 until July 2020
Member of the Audit and Risk Management Committee

BDS (Syd Uni), GAICD

Alex has overseen the development of the company from a group of partnerships to an incorporated entity in January 2003. Alex is a dentist with a special interest in dental implants. Alex is a member of the Australian Dental Association (ADA) and is on both the ADA (NSW) Advocacy committee, and the Australian Dental Health Foundation Advisory Committee. 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.

Other current directorships: Microequities Asset Management Group Limited

Former directorships (last 3 years): Nil

Interests in shares: 30,827,361

Mr Ben Gisz

Non-executive Director, appointed in 2012
Chairman of the Nomination and Remuneration Committee

B.Comm, CA, FFin, CFA

Ben is a partner at TDM Growth Partners, a Sydney based global investment firm. Ben has extensive financial markets experience, including prior roles in private equity investing and investment banking.

Other current directorships: Nil

Former directorships (last 3 years): Nil

Interests in shares: 35,705,996

Mr Simon Rutherford

Non-executive Director, appointed in 2003
Chairman of the Audit and Risk Management Committee

B.Comm, CA, FAICD

Simon is a chartered accountant and partner with PKF in business advisory services. He has been with the firm for 35 years. He works with corporate and family owned groups as an advisory board member and lead adviser on strategy, governance, structuring, business sales, mergers and acquisitions. He is also a Director of PKF Wealth. In his role Simon has assisted various companies with capital raising and listing requirements. Simon is a Director of the Trustee of Canyon Property Trust and is involved with other syndicated investments. He has also served on a number of boards including National Brokers Group and Vow Financial Group.

Other current directorships: Nil

Former directorships (last 3 years): Nil

Interests in shares: 1,744,863

Mr Mark Bloom

Non-executive Director, appointed October 2019
Member of the Audit and Risk Management Committee

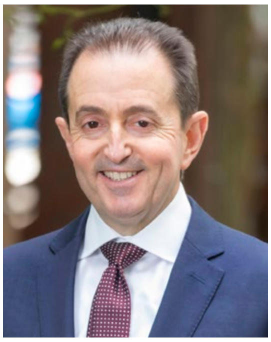
B.Comm, B.Acc, CA ANZ

Up until April 2019, Mark held the position of Chief Financial Officer at ASX 20 listed Scentre Group Limited (owner and operator of Westfield in Australia and NZ). Mark's executive career as a Finance Executive has spanned 36 years as Chief Financial Officer and an Executive Director at 3 top 20 listed entities in Real Estate (Westfield and Scentre Group – 16 years) and Insurance and diversified Financial Services (Liberty Life, South Africa and Manulife Financial, Toronto – 20 years). He has had extensive experience in running global and local Finance and IT teams encompassing Treasury, Tax, Operations, Finance, Compliance, Risk Management, Financial Reporting, Legal and Information Technology. Mark has extensive experience in corporate transactions and restructuring. Mark is a Non-executive Director at AGL Energy Limited.

Other current directorships: AGL Energy Limited

Former directorships (last 3 years): Nil

Interests in shares: 102,128



Mr Hilton Brett

Non-executive Director, appointed August 2018
Member of the Nomination and Remuneration Committee

B.Comm, PGDA

Hilton is an Operating Advisor at TDM Growth Partners, a private investment firm founded in 2004, which invests in fast growing companies run by passionate management teams. Up until March 2018, Hilton was co-Chief Executive Officer of Accent Group Limited (formerly RCG Corporation Ltd) which is the regional leader in the retail and distribution of performance and lifestyle footwear with over 420 stores across 10 retail banners and exclusive distribution rights for 10 international brands across Australia and New Zealand. Accent's brands include The Athlete's Foot, Hype DC, Platypus Shoes, Podium Sports, Skechers, Merrell, CAT, Vans, Dr. Martens, Saucony, Timberland, Sperry Top-Sider, Palladium and Stance. Hilton joined Accent in 2006 when the business had a market capitalisation of $8 million. Over the 12 years, the team grew the business to a $800 million market capitalisation and delivered total shareholder returns in excess of 25% CAGR. Hilton is a Non-Executive Director of Guzman Y Gomez Mexican Taqueria.

Other current directorships: Nil

Former directorships (last 3 years): Accent Group Limited

Interests in shares: 655,290

'Other current directorships' quoted above are current directorships for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

'Former directorships (last 3 years)' quoted above are directorships held in the last 3 years for listed entities only and excludes directorships of all other types of entities, unless otherwise stated.

Company secretaries

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 ('the Board') and of each Board committee held during the year ended 30 June 2020, and the number of meetings attended by each director, were:

	Full Meetings of Directors		Nomination and Remuneration Committee		Audit and Risk Committee	
	Attended	Held	Attended	Held	Attended	Held
Ms Zita Peach	16	17	4	4	–	–
Mr Robert Cameron AO	9	9	1	2	–	–
Mr Phil McKenzie*	16	16	–	–	–	–
Dr Alex Abrahams	17	17	–	–	4	4
Mr Mark Bloom	11	11	–	–	3	3
Mr Hilton Brett	17	17	2	2	–	–
Mr Ben Gisz	17	17	4	4	1	1
Mr Simon Rutherford	17	17	–	–	4	4

Held: represents the number of meetings held during the time the director held office or was a member of the relevant committee.

* Management were not required to attend one Board meeting.

Remuneration report (audited)

The remuneration report details the key management personnel remuneration arrangements for the consolidated entity, in accordance with the requirements of the Corporations Act 2001 and its Regulations.

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including all directors.

The remuneration report is set out under the following main headings:

- Principles used to determine the nature and amount of remuneration
- Details of remuneration
- Share-based compensation
- Additional disclosures relating to key management personnel

Principles used to determine the nature and amount of remuneration

The objective of the consolidated entity's executive reward framework is to ensure reward for performance is competitive and appropriate for the results delivered. The framework aligns executive reward with the achievement of strategic objectives and the creation of value for shareholders, and it is considered to conform to the market best practice for the delivery of reward. The Board of Directors ('the Board') ensures that executive reward satisfies the following key criteria for good reward governance practices:

- competitiveness and reasonableness
- acceptability to shareholders
- performance linkage/alignment of executive compensation
- transparency

The Nomination and Remuneration Committee is responsible for determining and reviewing remuneration arrangements for its directors and executives. The performance of the consolidated entity depends on the quality of its directors and executives. The remuneration philosophy is to attract, motivate and retain high performance and high quality personnel.

The reward framework is designed to align executive reward to shareholders' interests. The Board have considered that it should seek to enhance shareholders' interests by:

- having economic profit as a core component of plan design
- focusing on sustained growth in shareholder wealth, consisting of dividends and growth in share price, and delivering constant or increasing return on assets as well as focusing the executive on key non-financial drivers of value
- attracting and retaining high calibre executives

Additionally, the reward framework should seek to enhance executives' interests by:

- rewarding capability and experience
- reflecting competitive reward for contribution to growth in shareholder wealth
- providing a clear structure for earning rewards

In accordance with best practice corporate governance, the structure of non-executive director and executive director remuneration is separate.

Non-executive Directors remuneration

Directors' fees and payments are reviewed annually by the Nomination and Remuneration Committee. The Nomination and Remuneration Committee may, from time to time, receive advice from independent remuneration consultants to ensure non-executive Directors' fees and payments are appropriate and in line with the market. The Chairperson's fees are determined independently to the fees of other non-executive Directors based on comparative roles in the external market. The Chairperson is not present at any discussions relating to the determination of her own remuneration. Non-executive Directors do not receive share options or other incentives.

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

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

The consolidated entity's constitution provides that Non-executive Directors are entitled to receive compensation for their services as determined by approval at a general meeting. As at 30 June 2020, the current Directors' fees pool is an aggregate sum of $800,000. The base fee payable to the Chairperson is $120,000 per annum, and the base fee payable to other Non-executive Directors is $70,000 per annum. 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.

Executive remuneration

The consolidated entity aims to reward executives based on their position and responsibility, with a level and mix of remuneration which has both fixed and variable components. In determining executive remuneration, the Board aims to ensure that remuneration practices are:

- competitive and reasonable, enabling the consolidated entity to attract and retain key talent
- aligned to the consolidated entity's strategic and business objectives and the creation of shareholder value
- transparent
- acceptable to shareholders; and
- rewarding for performance

The executive remuneration and reward framework has four components:

- base pay and non-monetary benefits
- short-term performance incentive (STI) plan
- long-term equity incentive (LTI) plan
- other remuneration such as superannuation and long service leave

The combination of these comprises the executive's total remuneration.

Fixed remuneration, consisting of base salary, superannuation and non-monetary benefits, is reviewed annually by the Nomination and Remuneration Committee based on individual and business unit performance, the overall performance of the consolidated entity and comparable market remunerations.

Executives may receive their fixed remuneration in the form of cash or other fringe benefits (for example motor vehicle benefits) where it does not create any additional costs to the consolidated entity and provides additional value to the executive.

The short-term incentives (STI) program is designed to provide executives the opportunity to earn an annual incentive 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 consolidated entity's financial performance and non-financial key performance indicators (KPIs). Financial performance is assessed based on consolidated underlying Earnings Before Interest, Tax, Depreciation and Amortisation (EBITDA) meeting or exceeding Board approved targets. Non-financial KPIs are group KPIs, rather than individual KPIs and relate to Net Promoter Score (NPS) for patients, dentists and employees for the consolidated entity exceeding specific NPS targets. Targets are reviewed annually.

The executive STI plan performance criteria are summarised below:

	% of base salary Chief Executive Officer	% of base salary Other Executive Officers
Underlying EBITDA targets	Up to 35.0%	Up to 24.5%
Non-financial performance metrics	Up to 15.0%	Up to 10.5%
Total maximum STI	Up to 50.0%	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.

The consolidated entity 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 consolidated entity through the granting of performance rights.

Performance rights have been issued to the Chief Executive Officer and selected senior managers, at the absolute discretion of the Board, pursuant to the LTI plan in financial years from 2016 to 2020.

Vesting of the performance rights on issue for the years 2018, 2017 and 2016 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% per annum or less and 100% vesting for an EPS CAGR of 25% per annum; and
- the participant remaining employed by the Pacific Smiles Group (or its subsidiaries) over a four-year period through to the vesting date, subject to certain 'good leaver' exemptions.

Vesting of the performance rights on issue for the years 2020 and 2019 is subject to:

- satisfaction of EPS performance hurdles for a four-year period. The number of performance rights vesting will be determined on a sliding scale from nil vesting for an EPS CAGR of 10% per annum or less and 100% vesting for an EPS CAGR of 25% per annum; and
- the participant remaining employed by Pacific Smiles Group (or its subsidiaries) over a four-year period through to 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 threshold per annum over the relevant performance period.

In the event of serious misconduct or a material misstatement in the consolidated entity'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.

Consolidated entity performance and link to remuneration

The following table shows key performance indicators (KPIs) for the consolidated entity over the last five years.

	2020	2019	2018	2017	2016
Revenue ($'000)	120,055	122,156	104,528	91,471	83,337
EBITDA (statutory – $'000)	32,859	22,300	18,439	20,552	19,306
Net profit after tax (statutory – $'000)	6,383	8,573	6,604	10,037	9,903
Dividends per share – ordinary (cents)	2.4	5.8	6.1	5.9	5.5
Earnings per share (cents)	4.2	5.6	4.3	6.6	6.5
Increase/(decrease) in share price ($)	0.40	(0.40)	(0.24)	(0.28)	(0.26)

Details of remuneration

Amounts of remuneration

Details of the remuneration of key management personnel of the consolidated entity are set out in the following tables.

The key management personnel of the consolidated entity consisted of the following directors of Pacific Smiles Group Limited:

- Ms Zita Peach
- Mr Robert Cameron AO (until 19 February 2020)
- Mr Phil McKenzie
- Dr Alex Abrahams (until 23 July 2020)
- Mr Mark Bloom (appointed 18 October 2019)
- Mr Hilton Brett
- Mr Ben Gisz
- Mr Simon Rutherford

And the following persons:

- Mr Paul Robertson
- Ms Allanna Ryan

	Short-term benefits			Post-employment benefits	Long-term benefits	Share-based payments	
	Cash salary and fees	Cash bonus	Other	Super-annuation	Long service leave	Rights	Total
2020	**$**	**$**	**$**	**$**	**$**	**$**	**$**
Non-Executive Directors:							
Ms Zita Peach *(appointed Chairperson 19 February 2020)*	72,048	–	–	6,845	–	–	78,893
Mr Robert Cameron AO *(resigned 19 February 2020)*	71,654	–	–	6,807	–	–	78,461
Dr Alex Abrahams	61,250	–	–	–	–	9,806	71,056
Mr Mark Bloom *(appointed 18 October 2019)*	37,521	–	–	3,434	–	–	40,955
Mr Hilton Brett	56,797	–	–	5,396	–	–	62,193
Mr Ben Gisz	61,250	–	–	–	–	–	61,250
Mr Simon Rutherford	61,250	–	–	–	–	–	61,250
Executive Directors:							
Mr Phil McKenzie	506,398	–	–	21,003	8,750	204,581	740,732
Other Key Management Personnel:							
Mr Paul Robertson	261,318	–	–	21,716	4,719	73,563	361,316
Ms Allanna Ryan	260,599	–	–	21,003	4,498	66,322	352,422
	1,450,085	–	–	86,204	17,967	354,272	1,908,528

2019	Short-term benefits Cash salary and fees $	Cash bonus $	Other* $	Post-employment benefits Super-annuation $	Long-term benefits Long service leave $	Share-based payments Rights $	Total $
Non-Executive Directors:							
Mr Robert Cameron	109,589	–	–	10,411	–	–	120,000
Dr Alex Abrahams	70,000	–	–	–	–	(14,521)	55,479
Mr Hilton Brett *(appointed 24 August 2018)*	53,109	–	–	5,045	–	–	58,154
Mr Ben Gisz	70,000	–	–	–	–	–	70,000
Ms Zita Peach	63,927	–	–	6,073	–	–	70,000
Mr Simon Rutherford	70,000	–	–	–	–	–	70,000
Executive Directors:							
Mr Phil McKenzie *(appointed 29 October 2018)*	331,653	–	–	14,665	5,449	39,167	390,934
Mr John Gibbs *(resigned 28 October 2018)*	168,127	–	450,000	7,505	9,760	(67,164)	568,228
Other Key Management Personnel:							
Mr Paul Robertson	251,772	–	–	23,845	4,581	(14,092)	266,106
Ms Allanna Ryan	236,718	–	–	20,540	4,115	3,498	264,871
	1,424,895	–	450,000	88,084	23,905	(53,112)	1,933,772

* Other benefits include termination benefits paid to Mr John Gibbs in 2019. There were no termination benefits paid or payable to key management personnel during 2020. Termination benefits paid were in accordance with employment contracts.

STI awarded

For each STI bonus included in the 2020 remuneration 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.

	% of maximum STI awarded	% of STI forfeited
Mr Phil McKenzie	–	100.0%
Mr Paul Robertson	–	100.0%
Ms Allanna Ryan	–	100.0%

Based on significant outperformance in 2021 an additional bonus will be available to Executive Managers.

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 plans are 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 key management personnel (EKMP)	Termination notice by EKMP	Termination notice by Company
Mr Phil McKenzie	6 months	6 months
Mr Paul Robertson	3 months	3 months
Ms Allanna Ryan	6 months	6 months

Share-based compensation

Issue of shares

There were no shares issued to directors and other key management personnel as part of compensation during the year ended 30 June 2020.

Options

There were no options over ordinary shares issued to directors and other key management personnel as part of compensation that were outstanding as at 30 June 2020.

Performance rights

The terms and conditions of each grant of performance rights over ordinary shares affecting remuneration of Directors and other key management personnel in this financial year or future reporting years are as follows:

Grant date	Number of rights granted	Vesting date	Fair value per right at grant date
30 November 2015	1,725,000*	30 November 2019	$0.890
30 November 2016	2,200,000**	30 November 2020	$0.760
1 December 2017	2,100,000***	1 December 2021	$0.620
4 March 2019	3,026,000	4 March 2023	$0.470
13 February 2020	3,500,000	13 February 2024	$0.610

* 500,000 rights were forfeited on 28 October 2018, the remaining 1,225,000 rights were forfeited on 30 November 2019.
** 500,000 rights were forfeited on 28 October 2018, 200,000 rights were forfeited on 30 November 2019.
*** 500,000 rights were forfeited on 28 October 2018, 325,000 rights were forfeited on 30 November 2019.

Performance rights granted carry no dividend or voting rights.

Additional disclosures relating to key management personnel

Shareholding

The number of shares in the company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Received as part of remuneration	Additions	Disposals/ other	Balance at the end of the year
Ordinary shares					
Ms Zita Peach	12,340	–	9,755	–	22,095
Dr Alex Abrahams	36,327,361	–	–	(5,500,000)	30,827,361
Mr Hilton Brett	–	–	655,290	–	655,290
Mr Mark Bloom	–	–	102,128	–	102,128
Mr Ben Gisz	32,777,817	–	2,928,179	–	35,705,996
Mr Simon Rutherford	1,741,017	–	3,846	–	1,744,863
Mr Paul Robertson	300,000	–	–	–	300,000
	71,158,535	–	3,699,198	(5,500,000)	69,357,733

Performance rights holding

The number of performance rights over ordinary shares in the company held during the financial year by each Director and other members of key management personnel of the consolidated entity, including their personally related parties, is set out below:

	Balance at the start of the year	Granted	Vested	Expired/ forfeited/ other	Balance at the end of the year
Performance rights over ordinary shares					
Mr Phil McKenzie	2,000,000	1,500,000	–	–	3,500,000
Dr Alex Abrahams	450,000	–	–	(225,000)	225,000
Mr Paul Robertson	1,271,000	355,000	–	(300,000)	1,326,000
Ms Allanna Ryan	782,000	338,000	–	–	1,120,000
	4,503,000	2,193,000	–	(525,000)	6,171,000

Loans to key management personnel and their related parties

There were no loans to key management personnel during the year.

Other transactions with key management personnel and their related parties

Transactions with key management personnel and/or related parties are detailed below. These transactions were conducted on terms no more favourable than those reasonably expected under arm's length dealings with unrelated parties.

Key management personnel or their related parties held shares in the consolidated entity during 2020 and 2019, and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, leased business premises to the consolidated entity during 2019 and up until August 2019 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the consolidated entity during 2020 and 2019 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 consolidated entity during 2020 and 2019 on normal commercial terms and conditions.

Refer to note 33 for further information on related party transactions.

This concludes the remuneration report, which has been audited.

Indemnity and insurance of officers

During the financial year, the company paid a premium in respect of a contract to insure the Directors and executives of the company against a liability 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.

Indemnity and insurance of auditor

The company has not, during or since the end of the financial year, indemnified or agreed to indemnify the auditor of the company or any related entity against a liability incurred by the auditor.

Non-audit services

During the financial year the following fees were paid or payable for services provided to KPMG, the auditor of the company:

	2020	2019
Audit services – audit or review of the financial statements	130,012	128,850
Other services – tax compliance and advisory services	26,134	40,743
	156,146	169,593

The Directors are satisfied that the provision of non-audit services during the financial year, by the auditor (or by another person or firm on the auditor's behalf), is compatible with the general standard of independence for auditors imposed by the Corporations Act 2001.

The Directors are of the opinion that the services as disclosed in note 30 to the financial statements do not compromise the external auditor's independence requirements of the Corporations Act 2001 for the following reasons:

- all non-audit services have been reviewed and approved to ensure that they do not impact the integrity and objectivity of the auditor; and
- none of the services undermine the general principles relating to auditor independence as set out in APES 110 Code of Ethics for Professional Accountants issued by the Accounting Professional and Ethical Standards Board, including reviewing or auditing the auditor's own work, acting in a management or decision-making capacity for the company, acting as advocate for the company or jointly sharing economic risks and rewards.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

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 immediately after this directors' report.

Auditor

KPMG continues in office in accordance with section 327 of the Corporations Act 2001.

Voting of shareholders at last year's annual general meeting

The Group received more than 99% of 'yes' votes on its remuneration report for the 2019 financial year. The Group did not receive any specific feedback at the annual general meeting or throughout the year on its remunerations practices.

This report is made in accordance with a resolution of Directors, pursuant to section 298(2)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach
Chairperson
19 August 2020

Auditor’s Independence Declaration

KPMG

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

To the Directors of Pacific Smile Group Limited

I declare that, to the best of my knowledge and belief, in relation to the audit of Pacific Smile Group Limited for the financial year ended 30 June 2020 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

Partner

Melbourne

19 August 2020

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

Liability limited by a scheme approved under Professional Standards Legislation.

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 30 June 2020

	Note	2020 $'000	2019 $'000
Revenue	5	120,055	122,156
Other income	6	9,820	1,249
Expenses			
Direct expenses		(10,639)	(11,833)
Consumable supplies expenses		(9,243)	(9,430)
Employee expenses		(58,078)	(52,013)
Occupancy expenses		(2,825)	(13,363)
Marketing expenses		(1,948)	(1,954)
Administration and other expenses		(14,283)	(12,512)
Depreciation and amortisation expense		(20,033)	(9,399)
Net finance costs	7	(3,455)	(622)
Profit before income tax expense		9,371	12,239
Income tax expense	8	(2,988)	(3,666)
Profit after income tax expense for the year		6,383	8,573
Other comprehensive income for the year, net of tax		–	–
Total comprehensive income for the year		6,383	8,573
		Cents	Cents
Basic earnings per share	37	4.2	5.6
Diluted earnings per share	37	4.2	5.6

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 2020

	Note	2020 $'000	2019 $'000
ASSETS			
Current assets			
Cash and cash equivalents	9	15,279	6,951
Receivables	10	4,261	1,087
Inventories	11	4,051	3,672
Other	12	462	554
		24,053	12,264
Assets of disposal groups classified as held for sale	13	630	–
Total current assets		24,683	12,264
Non-current assets			
Receivables	14	227	–
Property, plant and equipment	15	51,199	54,642
Right-of-use assets	16	51,805	–
Intangibles	17	10,608	10,939
Deferred tax	8	9,101	6,008
Total non-current assets		122,940	71,589
Total assets		147,623	83,853
LIABILITIES			
Current liabilities			
Payables	18	16,168	12,485
Lease liabilities	19	9,959	–
Income tax	8	1,654	1,385
Provisions	20	4,354	3,771
		32,135	17,641
Liabilities directly associated with assets classified as held for sale	21	122	–
Total current liabilities		32,257	17,641
Non-current liabilities			
Borrowings	22	22,000	17,000
Lease liabilities	23	53,240	–
Provisions	24	3,233	8,130
Total non-current liabilities		78,473	25,130
Total liabilities		110,730	42,771
Net assets		36,893	41,082
EQUITY			
Contributed equity	25	36,769	35,053
Reserves	26	3,934	180
Retained profits		(3,810)	5,849
Total equity		36,893	41,082

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 2020

	Contributed equity $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2018	35,053	277	6,548	41,878
Profit after income tax expense for the year	–	–	8,573	8,573
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	8,573	8,573
Transactions with owners in their capacity as owners:				
Share-based payments – performance rights	–	(97)	–	(97)
Dividends paid (note 27)	–	–	(9,272)	(9,272)
Balance at 30 June 2019	35,053	180	5,849	41,082

	Issued capital $'000	Reserves $'000	Retained profits $'000	Total equity $'000
Balance at 1 July 2019	35,053	180	5,849	41,082
Adjustment on initial application of AASB 16	–	–	(3,810)	(3,810)
Balance at 1 July 2019 – restated	35,053	180	2,039	37,272
Profit after income tax expense for the year	–	–	6,383	6,383
Other comprehensive income for the year, net of tax	–	–	–	–
Total comprehensive income for the year	–	–	6,383	6,383
Transfers between reserves	–	12,232	(12,232)	–
Transactions with owners in their capacity as owners:				
Share-based payments – performance rights	–	490	–	490
Dividends paid (note 27)	–	(8,968)	–	(8,968)
Dividend reinvestment plan	1,716	–	–	1,716
Balance at 30 June 2020	36,769	3,934	(3,810)	36,893

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 2020

	Note	2020 $'000	2019 $'000
Cash flows from operating activities			
Receipts from customers		133,390	133,744
Payments to suppliers and employees		(102,222)	(109,501)
		31,168	24,243
Interest received		77	35
Government grant received		5,043	–
Interest and finance costs paid		(3,532)	(697)
Income taxes paid		(4,179)	(2,554)
Net cash from operating activities	36	28,577	21,027
Cash flows from investing activities			
Payments for property, plant and equipment	15	(10,107)	(16,649)
Proceeds from disposal of property, plant and equipment		64	162
Lease payments received from finance leases		359	–
Net cash used in investing activities		(9,684)	(16,487)
Cash flows from financing activities			
Proceeds from borrowings		5,000	5,000
Dividends paid	27	(7,252)	(9,272)
Repayment of lease liabilities		(8,313)	–
Net cash used in financing activities		(10,565)	(4,272)
Net increase in cash and cash equivalents		8,328	268
Cash and cash equivalents at the beginning of the financial year		6,951	6,683
Cash and cash equivalents at the end of the financial year	9	15,279	6,951

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

Notes to the Consolidated Financial Statements

For the year ended 30 June 2020

Note 1. Corporate information

The financial statements cover Pacific Smiles Group Limited as a consolidated entity consisting of Pacific Smiles Group Limited and the entities it controlled at the end of, or during, the year. The financial statements are presented in Australian dollars, which is Pacific Smiles Group Limited's functional and presentation currency.

Pacific Smiles Group Limited is a listed public company limited by shares, incorporated and domiciled in Australia. On 21 November 2014 Pacific Smiles Group Limited was listed on the ASX. Its registered office and principal place of business is:

6 Molly Morgan Drive, Greenhills, New South Wales.

A description of the nature of the consolidated entity's operations and its principal activities are included in the directors' report, which is not part of the financial statements.

The financial statements were authorised for issue, in accordance with a resolution of directors, on 19 August 2020. The directors have the power to amend and reissue the financial statements.

Note 2. Significant accounting policies

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

Basis of preparation

These general purpose financial statements have been prepared in accordance with Australian Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') and the Corporations Act 2001, as appropriate for for-profit oriented entities. These financial statements also comply with International Financial Reporting Standards as issued by the International Accounting Standards Board ('IASB').

Historical cost convention

The financial statements have been prepared 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, and assets and liabilities held for sale.

Critical accounting estimates

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 consolidated entity'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 non-financial asset impairment testing.

New or amended Accounting Standards and Interpretations adopted

The consolidated entity has adopted all of the new or amended Accounting Standards and Interpretations issued by the Australian Accounting Standards Board ('AASB') that are mandatory for the current reporting period.

Any new or amended Accounting Standards or Interpretations that are not yet mandatory have not been early adopted.

The adoption of these Accounting Standards and Interpretations did not have any significant impact on the financial performance or position of the consolidated entity.

The following Accounting Standards and Interpretations are most relevant to the consolidated entity:

AASB 16 *Leases*

The consolidated entity has adopted AASB 16 from 1 July 2019. AASB 16 introduced a single, on-balance sheet lease accounting model for lessees. A lessee recognises a right of use asset representing the right to use the underlying asset and a lease liability representing the lease payment obligations. Leases that are short term and low value are exempt under the standard and continue to be accounted for as an operating lease.

On transition to AASB 16, the consolidated entity elected to apply the practical expedient to grandfather the assessment of which transactions are leases. The consolidated entity recognised new assets and liabilities for its leases of dental centres. The nature of expenses related to those leases has changed because the consolidated entity will recognise a depreciation charge for right of use assets and interest expense on lease liabilities. Previously, the consolidated entity recognised operating lease expense on a straight line basis over the term of the lease.

At 1 July 2019, the consolidated entity recognised a net post tax reduction in retained earnings for $3,810,000 represented by the following:

- A right of use asset for $54,187,000 for former operating leases;
- A $64,794,000 lease liability related to the same operating leases;
- De-recognition of $5,419,000 in lease provisions existing at 30 June 2019 due to the write back of straight-line lease liability;
- De-recognition of $1,200,000 in assets existing at 30 June 2019 due to a reduction in existing make good assets;
- A lease receivable of $942,000 relating to sub-leases which have been classified as finance leases; and
- A net increase in deferred tax assets of $1,633,000 due to the above adjustments.

As a result of initially applying AASB 16, both head-leases and sub-leases, that were previously classified as operating leases, the consolidated entity recognised $51,805,000 of right-of-use assets and $63,199,000 of lease liabilities as at 30 June 2020.

Also in relation to those leases under AASB 16, the consolidated entity has recognised depreciation and interest costs, instead of operating lease expenses. During the financial year ending 30 June 2020, the consolidated entity recognised $9,183,000 of depreciation charges, $2,790,000 of interest costs from these leases payable, and $27,000 of interest income from leases receivable.

Parent entity information

In accordance with the Corporations Act 2001, these financial statements present the results of the consolidated entity only. Supplementary information about the parent entity is disclosed in note 34.

Principles 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 2020 and the results of all subsidiaries for the year then ended. Pacific Smiles Group Limited and its subsidiaries together are referred to in these financial statements as the 'consolidated entity'.

Subsidiaries are all those entities over which the consolidated entity has control. The consolidated entity controls an entity when the consolidated entity is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the consolidated entity. They are de-consolidated from the date that control ceases.

Intercompany transactions, balances and unrealised gains on transactions between entities in the consolidated entity are eliminated. Unrealised losses are also eliminated unless the transaction provides evidence of the impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the consolidated entity.

The acquisition of subsidiaries is accounted for using the acquisition method of accounting. A change in ownership interest, without the loss of control, is accounted for as an equity transaction, where the difference between the consideration transferred and the book value of the share of the non-controlling interest acquired is recognised directly in equity attributable to the parent.

Where the consolidated entity loses control over a subsidiary, it derecognises the assets including goodwill, liabilities and non-controlling interest in the subsidiary together with any cumulative translation differences recognised in equity. The consolidated entity recognises the fair value of the consideration received and the fair value of any investment retained together with any gain or loss in profit or loss.

Operating segments

Operating segments are reported in a manner consistent with the internal reporting provided to the consolidated entity's Chief Executive Officer (the chief operating decision maker). The chief operating decision maker is responsible for allocating resources and assessing performance of the operating segments.

Revenue recognition

The consolidated entity recognises revenue as follows:

Service and facility fees

The consolidated entity provides services and facilities to dentists practicing out of consolidated entity owned dental centres. Services and facilities include the use of fully equipped surgeries, staff, marketing and other support infrastructure. The monthly fee the consolidated entity invoices the dentists is a percentage of patient receipts net of direct costs, which are costs directly incurred by the dentists. The percentage is determined based on monthly patient receipts and the hours worked in accordance with a Services and Facilities Agreement. Revenue is recognised over time as the service is provided to the dentists. The Services and Facilities Agreement with the dentists allows the dentists the right to cancel the arrangement with one to three months of notice without penalty.

Professional dental fees

Employed and contracted dentists provide a range of dental services to patients. Revenue is recognised once the service is provided for the amount charged to the patient, based on standard list price.

Prosthetist fees

Prosthetist fees include the manufacture and fitting of custom made dental prosthesis such as dentures. Upon completion and receipt of the product, control is passed to the customer and invoicing occurs. Revenue is recognised when the prosthesis is provided to the customer as although a denture is produced to a customer's specification, if the contract is terminated by the customer the consolidated entity is not entitled to payment for services performed to date.

Sale of dental products

The consolidated entity sells a range of dental products. Revenue is recognised when the product is provided to and paid for by the customer as this is when control transfers.

Other revenue

Other revenue is recognised when it is received or when the right to receive payment is established.

Income tax

The income tax expense or benefit for the period is the tax payable on that period's taxable income based on the applicable income tax rate for each jurisdiction, adjusted by the changes in deferred tax assets and liabilities attributable to temporary differences, unused tax losses and the adjustment recognised for prior periods, where applicable.

Deferred tax assets and liabilities are recognised for temporary differences at the tax rates expected to be applied when the assets are recovered or liabilities are settled, based on those tax rates that are enacted or substantively enacted, except for:

- When the deferred income tax asset or liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and that, at the time of the transaction, affects neither the accounting nor taxable profits; or
- When the taxable temporary difference is associated with interests in subsidiaries, associates or joint ventures, and the timing of the reversal can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

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.

The carrying amount of recognised and unrecognised deferred tax assets are reviewed at each reporting date. Deferred tax assets recognised are reduced to the extent that it is no longer probable that future taxable profits will be available for the carrying amount to be recovered. Previously unrecognised deferred tax assets are recognised to the extent that it is probable that there are future taxable profits available to recover the asset.

Deferred tax assets and liabilities are offset only where there is a legally enforceable right to offset current tax assets against current tax liabilities and deferred tax assets against deferred tax liabilities; and they relate to the same taxable authority on either the same taxable entity or different taxable entities which intend to settle simultaneously.

Pacific Smiles Group Limited (the 'head entity') and its wholly-owned Australian subsidiaries have formed an income tax consolidated group under the tax consolidation regime. The head entity and each subsidiary in the tax consolidated group continue to account for their own current and deferred tax amounts. The tax consolidated group has applied the 'separate taxpayer within group' approach in determining the appropriate amount of taxes to allocate to members of the tax consolidated group.

In addition to its own current and deferred tax amounts, the head entity also recognises the current tax liabilities (or assets) and the deferred tax assets arising from unused tax losses and unused tax credits assumed from each subsidiary in the tax consolidated group.

Assets or liabilities arising under tax funding agreements with the tax consolidated entities are recognised as amounts receivable from or payable to other entities in the tax consolidated group. The tax funding arrangement ensures that the intercompany charge equals the current tax liability or benefit of each tax consolidated group member, resulting in neither a contribution by the head entity to the subsidiaries nor a distribution by the subsidiaries to the head entity.

Current and non-current classification

Assets and liabilities are presented in the balance sheet based on current and non-current classification.

An asset is classified as current when: it is either expected to be realised or intended to be sold or consumed in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is expected to be realised within 12 months after the reporting period; or the asset is cash or cash equivalent unless restricted from being exchanged or used to settle a liability for at least 12 months after the reporting period. All other assets are classified as non-current.

A liability is classified as current when: it is either expected to be settled in the consolidated entity's normal operating cycle; it is held primarily for the purpose of trading; it is due to be settled within 12 months after the reporting period; or there is no unconditional right to defer the settlement of the liability for at least 12 months after the reporting period. All other liabilities are classified as non-current.

Deferred tax assets and liabilities are always classified as non-current.

Cash and cash equivalents

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

Trade and other receivables

Trade receivables are initially recognised at fair value and subsequently measured at amortised cost using the effective interest method, less any allowance for expected credit losses. Trade receivables are generally due for settlement within 30 days.

The consolidated entity has applied the simplified approach to measuring expected credit losses, which uses a lifetime expected loss allowance. To measure the expected credit losses, trade receivables have been grouped based on days overdue.

Other receivables are recognised at amortised cost, less any allowance for expected credit losses.

Inventories

Finished goods are stated at the lower of cost and net realisable value on a 'first in first out' basis. Cost comprises of purchase and delivery costs, net of rebates and discounts received or receivable.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

Non-current assets or disposal groups classified as held for sale

Non-current assets and assets of disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continued use. They are measured at the lower of their carrying amount and fair value less costs of disposal. For non-current assets or assets of disposal groups to be classified as held for sale, they must be available for immediate sale in their present condition and their sale must be highly probable.

An impairment loss is recognised for any initial or subsequent write down of the non-current assets and assets of disposal groups to fair value less costs of disposal. Any impairment loss on a disposal group is allocated first to goodwill, and then to the remaining assets and liabilities on a pro rata basis, except that no loss is allocated to inventories, financial assets, deferred tax assets, employee benefit assets, which continue to be measured in accordance with the consolidated entity's other accounting policies. A gain is recognised for any subsequent increases in fair value less costs of disposal of a non-current assets and assets of disposal groups, but not in excess of any cumulative impairment loss previously recognised.

Non-current assets are not depreciated or amortised while they are classified as held for sale. Interest and other expenses attributable to the liabilities of assets held for sale continue to be recognised.

Non-current assets classified as held for sale and the assets of disposal groups classified as held for sale are presented separately on the face of the balance sheet, in current assets. The liabilities of disposal groups classified as held for sale are presented separately on the face of the balance sheet, in current liabilities.

Property, plant and equipment

Plant and equipment is stated at historical cost less accumulated depreciation and impairment. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

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

Leasehold improvements	10-20 years
Plant and equipment	3-10 years

The residual values, useful lives and depreciation methods are reviewed, and adjusted if appropriate, at each reporting date.

Leasehold improvements are depreciated over the unexpired period of the lease or the estimated useful life of the assets, whichever is shorter.

An item of property, plant and equipment is derecognised upon disposal or when there is no future economic benefit to the consolidated entity. Gains and losses between the carrying amount and the disposal proceeds are taken to profit or loss.

Right-of-use assets

A right-of-use asset is recognised at the commencement date of a lease. The right-of-use asset is measured at cost, which comprises the initial amount of the lease liability, adjusted for, as applicable, any lease payments made at or before the commencement date net of any lease incentives received, any initial direct costs incurred, and, except where included in the cost of inventories, an estimate of costs expected to be incurred for dismantling and removing the underlying asset, and restoring the site or asset.

Right-of-use assets are depreciated on a straight-line basis over the unexpired period of the lease or the estimated useful life of the asset, whichever is the shorter. Where the consolidated entity expects to obtain ownership of the leased asset at the end of the lease term, the depreciation is over its estimated useful life. Right-of use assets are subject to impairment or adjusted for any remeasurement of lease liabilities.

The consolidated entity has elected not to recognise a right-of-use asset and corresponding lease liability for short-term leases with terms of 12 months or less and leases of low-value assets. Lease payments on these assets are expensed to profit or loss as incurred.

Intangible assets

Intangible assets acquired as part of a business combination, other than goodwill, are initially measured at their fair value at the date of the acquisition. Intangible assets acquired separately are initially recognised at cost. Indefinite life intangible assets are not amortised and are subsequently measured at cost less any impairment. Finite life intangible assets are subsequently measured at cost less amortisation and any impairment. The gains or losses recognised in profit or loss arising from the derecognition of intangible assets are measured as the difference between net disposal proceeds and the carrying amount of the intangible asset. The method and useful lives of finite life intangible assets are reviewed annually. Changes in the expected pattern of consumption or useful life are accounted for prospectively by changing the amortisation method or period.

Goodwill

Goodwill arises on the acquisition of a business. Goodwill is not amortised. Instead, goodwill is tested annually for impairment, or more frequently if events or changes in circumstances indicate that it might be impaired, and is carried at cost less accumulated impairment losses. Impairment losses on goodwill are taken to profit or loss and are not subsequently reversed.

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

Rights and licences

Contractual rights and licences have a finite useful life and are carried at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight line method to allocate the cost of the rights and licences over their estimated useful lives, being 15 years.

Impairment of non-financial assets

Goodwill and other intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other non-financial assets 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.

Recoverable amount is the higher of an asset's fair value less costs of disposal and value-in-use. The value-in-use is the present value of the estimated future cash flows relating to the asset using a pre-tax discount rate specific to the asset or cash-generating unit to which the asset belongs. Assets that do not have independent cash flows are grouped together to form a cash-generating unit.

For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at 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 the key judgements and estimates along with any impairment loss recognised in the financial statements are provided in the notes dealing with the relevant asset category.

Trade and other payables

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

Borrowings

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

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

Lease liabilities

As a lessee:

Lease liabilities are measured at amortised cost using the effective interest method. The carrying amounts are remeasured if there is a change in the following: future lease payments arising from a change in an index or a rate used; residual guarantee; lease term; certainty of a purchase option and termination penalties. When a lease liability is remeasured, an adjustment is made to the corresponding right-of use asset, or to profit or loss if the carrying amount of the right-of-use asset is fully written down.

Rent concessions:

The consolidated entity has applied the practical expedient to not assess rent concessions affecting payments due before the 30 June 2021 and has occurred as a direct consequence of the COVID-19 pandemic as a lease modification.

The consolidated entity has recognised the amount as "other income" in profit or loss for the reporting period to reflect changes in lease payments that arise from rent concessions to which the lessee has applied the practical expedient.

When the consolidated entity acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the consolidated entity makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the consolidated entity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

As a lessor:

When the consolidated entity acts as a lessor, it determines at lease inception whether each lease is a finance lease or an operating lease. To classify each lease, the consolidated entity makes an overall assessment of whether the lease transfers substantially all of the risks and rewards incidental to ownership of the underlying asset. If this is the case, then the lease is a finance lease; if not, then it is an operating lease. As part of this assessment, the consolidated entity considers certain indicators such as whether the lease is for the major part of the economic life of the asset.

When the consolidated entity is an intermediate lessor, it accounts for its interests in the head lease and the sub-lease separately. It assesses the lease classification of a sub-lease with reference to the right-of-use asset arising from the head lease, not with reference to the underlying asset. If a head lease is a short-term lease to which the consolidated entity applies the exemption described above, then it classifies the sub-lease as an operating lease. If an arrangement contains lease and non-lease components, then the consolidated entity applies AASB 15 to allocate the consideration in the contract.

The consolidated entity applies the derecognition and impairment requirements in AASB 9 to the net investment in the lease. The consolidated entity further regularly reviews estimated unguaranteed residual values used in calculating the gross investment in the lease. The consolidated entity recognises lease payments received under operating leases as income on a straight-line basis over the lease term as part of 'other revenue'.

Generally, the accounting policies applicable to the consolidated entity as a lessor in the comparative period were not different from AASB 16 except for the classification of the sub-lease entered into during current reporting period that resulted in a finance lease classification.

Finance costs

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

Provisions

Provisions are recognised when the consolidated entity has a present (legal or constructive) obligation as a result of a past event, it is probable the consolidated entity will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation. The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the reporting date, taking into account the risks and uncertainties surrounding the obligation. If the time value of money is material, provisions are discounted using a current pre-tax rate specific to the liability. The increase in the provision resulting from the passage of time is recognised as a finance cost.

Make good provision

The consolidated entity 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 consolidated entity 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 consolidated entity recognises any impairment loss on the assets associated with that contract.

Restructuring

A provision for restructuring is recognised when the consolidated entity 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.

Employee benefits

Short-term employee benefits

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.

Other long-term employee benefits

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

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

Defined contribution superannuation expense

Contributions to defined contribution superannuation plans are expensed in the period in which they are incurred.

Share-based payments

Share-based compensation benefits are provided to selected employees via a long term incentive plan (LTI plan).

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 consolidated entity 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.

Fair value measurement

When an asset or liability, financial or non-financial, is measured at fair value for recognition or disclosure purposes, the fair value is based on the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date; and assumes that the transaction will take place either: in the principal market; or in the absence of a principal market, in the most advantageous market.

Fair value is measured using the assumptions that market participants would use when pricing the asset or liability, assuming they act in their economic best interests. For non-financial assets, the fair value measurement is based on its highest and best use. Valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, are used, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Issued capital

Ordinary shares are classified as equity.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

Dividends

Provision is made for the amount of any dividend declared, being appropriately authorised and no longer at the discretion of the company, on or before the end of the financial year but not distributed at the reporting date.

Business combinations

The acquisition method of accounting is used to account for business combinations regardless of whether equity instruments or other assets are acquired.

The consideration transferred is the sum of the acquisition-date fair values of the assets transferred, equity instruments issued or liabilities incurred by the acquirer to former owners of the acquiree and the amount of any non-controlling interest in the acquiree. For each business combination, the non-controlling interest in the acquiree is measured at either fair value or at the proportionate share of the acquiree's identifiable net assets. All acquisition costs are expensed as incurred to profit or loss.

On the acquisition of a business, the consolidated entity assesses the financial assets acquired and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic conditions, the consolidated entity's operating or accounting policies and other pertinent conditions in existence at the acquisition-date.

Where the business combination is achieved in stages, the consolidated entity remeasures its previously held equity interest in the acquiree at the acquisition-date fair value and the difference between the fair value and the previous carrying amount is recognised in profit or loss.

Contingent consideration to be transferred by the acquirer is recognised at the acquisition-date fair value. Subsequent changes in the fair value of the contingent consideration classified as an asset or liability is recognised in profit or loss. Contingent consideration classified as equity is not remeasured and its subsequent settlement is accounted for within equity.

The difference between the acquisition-date fair value of assets acquired, liabilities assumed and any non-controlling interest in the acquiree and the fair value of the consideration transferred and the fair value of any pre-existing investment in the acquiree is recognised as goodwill. If the consideration transferred and the pre-existing fair value is less than the fair value of the identifiable net assets acquired, being a bargain purchase to the acquirer, the difference is recognised as a gain directly in profit or loss by the acquirer on the acquisition-date, but only after a reassessment of the identification and measurement of the net assets acquired, the non-controlling interest in the acquiree, if any, the consideration transferred and the acquirer's previously held equity interest in the acquirer.

Business combinations are initially accounted for on a provisional basis. The acquirer retrospectively adjusts the provisional amounts recognised and also recognises additional assets or liabilities during the measurement period, based on new information obtained about the facts and circumstances that existed at the acquisition-date. The measurement period ends on either the earlier of (i) 12 months from the date of the acquisition or (ii) when the acquirer receives all the information possible to determine fair value.

Earnings per share

Basic earnings per share

Basic earnings per share is calculated by dividing the profit attributable to the owners of Pacific Smiles Group Limited, 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 financial 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 financing costs associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Goods and Services Tax ('GST') and other similar taxes

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

Receivables and payables are stated inclusive of the amount of GST receivable or payable. The net amount of GST recoverable from, or payable to, the tax authority is included in other receivables or other payables in the balance sheet.

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

Commitments and contingencies are disclosed net of the amount of GST recoverable from, or payable to, the tax authority.

Government grants

Government grants shall be recognised in profit or loss on a systematic basis over the periods in which the entity recognises as expenses the related costs for which the grants are intended to compensate.

The consolidated entity recognises a government grant relating to JobKeeper payment as other income when the grant becomes receivable and when the consolidated entity has complied with the conditions associated with the grant.

Rounding of amounts

The company is of a kind referred to in Corporations Instrument 2016/191, issued by the Australian Securities and Investments Commission, relating to 'rounding-off'. Amounts in this report have been rounded off in accordance with that Corporations Instrument to the nearest thousand dollars, or in certain cases, the nearest dollar.

New Accounting Standards and Interpretations not yet mandatory or early adopted

Australian Accounting Standards and Interpretations that have recently been issued or amended but are not yet mandatory, have not been early adopted by the consolidated entity for the annual reporting period ended 30 June 2020. The consolidated entity has not yet assessed the impact of these new or amended Accounting Standards and Interpretations.

Note 3. Critical accounting judgements, estimates and assumptions

The preparation of the financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts in the financial statements. Management continually evaluates its judgements and estimates in relation to assets, liabilities, contingent liabilities, revenue and expenses. Management bases its judgements, estimates and assumptions on historical experience and on other various factors, including expectations of future events, management believes to be reasonable under the circumstances. The resulting accounting judgements and estimates will seldom equal the related actual results. The judgements, estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities (refer to the respective notes) within the next financial year are discussed below.

Coronavirus (COVID-19) pandemic

Judgement has been exercised in considering the impacts that the Coronavirus (COVID-19) pandemic has had, or may have, on the consolidated entity based on known information. This consideration extends to the nature of the products and services offered, customers, supply chain, staffing and geographic regions in which the consolidated entity operates. Other than as addressed in specific notes, there does not currently appear to be either any significant impact upon the financial statements or any significant uncertainties with respect to events or conditions which may impact the consolidated entity unfavourably as at the reporting date as a result of the Coronavirus (COVID-19) pandemic.

Share-based payment transactions

The consolidated entity measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. The fair value is determined by using either the Binomial or Black-Scholes model taking into account the terms and conditions upon which the instruments were granted. The accounting estimates and assumptions relating to equity-settled share-based payments would have no impact on the carrying amounts of assets and liabilities within the next annual reporting period but may impact profit or loss and equity.

Estimation of useful lives of assets

The consolidated entity determines the estimated useful lives and related depreciation and amortisation charges for its property, plant and equipment and finite life intangible assets. The useful lives could change significantly as a result of technical innovations or some other event. The depreciation and amortisation charge will increase where the useful lives are less than previously estimated lives, or technically obsolete or non-strategic assets that have been abandoned or sold will be written off or written down.

Goodwill and other indefinite life intangible assets

The consolidated entity tests annually, or more frequently if events or changes in circumstances indicate impairment, whether goodwill and other indefinite life intangible assets have suffered any impairment, in accordance with the accounting policy stated in note 2. The recoverable amounts of cash-generating units have been determined based on value-in-use calculations. These calculations require the use of assumptions, including estimated discount rates based on the current cost of capital and growth rates of the estimated future cash flows.

Impairment of non-financial assets other than goodwill and other indefinite life intangible assets

The consolidated entity assesses impairment of non-financial assets other than goodwill and other indefinite life intangible assets at each reporting date by evaluating conditions specific to the consolidated entity and to the particular asset that may lead to impairment. If an impairment trigger exists, the recoverable amount of the asset is determined. This involves fair value less costs of disposal or value-in-use calculations, which incorporate a number of key estimates and assumptions.

Income tax

The consolidated entity is subject to income taxes in the jurisdictions in which it operates. Significant judgement is required in determining the provision for income tax. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The consolidated entity recognises liabilities for anticipated tax audit issues based on the consolidated entity's current understanding of the tax law. Where the final tax outcome of these matters is different from the carrying amounts, such differences will impact the current and deferred tax provisions in the period in which such determination is made.

Recovery of deferred tax assets

Deferred tax assets are recognised for deductible temporary differences only if the consolidated entity considers it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

Employee benefits provision

As discussed in note 2, the liability for employee benefits expected to be settled more than 12 months from the reporting date are recognised and measured at the present value of the estimated future cash flows to be made in respect of all employees at the reporting date. In determining the present value of the liability, estimates of attrition rates and pay increases through promotion and inflation have been taken into account.

Lease make good provision

A provision has been made for the present value of anticipated costs for future restoration of leased premises. The provision includes future cost estimates associated with closure of the premises. The calculation of this provision requires assumptions such as application of closure dates and cost estimates. The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for sites are recognised in the balance sheet by adjusting the asset and the provision. Reductions in the provision that exceed the carrying amount of the asset will be recognised in profit or loss.

Note 4. Operating segments

The consolidated entity is organised into one operating segment, being activities within the dental sector throughout Eastern Australia. This operating segment is based on the internal reports that are reviewed and used by the consolidated entity's Chief Executive Officer, who is identified as the chief operating decision maker, in assessing performance and in determining the allocation of resources. The consolidated entity's operation inherently has one profile and performance assessment criteria. The financial results from this segment are consistent with the financial statements for the consolidated entity as a whole.

Note 5. Revenue

	2020 $'000	2019 $'000
Dental service fees	119,584	121,656
Dental product sales	471	500
Revenue	120,055	122,156

Note 6. Other income

	2020 $'000	2019 $'000
Government grant	8,373	–
Rents	747	1,207
Sundry income	700	42
Other income	9,820	1,249

Government grants

Government grant income relates to JobKeeper payments received or receivable from the federal government.

Note 7. Expenses

	2020 $'000	2019 $'000
Profit before income tax includes the following specific expenses:		
Depreciation		
Leasehold improvements	5,236	4,685
Plant and equipment	5,548	4,649
Right-of-use assets	9,183	–
Total depreciation	19,967	9,334
Amortisation		
Rights and licences	66	65
Total depreciation and amortisation	20,033	9,399
Impairment		
Receivables	71	64
Software development asset	836	–
Total impairment	907	64
Finance costs		
Interest and finance charges paid/payable on borrowings	742	697
Interest and finance charges paid/payable on lease liabilities	2,790	–
Interest received/receivable	(77)	(35)
Finance costs expensed	3,455	662
Superannuation expense		
Defined contribution superannuation expense	4,342	4,151
Share-based payments expense		
Share-based payments expense	490	(97)
Direct expenses		
Direct expenses	10,639	11,833

Direct expenses relate to the cost of the sale of dental products and dental practitioner employment costs

Note 8. Income tax

	2020 $'000	2019 $'000
Income tax expense		
Current tax	4,455	4,710
Deferred tax	(3,093)	(1,044)
Adjustment recognised for prior periods	(7)	–
Adjustment on initial application of AASB 16	1,633	–
Aggregate income tax expense	2,988	3,666
Deferred tax included in income tax expense comprises:		
Increase in deferred tax assets	(3,093)	(1,044)
Numerical reconciliation of income tax expense and tax at the statutory rate		
Profit before income tax expense	9,371	12,239
Tax at the statutory tax rate of 30%	2,811	3,672
Tax effect amounts which are not deductible/(taxable) in calculating taxable income:		
Entertainment expenses	39	–
Share-based payments	147	(29)
Building write-off deduction	(2)	–
Sundry items	–	23
	2,995	3,666
Adjustment recognised for prior periods	(7)	–
Income tax expense	2,988	3,666

	2020 $'000	2019 $'000
Deferred tax asset		
Deferred tax asset comprises temporary differences attributable to:		
Amounts recognised in profit or loss:		
Allowance for expected credit losses	53	32
Property, plant and equipment	3,314	2,648
Employee benefits	2,276	3,211
Lease liabilities	18,959	–
Accrued expenses	349	285
Borrowing costs	–	3
Intangibles	(176)	(196)
Lease receivables	(177)	–
Right of use assets	(15,541)	–
Prepayments	44	25
Deferred tax asset	9,101	6,008
Movements:		
Opening balance	6,008	4,964
Credited to profit or loss	3,093	1,044
Closing balance	9,101	6,008

	2020 $'000	2019 $'000
Provision for income tax		
Provision for income tax	1,654	1,385

Note 9. Current assets – cash and cash equivalents

	2020 $'000	2019 $'000
Cash at bank and in hand	15,279	6,951

Note 10. Current assets – receivables

	2020 $'000	2019 $'000
Trade receivables	567	908
Less: Allowance for expected credit losses	(176)	(107)
	391	801
Finance lease receivables	362	–
Other receivables	3,508	286
	4,261	1,087

Note 11. Current assets – inventories

	2020 $'000	2019 $'000
Inventories – at cost	4,051	3,672

Note 12. Current assets – other

	2020 $'000	2019 $'000
Prepayments	315	340
Other	147	214
	462	554

Note 13. Current assets – assets of disposal groups classified as held for sale

	2020 $'000	2019 $'000
Assets held for sale	630	–

Management have committed to a plan to sell part of the laboratory business of Everything Dentures Pty Limited. Accordingly, the laboratory part of the business is presented as a disposal group held for sale. Efforts to sell the disposal group have started and a sale is expected during the next financial year.

	2020 $'000
Assets of disposal group held for sale	
Property, plant and equipment	293
Goodwill	265
Inventory	72
Assets held for sale	630

Refer to note 21 for further information on liabilities of the disposal group classified as held for sale.

Note 14. Non-current assets – receivables

	2020 $'000	2019 $'000
Finance lease receivables	227	–

Note 15. Non-current assets – property, plant and equipment

	2020 $'000	2019 $'000
Leasehold improvements – at cost	57,045	56,439
Less: Accumulated depreciation and impairment	(25,168)	(21,208)
	31,877	35,231
Plant and equipment – at cost	50,496	46,852
Less: Accumulated depreciation and impairment	(31,174)	(27,441)
	19,322	19,411
	51,199	54,642

Reconciliations

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

	Leasehold improve-ments $'000	Plant and equipment $'000	Total $'000
Balance at 1 July 2018	31,537	15,787	47,324
Additions	8,497	8,302	16,799
Disposals	(118)	(29)	(147)
Depreciation expense	(4,685)	(4,649)	(9,334)
Balance at 30 June 2019	35,231	19,411	54,642
Additions	3,215	6,882	10,096
Classified as held for sale	(40)	(253)	(293)
Disposals	(93)	(1,169)	(1,262)
Impairment of assets	–	(836)	(836)
Reversal of make good assets on initial application of AASB 16	(1,200)	–	(1,200)
Depreciation expense	(5,236)	(5,548)	(10,784)
Balance at 30 June 2020	31,877	19,322	51,199

Note 16. Non-current assets – right-of-use assets

	2020 $'000	2019 $'000
Leaseholds – right-of-use	60,956	–
Less: Accumulated depreciation	(9,151)	–
	51,805	–

Reconciliations

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

	$'000	Total $'000
Balance at 1 July 2018	–	–
Balance at 30 June 2019	–	–
Adjustment on initial application of AASB 16	54,187	54,187
Disposals	(32)	(32)
Additions	6,833	6,833
Depreciation expense	(9,183)	(9,183)
Balance at 30 June 2020	51,805	51,805

Note 17. Non-current assets – intangibles

	2020 $'000	2019 $'000
Goodwill	12,915	13,180
Less: Impairment	(2,894)	(2,894)
	10,021	10,286
Rights and licences	985	985
Less: Accumulated amortisation	(398)	(332)
	587	653
	10,608	10,939

Reconciliations

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

	Goodwill $'000	Rights and licences $'000	Total $'000
Balance at 1 July 2018	10,286	718	11,004
Amortisation expense	–	(65)	(65)
Balance at 30 June 2019	10,286	653	10,939
Classified as held for sale	(265)	–	(265)
Amortisation expense	–	(66)	(66)
Balance at 30 June 2020	10,021	587	10,608

Impairment testing for cash-generating units (CGUs)

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, therefore no impairment losses were recorded in the financial year.

	2020 $'000	2019 $'000
For the purpose of impairment testing, the carrying amount of goodwill has been allocated to groups of CGUs as below:		
New South Wales	4,944	5,209
Victoria	2,631	2,631
Queensland	2,446	2,446
Total goodwill	10,021	10,286

The calculations use discounted cash flow projections covering a ten-year period, which is consistent with the typical lease term entered into for the consolidated entity'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 to year ten using an estimated growth rate of 3%. The cash flow projections for years 1 to 5 are based on key assumptions including dentist numbers, number of operating chairs, practitioner hours, patient demand and associated costs.

A long term growth rate of 2.5% is used beyond year ten 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 consolidated entity's weighted average cost of capital of 9.6% (2019: 9.3%).

Rights and licences

As part of the consolidated entity's acquisition of the three former ahm dental centres, the consolidated entity received preferential provider support from ahm. These rights and licenses relate to ahm marketing rights at each Pacific Smiles dental centre with 9 amortisation periods remaining as at balance date.

Note 18. Current liabilities – payables

	2020 $'000	2019 $'000
Trade payables	16,168	12,187
Contingent consideration payable	–	298
	16,168	12,485

Note 19. Current liabilities – lease liabilities

	2020 $'000	2019 $'000
Lease liability	9,959	–

Refer to note 28 for further information on financial instruments.

Note 20. Current liabilities – provisions

	2020 $'000	2019 $'000
Employee benefits	4,354	3,504
Deferred lease incentives	–	234
Onerous contracts	–	33
	4,354	3,771

Refer to note 24 for further information on movements in provisions.

Note 21. Current liabilities – liabilities directly associated with assets classified as held for sale

	2020 $'000	2019 $'000
Liabilities held for sale	122	–

	2020 $'000	2019 $'000
Liabilities of disposal group held for sale		
Employee benefits – annual leave	77	–
Employee benefits – other	45	–
Liabilities held for sale	122	–

Note 22. Non-current liabilities – borrowings

	2020 $'000	2019 $'000
Bank loans	22,000	17,000

Total secured liabilities

The total secured liabilities (current and non-current) are as follows:

	2020 $'000	2019 $'000
Bank loans	22,000	17,000

Assets pledged as security

The bank loans are secured by registered equitable mortgage over the whole of the assets and undertakings of the consolidated entity, including uncalled capital and inter-entity guarantees.

Financing arrangements

Unrestricted access was available at the reporting date to the following lines of credit:

	2020 $'000	2019 $'000
Total facilities		
Bank overdraft	500	500
Bank loans	30,000	20,000
Bank guarantees	4,000	4,000
	34,500	24,500
Used at the reporting date		
Bank overdraft	–	–
Bank loans	22,000	17,000
Bank guarantees	3,025	2,962
	25,025	19,962
Unused at the reporting date		
Bank overdraft	500	500
Bank loans	8,000	3,000
Bank guarantees	975	1,038
	9,475	4,538

Covenants attached to bank borrowings were complied with during the financial year.

Note 23. Non-current liabilities – lease liabilities

	2020 $'000	2019 $'000
Lease liability	53,240	–

Refer to note 28 for further information on financial instruments.

Note 24. Non-current liabilities – provisions

	2020 $'000	2019 $'000
Employee benefits	1,016	814
Deferred lease incentives	–	5,186
Lease make good	2,217	2,130
	3,233	8,130

Movements in provisions

Movements in each class of provision (current and non-current) during the current financial year, other than employee benefits, are set out below:

2020	Straight-line lease adjustment $'000	Make good provision $'000	Onerous contracts $'000
Carrying amount at the start of the year	5,420	2,130	33
Change in accounting policy	(5,420)	–	(33)
Additional provisions recognised	–	87	–
Carrying amount at the end of the year	–	2,217	–

Note 25. Equity – contributed equity

	2020 Shares	2019 Shares	2020 $'000	2019 $'000
Ordinary shares – fully paid	153,515,550	151,993,395	36,769	35,053

Movements in ordinary share capital

Details	Date	Shares	Issue price	$'000
Balance	1 July 2018	151,993,395		35,053
Balance	30 June 2019	151,993,395		35,053
Dividend reinvestment plan	20 April 2020	1,522,155	$1.13	1,716
Balance	30 June 2020	153,515,550		36,769

Ordinary shares

Ordinary shares entitle the holder to participate in dividends and the proceeds on the winding up of the company in proportion to the number of 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.

Capital risk management

The consolidated entity'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 optimum capital structure to reduce the cost of capital. The consolidated entity monitors its working capital continually and manages it within a Board approved finance facility. Debt covenants are consistently achieved and monitored monthly.

Capital is regarded as total equity, as recognised in the balance sheet, plus net debt. Net debt is calculated as total borrowings less cash and cash equivalents.

Note 26. Equity – reserves

	2020 $'000	2019 $'000
Profits reserve	3,264	–
Share-based payments reserve	670	180
	3,934	180

Profits reserve

The profits reserve represents current year profits transferred to a reserve to preserve the characteristic as a profit so as to quarantine from being appropriated against accumulated losses arising from the adoption of AASB 16. Such profits are available to enable payment of franked dividends in the future should the Directors declare so by resolution.

Note 27. Equity – dividends

Dividends

Dividends paid during the financial year were as follows:

	2020 $'000	2019 $'000
Final dividend for the year ended 30 June 2019 of 3.50 cents (2018: 3.80 cents) per ordinary share, fully franked	5,320	5,776
Interim dividend for the year ended 30 June 2020 of 2.40 cents (2019: 2.30 cents) per ordinary share, fully franked	3,648	3,496
	8,968	9,272

Dividend reinvestment plan

The consolidated entity's dividend reinvestment plan (DRP) applied to the fully franked interim dividend of 2.40 cents per share announced on 20 February 2020. The DRP allowed eligible shareholders to reinvest all or part of their dividend payments into Pacific Smiles shares. The price at which shares are allocated under the DRP is the daily volume weighted average market price of the company's shares sold in the ordinary course of trading on the ASX over a period of 5 days beginning on 20 April 2020. Shares allocated under the DRP rank equally with the company's existing fully paid ordinary shares. The DRP resulted in shareholders electing to receive an additional 1,522,155 shares in total, priced at $1.716 million.

There were no dividends declared but not recognised at the of the financial year. [TBC]

Franking credits

	2020 $'000	2019 $'000
Franking credits available for subsequent financial years based on a tax rate of 30%	10,296	11,848

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.

Note 28. Financial instruments

Financial risk management objectives

The consolidated entity'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 consolidated entity's activities.

The consolidated entity's principal financial instruments during the 2020 and 2019 financials years comprised bank and other loans, and cash. The main purpose of these instruments has been to raise finance for the consolidated entity's operations and investments. The consolidated entity has various other financial instruments such as trade and other debtors and creditors, which arise directly from its operations. The consolidated entity does not trade in financial instruments.

Market risk

Interest rate risk

The consolidated entity'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 0.25% (2019: 0.67%).

Variable rate bank loans totalling $22,000,000 form part of an ongoing loan facility which was updated during the 2020 financial year. The overall facility term expires on 30 September 2022. 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 4.11% (2019: 3.82%).

	Basis points increase			Basis points decrease		
2020	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Variable rate bank loans	100	(138)	(138)	100	138	138

	Basis points increase			Basis points decrease		
2019	Basis points change	Effect on profit before tax	Effect on equity	Basis points change	Effect on profit before tax	Effect on equity
Variable rate bank loans	100	(114)	(114)	100	114	114

Credit risk

The consolidated entity has no significant concentrations of credit risk. The consolidated entity does not have significant credit exposure to any one financial institution or customer. The consolidated entity only transacts with reputable Australian banks and its credit risk on trade receivables is not considered significant.

Liquidity risk

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

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 $8.021 million. Liabilities have been classified as current where it is probable that they will be settled within twelve months or if there is a contractual obligation that may require settlement within twelve months, regardless of how likely settlement under contractual arrangements is judged to be. The Group's current assets, available financing facilities, and ongoing positive operating cash flows continue to be sufficient to satisfy all payment obligations within the time-frames required.

Remaining contractual maturities

The following tables detail the consolidated entity's remaining contractual maturity for its financial instrument liabilities. The tables have been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the financial liabilities are required to be paid. The tables include both interest and principal cash flows disclosed as remaining contractual maturities and therefore these totals may differ from their carrying amount in the balance sheet.

2020	Less than 6 months $'000	Between 6 and 12 months $'000	Between 1 and 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	16,168	–	–	16,168
Interest-bearing – variable				
Bank loans	236	236	22,591	23,063
Total non-derivatives	16,404	236	22,591	39,231

2019	Less than 6 months $'000	Between 6 and 12 months $'000	Between 1 and 5 years $'000	Remaining contractual maturities $'000
Non-derivatives				
Non-interest bearing				
Trade payables	12,485	–	–	12,485
Interest-bearing – variable				
Bank loans	136	136	17,067	17,339
Total non-derivatives	12,621	136	17,067	29,824

The cash flows in the maturity analysis above are not expected to occur significantly earlier than contractually disclosed above.

Fair value

Unless otherwise stated, the carrying amounts of financial instruments reflect their fair value.

Note 29. Key management personnel disclosures

Compensation

The aggregate compensation made to Directors and other members of key management personnel of the consolidated entity is set out below:

	2020 $	2019 $
Short-term employee benefits	1,450,085	1,424,895
Post-employment benefits	86,204	88,084
Long-term benefits	17,967	23,905
Termination benefits	–	450,000
Share-based payments	354,272	(53,112)
	1,908,528	1,933,772

Note 30. Remuneration of auditors

During the financial year the following fees were paid or payable for services provided by KPMG, the auditor of the company:

	2020 $	2019 $
Audit services		
Audit or review of the financial statements	130,012	128,850
Other services		
Tax compliance and advisory services	26,134	40,743
	156,146	169,593

Note 31. Contingent liabilities

	2020 $'000	2019 $'000
Bank guarantees	3,025	2,962

The consolidated entity has given bank guarantees as at 30 June 2020 of $3,025,000 (2019: $2,962,000) to various landlords as security for leased premises.

Note 32. Commitments

	2020 $'000	2019 $'000
Capital commitments		
Committed at the reporting date but not recognised as liabilities, payable:		
Property, plant and equipment	952	2,611
Lease commitments – operating		
Committed at the reporting date but not recognised as liabilities, payable:		
Within one year	111	11,589
One to five years	40	39,685
More than five years	–	23,232
	151	74,506
Lease commitments – finance		
Committed at the reporting date and recognised as liabilities, payable:		
Within one year	12,522	–
One to five years	41,742	–
More than five years	19,041	–
Total commitment	73,305	–
Less: Future finance charges	(10,106)	–
Net commitment recognised as liabilities	63,199	–

Note 33. Related party transactions

Parent entity

Pacific Smiles Group Limited is the parent entity.

Key management personnel

Disclosures relating to key management personnel are set out in note 29 and the remuneration report included in the Directors' report.

Transactions with related parties

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

Key management personnel or their related parties held shares in the consolidated entity during 2020 and 2019, and as such, participated in dividends.

Bislab Pty Limited ATF the Canyon Property Trust, an entity related to Alex Abrahams and Simon Rutherford, leased business premises to the consolidated entity during 2019 and up until August 2019 on normal commercial terms and conditions.

Exandal Investments, an entity related to Alex Abrahams and Alison Hughes, leased business premises to the consolidated entity during 2020 and 2019 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 consolidated entity during 2020 and 2019 on normal commercial terms and conditions.

The following transactions occurred with related parties:

	2020 $	2019 $
Revenues from rendering services	–	2,535
Dividends paid	3,408,498	3,945,582
Rental expenses	313,315	710,611
Consulting fees paid	30,000	80,861

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

	2020 $	2019 $
Current payables:		
Trade payables to other related party	17,416	–

Note 34. Parent entity information

Set out below is the supplementary information about the parent entity.

Statement of profit or loss and other comprehensive income

	2020 $'000	2019 $'000
Profit after income tax	6,362	8,555
Total comprehensive income	6,362	8,555

Balance sheet

	2020 $'000	2019 $'000
Total current assets	23,811	11,915
Total assets	146,009	82,171
Total current liabilities	30,238	15,472
Total liabilities	108,643	40,602
Equity		
Contributed equity	36,769	35,053
Profits reserve	3,264	–
Share-based payments reserve	670	180
Retained profits/(accumulated losses)	(3,337)	6,336
Total equity	37,366	41,569

Contingent liabilities

The parent entity had no contingent liabilities, other than bank guarantees as at 30 June 2020 totaling $3,025k (30 June 2019: $2,962k).

Note 35. Events after the reporting period

Coronavirus (COVID-19) pandemic

The impact of the Coronavirus (COVID-19) pandemic is ongoing, and it is not practicable to estimate the potential impact after the reporting date. There has been no material impact to the consolidated entity's financial performance or position arising from the pandemic from the end of the reporting period to the date of this report. The situation is ongoing and is dependent on measures imposed by the Australian Government and other countries, such as maintaining social distancing requirements, quarantine, travel restrictions and any economic stimulus that may be provided.

Management services agreement with HBF

Pacific Smiles has signed an initial 10-year base term Management Services Agreement (MSA) with Western Australian health fund HBF in early July 2020. Under the agreement HBF will build a minimum of 5 HBF Dental (HBFD) clinics across Western Australia over the next 18 months. Pacific Smiles will be the exclusive operator of these and any additional HBFD clinics rolled out in Western Australia for the term of the MSA.

Pacific Smiles will receive a percentage of revenue from the operations in return for providing comprehensive operational support for the design, construction, and all aspects of the clinics' day to day operations. HBF will be responsible for funding capital expenditure and in-clinic operating costs. Pacific Smiles does not expect the arrangement to be material to earnings within the first year of operation.

Resignation of director

Dr Alex Abrahams has resigned as Non-executive Director on 23 July 2020.

Other events

No other matter or circumstance has arisen since 30 June 2020 that has significantly affected, or may significantly affect the consolidated entity's operations, the results of those operations, or the consolidated entity's state of affairs in future financial years.

Note 36. Cash flow information

Reconciliation of profit after income tax to net cash from operating activities

	2020 $'000	2019 $'000
Profit after income tax expense for the year	6,383	8,573
Adjustments for:		
Depreciation and amortisation	20,033	9,399
Net profit on disposal of non-current assets	–	(15)
Net loss on disposal of property, plant and equipment	1,209	–
Share-based payments	490	(97)
Change in operating assets and liabilities:		
Increase in receivables	(2,815)	(218)
Increase in inventories	(450)	(412)
Increase in deferred tax assets	(1,459)	(1,044)
Decrease/(increase) in other operating assets	90	(89)
Increase in payables	3,810	1,294
Increase in other provisions	1,018	1,480
Increase/(Decrease) in income tax	268	2,156
Net cash from operating activities	28,577	21,027

Note 37. Earnings per share

	2020 $'000	2019 $'000
Profit after income tax	6,383	8,573

	Cents	Cents
Basic earnings per share	4.2	5.6
Diluted earnings per share	4.2	5.6

	Number	Number
Weighted average number of ordinary shares used in calculating basic earnings per share	152,214,420	151,993,395
Weighted average number of ordinary shares used in calculating diluted earnings per share	152,214,420	151,993,395

Performance rights

Performance rights granted to employees under the consolidated entity'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 9,301,000 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 2020. These performance rights could potentially dilute basic earnings per share in the future.

Note 38. Share-based payments

Long term incentive plan overview

The consolidated entity has established a long term incentive plan (LTI) 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 consolidated entity through the granting of performance rights.

Performance rights have been issued to the Chief Executive Officer and selected senior managers, at the absolute discretion of the Board, pursuant to the LTI plan in financial years 2020, 2019, 2018, 2017 and 2016.

The performance rights will vest after a set term (the performance period), and are conditional on the achievement of relevant performance and service conditions. Vesting of the performance rights for the years 2018, 2017, and 2016 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 over a four year period through to the vesting date, subject to certain 'good leaver' exemptions.

Vesting of the performance rights for the years 2020 and 2019 will be subject to:

- satisfaction of 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 CAGR of 10.0% 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 over a four year period through to the vesting period, 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 does not reach a minimum threshold over the relevant performance period.

Set out below are summaries of options granted under the plan:

2020

Grant date	Expiry date	Balance at the start of the year	Granted	Expired/ forfeited/ other	Balance at the end of the year
30/11/2015	30/11/2019	1,225,000	–	(1,225,000)	–
30/11/2016	30/11/2020	1,700,000	–	(200,000)	1,500,000
01/12/2017	01/12/2021	1,600,000	–	(325,000)	1,275,000
04/03/2019	04/03/2023	3,026,000	–	–	3,026,000
13/02/2020	13/02/2024	–	3,500,000	–	3,500,000
		7,551,000	3,500,000	(1,750,000)	9,301,000

The weighted average remaining contractual life of options outstanding at the end of the financial year was 2.48 years (2019: 2.37 years).

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:

	2020	2019
Grant date	13 February 2020	4 March 2019
Fair value of right	$0.61	$0.47
Share price at grant date	$1.82	$1.33
Exercise price	Nil	Nil
Term	4 years	4 years
Expected price volatility	30.0%	30.0%
Expected dividend yield	4.0%	4.0%
Risk free interest rate	1.2%	2.0%

Directors' Declaration

In the directors' opinion:

- the attached financial statements and notes comply with the Corporations Act 2001, the Accounting Standards, the Corporations Regulations 2001 and other mandatory professional reporting requirements;
- the attached financial statements and notes comply with International Financial Reporting Standards as issued by the International Accounting Standards Board as described in note 2 to the financial statements;
- the attached financial statements and notes give a true and fair view of the consolidated entity's financial position as at 30 June 2020 and of its performance for the financial year ended on that date; and
- there are reasonable grounds to believe that the company will be able to pay its debts as and when they become due and payable.

The Directors have been given the declarations required by section 295A of the Corporations Act 2001.

Signed in accordance with a resolution of Directors made pursuant to section 295(5)(a) of the Corporations Act 2001.

On behalf of the Directors

Zita Peach
Chairperson

19 August 2020

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 2020 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 2020;
- 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.

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Key Audit Matters

The *Key Audit Matters* we identified are:

- Carrying value of intangible assets
- Revenue recognition
- Accounting for leases in accordance with AASB 16 *Leases*

Key Audit Matters are those matters that, in our professional judgement, 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.

Carrying value of intangible assets ($10,608,000)

Refer to Note 17 to the Financial Report

The key audit matter	How the matter was addressed in our audit
The carrying value of intangible assets, including the Group's annual testing of goodwill for impairment was identified as a key audit matter due to the: • Size of the balance; and • Significant level of judgement required to assess the Group's forecasts and discounted future cashflows, including higher estimation uncertainty arising from the impact of the COVID-19 global pandemic. We focussed on the significant forward-looking assumptions the Group applied in its value in use model, including: • Forecast operating cash flows, growth rates and terminal growth rates – the Group has experienced business disruption in the current year as a result of COVID-19, including the shutdown of 76 dental centres during April 2020. These conditions and continued uncertainty increase the possibility of goodwill and intangible assets being impaired, and the risk of inaccurate forecasts or a wider range of possible impacts such as government imposed restrictions for us to consider. We focused on the expected period for return to normal operations for the Group when assessing the feasibility of the Group's forecast cashflows. • Discount rates - these are complicated in nature and vary according to the conditions and environment the Cash Generating Units	Our procedures included: • We considered the appropriateness of the value-in-use method applied by the Group to perform its annual impairment testing of intangible assets against the requirements of the relevant accounting standards. We: - Assessed the Group's underlying methodology and documentation for the allocation of corporate costs to the forecast cash flows in the value in use model for consistency with our understanding of the business and the criteria in the accounting standards; - Assessed the Group's determination of its CGUs based on our understanding of the operations of the Group's business including the impact of the 5 new centres opened during the financial year and how independent cash inflows were generated, against the requirements of the relevant accounting standards; - Assessed the Group's allocation of corporate assets to CGUs for reasonableness and consistency based on the requirements of the accounting standards; - Assessed the Group's determination of CGU assets for consistency with the assumptions used in the forecast cash flows and the requirements of the accounting standards;

(CGUs) are 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. Complex modelling, particularly those containing highly judgemental allocations of corporate assets and costs to CGUs, using forward-looking assumptions, tend to be prone to greater risk for potential bias, error and inconsistent application. These conditions necessitate additional scrutiny by us. The Group has a large number of individual dental centre locations, which includes 5 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.	- Compared forecast cash flows in the model to Board approved forecasts; - Checked the consistency of the growth rates to the Group's forecasts and our experience regarding the COVID-19 economic environment in which it operates; and - Assessed 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: - Developed a discount rate range using publicly available market data for comparable entities, adjusted by risk factors based on the size and location of the Group's CGUs; - Assessed the integrity of the model used, including the accuracy of the underlying calculation formulas; and - Challenged the Group's significant forecast cash flows and growth assumptions in light of the uncertainty of impacts of the COVID-19 pandemic. We compared forecast growth rates and terminal growth rates to published studies of industry trends and expectations, and considered differences for the Group's operations. We used our knowledge of the Group, its past performance, business and customers, and our industry experience. • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the relevant accounting standards.

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Revenue recognition ($120,055,000)	
Refer to Note 5 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**

A substantial amount of the Group's revenue relates to revenue from the rendering of services, being service fees charged to dentists who practice using the Group's dental surgeries.
 	
Service fees represent the net amount the Group is entitled to after paying the dentists a share of total patient billings (dentist payments). Dentist payments are based on percentages agreed with each dentist per underlying Service Facility Agreements (agreed dentist percentages) which are variable based on the following drivers:
 	
• Monthly total patient billings; and
• Actual time spent by the dentists at the Group's dental surgeries for the month per timesheet reports.
 	
We focused on revenue recognition of service fees as a key audit matter due to the significant audit effort to test the:
 	
• High volume of transactions recorded as revenue and significant value of revenue recognised;
• Largely manual nature of the Group's calculation of dentist payments and therefore service fee revenue. This increases the risk of potential error and inconsistent application due to the number of different agreed dentist percentages and drivers, in particular around the last month of the year; and
• The opening of 5 new dental centres during the current year, which necessitated us to assess the new Service Facility Agreements and increased our audit effort in this key area.
	Our procedures included:
	
	• We evaluated the appropriateness of the Group's revenue recognition policies against the requirements of the accounting standard;
	• We tested key controls in the services fee revenue recognition process, including:
	  - Management review and approval of monthly bank account reconciliations;
	  - Management's check of the monthly total patient billings, monthly timesheet reports, and agreed dentist percentages used by the Group in the monthly dentist payment calculations; and
	  - Management's dual authorisation of dentist payments and the monthly dentist payment calculations.
	• For a sample of service fees recognised throughout the financial year, we agreed the underlying inputs from the dentist fee calculation to the monthly total patient billings derived from the Group's bank statements, and the Group's dentists' monthly timesheet reports to check the consistency of the agreed dentist percentages to the underlying Service Facility Agreements;
	• We assessed service fees recognised in the last month of the financial year by multiplying the weighted average agreed dentist percentages based on the relevant underlying Service Facility Agreements and total patient billings from the Group's bank statements for the month; and
	• We checked total patient billings and dentist payments throughout the year to the Group's bank statements. We compared service fees recognised during the year, to the total patient billings received less dentist payments made by the Group.

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Accounting for leases in accordance with AASB 16 *Leases* (Right-of-use asset – $51,805,000, lease liability – $63,199,000, deferred tax asset – $3,418,000, depreciation and interest expense – $11,973,000, and adjustment to opening retained earnings – $3,810,000)	
Refer to Note 7, 16, 19 and 23 to the Financial Report.	
The key audit matter	**How the matter was addressed in our audit**
Accounting for leases using AASB 16 *Leases* ("AASB 16") is a key audit matter as it is inherently complex and specific and individualised lease-features drive different accounting outcomes, increasing the need for interpretation, judgement and audit effort. We focused on: • First time adoption – the Group was required to determine interpretations for AASB 16 new and complex accounting requirements for the first time in the year, including new accounting policies. Interpreting an accounting standard is more challenging in its first year of existence. The Group also had to build new processes to apply the requirements, which we had not tested before; • High volume of leases – the Group has a high volume of individualised lease agreements used to estimate the lease liability, right-of-use asset, deferred tax asset balances and adjustment to opening retained earnings. A focus for us was the completeness of the lease population and the accuracy of multiple and varied inputs which may drive different accounting outcomes, including key terms of the lease agreements, such as key dates, fixed and variable rent payments, incentives, renewal options, and make good obligations; • Complex modelling process - the Group developed an AASB 16 lease calculation model, which is complex, and therefore prone to greater risk for potential bias, error and inconsistent application; and • Relative magnitude – the size of balances has a significant financial impact on the Group's financial position and performance. The most significant areas of judgement we focused on was in assessing the Group's: • Incremental borrowing rates used – these are meant to reflect the Group's entity	Our procedures included: • We considered the appropriateness of the Group's new accounting policies against the requirements of the accounting standard and our understanding of the business; • We obtained an understanding of the Group's new processes and IT systems used to calculate the lease liability, right-of-use asset, deferred tax asset, depreciation and interest expense and retained earnings adjustment; • We assessed the completeness of the Group's leases taking into consideration the selected transition approach and practical expedients upon adoption by the Group by: - Inquiring with the Group to understand its process to compile the Group's listing of leases; - Inspecting a sample of lease agreements entered into by the Group and comparing these to the Group's listing of leases; - Checking the Group's listing of leases to the items included in the operating lease commitments disclosure in the prior year's financial report; - Inspecting non-lease agreements including Service Facility Agreements for the existence of embedded leases; and - Inspecting relevant expense accounts for routine payments during the year to identify the existence of leases not included in the Group's listing of leases. • We compared the Group's inputs in the AASB 16 lease calculation model, such as, key dates, fixed and variable rent payments, incentives, renewal options, and make good obligations, for consistency to the relevant terms of a sample of underlying source documents including signed lease agreements and lessor's invoices. We also compared the index used by the Group in computing the variable

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specific credit risk and vary based on each lease term. The Group's AASB 16 lease calculation model is sensitive to changes in the incremental borrowing rates; and • Lease terms where leases have renewal options – assessing the probability of exercising the renewal options to determine each lease term impacts the measurement of the lease, therefore is critical to the accuracy of the accounting; We involved our senior audit team members in assessing this key audit matter along with our debt advisory specialists.	rent payments to the Australian consumer price index; • We assessed the Group's determination of lease terms based on the probability of the Group exercising the lease renewal options. We compared key management decisions for consistency to board approved plans, strategies and past practices; • We considered the sensitivity of the Group's AASB 16 lease calculation model by varying the incremental borrowing rate, within a reasonably possible range. We did this to identify the risk of bias or inconsistency in application and to focus our further procedures; • Working together with our debt advisory specialists, we independently developed a series of point estimates for the incremental borrowing rates applied to the leases using the S&P Healthcare indicative credit rating and corporate yield curve, adjusted by risk factors specific to the Group, the industry it operates in, and each lease term. We compared it to the incremental borrowing rates applied by the Group; • We assessed the integrity of the Group's AASB 16 lease calculation model used, including the accuracy of the underlying calculation formulas. For a sample of leases, we recalculated the amount of lease liability, right-of-use asset, deferred tax asset, depreciation, interest expense and retained earnings adjustment relevant to this financial year and compared our recalculated amounts against the amounts recorded by the Group; and • We assessed the disclosures in the financial report using our understanding obtained from our testing and against the requirements of the accounting standard.

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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 Operational overview and insights, Directors' Report, the Remuneration Report, the Shareholder Information, and the Corporate Directory.

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 and Company's ability to continue as a going concern and whether the use of the going concern basis of accounting is appropriate. 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.

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

A further description of our responsibilities for the audit of the Financial Report is located at the Auditing and Assurance Standards Board website at: http://www.auasb.gov.au/auditors_responsibilities/ar1_2020.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 2020, 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 11 to 18 of the Directors' report for the year ended 30 June 2020.

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

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SaraCain

Sarah Cain

Partner

Melbourne

19 August 2020

Shareholder Information

The shareholder information set out below was applicable as at 1 August 2020.

Distribution of equitable securities

Analysis of number of equitable security holders by size of holding:

	Number of equity security holders
1 to 1,000	252
1,001 to 5,000	291
5,001 to 10,000	143
10,001 to 100,000	206
100,001 and over	68
	960
Holding less than a marketable parcel	127

Equity security holders

Twenty largest quoted equity security holders

The names of the twenty largest security holders of quoted equity securities are listed below:

	Number held	Ordinary shares % of total shares issued
HSBC Custody Nominees (Australia) Limited	38,983,200	25.39
Alexander John Abrahams	20,544,779	13.38
Alison Jane Hughes	16,197,850	10.55
J P Morgan Nominees Australia Pty Ltd	13,175,879	8.58
National Nominees Limited	10,289,069	6.70
Susan Louise Abrahams	5,939,269	3.87
Just Paddling Pty Ltd	4,104,646	2.67
Robert G Cameron & Paula S Cameron	3,608,480	2.35
Channings Holdings Pty Ltd	3,090,150	2.01
Citicorp Nominees Pty Ltd	2,449,540	1.60
Karen Wright	2,022,000	1.32
Sudemo Pty Ltd	1,744,863	1.14
Lodka Pty Ltd	1,737,329	1.13
Sterling Surgical Pty Ltd	1,515,000	0.99
BNP Paribas Nominees Pty Ltd	1,411,173	0.92
Trevor Collins & Dianne Elizabeth Collins	1,128,480	0.74
William McIllwraith Pty Ltd	1,046,000	0.68
Amanda Taylor	1,000,000	0.65
Newtown Dyers & Bleachers Pty Ltd	929,256	0.61
UBS Nominees Pty Ltd	796,576	0.52
	13,713,539	85.80

Unquoted equity securities

	Number on issue	Number of holders
Performance rights issued under the consolidated entity's LTI plan	9,301,000	8

Substantial holders

Substantial holders in the company are set out below:

	Number held	Ordinary shares % of total shares issued
TDM Growth Partners	35,705,996	23.26
Dr Alex Abrahams	30,827,361	20.08
Dr Alison Hughes	16,197,850	10.55
QVG Capital	8,330,824	5.43

Voting rights

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

There are no other classes of equity securities.

Corporate Information

Directors

Ms Zita Peach
Non-executive Chairperson

Mr Phil McKenzie
Managing Director and Chief Executive Officer

Dr Alex Abrahams
Non-executive Director

Mr Mark Bloom
Non-executive Director

Mr Hilton Brett
Non-executive Director

Mr Ben Gisz
Non-executive Director

Mr Simon Rutherford
Non-executive Director

Company secretaries

Mark Licciardo and Belinda Cleminson

Registered office

Level 1, 6 Molly Morgan Drive
Greenhills NSW 2323
T: 02 4930 2000
F: 02 4930 2099
W: www.pacificsmiles.com.au

Share register

Link Market Services Limited
Level 12, 680 George Street
Sydney NSW 2000
T: 1300 554 474
F: 02 9287 0303
E: registrars@linkmarketservices.com.au

Auditor

KPMG
Tower Three,
300 Barangaroo Avenue
Sydney NSW 2000

Stock exchange listing

Pacific Smiles Group Limited shares are listed on the Australian Securities Exchange (ASX code: PSQ)

Corporate Governance Statement

The 2020 corporate governance statement is dated 30 June 2020 and reflects the corporate governance practices in place for the 2020 financial year. The 2020 corporate governance statement was approved by the Board on 19 August 2020, a copy can be found on the Pacific Smiles website.

PACIFIC SMILES GROUP